

Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

MAY 2011

STATUS OF THE GRF

HIGHLIGHTS

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

April GRF receipts from the personal income tax were \$150.3 million above estimate. Sales tax receipts and receipts from the corporate franchise tax both beat estimates by significant margins as well, meaning that total GRF tax revenues for the month were above estimate by \$213.8 million. The positive budget news for April brings year-to-date GRF tax receipts to \$841.0 million above estimate.

Ohio's economy continues its slow but steady recovery from recession. Ohio's unemployment rate fell to 8.9% in March, having dropped 0.6 percentage points over the preceding three months. Importantly, Ohio's labor force has expanded slightly during that period, meaning that the drop in unemployment is due to workers finding jobs rather than exiting the labor force.

Through April 2011, GRF sources totaled \$22.84 billion:

- Revenue from the personal income tax was \$461.5 million above estimate;
- Sales and use tax receipts were \$290.6 million above estimate.

Through April 2011, GRF uses totaled \$23.45 billion:

- Program expenditures were \$391.7 million below estimate, due primarily to Public Assistance and Medicaid (\$256.8 million) and Justice and Public Protection (\$46.7 million).

VOLUME 34, NUMBER 9

STATUS OF THE GRF

Highlights.....	1
Revenues	2
Expenditures.....	12

ISSUE UPDATES

Unemployment Compensation Payment Recovery	18
Ohio Fresh Eggs – Consent Order	18
Methamphetamine Laboratory Clean-Up	19
Juvenile Detention Alternatives Initiative	20
Strategic Prevention Framework State Incentive Grants.....	20
Marine Patrol Grants.....	22
Executive Principals Leadership Academy	22
School Model Curricula.....	23
College Textbook Affordability Awards	23

TRACKING THE ECONOMY

The National Economy	24
The Ohio Economy	30

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Table 1: General Revenue Fund Sources				
Preliminary Actual vs. Estimate				
Month of April 2011				
(\$ in thousands)				
(Actual based on report run in OAKS Actuals Ledger on May 5, 2011)				
	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	\$96,852	\$93,100	\$3,752	4.0%
Nonauto Sales and Use	\$591,679	\$552,400	\$39,279	7.1%
Total Sales and Use Taxes	\$688,531	\$645,500	\$43,031	6.7%
Personal Income	\$1,410,287	\$1,260,000	\$150,286	11.9%
Corporate Franchise	\$37,117	\$16,000	\$21,117	132.0%
Public Utility	\$103	\$0	\$103	---
Kilowatt Hour Excise	\$14,450	\$13,500	\$950	7.0%
Commercial Activity Tax**	\$0	\$0	\$0	---
Foreign Insurance	\$1,679	\$200	\$1,479	739.7%
Domestic Insurance	\$14	\$0	\$14	---
Business and Property	\$0	\$0	\$0	---
Cigarette	\$67,043	\$69,100	-\$2,057	-3.0%
Alcoholic Beverage	\$4,987	\$5,800	-\$813	-14.0%
Liquor Gallonage	\$3,115	\$2,900	\$215	7.4%
Estate	\$19,339	\$19,900	-\$561	-2.8%
Total Tax Revenue	\$2,246,666	\$2,032,900	\$213,766	10.5%
NONTAX REVENUE				
Earnings on Investments	\$642	\$22,000	-\$21,358	-97.1%
Licenses and Fees	\$9,792	\$5,827	\$3,965	68.0%
Other Revenue	\$10,883	\$6,440	\$4,443	69.0%
Total Nontax Revenue	\$21,317	\$34,267	-\$12,950	-37.8%
TRANSFERS				
Liquor Transfers***	\$28,485	\$11,000	\$17,485	159.0%
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers In	\$46,356	\$103,000	-\$56,644	-55.0%
Total Transfers In	\$74,841	\$114,000	-\$39,159	-34.3%
TOTAL STATE SOURCES	\$2,342,824	\$2,181,167	\$161,657	7.4%
Federal Grants	\$349,229	\$652,679	-\$303,451	-46.5%
TOTAL GRF SOURCES	\$2,692,053	\$2,833,847	-\$141,794	-5.0%
* 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 April 30, 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 April 30, 2011

(\$ in thousands)

(Actual based on report run in OAKS Actuals Ledger on May 5, 2011)

	Actual	Estimate*	Variance	Percent	FY 2010	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	\$798,777	\$728,600	\$70,177	9.6%	\$723,256	10.4%
Nonauto Sales and Use	\$5,535,499	\$5,315,100	\$220,399	4.1%	\$5,166,877	7.1%
Total Sales and Use Taxes	\$6,334,276	\$6,043,700	\$290,576	4.8%	\$5,890,133	7.5%
Personal Income	\$6,784,513	\$6,323,000	\$461,513	7.3%	\$6,074,956	11.7%
Corporate Franchise	\$177,829	\$92,400	\$85,429	92.5%	\$73,261	142.7%
Public Utility	\$82,167	\$117,300	-\$35,133	-30.0%	\$89,140	-7.8%
Kilowatt Hour Excise	\$142,135	\$148,601	-\$6,465	-4.4%	\$138,656	2.5%
Commercial Activity Tax**	\$0	\$0	\$0	---	\$0	---
Foreign Insurance	\$268,650	\$262,650	\$6,000	2.3%	\$263,105	2.1%
Domestic Insurance	\$3,308	\$134	\$3,174	---	\$1,147	188.3%
Business and Property	-\$992	\$126	-\$1,118	-887.7%	\$418	-337.3%
Cigarette	\$648,983	\$609,900	\$39,083	6.4%	\$681,238	-4.7%
Alcoholic Beverage	\$46,125	\$47,900	-\$1,775	-3.7%	\$46,537	-0.9%
Liquor Gallonage	\$31,245	\$29,900	\$1,345	4.5%	\$30,388	2.8%
Estate	\$47,831	\$49,500	-\$1,669	-3.4%	\$45,033	6.2%
Total Tax Revenue	\$14,566,068	\$13,725,111	\$840,958	6.1%	\$13,334,012	9.2%
NONTAX REVENUE						
Earnings on Investments	\$5,327	\$63,500	-\$58,173	-91.6%	\$25,885	-79.4%
Licenses and Fees	\$58,013	\$59,231	-\$1,218	-2.1%	\$64,811	-10.5%
Other Revenue	\$166,248	\$191,350	-\$25,102	-13.1%	\$164,237	1.2%
Total Nontax Revenue	\$229,588	\$314,081	-\$84,493	-26.9%	\$254,932	-9.9%
TRANSFERS						
Liquor Transfers***	\$127,462	\$116,300	\$11,162	9.6%	\$138,274	-7.8%
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers In	\$770,604	762,406	\$8,198	1.1%	\$698,502	10.3%
Total Transfers In	\$898,066	\$878,706	\$19,360	2.2%	\$836,776	7.3%
TOTAL STATE SOURCES	\$15,693,723	\$14,917,898	\$775,825	5.2%	\$14,425,721	8.8%
Federal Grants	\$7,145,016	\$7,490,643	-\$345,627	-4.6%	\$5,911,363	20.9%
TOTAL GRF SOURCES	\$22,838,738	\$22,408,541	\$430,197	1.9%	\$20,337,084	12.3%

* 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 April 30, 2011.

Detail may not sum to total due to rounding.

REVENUES

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

Overview

April tax receipts were \$213.8 million above estimate.

A good performance from the personal income tax helped improve the state's balance sheet in April 2011, as the most important quarterly tax-collection period of the fiscal year got under way. Overall, GRF tax sources posted a positive variance of \$213.8 million for the month, though total GRF sources of \$2.69 billion were \$141.8 million below projections released in September 2010 by the Office of Budget and Management. This negative variance was due primarily to a timing-related deficit of \$303.5 million in federal grants.¹ Tables 1 and 2 show GRF sources for the month of April 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.

