

# Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

MARCH 2011

## STATUS OF THE GRF

### HIGHLIGHTS

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

Ohio labor market statistics were more positive for January than expected, with payroll employment increasing by 31,900, and the unemployment rate falling to 9.4%. The unemployment rate points to a labor market that is still weak, but withholding receipts from the state income tax are nearly 7% higher for the first eight months of FY 2011 compared to the corresponding months in FY 2010, implying that weekly wages for those employed are healthier than they were a year ago.

All major GRF tax sources are still above estimate for the year through February. The large negative variance in February revenues was attributable to a timing-related variance in transfers into the GRF; a \$305 million transfer was received in March rather than in February. Other revenue sources were generally on target for February.

#### **Through February 2011, GRF sources totaled \$17.37 billion:**

- Revenue from the personal income tax was \$231.6 million above estimate;
- Sales and use tax receipts were \$178.4 million above estimate.

#### **Through February 2011, GRF uses totaled \$19.08 billion:**

- Program expenditures were \$156.2 million below estimate, due primarily to Public Assistance and Medicaid (\$140.7 million).
- Transfers out were \$91.7 million above estimate.

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<b>Table 1: General Revenue Fund Sources</b>				
<b>Preliminary Actual vs. Estimate</b>				
<b>Month of February 2011</b>				
(\$ in thousands)				
(Actual based on report run in OAKS Actuals Ledger on March 7, 2011)				
	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>	<b>Percent</b>
<b>STATE SOURCES</b>				
<b>TAX REVENUE</b>				
Auto Sales	\$58,860	\$52,000	\$6,860	13.2%
Nonauto Sales and Use	\$460,223	\$450,000	\$10,223	2.3%
<b>Total Sales and Use Taxes</b>	<b>\$519,083</b>	<b>\$502,000</b>	<b>\$17,083</b>	<b>3.4%</b>
Personal Income	\$285,006	\$283,500	\$1,506	0.5%
Corporate Franchise	\$13,385	\$16,000	-\$2,615	-16.3%
Public Utility	\$25,200	\$40,800	-\$15,599	-38.2%
Kilowatt Hour Excise	\$14,533	\$18,100	-\$3,567	-19.7%
Commercial Activity Tax**	\$0	\$0	\$0	---
Foreign Insurance	\$61,462	\$37,100	\$24,361	65.7%
Domestic Insurance	\$1	\$0	\$1	---
Business and Property	\$14	\$0	\$14	---
Cigarette	\$58,003	\$52,000	\$6,003	11.5%
Alcoholic Beverage	\$4,081	\$4,300	-\$219	-5.1%
Liquor Gallonage	\$2,688	\$2,600	\$88	3.4%
Estate	\$0	\$0	\$0	---
<b>Total Tax Revenue</b>	<b>\$983,455</b>	<b>\$956,401</b>	<b>\$27,054</b>	<b>2.8%</b>
<b>NONTAX REVENUE</b>				
Earnings on Investments	\$2	\$0	\$2	---
Licenses and Fees	\$6,988	\$10,163	-\$3,175	-31.2%
Other Revenue	\$3,044	\$7,520	-\$4,476	-59.5%
<b>Total Nontax Revenue</b>	<b>\$10,033</b>	<b>\$17,683</b>	<b>-\$7,650</b>	<b>-43.3%</b>
<b>TRANSFERS</b>				
Liquor Transfers***	\$13,000	\$11,000	\$2,000	18.2%
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers In	\$262	\$305,000	-\$304,738	-99.9%
<b>Total Transfers In</b>	<b>\$13,262</b>	<b>\$316,000</b>	<b>-\$302,738</b>	<b>-95.8%</b>
<b>TOTAL STATE SOURCES</b>	<b>\$1,006,750</b>	<b>\$1,290,084</b>	<b>-\$283,334</b>	<b>-22.0%</b>
Federal Grants	\$726,707	\$740,026	-\$13,319	-1.8%
<b>TOTAL GRF SOURCES</b>	<b>\$1,733,458</b>	<b>\$2,030,110</b>	<b>-\$296,652</b>	<b>-14.6%</b>
* 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 March 1, 2011.				
<i>Detail may not sum to total due to rounding.</i>				

**Table 2: General Revenue Fund Sources**  
**Preliminary Actual vs. Estimate**  
**FY 2011 as of February 28, 2011**  
(\$ in thousands)

(Actual based on report run in OAKS Actuals Ledger on March 7, 2011)

	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>	<b>Percent</b>	<b>FY 2010</b>	<b>Percent Change</b>
<b>STATE SOURCES</b>						
<b>TAX REVENUE</b>						
Auto Sales	\$608,904	\$558,800	\$50,103	9.0%	\$550,406	10.6%
Nonauto Sales and Use	\$4,451,412	\$4,323,100	\$128,312	3.0%	\$4,186,745	6.3%
<b>Total Sales and Use Taxes</b>	<b>\$5,060,316</b>	<b>\$4,881,900</b>	<b>\$178,415</b>	<b>3.7%</b>	<b>\$4,737,151</b>	<b>6.8%</b>
Personal Income	\$4,831,916	\$4,600,300	\$231,616	5.0%	\$4,454,696	8.5%
Corporate Franchise	\$70,390	\$27,400	\$42,990	156.9%	\$2,885	2340.2%
Public Utility	\$81,616	\$115,900	-\$34,283	-29.6%	\$88,069	-7.3%
Kilowatt Hour Excise	\$108,284	\$115,801	-\$7,517	-6.5%	\$107,547	0.7%
Commercial Activity Tax**	\$0	\$0	\$0	---	\$0	---
Foreign Insurance	\$193,762	\$169,850	\$23,912	14.1%	\$170,013	14.0%
Domestic Insurance	-\$1,022	\$134	-\$1,156	-862.7%	\$1,247	-181.9%
Business and Property	-\$993	\$126	-\$1,119	-887.7%	\$283	-450.5%
Cigarette	\$516,480	\$478,800	\$37,680	7.9%	\$534,995	-3.5%
Alcoholic Beverage	\$37,122	\$37,700	-\$578	-1.5%	\$36,586	1.5%
Liquor Gallonage	\$25,349	\$24,300	\$1,049	4.3%	\$24,713	2.6%
Estate	\$27,436	\$28,400	-\$964	-3.4%	\$25,909	5.9%
<b>Total Tax Revenue</b>	<b>\$10,950,656</b>	<b>\$10,480,611</b>	<b>\$470,045</b>	<b>4.5%</b>	<b>\$10,184,093</b>	<b>7.5%</b>
<b>NONTAX REVENUE</b>						
Earnings on Investments	\$4,683	\$41,500	-\$36,817	-88.7%	\$21,443	-78.2%
Licenses and Fees	\$31,290	\$45,154	-\$13,864	-30.7%	\$51,984	-39.8%
Other Revenue	\$154,369	\$179,670	-\$25,301	-14.1%	\$160,030	-3.5%
<b>Total Nontax Revenue</b>	<b>\$190,341</b>	<b>\$266,324</b>	<b>-\$75,983</b>	<b>-28.5%</b>	<b>\$233,458</b>	<b>-18.5%</b>
<b>TRANSFERS</b>						
Liquor Transfers***	\$98,977	\$94,300	\$4,677	5.0%	\$107,000	-7.5%
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers In	\$405,248	649,106	-\$243,858	-37.6%	\$671,566	-39.7%
<b>Total Transfers In</b>	<b>\$504,225</b>	<b>\$743,406</b>	<b>-\$239,181</b>	<b>-32.2%</b>	<b>\$778,566</b>	<b>-35.2%</b>
<b>TOTAL STATE SOURCES</b>	<b>\$11,645,222</b>	<b>\$11,490,341</b>	<b>\$154,882</b>	<b>1.3%</b>	<b>\$11,196,116</b>	<b>4.0%</b>
Federal Grants	\$5,720,854	\$6,127,460	-\$406,606	-6.6%	\$5,075,855	12.7%
<b>TOTAL GRF SOURCES</b>	<b>\$17,366,077</b>	<b>\$17,617,801</b>	<b>-\$251,725</b>	<b>-1.4%</b>	<b>\$16,271,971</b>	<b>6.7%</b>

\* 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 March 1, 2011.

Detail may not sum to total due to rounding.

# REVENUES

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

## Overview

February tax receipts were \$27.1 million above estimate.

February GRF sources of \$1.73 billion were \$296.7 million below projections due to a timing-related negative variance of \$304.7 million in transfers in. Federal grants fell short of estimate by \$13.3 million, but tax sources were essentially on target for the month. Tables 1 and 2 show GRF sources for the month of February and FY 2011, respectively. GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants, which are primarily federal reimbursements for human service programs such as Medicaid and Temporary Assistance for Needy Families (TANF) that receive federal funding.

