

Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

APRIL 2011

STATUS OF THE GRF

HIGHLIGHTS

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

Ohio employment and incomes continue to grow in the latest reports, and unemployment is lower. The unemployment rate fell to 9.2% in February 2011, down from 9.3% in January, and from 10.6% a year earlier. Ohio's unemployment rate had been 0.9 percentage points higher than the national rate in February 2010; in February 2011, it was reduced to 0.3 percentage points higher. Payroll amounts withheld under the state income tax for FY 2011 through March imply that Ohio wages and salaries are about 7.3% higher than a year ago.

Through the first nine months of FY 2011, overall GRF tax sources have exceeded expectations by \$627 million, and major GRF tax sources are likely to finish the fiscal year above estimate. The one tax underperforming notably is the public utility excise tax, \$35.2 million below estimate, due mostly to lower than expected natural gas prices.

Through March 2011, GRF sources totaled \$20.15 billion:

- Revenue from the personal income tax was \$311.2 million above estimate;
- Sales and use tax receipts were \$247.5 million above estimate.

Through March 2011, GRF uses totaled \$21.66 billion:

- Program expenditures were \$330.4 million above estimate, due primarily to timing issues in Public Assistance and Medicaid (\$294.0 million) and Tax Relief and Other (\$109.6 million) spending.

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STATUS OF THE GRF

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

Telephone: (614)466-3615

Table 1: General Revenue Fund Sources				
Preliminary Actual vs. Estimate				
Month of March 2011				
(\$ in thousands)				
(Actual based on report run in OAKS Actuals Ledger on April 7, 2011)				
	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	\$93,021	\$76,700	\$16,321	21.3%
Nonauto Sales and Use	\$492,408	\$439,600	\$52,808	12.0%
Total Sales and Use Taxes	\$585,429	\$516,300	\$69,129	13.4%
Personal Income	\$542,310	\$462,700	\$79,610	17.2%
Corporate Franchise	\$70,323	\$49,000	\$21,323	43.5%
Public Utility	\$448	\$1,400	-\$953	-68.0%
Kilowatt Hour Excise	\$19,401	\$19,300	\$101	0.5%
Commercial Activity Tax**	\$0	\$0	\$0	---
Foreign Insurance	\$73,209	\$92,600	-\$19,391	-20.9%
Domestic Insurance	\$4,316	\$0	\$4,316	---
Business and Property	\$0	\$0	\$0	---
Cigarette	\$65,459	\$62,000	\$3,459	5.6%
Alcoholic Beverage	\$4,015	\$4,400	-\$385	-8.7%
Liquor Gallonage	\$2,781	\$2,700	\$81	3.0%
Estate	\$1,056	\$1,200	-\$144	-12.0%
Total Tax Revenue	\$1,368,747	\$1,211,600	\$157,147	13.0%
NONTAX REVENUE				
Earnings on Investments	\$2	\$0	\$2	---
Licenses and Fees	\$16,932	\$8,250	\$8,682	105.2%
Other Revenue	\$996	\$5,240	-\$4,244	-81.0%
Total Nontax Revenue	\$17,930	\$13,490	\$4,440	32.9%
TRANSFERS				
Liquor Transfers***	\$0	\$11,000	-\$11,000	-100.0%
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers In	\$319,000	\$10,300	\$308,700	2997.1%
Total Transfers In	\$319,000	\$21,300	\$297,700	1397.7%
TOTAL STATE SOURCES	\$1,705,676	\$1,246,390	\$459,286	36.8%
Federal Grants	\$1,074,933	\$710,503	\$364,430	51.3%
TOTAL GRF SOURCES	\$2,780,609	\$1,956,893	\$823,716	42.1%
*Tax estimates of the Office of Budget and Management received September 2010.				
**Commercial activity tax receipts in FY 2011 are non-GRF.				
***Liquor Transfers based on a report run in OAKS as of March 31, 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 March 31, 2011
(\$ in thousands)

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

	Actual	Estimate*	Variance	Percent	FY 2010	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	\$701,925	\$635,500	\$66,425	10.5%	\$626,695	12.0%
Nonauto Sales and Use	\$4,943,820	\$4,762,700	\$181,120	3.8%	\$4,621,054	7.0%
Total Sales and Use Taxes	\$5,645,745	\$5,398,200	\$247,545	4.6%	\$5,247,749	7.6%
Personal Income	\$5,374,227	\$5,063,000	\$311,227	6.1%	\$4,897,460	9.7%
Corporate Franchise	\$140,713	\$76,400	\$64,313	84.2%	\$56,300	149.9%
Public Utility	\$82,064	\$117,300	-\$35,236	-30.0%	\$89,125	-7.9%
Kilowatt Hour Excise	\$127,685	\$135,101	-\$7,416	-5.5%	\$125,848	1.5%
Commercial Activity Tax**	\$0	\$0	\$0	---	\$0	---
Foreign Insurance	\$266,971	\$262,450	\$4,521	1.7%	\$262,853	1.6%
Domestic Insurance	\$3,294	\$134	\$3,160	2358.0%	\$1,295	154.3%
Business and Property	-\$993	\$126	-\$1,119	-887.7%	\$281	-453.6%
Cigarette	\$581,939	\$540,800	\$41,139	7.6%	\$604,035	-3.7%
Alcoholic Beverage	\$41,137	\$42,100	-\$963	-2.3%	\$40,815	0.8%
Liquor Gallonage	\$28,130	\$27,000	\$1,130	4.2%	\$27,420	2.6%
Estate	\$28,492	\$29,600	-\$1,108	-3.7%	\$27,010	5.5%
Total Tax Revenue	\$12,319,403	\$11,692,211	\$627,192	5.4%	\$11,380,192	8.3%
NONTAX REVENUE						
Earnings on Investments	\$4,685	\$41,500	-\$36,815	-88.7%	\$21,443	-78.2%
Licenses and Fees	\$48,221	\$53,404	-\$5,183	-9.7%	\$58,445	-17.5%
Other Revenue	\$155,365	\$184,910	-\$29,545	-16.0%	\$160,562	-3.2%
Total Nontax Revenue	\$208,271	\$279,814	-\$71,543	-25.6%	\$240,449	-13.4%
TRANSFERS						
Liquor Transfers***	\$98,977	\$105,300	-\$6,323	-6.0%	\$124,000	-20.2%
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers In	\$724,248	659,406	\$64,842	9.8%	\$690,821	4.8%
Total Transfers In	\$823,225	\$764,706	\$58,519	7.7%	\$814,821	1.0%
TOTAL STATE SOURCES	\$13,350,899	\$12,736,731	\$614,168	4.8%	\$12,435,462	7.4%
Federal Grants	\$6,795,787	\$6,837,963	-\$42,176	-0.6%	\$5,146,220	32.1%
TOTAL GRF SOURCES	\$20,146,686	\$19,574,694	\$571,991	2.9%	\$17,581,681	14.6%

*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 31, 2011.

Detail may not sum to total due to rounding.

REVENUES

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

Overview

March GRF sources of \$2.78 billion were \$823.7 million above projections released in September 2010 by the Office of Budget and Management. This positive variance was due primarily to a timing-related surplus of \$297.7 million in transfers in, and \$364.4 million in higher than anticipated federal grants.¹ Additionally, tax sources had another good month, posting a positive variance of \$157.1 million. Tables 1 and 2 show GRF sources for the month of March 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.

GRF tax sources exceeded expectations for the eighth consecutive month in FY 2011. Tax revenues suggest the estimates released in September 2010 are underestimating the strength of the economic recovery in recent months. Thus, it is possible tax revenues may also exceed estimates in the remaining quarter of FY 2011.