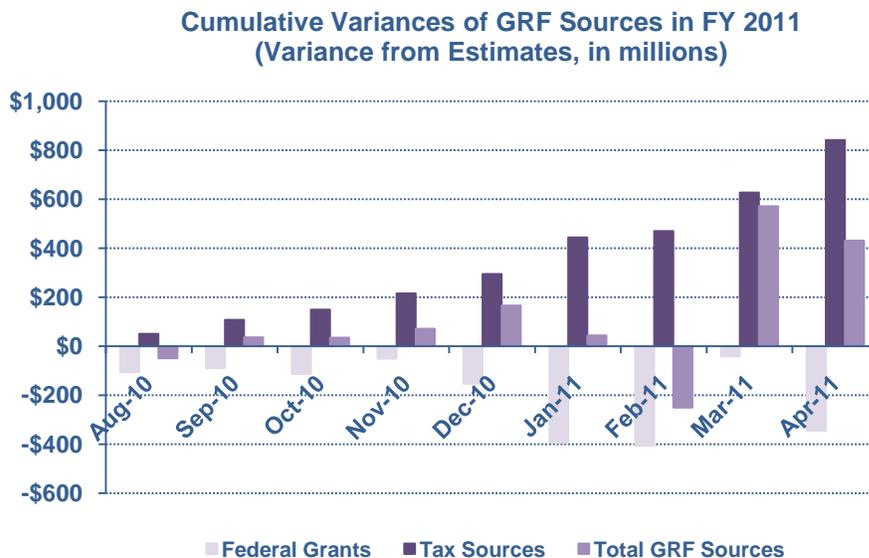
Through April, FY 2011 year-to-date tax receipts were \$841.0 million above estimate.

April tax receipts of \$2.25 billion increased the year-to-date positive variance to \$841.0 million, up from \$627.2 million at the end of March 2011. The personal income tax and the sales and use tax were above estimate, respectively, by \$150.3 million and \$43.0 million. The second corporate franchise tax payment for FY 2011,² due March 31, provided \$37.1 million in April, \$21.1 million above estimate. The kilowatt hour tax was \$1.0 million above estimate. The third primary tax source, the cigarette tax, was \$2.1 million below estimate. The alcoholic beverage tax and the estate tax were, respectively, \$0.8 million and \$0.6 million below estimate. The remaining tax sources varied from their monthly estimates by small amounts. Liquor transfers were \$17.5 million above estimate, a surplus related to March's liquor transfers being booked in the first few days of April. Total state-source receipts were \$161.7 million above estimate for the month, with total transfers in and non tax sources reducing by \$52.1 million the positive variance in tax receipts.

¹ The Ohio Department of Job and Family Services pushed some Medicaid payments from April to March to realize additional federal reimbursement. This created this month's deficit in federal grants, but also resulted in additional sales tax collections from Medicaid health insuring corporations in April. Sales taxes for health care services provided during the month are paid the following month.

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

Through April, FY 2011 total GRF sources of \$22.84 billion were \$430.2 million above estimate. State-source receipts of \$15.69 billion were above estimate by \$775.8 million, but federal grants were short of projections by \$345.6 million (due to lower than budgeted expenditures on Public Assistance and Medicaid programs). The positive variance in tax receipts was partially offset by a negative variance of \$65.1 million in nontax revenues and transfers into the GRF. The personal income tax was above estimate by \$461.5 million, the sales and use tax by \$290.6 million, and the cigarette tax by \$39.1 million. Through April, FY 2011 corporate franchise tax receipts of \$177.8 million were \$85.4 million above estimate, and have already exceeded by \$36.1 million total FY 2010 receipts. The insurance taxes were above estimate by a total of \$9.2 million. The liquor gallonage tax posted a positive variance of \$1.3 million. The remaining tax sources were below estimates. The public utility excise tax fell short of estimate by \$35.1 million. The kilowatt hour tax was below projection by \$6.5 million. The alcoholic beverage tax and the estate tax were below estimate, respectively, by \$1.8 million and \$1.7 million. The business and property tax was below estimate by \$1.1 million. 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.)



FY 2011 year-to-date GRF sources increased \$2.50 billion compared to receipts in the corresponding period in FY 2010, from higher federal grants (\$1.23 billion), tax receipts (\$1.23 billion), and transfers in (\$61.3 million). Those gains were reduced by a shortfall of \$25.3 million in nontax sources. Receipts from the personal income tax and the sales and use tax were above the levels of FY 2010 by \$709.6 million and \$444.1 million, respectively. Corporate franchise tax receipts were

Year-to-date through April, federal grants were \$345.6 million below estimate.

FY 2011 GRF sources through April were \$430.2 million above estimate.

\$104.6 million higher than receipts through April in FY 2010. Other taxes with notable year-to-year revenue increases included the foreign insurance tax (\$5.5 million), the domestic insurance tax (\$2.2 million), the kilowatt hour tax (\$3.5 million), and the estate tax (\$2.8 million). Year-to-date receipts in FY 2011 decreased for the cigarette tax (\$32.3 million), the public utility tax (\$7.0 million), and the business and property tax (\$1.4 million).

Personal Income Tax

April GRF receipts from the personal income tax were \$150.3 million above estimate.

April GRF receipts from the personal income tax of \$1.41 billion were \$150.3 million (11.9%) above estimate and \$232.8 million (19.8%) above receipts in April 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,³ trust payments, payments associated with annual returns, and miscellaneous payments.

The filing period of income tax returns in April is when taxpayers "settle up" with the government for any under or over tax payments for the previous calendar year. Taxpayers who have paid more during the year receive a refund, and those who have underpaid make an additional payment with their tax return. Taxpayers also have to make the first quarterly estimated payment for the current calendar year's tax liability. Nonwage income (capital gains, proprietors' income, Subchapter S corporations, partnership income, interest, and dividends) are generally difficult for taxpayers to estimate, so tax payments associated with nonwage income make April income tax receipts somewhat volatile. This year, unlike the previous two, this volatility has benefitted state coffers.

The surplus in personal income tax receipts for the month was due to better than estimated quarterly estimated payments and payments associated with annual returns; those receipts were above estimate, respectively, by \$26.1 million (17.4%) and \$168.9 million (23.2%). However, receipts from employer withholding and trust payments were below estimates in April, respectively, by \$33.2 million (5.2%) and \$4.6 million (23.9%). Receipts from employer withholding were also \$18.9 million (3.0%) below such receipts in April 2010 (when payroll was increased by temporary Census employment). Though below estimate

³ 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.

and year-ago receipts in April, combined receipts from employer withholding for the March-April period were \$11.2 million (0.9%) above estimate, and \$53.0 million (4.3%) above receipts in the corresponding two-month period last year. Through April, the GRF received \$6.78 billion from the personal income tax in FY 2011. This amount was \$461.5 million (7.3%) above estimate and \$709.6 million (11.7%) above receipts in the corresponding period in FY 2010.

The table below summarizes FY 2011 income tax revenue variances from estimates and annual changes by components. All components, except for trust payments, contributed to the positive variance against estimates and to higher income tax collections this year. Also, through April, refunds were lower, and distributions to the Local Government Fund, higher, than corresponding amounts in FY 2010.

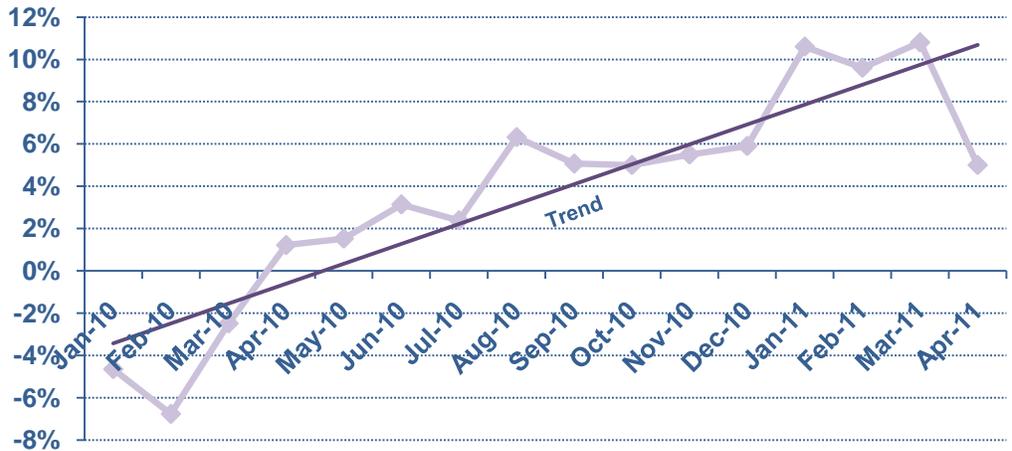
FY 2011 Year-to-Date Income Tax Revenue Variances and Changes by Component				
Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2010	
	Amount (\$ in millions)	Percentage (%)	Amount (\$ in millions)	Percentage (%)
Withholding	\$175.8	2.9%	\$361.9	6.2%
Quarterly Estimated Payments	\$108.9	13.5%	\$132.8	16.9%
Trust Payments	-\$4.1	-11.1%	-\$2.9	-8.0%
Annual Return Payments	\$168.5	17.2%	\$240.0	26.4%
Miscellaneous Payments	\$17.0	19.9%	\$17.7	20.9%
Gross Collections	\$466.2	6.3%	\$749.6	9.8%
Less Refunds	-\$20.1	-1.9%	-\$2.7	-0.3%
Less Local Government Fund Distribution	\$24.7	4.7%	\$42.7	8.4%
Income Tax Revenue	\$461.5	7.3%	\$709.6	11.7%

Year to date through April, FY 2011 employer withholding, the most important component of the tax, was \$361.9 million (6.2%) above withholding receipts in FY 2010 through April. The graph below shows the trend in withholding receipts since January 2010. Growth in receipts from employer withholding, which surged in the previous months, has fallen to about 5% in April, down from an average of about 10% in the January to March quarter. Compared to FY 2010, year-to-date quarterly estimated payments and payments due with annual returns were higher, respectively, by \$132.8 million (16.9%) and \$240.0 million (26.4%).