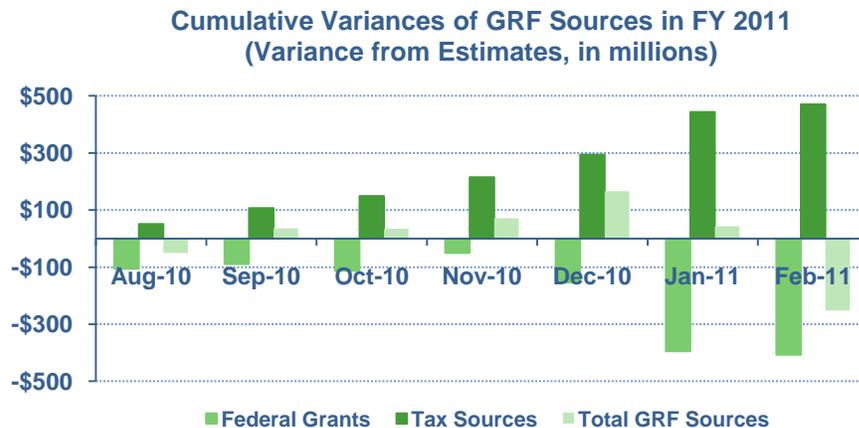
FY 2011 GRF tax receipts through February were \$470.0 million above estimate.

GRF tax sources exceeded expectations for the seventh consecutive month in FY 2011. February tax receipts of \$983.5 million were \$27.1 million above estimate, increasing the year-to-date positive variance to \$470.0 million, up from \$443.0 million at the end of January 2011. The positive variance in February tax receipts was mostly due to a timing-related variance in the foreign insurance tax. This tax was \$24.4 million above estimate for the month, but some of the gains would be given back in future months. This month again the primary tax sources surpassed anticipated receipts. The sales and use tax, the cigarette tax, and the personal income tax were above estimate, respectively, by \$17.1 million, \$6.0 million, and \$1.5 million. The first corporate franchise tax payment for FY 2011,<sup>1</sup> due January 31, provided \$13.4 million in February, \$2.6 million below estimate. However, for the two-month period, the corporate franchise tax was \$9.4 million above estimate, and \$12.5 million above the corresponding payment in FY 2010. The kilowatt-hour tax and the public utility excise tax were below estimate this month, respectively, by \$3.6 million and \$15.6 million. The remaining tax sources varied from their monthly estimates by small amounts. Nontax revenues were \$7.6 million below estimate. State-source receipts of \$1.01 billion for the month were \$283.3 million below estimate. This large deficit was due to a shortfall of \$304.7 million in

<sup>1</sup> The other two franchise tax payments are due March 31 and May 31, 2011.

commercial activity tax-related transfers in. However, this shortfall is likely to be reversed in March 2011.<sup>2</sup>

Through February, FY 2011 total GRF sources of \$17.37 billion were \$251.7 million below estimate. State-source receipts of \$11.65 billion were above estimate by \$154.9 million, but federal grants were short of projections by \$406.6 million.<sup>3</sup> The positive variance of \$470.0 million in tax receipts was partially offset by negative variances of \$76.0 million in nontax revenues and \$239.2 million in transfers into the GRF. The personal income tax was above estimate by \$231.6 million, the sales and use tax by \$178.4 million, and the cigarette tax by \$37.7 million. Corporate franchise tax receipts were \$43.0 million above estimate. The foreign insurance tax was above estimate by \$23.9 million and the liquor gallonage tax posted a positive variance of \$1.0 million. The remaining tax sources were below estimates. The public utility excise tax fell short of estimate by the largest amount, \$34.3 million. The kilowatt hour tax was below projection by \$7.5 million, the domestic insurance tax by \$1.2 million, the business and property tax by \$1.1 million, and the estate tax by \$1.0 million. The graph below shows the cumulative variances against estimate for federal grants, tax sources, and total GRF sources. (Estimates were not available for the month of July.)



FY 2011 year-to-date GRF sources increased \$1.09 billion compared to receipts in the corresponding period in FY 2010, from higher tax receipts (\$766.6 million) and federal grants (\$645.0 million). Those gains were reduced by lower revenues from nontax sources (\$43.1 million) and

<sup>2</sup> Transfers in of about \$319 million were booked in the first few days of March.

<sup>3</sup> The shortfall in federal grants is primarily due to a negative variance in year-to-date spending on Medicaid. See the **Expenditures** section of March *Budget Footnotes* for an explanation of the negative variance.

Year-to-date through February, federal grants were \$406.6 million below estimate.

FY 2011 GRF sources through February were \$251.7 million below estimate.

transfers in (\$274.3 million) this fiscal year. Receipts from the sales and use tax and the personal income tax were above the levels of FY 2010 by \$323.2 million and \$377.2 million, respectively. Corporate franchise tax receipts were \$67.5 million higher than receipts through February in FY 2010. Other taxes with notable year-to-year revenue increases included the foreign insurance tax (\$23.7 million) and the estate tax (\$1.5 million). Year-to-date receipts in FY 2011 decreased for the cigarette tax (\$18.5 million), the public utility excise tax (\$6.5 million), the domestic insurance tax (\$2.3 million), and the business and property tax (\$1.3 million).

February receipts from the personal income tax were \$1.5 million above estimate.

### Personal Income Tax

February GRF receipts from the personal income tax of \$285.0 million were \$1.5 million (0.5%) above estimate and \$15.1 million (5.6%) above receipts in February 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,<sup>4</sup> trust payments, payments associated with annual returns, and miscellaneous payments. Through February, the GRF received \$4.83 billion from the personal income tax in FY 2011. This amount was \$231.6 million (5.0%) above estimate and \$377.2 million (8.5%) above receipts in the corresponding period in FY 2010.

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	\$164.6	3.5%	\$308.9	6.8%
Quarterly Estimated Payments	\$78.8	12.3%	\$97.0	15.5%
Trust Payments	\$1.0	6.4%	\$1.6	10.3%
Annual Return Payments	-\$14.7	-9.1%	-\$13.5	-8.4%
Miscellaneous Payments	\$12.6	21.4%	\$13.3	22.9%
<b>Gross Collections</b>	<b>\$242.3</b>	<b>4.7%</b>	<b>\$407.3</b>	<b>7.5%</b>
Less Refunds	-\$7.8	-1.4%	-\$3.8	-0.7%
Less Local Government Fund Distribution	\$18.6	4.2%	\$33.9	8.0%
<b>Income Tax Revenue</b>	<b>\$231.6</b>	<b>5.0%</b>	<b>\$377.2</b>	<b>8.5%</b>

<sup>4</sup> 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.

The table above summarizes FY 2011 income tax revenue variances from estimates and annual changes by components. All components, except receipts from annual returns, contributed to the positive variance against estimates and to higher income tax collections this year. Also, through February, refunds were lower than corresponding amounts in FY 2010, and distributions to the Local Government Fund increased. Year-to-date, employer withholding, the most important component of the tax, was \$308.9 million (6.8%) above withholding receipts in FY 2010 through February. The graph below shows the trend in withholding receipts since January 2010.

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



**Sales and Use Tax**

GRF sales and use tax receipts of \$519.1 million in February were \$17.1 million (3.4%) above estimate, and \$22.8 million (4.6%) above receipts in February 2010. Through February, FY 2011 GRF sales and use tax receipts of \$5.06 billion were \$178.4 million (3.7%) above estimate and \$323.2 million (6.8%) 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<sup>5</sup> generally arise from the sale of motor vehicles while nonauto sales and use tax collections arise from other sales. However, auto taxes arising

<sup>5</sup> 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.

Through February, FY 2011, revenue from withholding was \$164.6 million above estimate.

Through February, FY 2011 sales and use tax receipts were \$178.4 million above estimate.

FY 2011  
year-to-date  
nonauto  
sales and  
use tax  
receipts were  
\$128.3 million  
above  
estimate.

from leases are paid at the lease signing and are mostly recorded under the nonauto tax, instead of the auto tax. Year to date, both components of the sales tax are performing above expectations.