March tax receipts of \$1.37 billion increased the year-to-date positive variance to \$627.2 million, up from \$470.0 million at the end of February 2011. The primary tax sources surpassed anticipated receipts. The personal income tax, the sales and use tax, and the cigarette tax, were above estimate, respectively, by \$79.6 million, \$69.1 million, and \$3.5 million. The second corporate franchise tax payment for FY 2011,² due March 31, was \$21.3 million above estimate. The domestic insurance tax was \$4.3 million above estimate. The foreign insurance tax was \$19.4 million below estimate, partly reversing the previous month's positive variance of \$24.4 million, and the shortfall in public utility excise tax receipts was \$0.9 million. The remaining tax sources varied from their monthly estimates by small amounts. No liquor transfers were made in March, though \$15.0 million in transfers were booked in the first few days of April. Total state-source receipts were \$459.3 million above

¹ The Ohio Department of Job and Family Services pushed some Medicaid payments from April to March to realize additional federal reimbursement. See the **Expenditures** section of this *Budget Footnotes* for more details.

² The last franchise tax payment is due May 31, 2011.

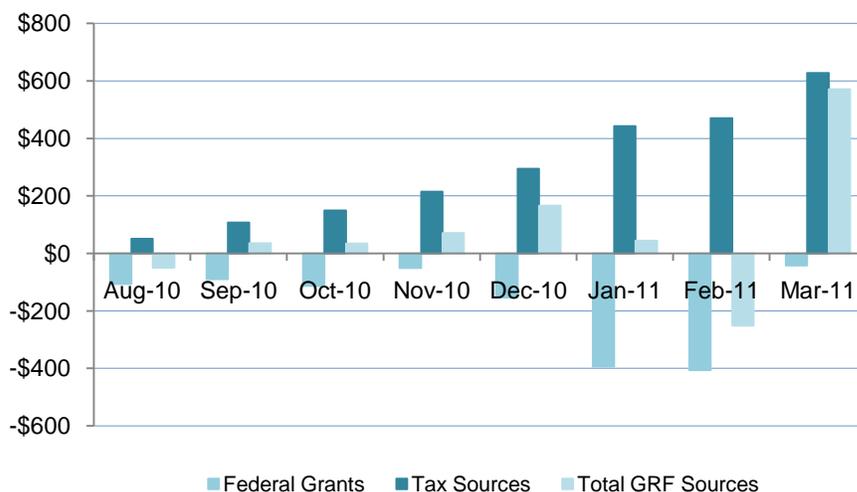
March tax receipts were \$157.1 million above estimate.

FY 2011 GRF tax receipts through March were \$627.2 million above estimate.

estimate for the month. A surplus of \$308.7 million in commercial activity tax-related temporary transfers added to the positive variance in tax receipts. (This surplus reversed a large February shortfall in the same category.)

Through March, FY 2011 total GRF sources of \$20.15 billion were \$572.0 million above estimate. State-source receipts of \$13.35 billion were above estimate by \$614.2 million, but federal grants were short of projections by \$42.2 million. The positive variance in tax receipts was partially offset by a negative variance of \$13.0 million in nontax revenues and transfers into the GRF. The personal income tax was above estimate by \$311.2 million, the sales and use tax by \$247.5 million, and the cigarette tax by \$41.1 million. Corporate franchise tax receipts were \$64.3 million above estimate.³ The insurance taxes were above estimate by a total of \$7.7 million. The liquor gallonage tax posted a positive variance of \$1.1 million. The remaining tax sources were below estimates. The public utility excise tax fell short of estimate by \$35.3 million. The kilowatt hour tax was below projection by \$7.4 million; the business and property tax and the estate tax were below anticipated receipts by \$1.1 million each. The graph below shows the cumulative variance against estimate for federal grants, tax sources, and total GRF sources. (Estimates were not available for the month of July.)

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



Year to date through March, federal grants were \$42.2 million below estimate.

FY 2011 GRF sources through March were \$572.0 million above estimate.

³ Through March, corporate franchise tax receipts of \$140.7 million were just \$1.0 million less than total FY 2010 receipts, with the last fiscal year payment due May 31, 2011.

March
receipts
from the
personal
income tax
were
\$79.6 million
above
estimate.

FY 2011 year-to-date GRF sources increased \$2.56 billion compared to receipts in the corresponding period in FY 2010, mostly from higher federal grants (\$1.65 billion), and increased tax receipts (\$939.2 million). Those gains were reduced by a shortfall of \$23.8 million in nontax sources and transfers in. Receipts from the sales and use tax and the personal income tax were above the levels of FY 2010 by \$398.0 million, and \$476.8 million, respectively. Corporate franchise tax receipts were \$84.4 million higher than receipts through March in FY 2010. Other taxes with notable year-to-year revenue increases included the foreign insurance tax (\$4.1 million), the domestic insurance tax (\$2.0 million), the kilowatt hour tax (\$1.8 million), and the estate tax (\$1.5 million). Year-to-date receipts in FY 2011 decreased noticeably for the cigarette tax (\$22.1 million), the public utility tax (\$7.1 million), and the business and property tax (\$1.3 million).

Personal Income Tax

March GRF receipts from the personal income tax of \$542.3 million were \$79.6 million (17.2%) above estimate and \$99.5 million (22.5%) above receipts in March 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,⁴ trust payments, payments associated with annual returns, and miscellaneous payments.

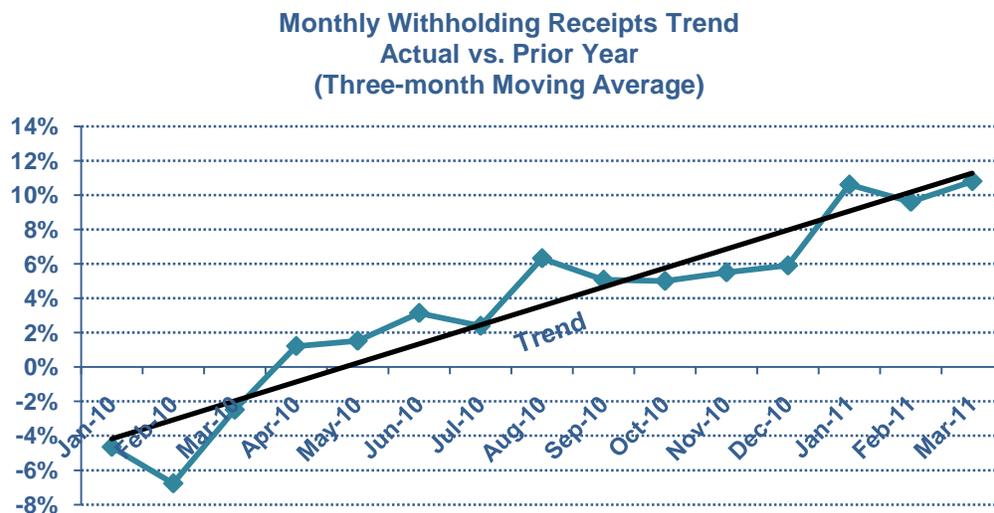
Employer withholding, quarterly estimated payments, and tax dues with annual returns were above estimate in March by, respectively, \$44.4 million (6.8%), \$4.0 million (25.1%), and \$14.4 million (16.0%). Refunds were lower than estimate by \$19.6 million (7.4%). Through March, the GRF received \$5.37 billion from the personal income tax in FY 2011. This amount was \$311.2 million (6.1%) above estimate and \$476.8 million (9.7%) above receipts in the corresponding period in FY 2010. Though receipts are expected to be higher than in FY 2010, the results of the income tax filing in April, and receipts from the first and second quarterly estimated payments (due in April and June) will determine the extent of the increase in personal income tax receipts. Generally, fourth-quarter personal income tax receipts may be as high as a third of total fiscal year receipts.