Through
April,
FY 2011
GRF income
tax receipts
were
\$461.5 million
above
estimate.

Through
April,
FY 2011,
revenue
from
withholding
was
\$175.8 million
above
estimate.

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



Through April, FY 2011 sales and use tax receipts were \$290.6 million above estimate.

Sales and Use Tax

GRF sales and use tax receipts of \$688.5 million in April were \$43.0 million (6.7%) above estimate, and \$46.1 million (7.2%) above receipts in April 2010. Through April, FY 2011 GRF sales and use tax receipts of \$6.33 billion were \$290.6 million (4.8%) above estimate and \$444.1 million (7.5%) above receipts in the corresponding period in FY 2010.

FY 2011 year-to-date nonauto sales and use tax receipts were \$220.4 million above estimate.

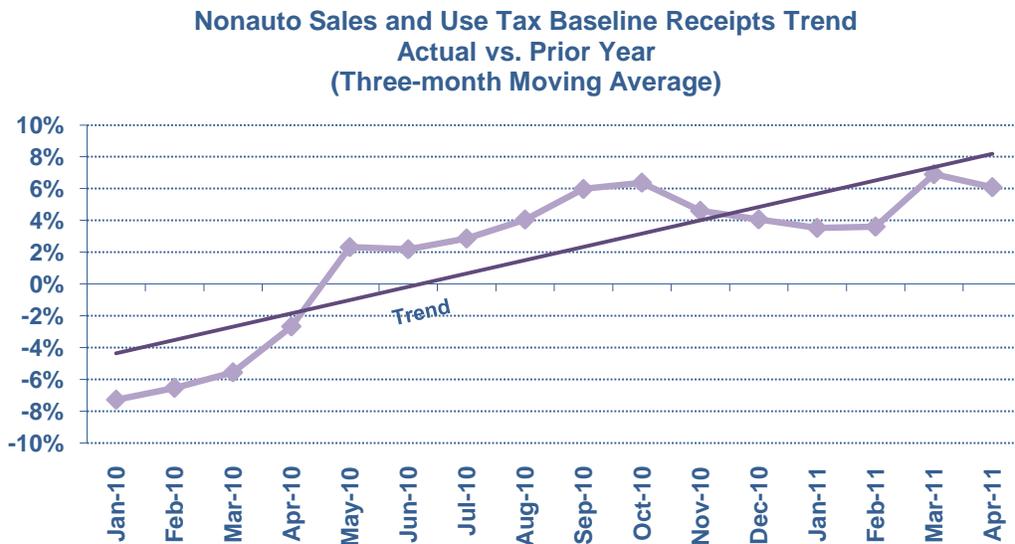
For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections⁴ generally arise from the sale of motor vehicles while nonauto sales and use tax collections arise from other sales. However, auto taxes arising from leases are paid at 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

GRF nonauto sales and use tax receipts were \$591.7 million in April 2011, \$39.3 million (7.1%) above estimate and \$45.9 million (8.4%) above April 2010 receipts. For the fiscal year, year-to-date GRF nonauto sales and use tax receipts of \$5.54 billion were \$220.4 million (4.1%) above estimate and \$368.6 million (7.1%) above receipts through April in FY 2010. The year-over-year comparison reflects an expansion of the tax

⁴ 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.

base, i.e., it includes payments for health care services provided by Medicaid health insuring corporations.⁵ Through April, GRF sales tax receipts paid by those corporations totaled \$261.7 million, \$112.4 million more than in the corresponding period in FY 2010. The graph below illustrates the trend in baseline nonauto sales and use tax receipts (excluding receipts from the base expansion). Food and gasoline prices have surged in the last few months, thus increasing household expenses on these nontaxable items. For example, gasoline prices have increased about 30% this calendar year and are squeezing household budgets. However, the momentum of the ongoing economic recovery (on wages and payroll growth) appear, so far, to be offsetting the negative impact of higher food and energy prices on sales and use tax receipts.



Auto Sales and Use Tax

Auto sales and use tax receipts of \$96.9 million in April were \$3.8 million (4.0%) above estimate and \$0.3 million (0.3%) above receipts in April 2010. Year to date, FY 2011 GRF receipts from the auto sales and use tax of \$798.8 million were \$70.2 million (9.6%) above estimate and \$75.5 million (10.4%) above receipts in FY 2010 through April. The graph below compares monthly receipts with year-ago receipts in the corresponding month. Gasoline prices crossed the threshold of \$4.00 per gallon earlier this month in Ohio and may be dampening sales which had been trending higher. Also, higher gasoline prices shifts buying preferences

FY 2011

year-to-date

auto sales

and use tax

receipts

were

\$70.2 million

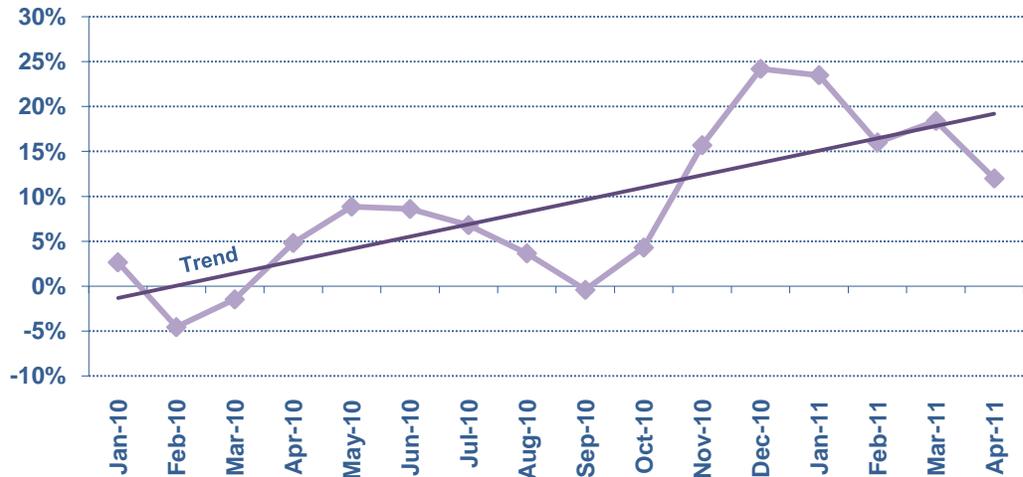
above

estimate.

⁵ 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.

to more fuel-efficient vehicles. Thus, higher gasoline prices may be hindering the auto sales and use tax, though receipts are still growing.

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



FY 2011
year-to-date
cigarette tax
receipts
were
\$39.1 million
above
estimate.

Cigarette and Other Tobacco Products Tax

Receipts from the tax on cigarettes and other tobacco products were \$67.0 million in April 2011, \$2.1 million (3.0%) below estimate and \$10.2 million (13.2%) below April 2010 receipts. Through April, FY 2011 receipts of \$649.0 million were \$39.1 million (6.4%) above estimate and \$32.3 million (4.7%) below receipts in the corresponding period in FY 2010. Receipts from cigarette sales were \$606.5 million. Sales of products other than cigarettes provided \$42.5 million. Compared to FY 2010, year-to-date receipts from the sale of cigarettes declined \$35.3 million (5.5%) and those from the sale of other tobacco products increased about \$3.0 million (7.6%). Receipts from the cigarette and other tobacco products tax are the third-largest tax revenue source in FY 2011, after the personal income tax and the sales and use tax.