**Nonauto Sales and Use Tax**

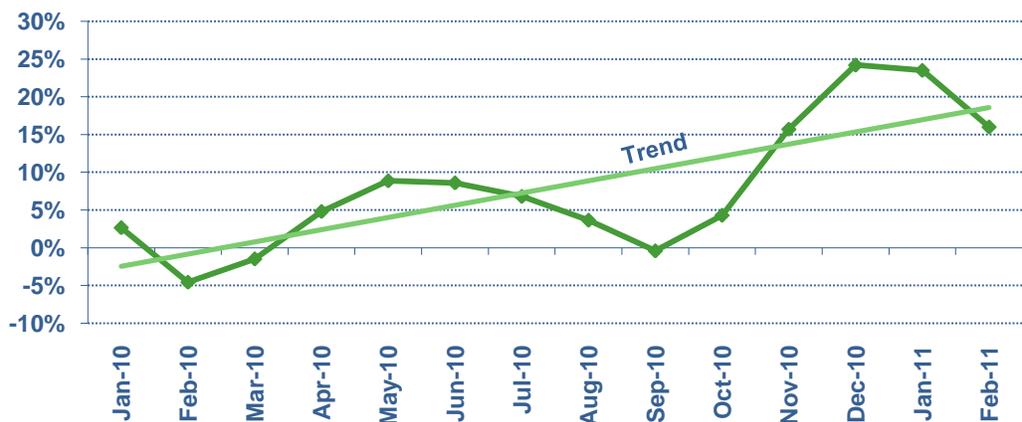
GRF nonauto sales and use tax receipts were \$460.2 million in February 2011, \$10.2 million (2.3%) above estimate and \$15.6 million (3.5%) above February 2010 receipts. For the fiscal year, year-to-date GRF nonauto sales and use tax receipts of \$4.45 billion were \$128.3 million (3.0%) above estimate and \$264.7 million (6.3%) above receipts through February in FY 2010. However, food and gasoline prices have gradually increased in the last few months and those expenditures are challenging household budgets. If price increases require taxpayers to spend more on those nontaxable items, the growth in taxable sales in the coming months may be curtailed.

**Auto Sales and Use Tax**

Auto sales and use tax receipts of \$58.9 million in February were \$6.9 million (13.2%) above estimate and \$7.1 million (13.8%) above receipts in February 2010. Year to date, FY 2011 GRF receipts from the auto sales tax of \$608.9 million were \$50.1 million (9.0%) above estimate and \$58.5 million (10.6%) above receipts in FY 2010 through February. The graph below compares monthly receipts with year-ago receipts in the corresponding month.

FY 2011  
year-to-date  
auto sales  
tax receipts  
were  
\$50.1 million  
above  
estimate.

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



Nationwide, sales of light vehicles were stronger than in recent months, despite escalating gasoline prices. February sales at 13.4 million units (on an annualized basis) were higher than last month's 12.6 million

units. A year ago in February 2010, the sales pace was 10.5 million units. One impact of higher gasoline prices is already appearing in the mix of vehicles sold. The light trucks share of vehicles sold fell to 49.1% in February, down from 51.9% in January, and 52.4% in October 2010. The average price of trucks is higher than that of smaller sedans. Thus, this potential change in the sales mix from persistently high gasoline prices, may affect the tax base and auto sales tax receipts in future months.

### Cigarette and Other Tobacco Products Tax

Receipts from the tax on cigarettes and other tobacco products were \$58.0 million in February 2011, \$6.0 million (11.5%) above estimate and \$0.1 million (0.3%) above February 2010 receipts. Through February, FY 2011 receipts of \$516.5 million were \$37.7 million (7.9%) above estimate and \$18.5 million (3.5%) below FY 2010 receipts through February. Receipts from cigarette sales were \$481.9 million. Sales of products other than cigarettes provided \$34.6 million. Compared to FY 2010 through February, receipts from the sale of cigarettes declined \$20.9 million (4.2%) and those from the sale of other tobacco products increased about \$2.4 million (7.4%). Receipts from the cigarette and other tobacco products tax are the third-largest tax revenue source in FY 2011, after the personal income tax and the sales and use tax.

FY 2011

year-to-date

cigarette tax

receipts

were

\$37.7 million

above

estimate.

### Commercial Activity Tax

Commercial activity tax (CAT) receipts from the third quarterly payment of the fiscal year of \$318.0 million were \$12.8 million (4.1%) above estimate and \$20.4 million (6.9%) above receipts in February 2010. Through February, FY 2011 receipts of \$1,072.5 million were \$48.4 million (4.7%) above estimate and \$85.8 million (8.7%) above receipts through February in FY 2010. Though the last quarterly payment is due in May 2011, the CAT is likely to finish above estimates in FY 2011.

FY 2011

year-to-date

CAT receipts

were

\$48.4 million

above

estimate.

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. In FY 2010, the subsidy totaled \$281.9 million. Though receipts are higher than FY 2010 receipts, they are unlikely to be sufficient for FY 2011 required payments estimated at \$1.65 billion. Thus, another GRF subsidy will be necessary in FY 2011.

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

<i>PROGRAM</i>	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>	<b>Percent</b>
Primary, Secondary, and Other Education	\$531,530	\$545,523	-\$13,993	-2.6%
Higher Education	\$214,253	\$207,385	\$6,867	3.3%
<b>Total Education</b>	<b>\$745,783</b>	<b>\$752,908</b>	<b>-\$7,126</b>	<b>-0.9%</b>
Public Assistance and Medicaid	\$995,640	\$1,026,351	-\$30,711	-3.0%
Health and Human Services	\$59,882	\$50,024	\$9,858	19.7%
<b>Total Welfare and Human Services</b>	<b>\$1,055,521</b>	<b>\$1,076,375</b>	<b>-\$20,853</b>	<b>-1.9%</b>
Justice and Public Protection	\$114,957	\$122,898	-\$7,942	-6.5%
Environment and Natural Resources	\$3,426	\$3,558	-\$132	-3.7%
Transportation	\$814	\$608	\$206	33.9%
General Government	\$14,050	\$20,642	-\$6,591	-31.9%
Community and Economic Development	\$4,363	\$5,177	-\$814	-15.7%
Capital	\$0	\$43	-\$43	-100.0%
<b>Total Government Operations</b>	<b>\$137,609</b>	<b>\$152,925</b>	<b>-\$15,316</b>	<b>-10.0%</b>
Tax Relief and Other	\$3	\$178	-\$176	-98.4%
Debt Service	\$29,811	\$30,116	-\$305	-1.0%
<b>Total Other Expenditures</b>	<b>\$29,814</b>	<b>\$30,295</b>	<b>-\$481</b>	<b>-1.6%</b>
<b>Total Program Expenditures</b>	<b>\$1,968,727</b>	<b>\$2,012,503</b>	<b>-\$43,776</b>	<b>-2.2%</b>
<b>TRANSFERS</b>				
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers Out	\$220	\$0	\$220	---
<b>Total Transfers Out</b>	<b>\$220</b>	<b>\$0</b>	<b>\$220</b>	<b>---</b>
<b>TOTAL GRF USES</b>	<b>\$1,968,947</b>	<b>\$2,012,503</b>	<b>-\$43,556</b>	<b>-2.2%</b>
* 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 February 28, 2011**  
(\$ in thousands)  
(Actual based on OAKS reports run March 7, 2011)