⁴ 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 below summarizes FY 2011 income tax revenue cumulative variances from estimates and annual changes by components. All components contributed to the positive variance against estimates and to higher income tax collections this year. Also, through March, refunds were lower than corresponding amounts in FY 2010 and distributions to the Local Government Fund increased.

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	\$209.0	3.9%	\$380.9	7.3%
Quarterly Estimated Payments	\$82.9	12.6%	\$101.0	15.7%
Trust Payments	\$0.5	2.5%	\$1.1	6.3%
Annual Return Payments	-\$0.4	-0.1%	\$4.2	1.7%
Miscellaneous Payments	\$11.3	14.9%	\$12.0	16.0%
Gross Collections	\$303.2	5.2%	\$499.2	8.1%
Less Refunds	-\$27.5	-3.4%	-\$13.6	-1.7%
Less Local Government Fund Distribution	\$19.5	4.1%	\$36.0	7.8%
Income Tax Revenue	\$311.2	6.1%	\$476.8	9.7%

Year to date, employer withholding, the most important component of the tax, was \$380.9 million (7.3%) above withholding receipts in FY 2010 through March. The graph below shows the trend in withholding receipts since January 2010.



Through March, FY 2011 GRF income tax receipts were \$311.2 million above estimate.

Through March, FY 2011, revenue from withholding was \$209.0 million above estimate.

Sales and Use Tax

Through
March,
FY 2011
sales and
use tax
receipts were
\$247.5 million
above
estimate.

GRF sales and use tax receipts of \$585.4 million in March were \$69.1 million (13.4%) above estimate, and \$74.8 million (14.7%) above receipts in March 2010. Through March, FY 2011 GRF sales and use tax receipts of \$5.65 billion were \$247.5 million (4.6%) above estimate and \$398.0 million (7.6%) 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 collections⁵ generally arise from the sale of motor vehicles while nonauto sales and use tax collections arise from other sales. However, auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax, instead of the auto tax. Year to date, both components of the sales tax are performing above expectations.

Nonauto Sales and Use Tax

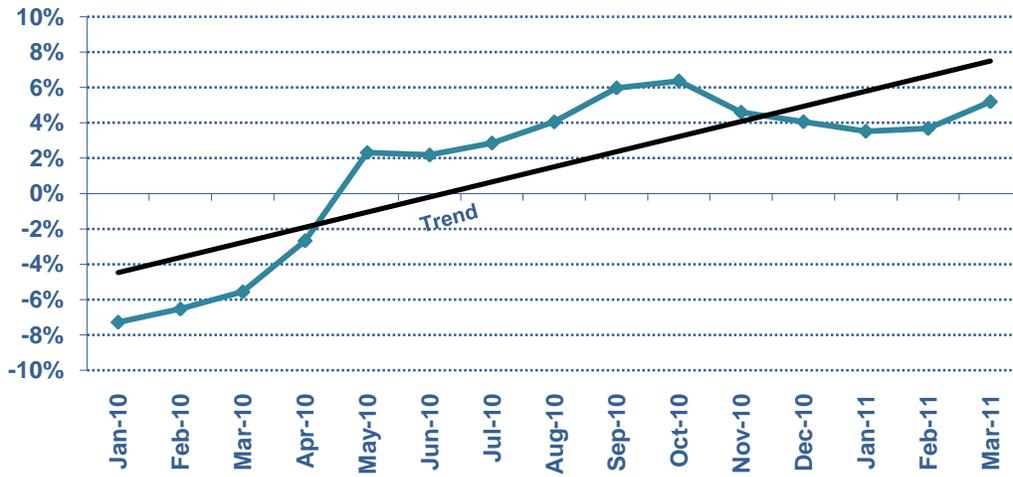
FY 2011
year-to-date
non auto
sales and
use tax
receipts
were
\$181.1 million
above
estimate.

GRF nonauto sales and use tax receipts were \$492.4 million in March 2011, \$52.8 million (12.0%) above estimate and \$58.1 million (13.4%) above March 2010 receipts. For the fiscal year, year-to-date GRF nonauto sales and use tax receipts of \$4.94 billion were \$181.1 million (3.8%) above estimate and \$322.8 million (7.0%) above receipts through March in FY 2010. 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.⁶ Excluding receipts from the base expansion, year-to-date nonauto sales and use tax baseline tax receipts grew about 5.2%. The graph below shows the trend in nonauto sales and use tax baseline receipts since January 2010.

⁵ 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.

⁶ 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.

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



FY 2011 year-to-date auto sales tax receipts were \$66.4 million above estimate.

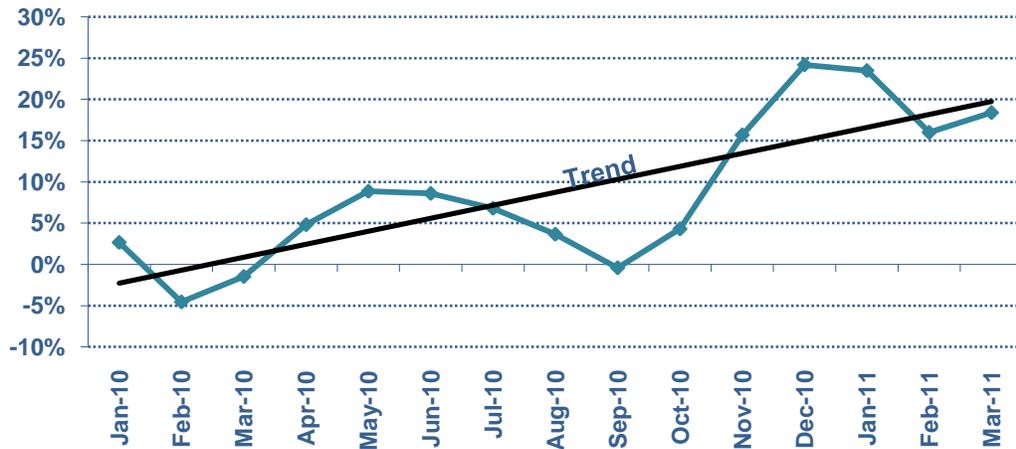
Food and gasoline prices have gradually increased in the last few months and those hikes are hurting household budgets. They act as tax increases, and as consumers spend more cash for those purposes, less is available for everything else. For example, even if prices don't rise beyond their current per gallon level of around \$3.60 for unleaded regular gasoline, U.S. consumers will spend an extra \$60 billion on gas this year.⁷ If price increases require taxpayers to spend more on those nontaxable items, growth in taxable sales in the coming months may be curtailed.

Auto Sales and Use Tax

Auto sales and use tax receipts of \$93.0 million in March were \$16.3 million (21.3%) above estimate and \$16.7 million (21.9%) above receipts in March 2010. Year to date, FY 2011 GRF receipts from the auto sales tax of \$701.9 million were \$66.4 million (10.5%) above estimate and \$75.2 million (12.0%) above receipts in FY 2010 through March. The graph below compares monthly receipts with year-ago receipts in the corresponding month.

⁷ This is equivalent to about half the savings from this year's temporary reduction in the payroll tax, which was passed when the U.S. Congress extended tax cuts last year, according to Moody's Economy.com.

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



Nationwide, sales of light vehicles (autos and light trucks) weakened slightly to 13.1 million units in March (on a seasonally adjusted annualized basis), down from 13.4 million units in February. Sales have been trending higher in recent months. First-quarter light vehicles sales in 2011 were about 19% higher than in the corresponding period last year, with auto sales increasing about 16%, and light truck sales increasing about 22%. The rise in gasoline prices has hurt truck sales and increased the relative share of autos from 47.4% in January to 52.6% in March 2011. So far, higher gasoline prices may have more of an impact in shifting buying preferences to more fuel-efficient vehicles than in preventing sales altogether. The average price of trucks is higher than that of smaller sedans and small SUVs. Thus, this change in the sales mix from persistently high gasoline prices, if sustained, may eventually affect the tax base and auto sales tax receipts in future months.