FY 2011
year-to-date
CAT
receipts
were
\$35.3 million
above
estimate.

Commercial Activity Tax

Commercial activity tax (CAT) receipts of \$44.3 million in April 2011 were \$8.8 million (16.6%) below estimate and \$7.0 million (13.6%) below receipts in April 2010. Through April, FY 2011 receipts of \$1,123.3 million were \$35.3 million (3.2%) above estimate and \$74.4 million (7.1%) above receipts through April 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 current-year 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 April 2011
(\$ in thousands)
(Actual based on OAKS reports run May 4, 2011)

<i>PROGRAM</i>	Actual	Estimate*	Variance	Percent
Primary, Secondary, and Other Education	\$546,422	\$578,563	-\$32,141	-5.6%
Higher Education	\$195,446	\$180,052	\$15,394	8.6%
Total Education	\$741,868	\$758,615	-\$16,747	-2.2%
Public Assistance and Medicaid	\$415,821	\$966,542	-\$550,721	-57.0%
Health and Human Services	\$134,953	\$144,459	-\$9,506	-6.6%
Total Welfare and Human Services	\$550,775	\$1,111,001	-\$560,226	-50.4%
Justice and Public Protection	\$172,660	\$189,377	-\$16,717	-8.8%
Environment and Natural Resources	\$4,388	\$4,593	-\$206	-4.5%
Transportation	\$818	\$608	\$209	34.4%
General Government	\$15,273	\$15,315	-\$42	-0.3%
Community and Economic Development	\$5,739	\$7,473	-\$1,734	-23.2%
Capital	\$0	\$43	-\$43	-100.0%
Total Government Operations	\$198,877	\$217,409	-\$18,531	-8.5%
Tax Relief and Other	\$259,419	\$383,119	-\$123,699	-32.3%
Debt Service	\$36,176	\$38,998	-\$2,822	-7.2%
Total Other Expenditures	\$295,596	\$422,117	-\$126,521	-30.0%
Total Program Expenditures	\$1,787,116	\$2,509,141	-\$722,025	-28.8%
TRANSFERS				
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers Out	\$127	\$0	\$127	---
Total Transfers Out	\$127	\$0	\$127	---
TOTAL GRF USES	\$1,787,243	\$2,509,141	-\$721,899	-28.8%
* 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 April 30, 2011
(\$ in thousands)
(Actual based on OAKS reports run May 4, 2011)

PROGRAM	Actual	Estimate*	Variance	Percent	FY 2010	Percent Change
Primary, Secondary, and Other Education	\$5,949,501	\$5,966,807	-\$17,306	-0.3%	\$5,800,437	2.6%
Higher Education	\$2,040,227	\$2,021,389	\$18,838	0.9%	\$2,039,030	0.1%
Total Education	\$7,989,728	\$7,988,196	\$1,531	0.0%	\$7,839,468	1.9%
Public Assistance and Medicaid	\$9,773,147	\$10,029,906	-\$256,759	-2.6%	\$8,279,193	18.0%
Health and Human Services	\$960,900	\$991,619	-\$30,718	-3.1%	\$913,873	5.1%
Total Welfare and Human Services	\$10,734,047	\$11,021,525	-\$287,477	-2.6%	\$9,193,066	16.8%
Justice and Public Protection	\$1,640,783	\$1,687,532	-\$46,749	-2.8%	\$1,671,917	-1.9%
Environment and Natural Resources	\$59,720	\$61,116	-\$1,396	-2.3%	\$71,702	-16.7%
Transportation	\$12,017	\$11,495	\$523	4.5%	\$15,359	-21.8%
General Government	\$239,502	\$258,701	-\$19,199	-7.4%	\$255,022	-6.1%
Community and Economic Development	\$88,673	\$101,723	-\$13,050	-12.8%	\$97,159	-8.7%
Capital	\$24	\$341	-\$317	-93.0%	\$330	-92.8%
Total Government Operations	\$2,040,719	\$2,120,907	-\$80,188	-3.8%	\$2,111,488	-3.4%
Tax Relief and Other	\$1,215,206	\$1,229,277	-\$14,071	-1.1%	\$1,202,034	1.1%
Debt Service	\$450,367	\$461,838	-\$11,471	-2.5%	\$368,438	22.2%
Total Other Expenditures	\$1,665,573	\$1,691,115	-\$25,542	-1.5%	\$1,570,472	6.1%
Total Program Expenditures	\$22,430,068	\$22,821,743	-\$391,676	-1.7%	\$20,714,493	8.3%
TRANSFERS						
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers Out	\$1,016,885	\$903,600	\$113,285	12.5%	\$1,026,941	-1.0%
Total Transfers Out	\$1,016,885	\$903,600	\$113,285	12.5%	\$1,026,941	-1.0%
TOTAL GRF USES	\$23,446,953	\$23,725,343	-\$278,391	-1.2%	\$21,741,434	7.8%

* 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 May 5, 2011)

Medicaid (600525) Payments by Service Category	April				Year to Date			
	Actual	Estimate	Variance	Percent Variance	Actual thru Apr	Estimate thru Apr	Variance	Percent Variance
Managed Care Plans	\$23,074	\$431,921	-\$408,847	-94.7%	\$4,237,436	\$4,144,855	\$92,581	2.2%
Nursing Facilities	\$226,239	\$229,660	-\$3,421	-1.5%	\$2,234,927	\$2,275,242	-\$40,315	-1.8%
Prescription Drugs	\$104,372	\$163,938	-\$59,566	-36.3%	\$1,408,576	\$1,613,366	-\$204,790	-12.7%
Hospitals	\$115,899	\$125,042	-\$9,143	-7.3%	\$1,235,832	\$1,295,711	-\$59,879	-4.6%
ICFs/MR	\$35	\$46,234	-\$46,199	-99.9%	\$460,037	\$453,358	\$6,679	1.5%
ODJFS Waivers	\$24,868	\$30,061	-\$5,193	-17.3%	\$272,080	\$314,672	-\$42,592	-13.5%
Physicians	\$27,201	\$30,090	-\$2,889	-9.6%	\$279,319	\$296,889	-\$17,570	-5.9%
All Other	\$127,114	\$126,194	\$920	0.7%	\$1,286,106	\$1,301,799	-\$15,693	-1.2%
Total Payments	\$648,802	\$1,183,140	-\$534,338	-45.2%	\$11,414,313	\$11,695,892	-\$281,579	-2.4%
Total Offsets (non-GRF)	-\$348,484	-\$336,038	-\$12,446	3.7%	-\$2,474,958	-\$2,586,133	\$111,175	-4.3%
Total 600525 (net of offsets)	\$300,318	\$847,102	-\$546,784	-64.5%	\$8,939,355	\$9,109,759	-\$170,404	-1.9%
Medicare Part D (600526)	\$18,088	\$21,265	-\$3,177	-14.9%	\$148,589	\$161,949	-\$13,360	-8.2%
Total GRF	\$318,406	\$868,367	-\$549,961	-63.3%	\$9,087,944	\$9,271,708	-\$183,764	-2.0%
Total All Funds	\$666,890	\$1,204,405	-\$537,515	-44.6%	\$11,562,902	\$11,857,841	-\$294,939	-2.5%

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 ten months of FY 2011, GRF uses total \$23.45 billion, \$278.4 million below the estimate released by the Office of Budget and Management (OBM) in September 2010. GRF uses consist primarily of program expenditures but also include transfers out. Through April, FY 2011 program expenditures totaled \$22.43 billion, \$391.7 million below estimate. This negative program expenditure variance was partially offset by a \$113.3 million positive variance in GRF transfers out, which totaled \$1.02 billion through April. As reported in prior issues of *Budget Footnotes*, GRF transfers out will finish the fiscal year above estimate. This is largely due to the fact that commercial activity tax (CAT) receipts will not be sufficient to cover the full costs of reimbursing school districts and local governments for tangible personal property tax losses. Current law requires the GRF to make up any shortfalls in CAT receipts.

Tables 3 and 4 show GRF uses for the month of April and for FY 2011 through April, respectively. Public Assistance and Medicaid had the largest year-to-date negative variance at \$256.8 million, followed by Justice and Public Protection (\$46.7 million), Health and Human Services (\$30.7 million), and General Government (\$19.2 million). Together, these four program categories posted a combined negative year-to-date variance of \$353.4 million. The variances in each of these four program categories are briefly discussed below.