<b>PROGRAM</b>	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>	<b>Percent</b>	<b>FY 2010</b>	<b>Percent Change</b>
Primary, Secondary, and Other Education	\$4,806,848	\$4,793,389	\$13,458	0.3%	\$4,890,893	-1.7%
Higher Education	\$1,655,163	\$1,646,790	\$8,372	0.5%	\$1,666,757	-0.7%
<b>Total Education</b>	<b>\$6,462,011</b>	<b>\$6,440,180</b>	<b>\$21,831</b>	<b>0.3%</b>	<b>\$6,557,650</b>	<b>-1.5%</b>
Public Assistance and Medicaid	\$8,019,050	\$8,159,733	-\$140,683	-1.7%	\$7,166,790	11.9%
Health and Human Services	\$772,336	\$790,847	-\$18,511	-2.3%	\$733,097	5.4%
<b>Total Welfare and Human Services</b>	<b>\$8,791,386</b>	<b>\$8,950,581</b>	<b>-\$159,195</b>	<b>-1.8%</b>	<b>\$7,899,887</b>	<b>11.3%</b>
Justice and Public Protection	\$1,315,220	\$1,343,517	-\$28,297	-2.1%	\$1,340,904	-1.9%
Environment and Natural Resources	\$51,965	\$52,859	-\$893	-1.7%	\$63,917	-18.7%
Transportation	\$10,729	\$10,240	\$489	4.8%	\$12,782	-16.1%
General Government	\$186,904	\$205,206	-\$18,302	-8.9%	\$196,351	-4.8%
Community and Economic Development	\$65,440	\$76,217	-\$10,777	-14.1%	\$69,765	-6.2%
Capital	\$24	\$255	-\$232	-90.6%	\$330	-92.8%
<b>Total Government Operations</b>	<b>\$1,630,283</b>	<b>\$1,688,295</b>	<b>-\$58,012</b>	<b>-3.4%</b>	<b>\$1,684,049</b>	<b>-3.2%</b>
Tax Relief and Other	\$846,685	\$801,448	\$45,237	5.6%	\$892,516	-5.1%
Debt Service	\$355,720	\$361,799	-\$6,078	-1.7%	\$277,347	28.3%
<b>Total Other Expenditures</b>	<b>\$1,202,405</b>	<b>\$1,163,246</b>	<b>\$39,159</b>	<b>3.4%</b>	<b>\$1,169,863</b>	<b>2.8%</b>
<b>Total Program Expenditures</b>	<b>\$18,086,085</b>	<b>\$18,242,302</b>	<b>-\$156,217</b>	<b>-0.9%</b>	<b>\$17,311,449</b>	<b>4.5%</b>
<b>TRANSFERS</b>						
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers Out	\$995,333	\$903,600	\$91,733	10.2%	\$1,025,127	-2.9%
<b>Total Transfers Out</b>	<b>\$995,333</b>	<b>\$903,600</b>	<b>\$91,733</b>	<b>10.2%</b>	<b>\$1,025,127</b>	<b>-2.9%</b>
<b>TOTAL GRF USES</b>	<b>\$19,081,418</b>	<b>\$19,145,902</b>	<b>-\$64,484</b>	<b>-0.3%</b>	<b>\$18,336,577</b>	<b>4.1%</b>

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

<b>Medicaid (600525) Payments by Service Category</b>	<b>February</b>				<b>Year to Date</b>			
	<b>Actual</b>	<b>Estimate</b>	<b>Variance</b>	<b>Percent Variance</b>	<b>Actual thru Feb</b>	<b>Estimate thru Feb</b>	<b>Variance</b>	<b>Percent Variance</b>
Managed Care Plans	\$436,664	\$429,488	\$7,176	1.7%	\$3,361,449	\$3,282,375	\$79,074	2.4%
Nursing Facilities	\$226,963	\$232,346	-\$5,383	-2.3%	\$1,809,011	\$1,838,304	-\$29,293	-1.6%
Prescription Drugs	\$135,665	\$160,048	-\$24,383	-15.2%	\$1,125,109	\$1,291,669	-\$166,560	-12.9%
Hospitals	\$123,318	\$122,409	\$909	0.7%	\$1,003,562	\$1,047,682	-\$44,120	-4.2%
ICFs/MR	\$46,669	\$46,264	\$405	0.9%	\$371,789	\$365,574	\$6,215	1.7%
ODJFS Waivers	\$25,525	\$29,279	-\$3,754	-12.8%	\$222,085	\$255,482	-\$33,397	-13.1%
Physicians	\$31,012	\$29,431	\$1,581	5.4%	\$225,257	\$236,358	-\$11,101	-4.7%
All Other	\$130,325	\$126,114	\$4,211	3.3%	\$1,040,220	\$1,050,661	-\$10,441	-1.0%
<b>Total Payments</b>	<b>\$1,156,141</b>	<b>\$1,175,379</b>	<b>-\$19,238</b>	<b>-1.6%</b>	<b>\$9,158,482</b>	<b>\$9,368,105</b>	<b>-\$209,623</b>	<b>-2.2%</b>
Total Offsets (non-GRF)	-\$210,695	-\$211,180	\$485	-0.2%	-\$1,788,069	-\$1,912,036	\$123,967	-6.5%
Total 600525 (net of offsets)	\$945,446	\$964,199	-\$18,753	-1.9%	\$7,370,413	\$7,456,069	-\$85,656	-1.1%
Medicare Part D (600526)	\$18,107	\$19,958	-\$1,851	-9.3%	\$112,202	\$120,687	-\$8,485	-7.0%
<b>Total GRF</b>	<b>\$963,553</b>	<b>\$984,157</b>	<b>-\$20,604</b>	<b>-2.1%</b>	<b>\$7,482,615</b>	<b>\$7,576,756</b>	<b>-\$94,141</b>	<b>-1.2%</b>
<b>Total All Funds</b>	<b>\$1,174,248</b>	<b>\$1,195,337</b>	<b>-\$21,089</b>	<b>-1.8%</b>	<b>\$9,270,684</b>	<b>\$9,488,792</b>	<b>-\$218,108</b>	<b>-2.3%</b>

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

ICFs/MR - Intermediate Care Facilities for the Mentally Retarded

# EXPENDITURES

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

## Overview

For the first eight months of FY 2011, GRF program expenditures totaled \$18.09 billion. These expenditures were \$156.2 million below the estimate released by the Office of Budget and Management (OBM) in September 2010. During the same period, GRF transfers out totaled \$995.3 million, \$91.7 million above estimate. Total GRF uses were \$19.08 billion for the year to date, \$64.5 million below estimate. Tables 3 and 4 show GRF uses for the month of February and for FY 2011 through February, respectively. For February, GRF program expenditures were \$43.8 million below estimate; transfers out were \$0.2 million above estimate. GRF uses as a whole for the month of February were \$43.6 million below estimate.

Public Assistance and Medicaid had the largest negative year-to-date variance at \$140.7 million, followed by Justice and Public Protection (\$28.3 million), Health and Human Services (\$18.5 million), and General Government (\$18.3 million). These negative variances were partially offset by positive year-to-date variances in Transfers Out (\$91.7 million) and Tax Relief and Other (\$45.2 million). The variances in these six categories are briefly discussed below.

## Negative Variances

### Public Assistance and Medicaid

Year-to-date GRF expenditures for Public Assistance and Medicaid totaled \$8.02 billion, \$140.7 million (1.7%) below estimate. Medicaid, including both state and federal shares, accounted for about 93% of this category's year-to-date expenditures. Table 5 shows Medicaid GRF expenditures by service category and also summarizes Medicaid expenditures across all funds. (Medicaid is mainly funded with the GRF but is also supported by various non-GRF funds.) As seen from Table 5, year-to-date Medicaid GRF expenditures totaled \$7.48 billion, \$94.1 million (1.2%) below estimate. Across all funds, Medicaid expenditures totaled \$9.27 billion, \$218.1 million (2.3%) below the year-to-date estimate.

The Prescription Drug service category had the largest year-to-date negative variance at \$166.6 million (12.9%). This negative variance was mainly due to lower than estimated drug costs and utilization. Other service categories with significant year-to-date negative variances include Hospitals (\$44.1 million, 4.2%), ODJFS Waivers (\$33.4 million, 13.1%), and

Through  
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estimate.

Nursing Facilities (\$29.3 million, 1.6%). Somewhat offsetting year-to-date negative variances, Managed Care Plan expenditures were above estimate by \$79.1 million (2.4%).

As of December 2010 (the latest month for which data is available), Medicaid caseloads totaled 2.14 million, which was about 21,584 (1.0%) above estimate. Most of this variance occurred in the Aged, Blind, and Disabled (ABD) population. ABD recipients totaled 507,391 in December, which was above estimate by 18,729 (3.8%). This population includes individuals enrolled in the Medicare Premium Assistance Program, which pays for cost-sharing expenses (copayments, deductibles, and premiums) for low-income Medicare recipients. Enrollees on this program were above estimate by about 9,155 (10.0%).

### Justice and Public Protection

Year-to-date GRF expenditures for Justice and Public Protection totaled \$1.32 billion, \$28.3 million (2.1%) below estimate. The majority of this negative variance occurred in the Department of Rehabilitation and Correction (DRC, \$20.5 million) and the Department of Youth Services (DYS, \$4.7 million). Within the DRC budget, expenditures from the Mental Health Services appropriation item (502321) were \$9.4 million (16.6%) below the item's year-to-date estimate. This negative variance was due to a lower than expected incidence of inmate mental illnesses and higher utilization of DRC personnel for service delivery as opposed to the use of private contractors. Combined expenditures from DRC's Institutional Operations (501321) and Institutional Operations – Federal Stimulus (501620) were \$7.4 million (1.2%) below their year-to-date estimates. For FY 2011, DRC was appropriated \$214.5 million in federal stimulus funding deposited into the GRF to help support its operations. Expenditures for the RECLAIM Ohio appropriation item (470401) were \$4.6 million below the item's year-to-date estimate. RECLAIM Ohio, the largest appropriation item within the DYS budget, provides funding for institutional placement and community program services to youth who have been convicted of a felony offense and to other delinquent children.