FY 2011
year-to-date
cigarette tax
receipts
were
\$41.1 million
above
estimate.

Cigarette and Other Tobacco Products Tax

Receipts from the tax on cigarettes and other tobacco products were \$65.5 million in March 2011, \$3.5 million (5.6%) above estimate and \$3.6 million (5.2%) below March 2010 receipts. Through March, FY 2011 receipts of \$581.9 million were \$41.1 million (7.6%) above estimate and \$22.1 million (3.7%) below FY 2010 receipts through March. Receipts from cigarette sales were \$543.2 million. Sales of products other than cigarettes provided \$38.7 million. Compared to FY 2010 through March, receipts from the sale of cigarettes declined \$24.2 million (4.3%) and those from the sale of other tobacco products increased about \$2.1 million (5.7%). Receipts from the cigarette and other tobacco products tax are the

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

Commercial Activity Tax

Commercial activity tax (CAT) receipts of \$18.0 million in March 2011 were \$7.2 million (66.7%) above estimate and \$7.1 million (65.1%) above receipts in March 2010. Through March, FY 2011 receipts of \$1,102.5 million were \$67.6 million (6.5%) above estimate and \$115.9 million (11.7%) above receipts through March in FY 2010. The last payment for quarterly calendar taxpayers is due in May 2011. 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 2011 receipts, they are unlikely to be sufficient for FY 2011 required payments estimated at \$1.65 billion. Thus, another GRF subsidy will be necessary in FY 2011.

FY 2011
year-to-date
CAT receipts
were
\$67.6 million
above
estimate.

Table 3: General Revenue Fund Uses
Preliminary Actual vs. Estimate
Month of March 2011
(\$ in thousands)
(Actual based on OAKS reports run April 4, 2011)

<i>PROGRAM</i>	Actual	Estimate*	Variance	Percent
Primary, Secondary, and Other Education	\$596,231	\$594,855	\$1,376	0.2%
Higher Education	\$189,618	\$194,547	-\$4,929	-2.5%
Total Education	\$785,849	\$789,402	-\$3,553	-0.5%
Public Assistance and Medicaid	\$1,338,276	\$903,630	\$434,645	48.1%
Health and Human Services	\$53,611	\$56,313	-\$2,701	-4.8%
Total Welfare and Human Services	\$1,391,887	\$959,943	\$431,944	45.0%
Justice and Public Protection	\$152,902	\$154,638	-\$1,735	-1.1%
Environment and Natural Resources	\$3,366	\$3,664	-\$298	-8.1%
Transportation	\$470	\$646	-\$175	-27.1%
General Government	\$37,325	\$38,181	-\$856	-2.2%
Community and Economic Development	\$17,494	\$18,033	-\$538	-3.0%
Capital	\$0	\$43	-\$43	-100.0%
Total Government Operations	\$211,559	\$215,204	-\$3,645	-1.7%
Tax Relief and Other	\$109,101	\$44,710	\$64,391	144.0%
Debt Service	\$58,471	\$61,042	-\$2,571	-4.2%
Total Other Expenditures	\$167,572	\$105,752	\$61,820	58.5%
Total Program Expenditures	\$2,556,867	\$2,070,300	\$486,566	23.5%
TRANSFERS				
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers Out	\$21,426	\$0	\$21,426	---
Total Transfers Out	\$21,426	\$0	\$21,426	---
TOTAL GRF USES	\$2,578,292	\$2,070,300	\$507,992	24.5%
* 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 March 31, 2011

(\$ in thousands)

(Actual based on OAKS reports run April 4, 2011)

PROGRAM	Actual	Estimate*	Variance	Percent	FY 2010	Percent Change
Primary, Secondary, and Other Education	\$5,403,079	\$5,388,244	\$14,835	0.3%	\$5,241,146	3.1%
Higher Education	\$1,844,780	\$1,841,337	\$3,443	0.2%	\$1,858,633	-0.7%
Total Education	\$7,247,859	\$7,229,581	\$18,278	0.3%	\$7,099,779	2.1%
Public Assistance and Medicaid	\$9,357,326	\$9,063,364	\$293,962	3.2%	\$7,696,552	21.6%
Health and Human Services	\$825,947	\$847,160	-\$21,213	-2.5%	\$781,004	5.8%
Total Welfare and Human Services	\$10,183,273	\$9,910,523	\$272,749	2.8%	\$8,477,556	20.1%
Justice and Public Protection	\$1,468,123	\$1,498,155	-\$30,032	-2.0%	\$1,488,684	-1.4%
Environment and Natural Resources	\$55,332	\$56,523	-\$1,191	-2.1%	\$68,184	-18.8%
Transportation	\$11,200	\$10,886	\$313	2.9%	\$13,804	-18.9%
General Government	\$224,230	\$243,387	-\$19,157	-7.9%	\$238,567	-6.0%
Community and Economic Development	\$82,934	\$94,250	-\$11,316	-12.0%	\$87,240	-4.9%
Capital	\$24	\$298	-\$274	-92.0%	\$330	-92.8%
Total Government Operations	\$1,841,842	\$1,903,498	-\$61,656	-3.2%	\$1,896,809	-2.9%
Tax Relief and Other	\$955,786	\$846,158	\$109,629	13.0%	\$964,038	-0.9%
Debt Service	\$414,191	\$422,841	-\$8,650	-2.0%	\$334,300	23.9%
Total Other Expenditures	\$1,369,977	\$1,268,998	\$100,979	8.0%	\$1,298,338	5.5%
Total Program Expenditures	\$20,642,951	\$20,312,602	\$330,350	1.6%	\$18,772,481	10.0%
TRANSFERS						
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers Out	\$1,016,758	\$903,600	\$113,158	12.5%	\$1,026,345	-0.9%
Total Transfers Out	\$1,016,758	\$903,600	\$113,158	12.5%	\$1,026,345	-0.9%
TOTAL GRF USES	\$21,659,710	\$21,216,202	\$443,508	2.1%	\$19,798,827	9.4%

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

Detail may not sum to total due to rounding.

Table 5: FY 2011 Medicaid Expenditures
(\$ in thousands)
(Actuals based on OAKS report run on April 7, 2011)

Medicaid (600525) Payments by Service Category	March				Year to Date			
	Actual	Estimate	Variance	Percent Variance	Actual thru Mar	Estimate thru Mar	Variance	Percent Variance
Managed Care Plans	\$852,911	\$430,559	\$422,352	98.1%	\$4,214,360	\$3,712,934	\$501,426	13.5%
Nursing Facilities	\$199,649	\$207,278	-\$7,629	-3.7%	\$2,008,665	\$2,045,582	-\$36,917	-1.8%
Prescription Drugs	\$176,377	\$157,758	\$18,619	11.8%	\$1,301,487	\$1,449,427	-\$147,940	-10.2%
Hospitals	\$111,797	\$122,987	-\$11,190	-9.1%	\$1,117,798	\$1,170,669	-\$52,871	-4.5%
ICFs/MR	\$88,203	\$41,550	\$46,653	112.3%	\$459,986	\$407,124	\$52,862	13.0%
ODJFS Waivers	\$24,427	\$29,129	-\$4,702	-16.1%	\$246,835	\$284,611	-\$37,776	-13.3%
Physicians	\$26,785	\$30,441	-\$3,656	-12.0%	\$252,033	\$266,799	-\$14,766	-5.5%
All Other	\$126,259	\$124,944	\$1,315	1.1%	\$1,164,056	\$1,175,606	-\$11,550	-1.0%
Total Payments	\$1,606,408	\$1,144,646	\$461,762	40.3%	\$10,765,220	\$10,512,752	\$252,468	2.4%
Total Offsets (non-GRF)	-\$337,573	-\$338,059	\$486	-0.1%	-\$2,126,088	-\$2,250,094	\$124,006	-5.5%
Total 600525 (net of offsets)	\$1,268,835	\$806,587	\$462,248	57.3%	\$8,639,132	\$8,262,658	\$376,474	4.6%
Medicare Part D (600526)	\$18,299	\$19,998	-\$1,699	-8.5%	\$130,501	\$140,684	-\$10,183	-7.2%
Total GRF	\$1,287,134	\$826,585	\$460,549	55.7%	\$8,769,633	\$8,403,342	\$366,291	4.4%
Total All Funds	\$1,624,707	\$1,164,644	\$460,063	39.5%	\$10,895,721	\$10,653,436	\$242,285	2.3%