Public Assistance and Medicaid

Year-to-date GRF expenditures for the Public Assistance and Medicaid program category totaled \$9.77 billion, \$256.8 million (2.6%) below estimate. Medicaid, including both state and federal shares, accounts for about 93% of this category. 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 \$9.09 billion, \$183.8 million (2.0%) below estimate. Across all funds, Medicaid expenditures totaled \$11.56 billion, \$294.9 million (2.5%) below estimate. Categories with significant year-to-date negative variances include Prescription Drugs (\$204.8 million, 12.7%), Hospitals (\$59.9 million, 4.6%), ODJFS Waivers (\$42.6 million, 13.5%), and Nursing Facilities (\$40.3 million, 1.8%).

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For the month of April, GRF Medicaid expenditures were \$550 million (63.3%) below estimate. This negative variance was mainly due to advanced payments made in March. As reported in the last issue of *Budget Footnotes*, the Ohio Department of Job and Family Services (ODJFS) moved about \$500 million of the April Medicaid payments into March. This was done to realize additional federal reimbursement under the enhanced federal medical assistance percentage (eFMAP) the state is currently receiving. ODJFS estimated that this move reduced the state share of Medicaid expenditures by about \$9 million. eFMAP is expected to end June 30, 2011, after which time the state will receive reimbursement at the regular FMAP rate. From January through March 2011, 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.

Justice and Public Protection

Year-to-date expenditures for the Justice and Public Protection program category totaled \$1.64 billion, \$46.7 million (2.8%) below estimate. The Department of Rehabilitation and Correction (DRC) contributed \$38.9 million to this program category's negative variance while the Department of Youth Services (DYS) accounted for another \$8.8 million. Within the DRC budget, total year-to-date expenditures from the Institutional Operations (501321) and Institutional Operations – Federal Stimulus (501620) appropriation items were \$16.0 million (2.2%) below their year-to-date estimates. Expenditures from the Mental Health Services appropriation item (502321) were \$12.6 million below estimate on account of lower than expected incidence of inmate mental illness and higher utilization of DRC personnel for services as opposed to the use of private contractors. Within the DYS budget, expenditures from the RECLAIM Ohio appropriation item (470401) were \$8.3 million below 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 expenditures for the Health and Human Services program category totaled \$960.9 million, \$30.7 million (3.1%) below estimate. Of this total variance, the Department of Health (DOH) and the Department of Mental Health (DMH) accounted for \$20.5 million and \$7.0 million, respectively. Within the DOH budget, the Help Me Grow appropriation item (440459) and the Immunizations appropriation item

(440418) had negative year-to-date variances of \$10.8 million and \$5.1 million, respectively. Within the DMH budget, the Community and Hospital Mental Health Services appropriation item (334408) and the Local Mental Health Systems of Care appropriation item (335505) had negative year-to-date variances of \$4.2 million and \$1.7 million, respectively. Timing might have affected some payments from these appropriation items; all four items provide subsidy payments or fund services to various local entities.

General Government

Year-to-date expenditures for the General Government program category totaled \$239.5 million, \$19.2 million (7.4%) below estimate. The Department of Taxation accounted for \$9.6 million of this total variance. The Legislative Service Commission and the Department of Administrative Services contributed another \$3.9 million and \$3.5 million, respectively. The remainder of the year-to-date negative variance was the result of smaller variances in several other agencies that are included in this program category.

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

ISSUE UPDATES

Job and Family Services Recovers \$9.8 million in Fraudulent Unemployment Compensation Payments

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

In April 2011, the Ohio Department of Job and Family Services (ODJFS) released information on its efforts in calendar year 2010 to recover fraudulently obtained unemployment compensation (UC) benefits. In that year, ODJFS recovered \$9.8 million in state-funded benefits issued between January 2005 and December 2010. ODJFS works in conjunction with the Attorney General's office to audit and collect overpayments. Recovered funds are returned quarterly to the state's Unemployment Compensation Trust Fund.

Most fraudulent UC cases occur when beneficiaries fail to report new employment and wage information. ODJFS's Benefit Payment Control staff identifies fraud cases through a fraud hotline and from electronically cross-matching new-hire data with employers' quarterly wage reports. In addition to recovering fraudulent payments, ODJFS pursues criminal prosecution of those who commit intentional UC fraud. In 2010, over 150 individuals were found guilty of unemployment theft or similar charges.

State of Ohio and Ohio Fresh Eggs Agree to a Consent Order

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

On April 6, 2011, the Ohio Attorney General's Office (AGO), the Environmental Protection Agency (EPA), the Department of Agriculture (AGR), and Ohio Fresh Eggs, LLC, agreed to terms of a consent order⁶ that resolves 71 longstanding violations of environmental and permitting laws the state alleged against the company, one of the state's major egg producers. The consent order, issued by the Licking County Court of Common Pleas, outlines specific steps Ohio Fresh Eggs must take to correct deficiencies at the company's operations in Harding, Licking, and Wyandot counties. These actions involve the company's manure management, waste water handling, and rodent and insect control plans. These activities are regulated under AGR's Livestock Environmental Permitting Program. The order also covers steps Ohio Fresh Eggs must

⁶ The agreement is not final until the end of a 30-day public comment period on aspects of the consent order dealing with surface water discharges regulated by EPA.

take to comply with National Pollution Discharge Elimination System (NPDES) permit requirements overseen by EPA's Division of Surface Water.

In addition, Ohio Fresh Eggs will pay AGR civil penalties of \$580,000 in four quarterly installments of \$145,000 beginning on June 30, 2011, and ending March 31, 2012. These penalties will be deposited into the Livestock Management Fund (Fund 5L80), which AGR uses to pay for emergency remediation costs related to water quality violations at large animal farms. Ohio Fresh Eggs will also pay EPA's Division of Surface Water a civil penalty of \$45,000, due in two installments occurring on June 30, 2011 and September 30, 2011. These amounts will be deposited into the Drinking Water Protection Fund (Fund 4K50). Furthermore, the consent order requires Ohio Fresh Eggs to undertake supplemental environmental enhancements of at least \$300,000 at its operations. This includes planting trees as natural wind breaks around poultry barns. Finally, the consent order requires Ohio Fresh Eggs to pay AGO \$10,000 for legal costs related to the litigation.

Office of the Attorney General Provides Funding to Continue Methamphetamine Laboratory Clean-Up in FY 2011

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

In April, the Office of the Attorney General received approval from the Controlling Board to enter into a \$200,100 contract with Chemical Pack Services of Vermilion, Ohio to provide local governments with methamphetamine laboratory clean-up services for the remainder of FY 2011. This contract is funded with \$100,000 from the Attorney General Pass-Through Fund (Fund 3E50) and \$100,100 from the BCI Asset Forfeiture and Cost Reimbursement Fund (Fund 4Z20). Fund 3E50 receives revenue from various federal criminal justice and homeland security grants. Fund 4Z20 receives revenue from moneys awarded to the Bureau of Criminal Identification and Investigation as a result of shared federal asset forfeiture as well as state and local moneys designated as restitution for reimbursement of the costs of investigations.

The federal government has been assisting local governments across the country in the clean-up of clandestine methamphetamine laboratories through the federal Office of Community Oriented Policing Services (COPS) Methamphetamine Initiative. Chemical Pack has been providing clean-up services under the federal COPS initiative. In February of this year, however, the U.S. Drug Enforcement Administration (DEA) announced that the federal funding available for this initiative had been exhausted. It appears unlikely that any additional federal funding for this purpose will be available in the future. The DEA has suggested that states use their federal Byrne Justice Assistance Grants (JAG) to fund clean-up services.

Prior to the February announcement, a total of \$19.2 million in federal fiscal year (FFY) 2010 grants had been allocated to various local governments across the nation. A portion of this funding has been used for the clean-up of 359 laboratories in Ohio, at an average cost of approximately \$1,800 per site. The costs associated with the removal, storage, and subsequent destruction of the waste and chemicals generated from these laboratories can range anywhere from several hundred to tens of thousands of dollars. Since most of these laboratories are located in Ohio's rural areas, it is not likely that the affected local governments can easily absorb these clean-up costs.