### Health and Human Services

Year-to-date GRF expenditures for Health and Human Services totaled \$772.3 million, \$18.5 million (2.3%) below estimate. The Department of Health (DOH) contributed \$8.6 million to the total. Expenditures from DOH's Help Me Grow (440459) and Federally Qualified Health Centers (440465) were \$2.1 million and \$2.0 million, respectively, below their year-to-date estimates. However, these negative variances were mainly related to the timing of subsidy

Year-to-date  
 spending for  
 inmate  
 mental  
 health  
 services was  
 \$9.4 million  
 below  
 estimate.

disbursements and will likely narrow in future months. Items 440459 and 440465 both provide subsidies to various local entities for the provision of services. The remainder of the negative variance within the DOH budget occurred across several other appropriation items. In addition to DOH, the Department of Developmental Disabilities and the Department of Mental Health contributed \$3.2 million and \$3.0 million, respectively, of the year-to-date negative variance in Health and Human Services. These negative variances mainly resulted from smaller variances across various appropriation items within these two agencies' budgets.

### General Government

Year-to-date GRF expenditures for General Government totaled \$186.9 million, \$18.3 million (8.9%) below estimate. The Department of Taxation (TAX) accounted for \$9.1 million of the total. TAX's Operating appropriation item (110321) was \$9.7 million below estimate for the first eight months of FY 2011. This negative variance will likely narrow somewhat in the remainder of FY 2011. The Department of Administrative Services and the Legislative Service Commission contributed \$4.1 million and \$3.1 million, respectively, to the year-to-date negative variance in General Government.

### Positive Variances

#### Transfers Out

As reported in prior issues of *Budget Footnotes*, Transfers Out will finish the fiscal year above estimate. Through February, GRF transfers out were \$91.7 million (10.2%) above estimate. This positive variance was mainly due to GRF cash transfers made in October for making reimbursement payments to schools and local governments for tangible personal property (TPP) tax losses. The transfers were meant to be temporary in nature. The GRF is to be reimbursed by commercial activity tax (CAT) receipts, which are deposited into non-GRF funds and are the funding source for TPP reimbursements. However, the GRF may not be fully reimbursed if the CAT does not generate sufficient receipts to fully fund the required reimbursement amount. Current law requires the GRF to make up any CAT shortfalls. Based on the CAT's year-to-date performance, it is unlikely that the GRF will be fully reimbursed by CAT receipts in FY 2011.

Year-to-date GRF transfers out were \$91.7 million above estimate.

#### Tax Relief and Other

Year-to-date GRF expenditures for Tax Relief and Other were \$45.2 million (5.6%) above estimate. This positive variance reflects the fact that actual expenditures for the first (August 2010) of two annual property

tax relief settlements for FY 2011 were above the OBM estimate. The state reimburses schools and local governments for the 10% rollback, 2.5% rollback, and the homestead exemption. Reimbursement payments for the second (February 2011) settlement for FY 2011 will likely start in March.

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

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# ISSUE UPDATES

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## **Ohio Student Participation and Success in AP Exams Continues to Grow**

—*Andy Plagenz, Fiscal Analyst, 614-728-4815*

In February, the College Board issued its AP Report to the Nation, which shows that the participation and success of Ohio students in Advanced Placement (AP) exams continues to grow.<sup>6</sup> According to the report, the number of Ohio seniors who leave high school having taken at least one AP exam grew from 18,526 in 2006 to 23,045 in 2010, an increase of 24.4%. Likewise, the number of Ohio seniors scoring a three or higher on an AP exam grew from 11,555 in 2006 to 14,323 in 2010, an increase of 24.0%. Despite these increases, the percentage of Ohio seniors who leave high school having taken at least one AP exam (18.9%) remains below the national average (28.3%). The AP Program offers college-level courses and exams to high school students. Scores on the exams range from one to five. Many colleges and universities award college credit to students who score at least a three on an AP exam.

The AP Program is one example of a dual enrollment program. Dual enrollment programs allow students to take courses that may count for both high school and college credit. Ohio law requires all traditional school districts, joint vocational school districts, and chartered nonpublic high schools to offer at least one dual enrollment program. Furthermore, traditional school districts are required to participate in Ohio's post-secondary enrollment options (PSEO) program, which is also a dual enrollment program. Under the PSEO program, high school students attend college courses for both high school and college credit.

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## **National Broadband Map Released with Contribution from Connect Ohio**

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

In February, the U.S. Department of Commerce's National Telecommunications and Information Administration (NTIA) released the National Broadband Map. Ohio's portion of the map was contributed by Connect Ohio, a nonprofit, public-private partnership that has received support from the Department of Administrative Services' (DAS) Office of Information Technology, the eTech Ohio Commission, and the Ohio Board of Regents. The Connect Ohio program began in 2008 as part of the Broadband Ohio Initiative to spread the availability of broadband internet connectivity to underserved populations in Ohio. In addition to broadband mapping, Connect Ohio

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<sup>6</sup> The report is available on the College Board's web site: [www.collegeboard.com](http://www.collegeboard.com).

has established and maintained eCommunity Leadership Teams in each of Ohio's 88 counties. These teams work with Connect Ohio to develop technology growth plans for their communities. Connect Ohio also ran the "No Child Left Offline" program, which provided approximately \$100,000 worth of donated computers and software to 200 underprivileged students in its first year of operation. Current projects include continued broadband mapping and the Every Citizen Online project, launched in December 2010, which provides free computer and broadband internet training classes. Connect Ohio's first contract with the state was for \$2.9 million paid in FY 2008 and FY 2009 through DAS appropriation item 100607, Information Technology. This contract was renewed for \$2.6 million paid from the same appropriation item in FY 2010 and FY 2011. In addition, DAS has contracted with Connect Ohio for \$1.0 million paid in FY 2010 and FY 2011 through DAS federal appropriation item 100654, ARRA Broadband Mapping Grant.

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### **Georgetown Veterans Home Opens First Hospice Unit in the Nation**

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

On January 27, 2011, the Department of Veterans Services opened a new hospice unit at the Veterans Home in Georgetown, Ohio (Brown County), making the home the first in the nation to house a dedicated wing for the purpose of providing end of life care. The unit will be funded by federal per diem grants for veterans care and resident fees.<sup>7</sup> On December 13, 2010, the Controlling Board approved non-GRF funding increases totaling \$321,630 to cover the operating costs of the unit for FY 2011. The unit will accept any eligible veteran in Ohio who qualifies for hospice care. The veteran does not need to be a current resident of the home.

Georgetown is home to one of two state-operated nursing homes that serve eligible veterans in the state, with the second home located in Sandusky. The 22-bed hospice unit in Georgetown is located in what had been a vacant unit within the facility. Through a public-private partnership, Stein Hospice, a not-for-profit organization based in Ohio, will provide the necessary professional staff to operate the unit. Stein already offers hospice services at the Sandusky Veterans Home, but on an as needed basis.

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<sup>7</sup> Residents of the state veterans homes may be assessed a fee to pay a portion of the expense of their support, dependent upon their ability to pay.

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## Vocational Rehabilitation Public Private Partnership Expands in FY 2011

—Michele Perch, LSC Fellow, 614-644-1262

Through February, the number of local entities participating in the Vocational Rehabilitation Public Private Partnership (VRP3) with the Rehabilitation Services Commission (RSC) has expanded from 23 in FY 2010 to 41 in FY 2011, a 78% increase. VRP3 assists individuals with significant disabilities in securing and sustaining gainful employment. Under VRP3, local entities provide funding for vocational rehabilitation services that enables RSC to draw down federal match of \$3.69 for every \$1 expended on services. For these 41 partnerships, local investments range from \$17,000 to \$1.4 million for an estimated total of \$8.2 million in FY 2011, which will enable RSC to draw down \$30.2 million in federal match.

In addition, RSC will be seeking approval of the Controlling Board at its March 21 meeting to further expand VRP3 by entering into an agreement with the Ohio Department of Alcohol and Drug Addiction Services (ODADAS). Under the agreement, ODADAS will provide RSC with \$8.9 million from eligible investments made by local behavioral health boards, which will enable RSC to draw down an additional \$33.0 million in federal match.

In order to participate, local entities must provide new, enhanced, and reconfigured services to RSC consumers and applicants. RSC gives preference to proposals that provide outreach to veterans, benefit youth transitioning to the workforce or post-secondary school programs, and help rehabilitate adults with brain injury, vision impairments, or mental health issues.