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

ICFs/MR - Intermediate Care Facilities for the Mentally Retarded

EXPENDITURES

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

Overview

For the month of March, GRF uses of \$2.58 billion were \$508.0 million above estimate. This variance was primarily due to the decision to make certain Medicaid payments in March instead of April to take advantage of the higher federal reimbursement rate for the first quarter of 2011. GRF Medicaid expenditures were \$460.5 million above estimate in March. As a result of the positive variance in March, the year-to-date variance in GRF uses turned from a negative \$64.5 million at the end of February to a positive \$443.5 million at the end of March. GRF uses consist primarily of program expenditures and also include transfers out. For the first nine months of FY 2011, GRF program expenditures totaled \$20.64 billion, which was \$330.4 million above estimate, and transfers out totaled \$1.02 billion, which was \$113.2 million above estimate. Tables 3 and 4 show GRF uses for the month of March, and for FY 2011 through March, respectively.

Year-to-date variances differ substantially from one category to another. Categories with expenditures significantly higher than their estimates include Public Assistance and Medicaid (\$294.0 million), Transfers Out (\$113.2 million), and Tax Relief and Other (\$109.6 million). Together, these three categories had a combined positive variance of \$516.7 million, which was partially offset by a combined negative variance of \$81.7 million in Justice and Public Protection (\$30.0 million), Health and Human Services (\$21.2 million), General Government (\$19.2 million), and Community and Economic Development (\$11.3 million). The variances in these seven categories are briefly discussed below.

Positive Variances

Public Assistance and Medicaid

Year-to-date GRF expenditures for Public Assistance and Medicaid totaled \$9.36 billion, \$294.0 million (3.2%) above estimate. Medicaid, including both state and federal shares, accounts for about 94% of the total. Table 5 details 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 the table, year-to-date Medicaid GRF expenditures totaled \$8.77 billion, \$366.3 million (4.4%) above estimate. Across all funds, Medicaid expenditures totaled \$10.90 billion, \$242.3 million (2.3%) above estimate.

For the first nine months of FY 2011, GRF uses were \$443.5 million above estimate due partially to the timing of certain Medicaid payments.

Moving certain April payments to March reduces the state share of Medicaid spending by \$8.9 million.

The positive variance for the year to date is due to the Ohio Department of Job and Family Services (ODJFS) pushing some Medicaid payments from April to March in order to realize additional federal reimbursement under the enhanced federal medical assistance percentage (eFMAP) the state is currently receiving. The additional reimbursement is expected to end June 30, 2011, after which time the state will receive reimbursement at the regular FMAP rate. From January through March, the state was reimbursed at about 70.88%. The reimbursement rate decreases slightly to 69.00% from April to June, and the regular rate of 63.69% will take effect in July. ODJFS estimates that moving some April payments to March helps reduce the state share of Medicaid expenditures by approximately \$8.9 million.

For March, GRF Medicaid expenditures were \$460.5 million (55.7%) above estimate, mainly due to moving April payments into March for three service categories. The largest payment was for managed care plans. The state makes a monthly payment to managed care organizations; however, the payments for March and April were both made in the month of March. The amount of the April payment is estimated at approximately \$423.6 million, which accounts for the entire positive variance for that category for March (\$422.4 million) and most of the positive variance for the year to date (\$501.4 million). Prior to March, expenditures for this category were above the year-to-date estimate by \$79.1 million. ODJFS also made the April payment for ICFs/MR in March. The April payment is estimated at approximately \$46.4 million, which accounts for most of the positive variance for that category for March (\$46.7 million) and the year to date (\$52.9 million). Finally, ODJFS moved payment of some prescription drug claims from the first week of April into March. These payments are estimated at about \$30 million. Even with this payment, year-to-date prescription drug expenditures remain below estimate by \$147.9 million (10.2%) due to lower than estimated drug costs and utilization throughout the year.

Transfers Out

As indicated in prior issues of *Budget Footnotes*, Transfers Out will finish the fiscal year above estimate. In March, GRF transfers out were \$21.4 million above estimate, which brought this category's year-to-date positive variance to \$113.2 million (12.5%). The majority of this positive variance was related to cash transfers made in October for making reimbursement payments to schools and local governments for tangible personal property 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 the funding source for those reimbursement

payments. However, based on the CAT's year-to-date performance, it is unlikely that the GRF will be fully reimbursed. Current law requires the GRF to make up any shortfalls in CAT receipts in order to fully fund the required reimbursement amount.

Tax Relief and Other

Expenditures for Tax Relief and Other were \$64.4 million above estimate in March, which increased this program category's year-to-date positive variance to \$109.6 million (13.0%). The property tax relief reimbursements are made twice per year, one based on the February property tax settlement and the other one based on the August property tax settlement. The reimbursements based on the February 2011 settlement started in March. The timing of payments contributed to the positive variance for the month of March. As reported in prior issues of *Budget Footnotes*, actual reimbursements for the August 2010 property tax settlement were \$45.2 million above estimate. The FY 2011 appropriations for GRF appropriation items Property Tax Allocation – Education (200901) and Property Tax Allocation – Taxation (110901) were increased by \$30 million and \$15 million, respectively. H.B. 1 of the 128th General Assembly appropriates any additional amount needed to fully fund property tax relief payments.

The appropriation for the property tax relief program was increased by a total of \$45 million in FY 2011.

Negative Variances

Justice and Public Protection

Expenditures for Justice and Public Protection were \$30.0 million (2.0%) below estimate through March. The Department of Rehabilitation and Correction (DRC) contributed \$20.5 million to this year-to-date negative variance while the Department of Youth Services (DYS) accounted for another \$4.4 million. Within the DRC budget, year-to-date expenditures for the Mental Health Services appropriation item (502321) were \$10.9 million (17.3%) below estimate. This negative variance was due to a lower than expected incidence of inmate mental illness and higher utilization of DRC personnel for services as opposed to the use of private contractors. Combined expenditures from DRC's Institutional Operations (501321) and Institutional Operations – Federal Stimulus (501620) were \$5.3 million below estimate. Year-to-date expenditures for the RECLAIM Ohio appropriation item (470401), the largest line item in the DYS budget, were \$4.1 million (3.0%) below estimate.

Health and Human Services

Year-to-date expenditures for Health and Human Services were \$21.2 million (2.5%) below estimate. The Department of Health (DOH) accounted for \$11.0 million of this year-to-date negative variance while the Department of Mental Health (DMH) contributed another \$5.3 million. The majority of the negative variance in the DOH budget occurred in the Help Me Grow (440459) and Immunizations (440418) appropriation items. The Community and Hospital Mental Health Services (334408) and Local Mental Health Systems of Care (335505) appropriation items accounted for the majority of the negative variance in the DMH budget. Timing issues affected some payments from these items; all four items provide subsidy payments or fund services to various local entities.