Youth Services Pools Foundation Grant with GRF to Begin Implementation of the Juvenile Detention Alternatives Initiative

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

The Department of Youth Services has pooled \$500,000 in RECLAIM Ohio GRF money with a \$150,000 grant from the Annie E. Casey Foundation to begin implementation of the Juvenile Detention Alternatives Initiative (JDAI). JDAI is a nationwide effort designed to create and utilize alternatives to detention or secure confinement in a state or local facility. The five Ohio counties participating in the initial stage of implementation – Cuyahoga, Franklin, Lucas, Montgomery, and Summit – have each received \$100,000 in GRF subsidy. As a group, these participating counties account for nearly one-third of Ohio's juvenile detention population. The Department will allocate the Casey Foundation grant to fund system assessments, training, meetings, conferences, and travel. Additional Casey Foundation grants could become available as this reform process unfolds. It is the Department's goal to eventually roll this reform initiative out statewide.

Sponsored by the Casey Foundation, JDAI is designed to improve the efficiency and effectiveness of juvenile justice systems by: (1) eliminating the overuse of secure detention, (2) minimizing failures to appear in court and reduce delinquent behavior, (3) redirecting public finances from building new facilities to creating responsible alternative strategies, and (4) improving conditions in secure detention facilities. The expectation is that these system improvements will lower detention center populations and costs, reduce recidivism, and build better treatment capacity and access. JDAI has been implemented in 30 states and more than 125 local jurisdictions across the country.

ODADAS Awards \$6.2 million to Community Behavioral Health Boards

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

In April 2011, the Ohio Department of Alcohol and Drug Addiction Services (ODADAS) awarded 13 community behavioral health boards \$6.2 million in federal Strategic Prevention Framework State Incentive Grants (SPF-SIG). These awards will be

distributed over the next three years. As seen from the table below, each grant recipient will receive a total award ranging from about \$368,500 to \$514,500. SPF-SIG is intended to enhance the capacity of the state and counties to build a sustainable, culturally and linguistically competent infrastructure that will focus on preventing the onset and reducing the progression of alcohol and drug use, particularly for young adults 18 to 25 years of age.

Strategic Prevention Framework State Incentive Grant Awards FY 2011-FY 2014	
County Board	Award Amount
Butler	\$514,500
Clermont	\$445,767
Columbiana	\$475,146
Fairfield	\$514,500
Franklin	\$513,281
Hamilton	\$514,500
Hancock	\$368,479
Lorain	\$484,500
Mahoning	\$446,765
Portage	\$435,058
Seneca/Sandusky/Wyandot	\$514,500
Stark	\$499,217
Wood	\$514,500
Total	\$6,240,713

ODADAS awarded grants to local boards based on community needs, cultural competency, and the potential for program sustainability beyond the grant period. Under the grant requirements, boards must partner with and administer funds on behalf of drug-free community coalitions, which seek to prevent alcohol and drug abuse and promote drug-free youth development. In addition to the \$6.2 million award, ODADAS will disburse \$2.8 million in one-time funding to the boards that were not selected for the three-year award, to be used for prevention strategy and policy planning as well as data collection. This \$9.0 million in spending is funded by a \$10.6 million SPF-SIG grant awarded to Ohio in FY 2010. Under federal guidelines, up to 15% (\$1.6 million) of the grant may be expended at the state level. For FY 2010 and FY 2011, ODADAS has been focusing on infrastructure development and planning at the state level before initiating community-level involvement.

Department of Natural Resources Awards Almost \$574,000 in Marine Patrol Grants

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

On April 4, 2011, the Department of Natural Resources (DNR) Division of Watercraft awarded \$573,833 to 26 local government entities and two DNR park units for marine patrol activities. The FY 2011 awards will be used to support emergency response functions and waterway patrols, and to buy safety equipment to protect boaters on Ohio's waterways, including Lake Erie, the Ohio River, and inland lakes and rivers. Grantees include 14 county sheriff departments, nine other local law enforcement marine patrol units, two DNR park units encompassing three state parks each, a local port authority, a watershed conservancy district, and a metro parks district. The awards range from \$9,776 to \$32,000, with an average grant amount of \$20,494.⁷

The Marine Patrol Grant Program is supported by the Waterways Safety Fund (Fund 7086), which receives revenue from watercraft titling and registration fees, waterways conservation assessments, 0.875% of the state motor fuel tax, and some federal funding from the U.S. Coast Guard. Grantees must provide a match of at least 25% of total program costs and are required to provide DNR with year-end reports on activities and expenses incurred using the grant funds.

Department of Education and The Ohio State University Create Executive Principals Leadership Academy

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

The Executive Principals Leadership Academy, a partnership of the Ohio Department of Education and The Ohio State University, debuted in mid-April. Housed in Ohio State's Fisher College of Business, the Academy uses executive business management principles to help school leaders revitalize schools and enhance the teaching and learning environment. The Academy was made possible through a two-year, \$3.0 million grant funded by a combination of Ohio's federal Race to the Top grant and federal School Improvement Grants and expects to train 300 principals and other educators through 2012.

⁷ The complete list of grants may be viewed under www.ohiodnr.com/watercraft.

State Board of Education Adopts Model Curricula

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

On March 15, 2011, the State Board of Education adopted model curricula for four core content areas: English language arts, mathematics, science, and social studies. Development of the model curricula followed a revision process that included the involvement of the Ohio Department of Education (ODE) staff, educators, and other stakeholders from around the state as well as a public review period. More than 1,800 educators contributed to the development of the 779 model curricula units for grades pre-kindergarten to 12 in the four content areas. As required under section 3301.079 of the Revised Code, the revised model curricula are aligned with Ohio's revised academic content standards for the four core content areas which were adopted by the State Board in June, 2010. Current law also requires the State Board to develop academic content standards and model curricula for instruction in computer literacy, financial literacy and entrepreneurship, fine arts, and foreign language for grades kindergarten through 12.

H.B. 1 appropriated \$5.3 million in GRF appropriation item 200427, Academic Standards, in both FY 2010 and FY 2011 for ODE to develop, revise, and communicate to school districts academic content standards and curriculum models. All revised academic content standards and model curricula can be accessed on ODE's web site, www.ode.state.oh.us, by searching for "model curriculum."

Faculty Innovator Textbook Affordability Awards Announced

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

The Board of Regents (BOR) recently announced its third round of Faculty Innovator awards for faculty members of Ohio institutions of higher education pursuing innovative ways of lowering textbook costs for students. The awards provide \$1,000 to ten individual faculty members or groups of faculty members who have developed innovative methods of using electronic textbook resources and decreasing costs, while improving the educational content of course materials. The FY 2011 award winners represent seven universities and two community colleges and, according to BOR, their initiatives have resulted in student savings of up to \$879,000 statewide. The Faculty Innovator Program is part of a broader effort to increase the use of electronic learning materials and decrease student costs, administered by BOR through the Ohio Learning Network (OLN). OLN is funded through GRF appropriation item 235417, Ohio Learning Network. The primary mission of OLN is to work with colleges and universities to provide a statewide collaborative electronic education system.

TRACKING THE ECONOMY

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

Overview

The economy continues to expand, though the picture is mixed. Private-sector employment in April registered the largest one-month increase since 2006, but unemployment also rose, and initial claims for unemployment compensation rose on balance over the past nine weeks and were up sharply in the latest week. Inflation-adjusted gross domestic product (real GDP) rose in this year's first quarter, but the rate of increase was smaller than growth in last year's second half. Purchasing managers reports for April indicated further but less widespread growth, particularly in sectors of the economy other than manufacturing. Housing sales and starts remain depressed, and home prices continue to fall. Consumer spending continued to grow through March, and preliminary indicators suggest that spending is holding up well in April. Commodity price pressures remain widespread. Prices for crude oil and other commodities dropped sharply late in the first week of May, but have since recovered somewhat.

The Federal Reserve held monetary policy unchanged at the April meeting of its Federal Open Market Committee. The short-term interest rate target, for the federal funds rate, remains at zero to 0.25%. The Fed is continuing its program of buying \$600 billion of longer-term Treasury securities, to be completed by the end of the current quarter, and is continuing to reinvest principal payments from its portfolio.

The National Economy

Employment and Unemployment

In April, total nonfarm payroll employment nationwide rose 244,000. Since the cyclical trough for payroll employment in February 2010, the number of employees increased by nearly 1.8 million, but was almost 7 million below the all-time peak in January 2008. The number of persons unemployed, estimated from a separate survey, also rose in April, increasing the national average unemployment rate from 8.8% to 9.0%. The peak was 10.1% in October 2009. These labor market measures are shown in Chart 1.