VRP3, previously called the Pathways Program, was initiated in FY 2009. In that year, 16 local entities invested \$4.2 million to draw down \$15.7 million in federal match and served 3,586 individuals. The program expanded in FY 2010 when 23 entities invested \$5.5 million to draw down \$22.4 million in federal match and served 7,008 individuals. About 13,000 individuals will be served by VRP3 in FY 2011.

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## Ohio Receives \$2.9 million Federal Grant to Provide Employment Services to Former Wilmington Air Park Employees

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

In February, Ohio received a \$2.9 million federal National Emergency Grant (NEG) to provide employment services to former employees of the Wilmington Air Park (Clinton County). This new grant will supplement two existing NEG's of \$3.9 million and \$4.4 million the state received in December 2008 and December 2009, respectively. The existing NEG's are being used to provide employment services to about 1,630 individuals; the new NEG will provide services to an additional 730

individuals. Services include job search assistance, career planning, skill assessments, classroom and on-the-job training, and supportive services such as transportation, child care, classroom supplies, and adult literacy classes. Individuals may receive these services in one of two transition centers located at the air park and in the city of Wilmington.

In May 2008, the logistics and distribution company DHL announced the closure of the Wilmington Air Park, which was the largest employer in Clinton County. The closure affected about 10,000 individuals including employees from ABX Air, ACS Business Solutions, and ASTAR Cargo Inc. In June 2010, DHL donated the air park and surrounding 1,500 acres to the Clinton County Port Authority for economic redevelopment.

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### **New Oil and Gas Fees Generate \$673,000 in First Six Months of FY 2011**

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

Through the first six months of FY 2011, the Department of Natural Resources (DNR) collected nearly \$673,000 from five new fees for the Oil and Gas Well Fund (Fund 5180), which supports the regulation and oversight of oil and natural gas extraction in Ohio. These new fees were enacted as part of S.B. 165 of the 128th General Assembly, which revised Ohio's oil and gas laws and provided for new sources of revenue to replace GRF funding for these activities. These new fees include (1) a regulatory cost recovery assessment charged to producers alongside severance taxes, (2) a fee for the disposal of brine used in well injection operations, (3) a fee for domestic-use wells that are exempt from the regular regulatory assessment, (4) a fee for temporarily inactive wells, and (5) a fee for transferring ownership of a well.

The table below lists the new fees enacted in S.B. 165, the rate charged for each fee, and the amount collected from the fee from July through December 2010. Income from these five fees represents 30.9% of the total revenues of \$2.17 million collected by Fund 5180 in the first six months of FY 2011. Fund 5180 also collects well drilling permit fees, fines and penalties for oil and gas law violations, and 90% of oil and gas severance taxes.

Revenue from New Oil and Gas Fees in S.B. 165 (July-December 2010)		
Fee	Charged Rate	Revenue
Regulatory Cost Recovery Assessment	10 cents/barrel of oil 0.5 cents/mcf* of natural gas	\$335,099
Brine Disposal Fee	5 cents/barrel for disposal in same or adjoining regulatory district 20 cents/barrel for disposal out-of-district	\$218,245
New Exempt Domestic Well Fee	\$60/well	\$250
Temporary Inactive Well Fee	\$100/well for a newly inactive well \$250/well for first renewal \$500/well for subsequent renewals	\$600
Well Transfer Fee	\$100/well	\$118,500
<b>Total</b>		<b>\$672,694</b>

\* 1 mcf = 1,000 cubic feet

## ODOT Scales Back Proposed Funding for Transit Authorities

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

In February 2011, the Ohio Department of Transportation (ODOT) announced that, from FY 2011 through FY 2013, it would provide the state's transit agencies with a total of \$80 million in federal dollars instead of \$150 million as announced in October 2010. Under the October 2010 proposal, \$50 million per year would be provided to transit agencies. These funds were to be used to assist transit agencies with operating expenses (\$25 million per year), the purchase of environmentally friendly buses (\$15 million per year), and the start-up of new services (\$10 million per year). Under the February 2011 plan, transit agencies will receive \$40 million in FY 2011 and \$20 million each in FY 2012 and FY 2013. For FY 2011, the \$10 million in previously proposed funding for start-up of new services was rescinded. For FY 2012 and FY 2013, \$6 million per year will be distributed to transit agencies by formula while the remaining \$14 million per year will be distributed as competitive grants.

## Public Safety Awards \$4.2 million in Drug Law Enforcement Grants

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

In January 2011, the Department of Public Safety's Office of Criminal Justice Services awarded 36 drug law enforcement grants totaling \$4.2 million.<sup>8</sup> The table below summarizes the number and the location of these grants by county. The grants are for the purpose of defraying expenses that a drug task force organization incurs in

<sup>8</sup> A complete list of funded projects can be found at: [http://www.ocjs.ohio.gov/FY2010\\_ODLF\\_FundDecisions.pdf](http://www.ocjs.ohio.gov/FY2010_ODLF_FundDecisions.pdf).

performing its functions related to the enforcement of the state's drug laws and other state laws related to illegal drug activity. The recipients of these grants included 23 county sheriffs' offices, six multi-jurisdictional task forces, three municipal police departments, two township police departments, and two county prosecuting attorney offices. Funding for these grants comes from a portion of the additional \$10 court cost that is generally imposed by a court on a person convicted of or pleading guilty to any moving violation.

<b>FY 2011 Drug Law Enforcement Grant Awards by County (Total: \$4.2 million)</b>					
<b>County (# Grants)</b>	<b>Amount</b>	<b>County (# Grants)</b>	<b>Amount</b>	<b>County (# Grants)</b>	<b>Amount</b>
Allen (1)	\$124,656	Greene (1)	\$140,001	Ottawa (1)	\$76,737
Auglaize (1)	\$50,490	Hamilton (2)	\$408,604	Portage (1)	\$21,259
Belmont (1)	\$13,209	Hardin (1)	\$9,914	Richland (1)	\$187,500
Butler (1)	\$39,989	Lawrence (1)	\$76,527	Ross (1)	\$179,631
Clermont (1)	\$161,138	Licking (1)	\$150,770	Stark (1)	\$107,423
Columbiana (1)	\$52,725	Lorain (1)	\$135,075	Summit (1)	\$249,000
Cuyahoga (3)	\$503,351	Mahoning (1)	\$186,495	Trumbull (1)	\$171,440
Defiance (1)	\$115,242	Medina (1)	\$132,809	Vinton (1)	\$8,206
Delaware (1)	\$104,427	Meigs (1)	\$9,070	Warren (1)	\$174,555
Fairfield (1)	\$147,930	Monroe (1)	\$8,292	Washington (1)	\$13,950
Franklin (1)	\$250,000	Montgomery (1)	\$55,891	Wayne (1)	\$133,693

# TRACKING THE ECONOMY

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

Recovery in U.S. and Ohio economic activity has been underway since the recession trough in the 2009 second quarter. The rate of recovery in Ohio has been slower than nationwide. Further economic expansion is predicted for both the nation and the state. Growth has been slow compared with most past recoveries, and additions to employment have been small in the U.S. and in Ohio. Unemployment consequently has remained high, though it has come down gradually. Inflation for most finished goods and services has stayed down, though it is up from its lows. Commodity prices have risen sharply. Market interest rates have also been low. As the expansion continues, and as labor and capital resources become more fully utilized next year, borrowing costs are likely to rise.

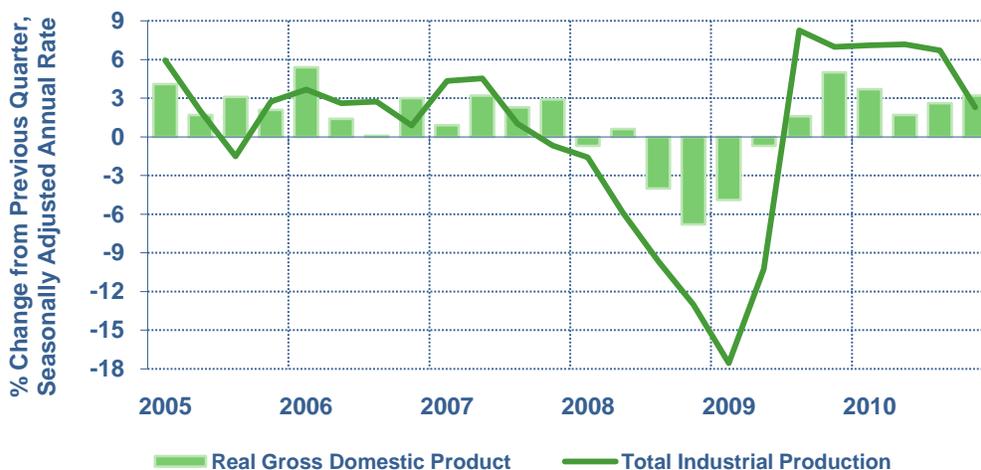
Recovery  
has been  
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recession  
trough in  
the 2009  
second  
quarter.