General Government & Community and Economic Development

Year-to-date expenditures for General Government were \$19.2 million (7.9%) below estimate. The Department of Taxation accounted for \$9.8 million of the total. The Department of Administrative Services and the Legislative Service Commission contributed another \$6.2 million and \$3.5 million, respectively.

Year-to-date expenditures for Community and Economic Development were \$11.3 million (12.0%) below estimate. The majority (\$10.7 million) of this negative variance occurred in the Department of Development (DEV) budget. The Governor's Office of Appalachia (195416) appropriation item had the largest negative year-to-date variance at \$5.2 million. The remainder of the negative variance occurred across several other appropriation items. Generally, grants awarded by DEV are reimbursement-based, which means grantees must incur and pay costs prior to seeking reimbursement under their respective grants. As a result, expenditures may vary from month to month.

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

ISSUE UPDATES

New Community Based Correctional Facility Opens in Cuyahoga County

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

On January 26, 2011, the Judge Nancy R. McDonnell Community Based Correctional Facility (CBCF) was opened in Cleveland, increasing the total number of CBCFs in the state from 18 to 19 and making CBCF beds available to all 88 counties. Prior to the opening of this 200-bed facility, Cuyahoga County had been the only county not served by a CBCF. CBCFs are one type of community sanction designed to divert nonviolent felony offenders from state prison. The state provides 100% of the financing for the construction, renovation, maintenance, and operation of these community based residential facilities. Each facility houses up to 200 nonviolent felony offenders and offers services such as education, job training, and substance abuse treatment as an alternative to incarceration. Cuyahoga County typically accounts for around 20% of the 20,000-plus offenders sentenced to state prison annually statewide.

The initial planning for the construction of the Cleveland CBCF began in FY 2008. The construction was completed at a cost of \$10.2 million, which was about \$635,000, or 5.9%, under the total estimated cost of \$10.8 million. The Department of Rehabilitation and Correction has contracted with Oriana House to run the facility, which currently employs 50 full and part-time staff. The initial contract amount, \$3.3 million, will enable the activation of the first 100 beds. With an anticipated average stay for offenders of about four months, these 100 beds will turn over three times in a year, resulting in 300 offenders being diverted from state prison.

Ohio Supercomputer Center Receives Federal Grant to Aid Manufacturers

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

The Ohio Supercomputer Center (OSC) and several partner organizations were awarded a \$5.4 million federal Economic Development Administration grant in March. The grant supports access to advanced modeling, simulation, and analysis technology for small and medium manufacturers in Ohio, Illinois, Indiana, and Michigan. OSC will receive approximately \$2 million of the federal grant as one of four resource providers. Established in FY 1988, OSC receives state funding through the Board of Regents. The center provides high-performing computing services to Ohio's institutions of higher education and to private companies on a cost-recovery basis. In 2004, OSC introduced

its Blue Collar Computing initiative, which offers industries technology resources and training that may be too costly for a single company to develop and maintain independently. These resources may be used by companies to build and test virtual, instead of more costly physical, prototypes of new and updated products. The technology may also be used to improve the design of the manufacturers' facilities and processes. The grant will assist OSC to extend these resources to the small and medium manufacturers that often supply equipment and parts to larger manufacturers. This will allow extension of the analysis tools to a greater portion of the supply chain.

Department of Agriculture Set to Begin Gypsy Moth Aerial Treatments in Western Ohio

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

The Ohio Department of Agriculture is set to begin, when weather permits, gypsy moth aerial treatments for 18 locations in 13 different counties in the western half of Ohio. The treatments will encompass approximately 46,000 acres. The Department's gypsy moth control program consists of three components: Slow the Spread, Suppression, and Eradication. The treatments beginning in this spring are part of the Slow the Spread Program, designed for counties with larger, advancing gypsy moth populations. The program is supported by a combination of federal and state funds. For FY 2011, the U.S. Department of Agriculture's Forest Service provided Ohio with approximately \$1.0 million for the state's effort to control both the gypsy moth and emerald ash borer populations. This federal funding is supplemented by approximately \$1.0 million in state funding from the Plant Pest Program Fund (Fund 5FC0). The source of revenue for this fund is nursery stock inspection fees.

The gypsy moth is a nonnative and invasive insect that feeds on the leaves of over 300 different tree and shrub species. The gypsy moth is especially fond of oak. A healthy tree can usually withstand only two years of defoliation before it is permanently damaged or dies. To date, 51 of Ohio's 88 counties have established gypsy moth populations. In calendar year 2010, the Ohio Department of Agriculture treated 111,401 acres in the 51 affected counties as part of the Slow the Spread Program. By comparison, 393 acres across the state were treated as part of the Suppression Program, and 253 acres were treated as part of the Eradication Program. Overall, the Ohio Department of Agriculture calibrates its three-pronged gypsy moth control program according to the spread and population of the insect across the state.

Ohio Received \$24.8 million for Trade Adjustment Assistance Programs

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

In February 2011, the U.S. Department of Labor released final funding and program statistics for Trade Adjustment Assistance (TAA) programs for federal fiscal year (FFY) 2010. In that year, Ohio received \$24.8 million in federal TAA. TAA programs provide services for individuals who have lost employment due to increased imports from, or shifts in production to, foreign countries. Benefits include training, re-employment services, alternative trade adjustment assistance, and allowances or credits for job search, relocation, and health coverage. TAA programs are funded completely by federal dollars, which are disbursed to various local entities across the state by the Ohio Department of Job and Family Services.

In FFY 2010, Ohio's TAA programs had 11,212 new participants, which were more than any other state in the country, and 13% of the national total (86,032). Ohio's 27,035 total participants in FFY 2010 were second only to Michigan, accounting for 11.5% of the national total (234,854).

Depending on individual circumstances, applicants may receive one or more benefits. To receive benefits, union officials, company officials, groups of three or more workers, or state workforce agencies must file a petition with the U.S. Department of Labor. The Department of Labor generally determines eligibility within 40 days.

Ohio Received \$244.7 Million in Federal TANF Emergency Funds

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

Through the American Recovery and Reinvestment Act of 2009, Ohio received a total of \$244.7 million in federal Temporary Assistance for Needy Families (TANF) Emergency funds for FFY 2009 and FFY 2010. The Act provided states with additional funds to pay 80% of increased expenditures over what the state paid in FFY 2007 for cash assistance payments, subsidized employment, and short-term nonrecurring benefits.

Ohio received \$180.1 million for cash assistance, \$8.1 million for the one-time payment of \$100 per assistance group made in June 2010, and \$56.5 million for subsidized employment. Dollars for subsidized employment were mainly used to pay employers for the costs of wages and training for youth in summer employment programs, which are administered locally by county departments of job and family services. Ohio was not eligible to receive emergency funds for short-term nonrecurring benefits. States were eligible to receive up to a maximum of 50% of their annual federal TANF Block Grant, which amounted to \$364.0 million for Ohio.

Eight Community Schools Remain on Unauditable List

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

As of February 22, 2011, eight community schools remain on the Auditor of State's unauditable list. A school is declared unauditable when the records needed for a financial audit of the school are missing, incomplete, or inaccurate. Once the records are supplied and an audit is completed, the school is removed from the list. Of the eight schools, seven were declared unauditable in FY 2011, two of which have since closed. One school, Greater Achievement Community School, was declared unauditable in FY 2009, but this school has since closed as well. The eight schools and their sponsors are listed below.