Private-sector payroll employment increased by 268,000 in April while the number of government jobs fell 24,000. The April private-sector employment increase was the largest monthly gain since 2006.

Private-sector payroll employment increased by 268,000 in April, the largest monthly gain since 2006.

Increases were reported in manufacturing, mining, and multiple service industries. Factory employment rose in April in several industries, including machinery, primary metals, and computer and electronic products. Since December 2009, the number of manufacturing jobs has risen 250,000, more than accounted for by durable goods. Retail trade, professional and business services, leisure and hospitality, and health care added jobs in April. Total government employment has fallen since a peak last year when the decennial census was being conducted. Both state and local government employment have declined since 2008.

Unemployment rose to 13.7 million people in April, including 5.8 million out of work for more than six months. The number of these long-term unemployed was down from a peak of 6.7 million last year, by far the highest of the post-World War II era, and was at the lowest number since October 2009. Unemployed persons who lost their last jobs, including those who finished temporary jobs, totaled 8.1 million in April, down from 10.1 million in October 2009, highest on records that start in 1967. Unemployed persons who were new entrants to the labor market rose almost to 1.4 million, near the record high set in 1983 and more than triple the number a decade ago.

Unemployment

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April,

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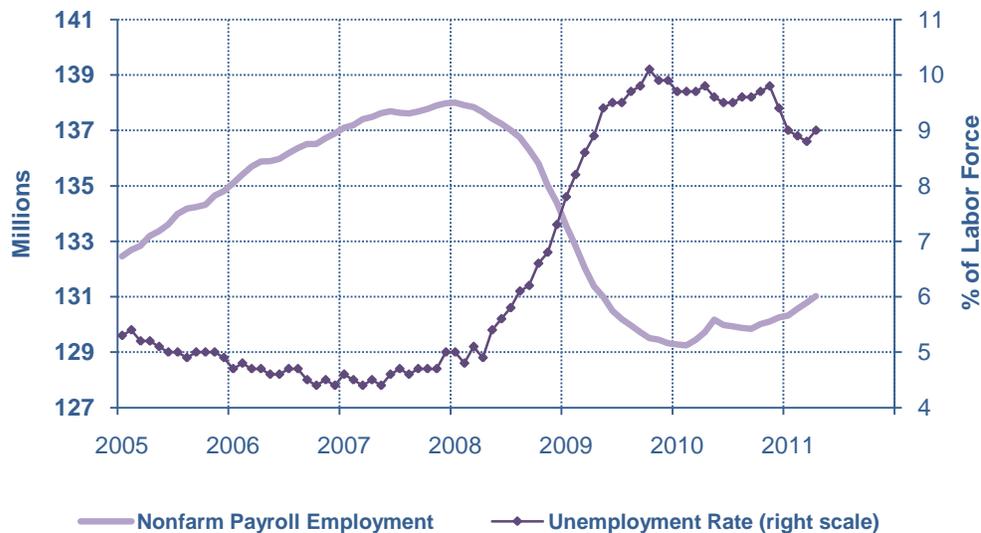
5.8 million

out of work

for more than

six months.

Chart 1: U.S. Employment and Unemployment



The number of part-time workers (34 or fewer hours during the week) who would have preferred full-time work totaled 8.6 million in April, down from an all-time peak of 9.5 million in September but up from 8.3 million earlier this year. So-called discouraged workers – people who were not working, and who looked for a job within the past 12 months but not currently because they thought no jobs were available for them – totaled under 1.0 million in April, down from a peak of 1.3 million in 2010.

Real GDP rose in this year's first quarter at a 1.8% annual rate, its slowest rate of growth since last year's second quarter.

The share of the working age population (defined as persons age 16 and older) who either had jobs or were actively looking for work remained at 64.2% in April, lowest since 1984. This ratio, the civilian labor force participation rate, rose from the 1960s to 2000 reflecting increased participation by women, but has fallen sharply during the past three years. The ratio of the number employed to the working age population was 58.4% in April, up from a low of 58.2% in 2009 and 2010, the lowest since 1983.

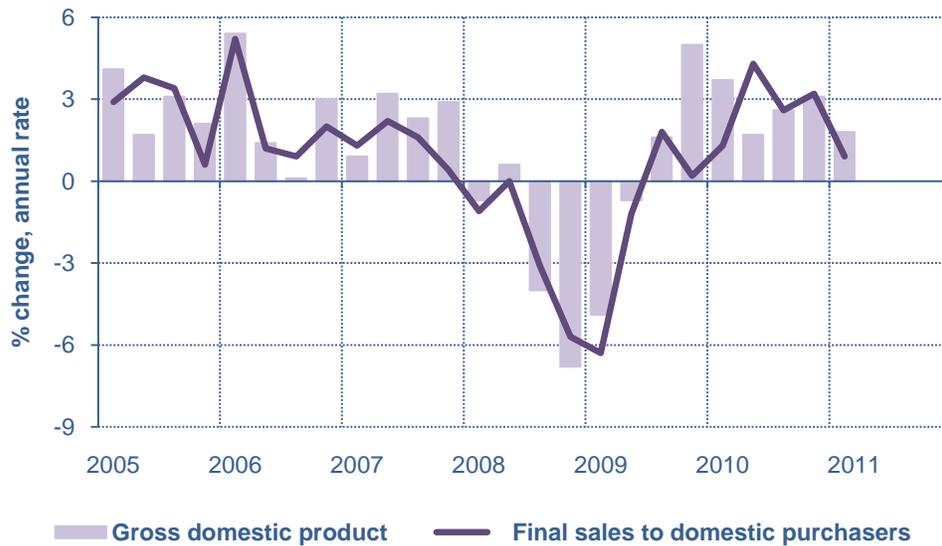
Initial claims for unemployment compensation have risen in the past nine weeks, after falling to the lowest level since 2008. The rise was particularly sharp in the latest week, and increased initial claims to levels of last August. Higher claims could be signaling a slowing in the economic advance but may be a result of temporary factors. Weekly claims are volatile and sometimes subject to large swings.

As of February, the number of job openings nationwide had increased nearly 50% from the low level in 2009, according to the latest report from the U.S. Bureau of Labor Statistics. Hiring, however, has risen by much less and remains low relative to levels in 2008 and before.

Production, Shipments, and Inventories

Real GDP rose in this year's first quarter at a 1.8% annual rate, its slowest rate of growth since last year's second quarter. Economic activity has expanded for seven consecutive quarters since the 2007-2009 recession, as shown in Chart 2. In 2011's first quarter, consumer spending rose at a 2.7% annual rate, down from 4.0% in the previous quarter. Private residential and nonresidential fixed investment fell following increases in the fourth quarter. Export growth slowed. Government spending, at both the federal and the state and local levels, fell more sharply than in the fourth quarter. On the other hand, double-digit growth resumed in business investment in equipment and software. Inventory building was more rapid than in the previous quarter. Part of the first quarter's slower growth may have been a result of transitory influences such as severe winter weather in parts of the country.

Chart 2: Inflation-Adjusted Gross Domestic Product



Industrial production rose a strong 0.8% in March and manufacturing output rose 0.7%.

Industrial production rose a strong 0.8% in March and manufacturing output rose 0.7%. Factory output growth ranged from 0.6% to 1.1% in the previous three months, about a 10% annual rate of expansion. Compared with a year earlier, production of consumer durables was 11% higher, business equipment output was 13% higher, and construction supplies output was 8% higher. Production of consumer nondurable goods was 2% higher. Since the recession low in June 2009, manufacturing activity has recovered somewhat more than half of its 20% decline from the peak in December 2007.

Total manufacturers' shipments nationwide rose 2.7% in March, the seventh consecutive monthly increase. New orders increased 3.0%, the fifth straight monthly rise. The backlog of unfilled orders rose 0.8%, while inventories increased 1.1%.

Robust growth in manufacturing activity continued in April, according to purchasing managers surveyed by the Institute for Supply Management (ISM). Reports of growing orders, production, and employment were widespread, though down from even stronger levels in the first quarter. Growth of order backlogs was more widespread than earlier in the year, as was growth of inventories. Nearly three-fourths of factory purchasing managers reported paying higher prices in March and April, the most since mid-2008. A comparable ISM survey of purchasing managers with organizations other than manufacturers showed a more restrained pace of growth than the manufacturing survey, with less widespread expansion in several measures of activity, and a decided shift toward fewer reports of growth than earlier this year.