## The National Economy

The nation's economy has been recovering since mid-year 2009. By the end of last year, inflation-adjusted gross domestic product (real GDP) is estimated to have risen back to its previous peak three years earlier. Growth slowed in mid-2010 but picked up toward the end of the year, continuing into 2011. The areas of economic growth have shifted from inventory rebuilding toward increases in final demand, including rising consumer spending, business investment in equipment, and exports. However, demand has remained anemic from some sectors including residential building, private nonresidential construction, and government, particularly state and local government. Chart 1 shows growth in real GDP and industrial production, as reported when the forecasts were made by Global Insight that serve as the basis for LSC's projections of Ohio tax revenues for the FY 2012-FY 2013 biennial budget. Real GDP growth in the fourth quarter of 2010 has since been revised downward to 2.8%, at an annual rate, while industrial production growth was revised upward slightly.

Consumer spending has grown since the end of the recession.

Chart 1: United States Output Measures



Housing markets generally remain in the doldrums.

Consumer spending has grown since the end of the recession. The willingness of consumers to spend has been tempered by weak employment growth and high unemployment, by illiquid investments in housing that have fallen in value, by tight credit availability, and by efforts of households to pay down past borrowings. Employment nationwide has risen nearly 1.3 million (1.0%) since the low point in February 2010, and the rate of growth has picked up this year. Incomes of consumers have been supported by increases in average hours worked as well as by modestly higher hourly pay. Replacement needs are also contributing to increased spending on motor vehicles and other durable goods. But the recent escalation in gasoline prices, driven by Mideast turmoil on top of rising worldwide demand for petroleum, is eroding household discretionary incomes that would otherwise be available for spending on other goods and services.

Housing markets generally remain in the doldrums, with new home sales and construction far below peak levels in past years. Nationwide indexes of housing prices are no longer falling sharply as in 2008 but are around levels of 2003-2004.<sup>9</sup> Conditions vary widely among local markets. Residential buying remains constrained by much tougher underwriting standards than during the housing boom in the last decade. Housing investment has fluctuated since mid-2009, rising in three of the last six quarters after falling precipitously earlier, and may be bottoming out.

<sup>9</sup> Nationwide measures of home prices include indexes from the Federal Housing Finance Agency and from Standard & Poor's (the Case-Shiller Home Price Indices).

Business investment in equipment and software has been growing vigorously, with large gains since the end of the recession in transportation equipment, from a very low level, and in information processing equipment and software. Investment outlays for industrial equipment fell through 2009 but have been rising this year. In contrast, business investment in structures has remained weak, with declining investment in most areas except for the mining industry, which includes oil and gas exploration and development, and which has recovered a portion of the fall in activity during the recession. Inventory rebuilding accounted for well over half of the economy's growth during the first year of recovery but now appears to have largely run its course. Inventories were cut sharply during the recession.

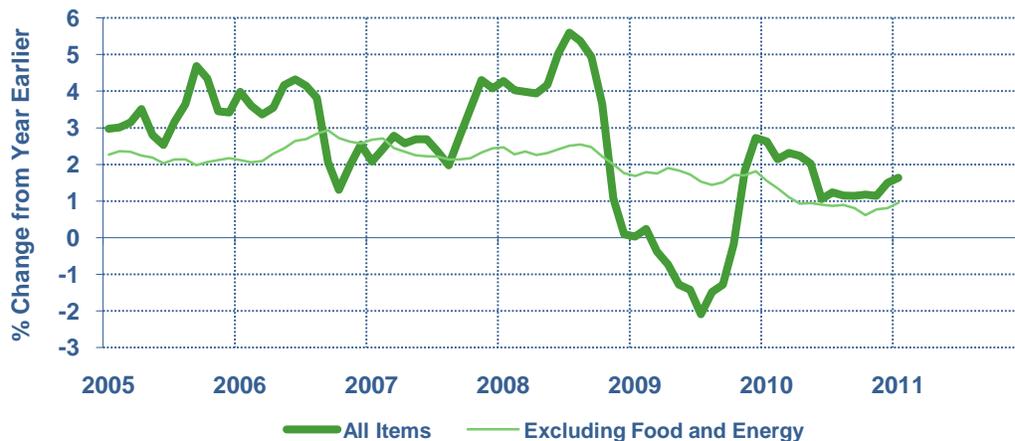
Business investment in equipment and software has been growing vigorously.

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

With significant productive resources still idle, including unemployed labor resources as well as plant and equipment, finished goods and services inflation remains low, overall, though up from lows in 2009 and 2010. Wage inflation is also low. However, commodity price inflation has been rising over the past year, reflecting growing demand around the world and, in the case of petroleum, concerns about the potential for worsening Middle East instability to disrupt supplies. Consumer prices for gasoline and other energy products have consequently been pushed higher. Recent trends in consumer prices for all items and excluding food and energy, which tend to be more volatile, are shown in Chart 2.

Business investment in structures has remained weak.

Chart 2: Consumer Price Index



Because unemployment is still high and inflation at the finished goods level has remained low, U.S. monetary policy has held short-term interest rates at very low levels. In addition to keeping its target short-term interest rate, the federal funds rate, in a range of 0% to 0.25%, the Federal Reserve System is buying U.S. Treasury notes and bonds to keep longer-term interest rates low. In spite of these purchases, longer-term market interest rates have risen from lows in last year's second half, in an apparent response by financial markets to evidence of some strengthening in the upturn in the U.S. economy.

### The Ohio Economy

Annual changes in Ohio real GDP compared with those for the U.S. are shown in Chart 3. State gross domestic product figures are available from the source agency, the U.S. Bureau of Economic Analysis (BEA), only annually and with a long lag. The most recent history currently available from BEA is for 2009. Quarterly estimates up to the present and forecasts are provided by Global Insight, however, the state history for 2007-2009 was revised February 23, by BEA, and this new history is not yet reflected in the Global Insight forecast. Real GDP has risen more slowly in Ohio than nationwide, or declined more sharply, every year since 1998, with the exception of 2002. The state's share of national output has trended lower since the 1960s.

Real GDP has risen more slowly in Ohio than nationwide in some years, and declined more sharply in other years.

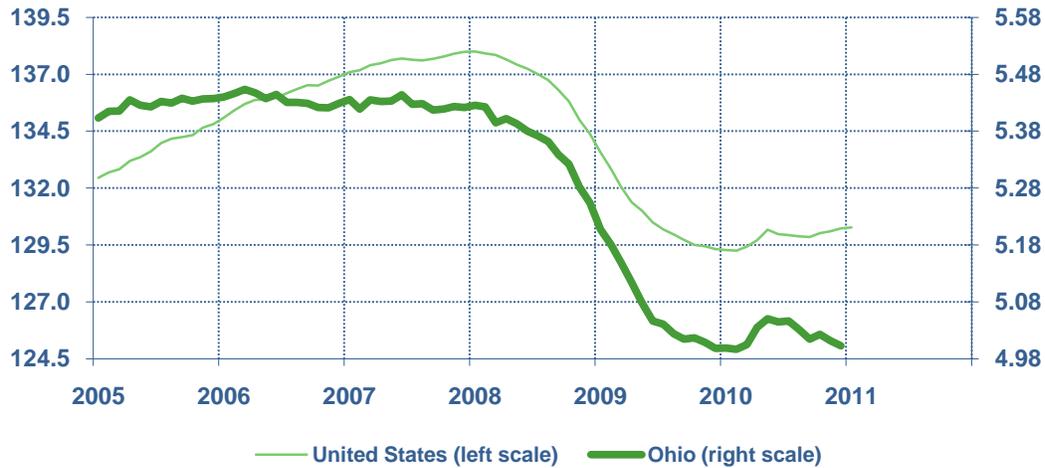
Chart 3: Real Gross Domestic Product



Nonfarm payroll employment in Ohio, compared with the U.S., is shown in Chart 4. The data in the chart are those available at the time that Global Insight's February baseline forecast was developed. Ohio nonfarm payroll employment in December, shown in the chart, was subsequently revised upward by 31,300 (0.6%) in an annual benchmark revision. Statewide employment in January rose 31,900 (0.6%) from the

upward-revised December level. U.S. payroll employment rose 192,000 in February and private payrolls rose 222,000 (0.2%), among the larger increases since 2006. Nationwide employment in January was revised upward by 58,000.