- Ashe Culture Center, Inc. (sponsor)
 - Arts Academy (Lorain)
 - Arts Academy West (Cuyahoga)
 - Elite Academy (Cuyahoga)
 - Greater Achievement Community School (Cuyahoga) – closed
 - Greater Heights Academy (Cuyahoga) – closed
 - Lion of Judah Academy (Cuyahoga)
 - Marcus Garvey Academy (Cuyahoga)
- Education Resource Consultants of Ohio (sponsor)
 - Weems School (Cuyahoga) – closed

Beginning in FY 2008, state law requires the Department of Education to suspend payments to any community school that is reported by the Auditor of State as having failed to make reasonable efforts and continuing progress to bring its records into an auditable condition within 90 days of being declared unauditable. According to the Department, none of the community schools declared unauditable has been reported by the Auditor of State as having failed to make reasonable efforts and continuing progress.

Ohio Continues to Participate in the Uniform Law Commission

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

While H.B. 1 did not earmark any money in fiscal years 2010 and 2011 to support the state's membership in the National Conference of Commissioners on Uniform State Laws (also known as the Uniform Law Commission), Ohio continues its participation in the Commission. Three of the four members of Ohio's State Council of Uniform State Law have found other financial means to continue some participation in the Commission. The primary focus of the Uniform Law Commission, a nonprofit

association headquartered in Chicago, is the study and review of state laws to determine which areas of law should be uniform and as necessary draft model legislation. Currently, nine states, including Ohio, are not paying dues; another 15 states are only making partial payments. A state that does not pay membership dues does not retain the right to participate in Commission meetings and drafting committees. To date, however, the Commission has not taken any action to prevent or limit the participation of Ohio's State Council members.

The primary duty of the State Council is to identify subject areas where uniformity across jurisdictions is desirable and practicable and to ascertain the best means to achieve uniformity. Council members serve without compensation, but are eligible to receive reimbursement for necessary expenses (meeting registration fees, transportation, lodging, and meals). Reimbursable expenses typically run about \$2,500 per member annually. From FY 1998 to FY 2009, funds were earmarked in the Judicial Conference of Ohio's budget for the purpose of supporting the state's membership and participation in the Uniform Law Commission.

TRACKING THE ECONOMY

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

Overview

The national economy continues to advance, overall, with employment and business activity rising and unemployment falling. In Ohio, employment and incomes continue to grow in the latest reports and unemployment is lower. However, nationwide construction activity, notably in the housing sector, remains weak, and housing prices continue to fall. Trends are less clear because of seasonal influences, including weather and the timing of the Easter holiday. Consumer spending is rising more slowly than late last year. Inflation is rising, particularly for energy and food.

Monetary policy continues to hold short-term interest rates at very low levels, and the central bank also maintained its policy, announced following the March meeting of its Federal Open Market Committee, of buying \$600 billion of longer-term U.S. Treasury securities.

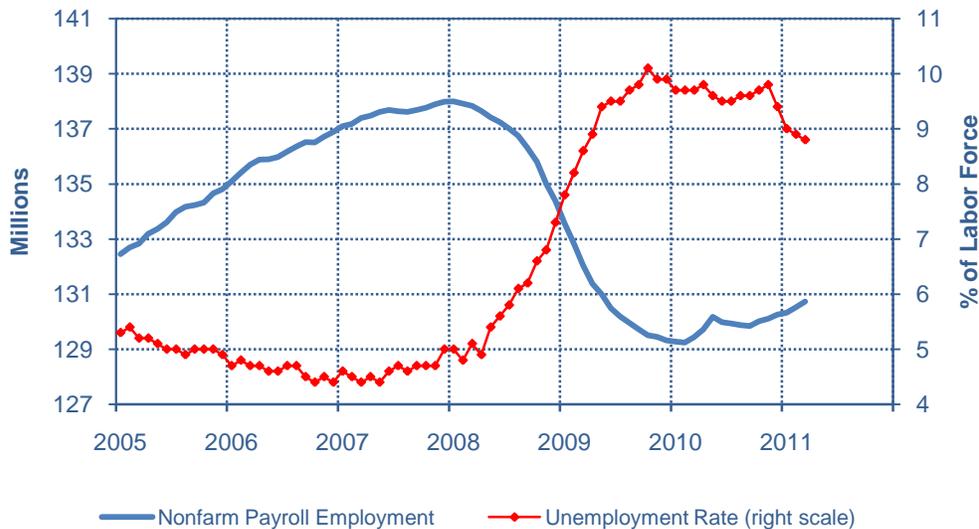
The National Economy

Employment and Unemployment

Total nonfarm payroll employment nationwide rose by 216,000 (0.2%) in March, and the number of persons counted as unemployed declined to 13.5 million, 8.8% of the labor force. Employment on nonfarm payrolls increased by 1.5 million (1.2%) since the cyclical low in February 2010, and private sector nonfarm payroll employment rose by 1.8 million (1.7%) since then. Manufacturers of durable goods increased employment by 233,000 in the past 13 months; mining by 85,000; retail and wholesale trade, transportation, and warehousing by 277,000; professional and business services by 531,000, over half of which was in temporary help services; health care by 317,000; and leisure and hospitality industries by 224,000. Government employment fell, with much of the decline accounted for by units of local government.

Total nonfarm payroll employment nationwide rose by 216,000 (0.2%) in March, and the number of persons counted as unemployed declined to 13.5 million, 8.8% of the labor force.

Chart 1: U.S. Employment and Unemployment



The unemployment rate has declined by a full percentage point since November 2010, and is down from a peak of 10.1% in October 2009. In the latest four months, unemployment fell nearly 1.5 million and total employment rose 1.4 million, with little change in the labor force (adjusted for updated population estimates beginning in January). Persons who are actively seeking work (within the most recent four weeks) as well as those who are employed are considered to be part of the labor force. The share of the population age 16 and over that is in the labor force, referred to as the labor force participation rate, remained at 64.2% in March, down from 66% at the start of the last recession in December 2007, and from an all-time high of 67.3% in 2000. Prior to this year, the last time the labor force participation rate was this low was in 1984. The number of so-called "discouraged workers," persons who want and are available for work, and searched for work within the past 12 months, but who did not look for work in the most recent four weeks because they thought no jobs were available for them, remained elevated in March at 921,000.

Production, Shipments, and Inventories

The nation's gross domestic product, adjusted for inflation (real GDP), the most inclusive measure of output, rose at a 3.1% annual rate in last year's fourth quarter, according to the third estimate from the U.S. Bureau of Economic Analysis (BEA), the source agency for these numbers. This was the strongest growth rate since last year's first quarter. For all of 2010, real GDP rose 2.9%, after falling 2.6% in 2009 and remaining unchanged on average in 2008. In the latest quarter, consumer spending grew at a 4% annual rate, this sector's strongest growth since 2006.

The nation's gross domestic product, adjusted for inflation rose at a 3.1% annual rate in last year's fourth quarter.

Industrial production was unchanged in February. Manufacturing and mining output grew but utility production slowed sharply.

Residential fixed investment is estimated to have edged higher after falling sharply in the previous quarter. Business investment in structures rose after falling for more than two years, and investment in equipment continued to grow. Inventory investment slowed abruptly. Exports grew for the sixth consecutive quarter, while imports fell. Government spending declined, at both the federal and the state and local levels.

Industrial production was unchanged in February, after increases in most months since mid-2009, according to revised data (back to 1972) released March 25 by the Federal Reserve System, which issues these reports. Manufacturing and mining output grew in the latest month but utility production slowed sharply. The cutback in utility output was attributed to unseasonably warm weather in February which reduced demand for heating after cold weather the previous two months.

Manufacturing activity continued to expand in March, as indicated by the monthly survey of purchasing managers from the Institute for Supply Management (ISM). Those reporting increases in production, new orders, and order backlogs outnumbered those reporting decreases. Increases in prices paid were widespread. A comparable ISM report on industries other than manufacturing also showed continued growth accompanied by widespread increases in prices paid.