Consumer spending continued to increase through March, even though the more rapid price increases, particularly for energy, eroded purchasing power.

Consumer Spending

Consumer spending continued to increase through March, even though the more rapid price increases, particularly for energy, eroded purchasing power. The dollar value of sales rose in March, seasonally adjusted, at predominantly durable goods retailers including furniture and home furnishings stores, electronics and appliance stores, and building material and garden equipment and supplies stores, but fell at motor vehicles dealers.

In April, unit sales of light motor vehicles remained at a 13.1 million seasonally adjusted annual rate, one of the highest monthly sales rates since the first half of 2008 and before. The sales rate for light vehicles is up from 10.4 million units in all of 2009 but still short of the 16.1 million sales rate in calendar year 2007.

Sales at 25 large retailers tracked by Thomson Reuters were 8.9% higher in April than a year earlier. The strong gain was attributed in part to a late Easter this year. These sales are reported on a same-store basis, including store locations open in both the latest and the year-earlier months.

Consumer credit outstanding, excluding mortgage debt, rose for the sixth consecutive month in March. Revolving credit, mainly credit cards, rose during the month after declining almost every month since August 2008. Nonrevolving credit, which includes auto loans, was at its highest level ever in March.

Construction and Real Estate

Housing starts nationwide rose 7% in March, from one of the lowest levels on records kept since 1959. Housing starts remain at a low rate. The pace of new housing construction starts is barely one-fourth of that in 2005. New home sales in March rose 11% from the lowest level on record. Home sales reported by the National Association of Realtors, which are mostly of previously occupied homes, rose 4% in March but were about 28% below the sales rate in peak year 2005.

Housing prices continue to fall. An index of national housing prices from the Federal Housing Finance Agency showed average prices about 6% lower in February than a year earlier, and lower in all nine regions of the country. On average, prices were down to 2004 levels.

Total construction spending, estimated by the U.S. Bureau of the Census, was about 8% lower in the first three months of 2011 than a year earlier. Private residential building activity was 9% lower, private nonresidential construction was 12% lower, and public construction was 1% below the year-earlier rate.

Inflation

The consumer price index rose 0.5% in March, after increasing 0.5% in February and 0.4% in each of the previous two months, and by smaller amounts in earlier months. Much of the acceleration of inflation since late last year was in energy prices, and to a lesser extent in food prices. Since March 2010, the all-items consumer price index increased 2.7%, the energy index rose 15.5% with gasoline prices up 27.5%, and the food index rose 2.9%. Consumer prices excluding food and energy were 1.2% higher in March than a year earlier, up from a year-over-year increase of only 0.6% last October, the smallest rise in more than 50 years.

Gasoline prices continued to escalate into early May. The U.S. Energy Information Administration's weekly survey showed nationwide gasoline prices, for unleaded regular, averaging \$3.97 per gallon on May 9, the highest level since peaks in mid-2008. In Ohio, this survey showed unleaded regular averaging \$4.11 per gallon on May 2, highest on record, before falling to \$3.98 on May 9. Crude oil prices in recent weeks have been at the highest levels since 2008, as underlying demand from an expanding world economy was augmented by concerns about Mideast instability. However, crude oil prices fell sharply on May 5, along with prices of a number of other commodities.

At the wholesale and manufacturers' levels, the producer price index for finished goods rose 0.7% in March to 5.8% higher than a year earlier. The year-over-year change was the largest one-year increase since March 2010, and mainly reflects higher energy prices, and to a lesser extent higher food prices. Excluding foods and energy, finished goods prices were 1.9% higher. At earlier stages in the production process, intermediate goods prices rose 1.5% in March, reaching a level 8.9% higher than a year earlier, while crude materials prices fell 0.5% in March but were 16.4% above the year-earlier level.

Wage inflation remains low. In the 12 months to March 2011, an index of average hourly wages and salaries for civilian workers including private industry and state and local government workers, from the U.S. Bureau of Labor Statistics, rose 1.6% from a year earlier. This component of the employment cost index is shown in Chart 3, compared with changes in the consumer price index.

Much of the acceleration of inflation since late last year was in energy prices, and to a lesser extent in food prices.

Total nonfarm payroll employment in Ohio in March was 65,700 (1.3%) higher than a year earlier.

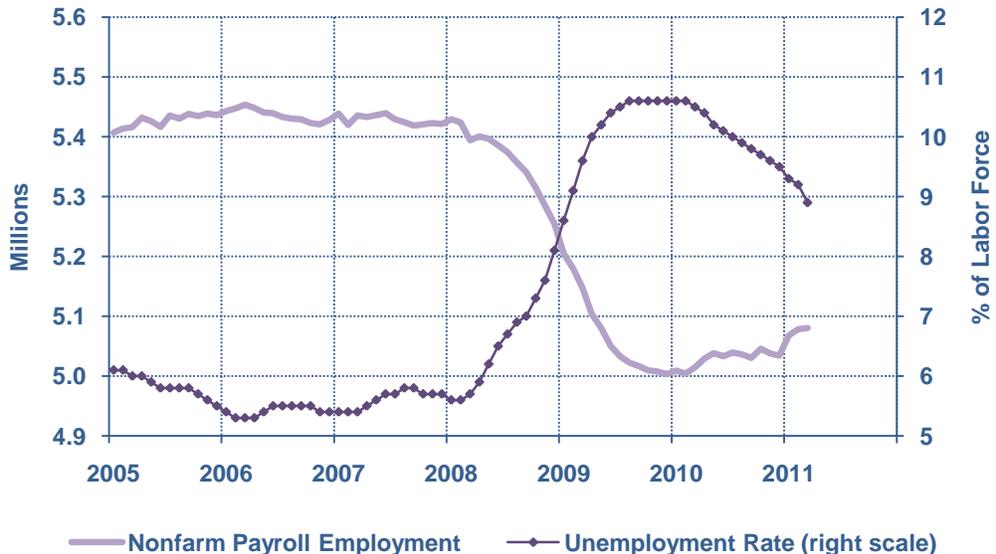
Chart 3: Employment Cost Index, Private Industry, and Prices



The Ohio Economy

Total nonfarm payroll employment in Ohio rose 2,200 (less than 0.1%) in March and was 65,700 (1.3%) higher than a year earlier, and 77,100 (1.5%) higher than at the cyclical low in December 2009. The number of people counted as unemployed statewide in March, at 526,000, was 8.9% of the labor force, down from 9.2% in February and from a peak unemployment rate of 10.6% from August 2009 through February 2010. Ohio total nonfarm payroll employment and the unemployment rate are shown in Chart 4.

Chart 4: Ohio Employment and Unemployment



Compared with a year earlier, payroll employment in goods-producing industries was 13,800 (1.7%) higher, more than accounted for by durable goods manufacturing, with employment 17,100 (4.2%) higher. Payroll employment in service-providing industries in March was 51,900 (1.2%) higher than a year earlier, including increases in health care and social assistance of 19,800 (2.7%); in administrative, support, and waste services of 12,800 (4.7%); in accommodation and food services of 7,700 (1.9%); in professional and technical services of 6,200 (2.6%); and in arts, entertainment, and recreation of 5,300 (8.5%). Government employment was lower than a year earlier by 5,400 (0.7%) with decreases at all levels of government, including a 2,800 (0.5%) decline in jobs with units of local government. Employment in retail trade was also lower, by 5,800 (1.0%).

The Federal Reserve Bank of Cleveland, in its report on regional economic conditions in the Beige Book,⁸ said that economic activity in this part of the country continued to grow at a modest rate. Factory orders and production rose slightly. New home construction remained sluggish but nonresidential building activity increased. The number of job openings rose. Businesses faced increased pressure to pass along increases in their input prices.

The number of homes sold in Ohio, reported by the Ohio Association of Realtors, was 8% lower in March than a year earlier. In the first three months of 2011, 5% fewer homes were sold in Ohio than in the comparable period of 2010. The average sales price was 7% lower than in last year's first three months.

The number of people unemployed statewide in March was 8.9% of the labor force, down from a peak of 10.6%.

⁸ The Beige Book, published by the Federal Reserve System, summarizes comments from business and other contacts regarding economic conditions. The most recent edition was compiled from reports received prior to April 4. The Federal Reserve Bank of Cleveland's section covers activity in Ohio and parts of three adjacent states.