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



Ohio's statewide unemployment rate, the number of people not employed and actively seeking work as a percent of the labor force, declined to 9.4% in January from 9.5% in December, shown in Chart 5. The U.S. unemployment rate declined to 8.9% in February from 9.0% in January.

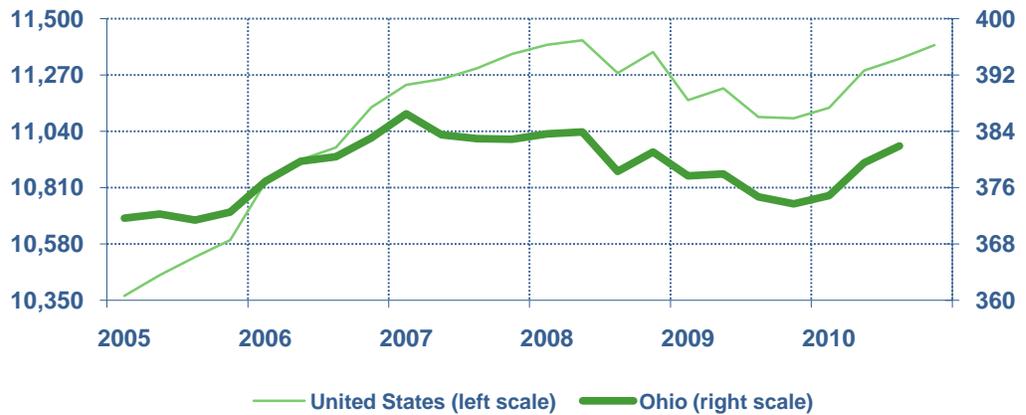
**Chart 5: Unemployment Rate**



Ohio's statewide unemployment rate declined to 9.4% in January.

Personal income has been growing in the nation and Ohio since the end of 2009, as shown in Chart 6. Both series in the chart are deflated using the national personal consumption expenditures deflator. State personal income is published with a lag by the source agency, BEA, and is shown in the chart through the 2010 third quarter. Ohio personal income as well as U.S. personal income rose 2.9% from the low point to the third quarter, measured in dollars, and 2.2% after adjustment for inflation – equivalent to nearly a 3% annualized rate of growth. U.S. real personal income rose further in the fourth quarter.

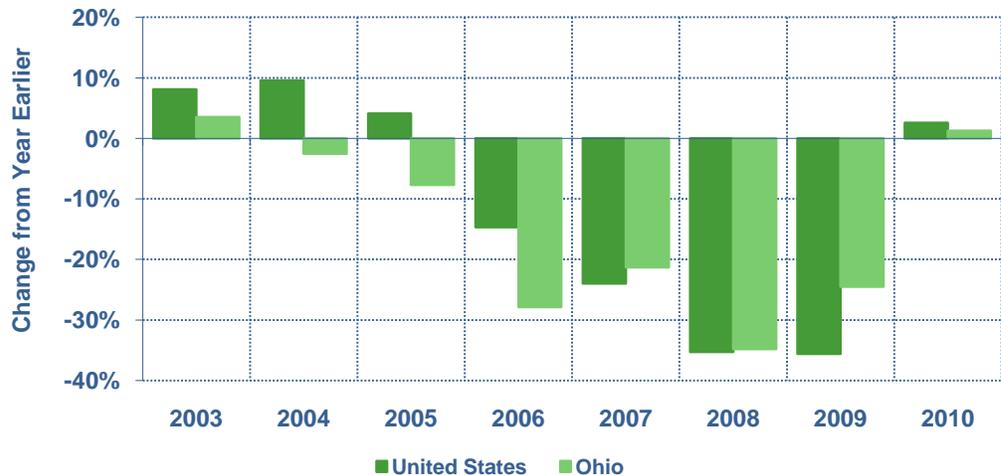
**Chart 6: Personal Income**  
Billions of 2005 Dollars



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

Residential building activity fell in Ohio for six years through 2009 before edging up last year, as indicated by construction permits for new privately owned units, shown in Chart 7. In the U.S., housing construction activity fell for four years through 2009, then also rose last year. Residential building activity remains at low levels in Ohio and

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



around the country. Housing prices in Ohio, as reported by the Federal Housing Finance Agency, fell in 2006 through 2008, flattened in 2009, then resumed declining in 2010 though not as rapidly as in 2008.

## Economic Forecasts

The predictions for the economic outlook in the tables that follow are from Global Insight's baseline forecasts released in February 2011. Economic forecasting is inherently uncertain, and projections may turn out to be too optimistic or too pessimistic. LSC's forecasts for state tax revenues for the FY 2012-FY 2013 biennial budget, based in part on some of the variables provided by Global Insight, could in consequence also be either too high or too low.

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

### U.S. Gross Domestic Product

Real GDP is projected to grow through 2013 at about a 3.1% annual rate on average. In the first six quarters of the recovery, through the end of last year, U.S. real GDP growth averaged 2.9% at an annual rate.

Forecast	2011				2012				2013			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----percent change at annual rate-----											
Global Insight	4.1	3.3	2.8	3.5	2.1	2.7	3.2	3.7	2.3	3.3	3.3	3.0
Global Insight		3.0				3.1				3.0		

### Ohio Gross Domestic Product

Economic growth in Ohio is expected to continue through 2013 but at a somewhat slower rate than nationwide. Predicted growth of real GDP in Ohio averages 2.6% at an annual rate during the 12 quarters shown in the table.

Forecast	2011				2012				2013			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----percent change at annual rate-----											
Global Insight	3.5	2.7	2.6	2.6	2.2	2.3	2.5	2.9	2.3	2.9	2.6	2.5
Global Insight		2.3				2.5				2.5		

## U.S. Inflation

In Global Insight's February baseline forecast, consumer price inflation edges up slightly in 2011 through 2013 but remains under a 2% annual rate in most quarters and on average.

Forecast	U.S. Consumer Price Index Inflation											
	2011				2012				2013			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----percent change at annual rate-----											
Global Insight	3.8	-0.2	1.9	1.8	1.9	1.7	1.8	1.9	2.0	1.9	1.9	2.1
Global Insight		1.5				1.7				1.8		

## U.S. Personal Income

Nationwide personal income growth during the 12 quarters through the end of 2013 averages 4.5% at an annual rate. These growth rates are based on the dollar amounts of income, not adjusted for inflation. Strong growth of income shown in the table for the current quarter and weakness in the first quarter of 2012 reflect a one-year, 2 percentage point reduction in the individual portion of Social Security taxes, which is subtracted in the national income and product accounts in calculating personal income.

Forecast	U.S. Personal Income Growth											
	2011				2012				2013			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----percent change at annual rate-----											
Global Insight	8.4	4.8	4.6	3.6	0.3	4.4	4.5	4.9	4.1	5.0	4.7	4.7
Global Insight		4.4				4.3				3.9		

## Ohio Personal Income

Income to persons who reside in Ohio also grows through 2013, except for the first quarter of 2012 when the end of the temporary reduction in Social Security taxes results in lower total personal income. Growth of Ohio personal income averages 3.8% at an annual rate in the 12 quarters shown in the table, lagging behind growth of personal income nationwide.

Forecast	Ohio Personal Income Growth											
	2011				2012				2013			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----percent change at annual rate-----											
Global Insight	7.8	4.0	4.0	2.7	-0.6	4.0	3.8	4.0	3.7	4.3	3.8	3.8
Global Insight		4.0				3.5				3.3		

## U.S. Unemployment Rate

Unemployment nationwide is expected to decline gradually through the forecast period shown in the table. The national unemployment rate fell from 9.0% in January to 8.9% in February, so the February forecast of a 9.1% average rate in the first quarter now appears a bit too high. As job opportunities improve, additional entrants to the labor force are likely to be attracted, which will slow the decline in the unemployment rate.

Forecast	2011				2012				2013			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----percent of the labor force-----											
Global Insight	9.1	9.1	9.0	8.8	8.7	8.6	8.5	8.3	8.1	7.9	7.8	7.6
Global Insight		9.4				8.8				8.2		

## Ohio Unemployment Rate

The unemployment rate in Ohio in January of 9.4% was 0.4 percentage point higher than the national average. Unemployment in Ohio is projected to fall slowly during the next three years, with the state's unemployment rate remaining above that of the nation.

Forecast	2011				2012				2013			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----percent of the labor force-----											
Global Insight	9.3	9.4	9.4	9.3	9.2	9.1	9.0	8.9	8.8	8.6	8.5	8.3
Global Insight		9.7				9.3				8.8		