Consumer Spending

Personal income rose 0.3% in February and consumer spending rose 0.7%, measured in dollars. Inflation adjustment reduced the increase in consumer spending to 0.3%. Rising prices have been accounting for more of the increases in consumer outlays in the past few months. Higher gasoline prices are eroding consumer discretionary income available for other purchases. Based on the data through February, real consumer spending may have increased in the first quarter at an annual rate between 1% and 2%, down from 4% in the fourth quarter. Disruptions due to the severe winter weather in parts of the country in January may also have slowed consumer spending.

In March, unit sales of cars and light trucks slowed slightly to a 13.1 million unit seasonally adjusted annual rate from 13.4 million in February. Apart from the previous month and August 2009, when sales were boosted by the federal "Cash for Clunkers" program, the sales rate in the latest month was the strongest since 2008.

Sales at large retailers that release results monthly were 2.1% higher in March than a year earlier, in a compilation of these reports by Bank of Tokyo-Mitsubishi UFJ (BTMU). The figures are on a same-store

sales basis, including only store locations that were open in both the current and year-earlier months. BTMU expects the later date of Easter this year to boost April sales at the expense of those in March.

Consumer credit outstanding rose again in February, for the fifth consecutive month. These figures do not include debt secured by real estate. Use of borrowed funds helps support growth of consumer spending. Nonrevolving consumer credit – which finances purchases of motor vehicles and other big-ticket durable goods such as mobile homes, boats, and trailers, and also is the category that includes education loans – rose to the highest level ever. In contrast, revolving credit, mainly credit cards, fell to its lowest level since 2004.

Construction and Real Estate

The housing sector of the economy remains very weak. Housing starts fell 22% in February to the second lowest level in the history of this series, which starts in 1959. Sales of new homes fell in February to the lowest level on records kept since 1963, and sales were lowest on record in three of the four Census regions, the West being the exception. Home sales reported by the National Association of Realtors, generally previously occupied units, also slowed in February, but the sales rate (seasonally adjusted) remained above sales in most months in last year's second half.

Housing prices continue to trend lower, according to the latest report from the Federal Housing Finance Agency, based on purchase prices of houses in Fannie Mae and Freddie Mac's databases. An index for nationwide average housing prices fell 0.3% (seasonally adjusted) from December to January, and 3.9% in the past 12 months, to around its level in 2004.

Reflecting weakness in nonresidential as well as residential building, total construction spending in the first two months of 2011 was 8% lower than a year earlier, and well below the peak for construction activity in 2006. Private residential construction spending in January-February was 9% lower than a year earlier, private nonresidential construction spending was 15% lower, and public construction activity was fractionally lower (less than 1%).

Inflation

The consumer price index (CPI) rose 0.5% in February, its largest monthly increase since 2009. The index was 2.1% higher than a year earlier. Many of the CPI's components rose, though the energy index was the largest source of the rise in the all-items index. The gasoline price index rose 4.7% in February after increasing 3.5% in January. Other

The housing sector of the economy remains very weak.

energy price measures also rose in the latest month. Compared with a year earlier, energy prices were 11% higher, food prices were 2.3% higher, and prices for all items other than food and energy were 1.1% higher.

Nationwide average prices for regular gasoline rose to \$3.68 per gallon on April 4, in the U.S. Energy Information Administration's weekly survey, the highest price since 2008. In Ohio, the average price for regular gasoline was \$3.76, also highest since 2008. Prices for gasoline and other petroleum-based products have been pushed up by rising costs for crude oil, at the highest levels since 2008 reflecting both the recovery in the world economy and Middle East turmoil.

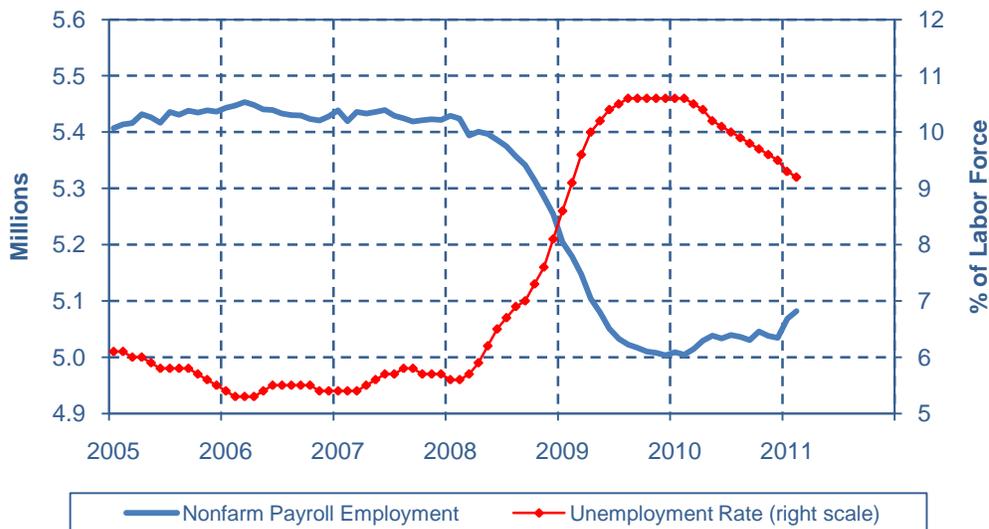
The producer price index for finished goods rose 1.6% in February, its largest one-month increase since 2009. The rise was driven by higher prices for both energy and foods. Other finished goods prices rose 0.2% on average. Compared with a year earlier, finished goods prices were 5.6% higher. At earlier stages in the production process, intermediate goods prices in February were 7.8% higher than a year earlier, and crude materials prices were 15.9% higher. Prices for crude nonfood materials less energy were 28.3% higher than in February 2010.

Total nonfarm payroll employment in Ohio rose by 13,600 (0.3%) in February, and the unemployment rate fell to 9.2%.

The Ohio Economy

Total nonfarm payroll employment in Ohio rose by 13,600 (0.3%) in February, and the unemployment rate fell to 9.2%, as shown in Chart 2. Employment on nonfarm payrolls in February was 77,600 (1.6%) higher than a year earlier, including increases of 13,100 (3.3%) in durable goods manufacturing, 2,600 (1.5%) in construction, and 66,100 (1.6%) in service-providing industries. Increases in employment in the service sector included 16,500 (2.3%) in health care and social assistance; 13,200 (4.9%) in administrative, support, and waste services; 9,600 (4.1%) in professional and technical services; and smaller increases in some of the other service industries. Local government employment in February was 1,700 (0.3%) lower than a year earlier. Also lower were finance and insurance, by 1,700 (0.8%); retail trade, by 1,500 (0.3%); and some other segments.

Chart 2: Ohio Employment and Unemployment



Unemployment in Ohio in February totaled an estimated 542,000, down from 624,000 a year earlier when the unemployment rate was at its peak of 10.6%. The increase in total employment during this period, by 73,000, nearly equaled the decline in the number counted as unemployed, 82,000. Total employment here counts all persons with jobs, in contrast with total nonfarm payroll employment which counts the number of jobs excluding agricultural work and the self-employed.

Personal income in Ohio rose 0.7% in the fourth quarter of last year, somewhat less than the 0.9% increase in the United States. For all of 2010, Ohio personal income rose 2.7% compared with 3.0% nationwide. Net earnings in Ohio (wages and salaries, benefits, and proprietors' income) rose 2.1% last year, while transfer payments rose 6.6%.

The number of homes sold in Ohio during January and February, 10,854, was 3% lower than a year earlier, based on figures compiled by the Ohio Association of Realtors. The average price of units sold, about \$117,000, was 3% below the year-earlier average price.

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