

Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

FEBRUARY 2012

STATUS OF THE GRF

HIGHLIGHTS

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

Various economic indicators show the U.S. and Ohio economies expanding at the start of 2012. Most notably, growth in nationwide nonfarm payroll employment picked up in January, and the average unemployment rate fell to 8.3%, the lowest in nearly three years. Similarly, Ohio's unemployment rate fell to 8.1% in December 2011, the third consecutive monthly decline.

Through January, GRF tax revenues are \$147.1 million above estimate, with relatively good performances by the most important tax sources. Nonetheless, year-to-date GRF sources as a whole were \$357.6 million below estimate due largely to a timing-related shortfall in nontax revenues. This shortfall, which is linked to the transfer of the state liquor franchise to JobsOhio, is expected to reverse in the coming months.

Through January 2012, GRF sources totaled \$15.74 billion:

- Revenue from the personal income tax was \$28.3 million above estimate;
- Sales and use tax receipts were \$89.4 million above estimate.

Through January 2012, GRF uses totaled \$16.77 billion:

- Program expenditures were \$430.2 million below estimate, due primarily to Public Assistance and Medicaid (\$371.8 million) and Justice and Public Protection (\$60.3 million).

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STATUS OF THE GRF

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Table 1: General Revenue Fund Sources				
Preliminary Actual vs. Estimate				
Month of January 2012				
(\$ in thousands)				
(Actual based on report run in OAKS Actuals Ledger on February 7, 2012)				
	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	\$84,491	\$73,300	\$11,191	15.3%
Nonauto Sales and Use	\$685,092	\$667,300	\$17,792	2.7%
Total Sales and Use Taxes	\$769,583	\$740,600	\$28,983	3.9%
Personal Income	\$973,240	\$927,279	\$45,961	5.0%
Corporate Franchise	\$62,345	\$64,000	-\$1,655	-2.6%
Public Utility	-\$1,949	\$0	-\$1,949	---
Kilowatt Hour Excise	\$25,284	\$26,400	-\$1,116	-4.2%
Natural Gas Consumption (MCF)	\$2	\$1,900	-\$1,898	-99.9%
Commercial Activity Tax	\$12,636	\$9,500	\$3,136	33.0%
Foreign Insurance	\$232	\$100	\$133	132.8%
Domestic Insurance	-\$61	\$0	-\$61	---
Business and Property	\$0	\$0	\$0	---
Cigarette	\$66,227	\$67,400	-\$1,173	-1.7%
Alcoholic Beverage	\$4,010	\$4,700	-\$691	-14.7%
Liquor Gallonage	\$4,159	\$3,900	\$259	6.6%
Estate	\$275	\$200	\$75	37.6%
Total Tax Revenue	\$1,915,983	\$1,845,979	\$70,004	3.8%
NONTAX REVENUE				
Earnings on Investments	\$1,234	\$1,650	-\$416	-25.2%
Licenses and Fees	\$5,498	\$8,533	-\$3,035	-35.6%
Other Revenue	\$2,986	\$551,214	-\$548,228	-99.5%
Total Nontax Revenue	\$9,718	\$561,397	-\$551,679	-98.3%
TRANSFERS				
Liquor Transfers**	\$0	\$0	\$0	---
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers In	\$0	\$0	\$0	---
Total Transfers In	\$0	\$0	\$0	---
TOTAL STATE SOURCES	\$1,925,700	\$2,407,376	-\$481,675	-20.0%
Federal Grants	\$463,388	\$486,403	-\$23,015	-4.7%
TOTAL GRF SOURCES	\$2,389,088	\$2,893,779	-\$504,690	-17.4%
* Tax estimates of the Office of Budget and Management as of September 2011.				
**Liquor Transfers based on a report run in OAKS as of February 1, 2012.				
<i>Detail may not sum to total due to rounding.</i>				

	Actual	Estimate*	Variance	Percent	FY 2011	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	\$595,751	\$549,900	\$45,851	8.3%	\$550,044	8.3%
Nonauto Sales and Use	\$4,197,109	\$4,153,600	\$43,509	1.0%	\$3,991,189	5.2%
Total Sales and Use Taxes	\$4,792,860	\$4,703,500	\$89,360	1.9%	\$4,541,233	5.5%
Personal Income	\$4,890,372	\$4,862,036	\$28,336	0.6%	\$4,546,910	7.6%
Corporate Franchise	\$68,352	\$59,701	\$8,652	14.5%	\$57,005	19.9%
Public Utility	\$53,358	\$60,800	-\$7,442	-12.2%	\$56,416	-5.4%
Kilowatt Hour Excise	\$182,310	\$191,500	-\$9,190	-4.8%	\$93,751	94.5%
Natural Gas Consumption (MCF)	\$18,172	\$16,600	\$1,573	9.5%	\$0	---
Commercial Activity Tax	\$209,143	\$193,500	\$15,643	8.1%	\$0	---
Foreign Insurance	\$134,482	\$130,199	\$4,282	3.3%	\$132,300	1.6%
Domestic Insurance	\$0	-\$1,100	\$1,101	100.0%	-\$1,023	100.0%
Business and Property	-\$1,783	-\$1,500	-\$284	-18.9%	-\$1,006	-77.3%
Cigarette	\$444,756	\$439,000	\$5,756	1.3%	\$458,477	-3.0%
Alcoholic Beverage	\$33,839	\$33,700	\$139	0.4%	\$33,041	2.4%
Liquor Gallonage	\$23,632	\$22,300	\$1,332	6.0%	\$22,661	4.3%
Estate	\$36,084	\$28,200	\$7,883	28.0%	\$27,436	31.5%
Total Tax Revenue	\$10,885,578	\$10,738,436	\$147,142	1.4%	\$9,967,201	9.2%
NONTAX REVENUE						
Earnings on Investments	\$2,440	\$2,900	-\$460	-15.9%	\$4,681	-47.9%
Licenses and Fees	\$25,569	\$25,769	-\$200	-0.8%	\$24,302	5.2%
Other Revenue	\$19,369	\$573,343	-\$553,974	-96.6%	\$151,325	-87.2%
Total Nontax Revenue	\$47,377	\$602,012	-\$554,635	-92.1%	\$180,308	-73.7%
TRANSFERS						
Liquor Transfers**	\$72,632	\$69,500	\$3,132	4.5%	\$85,977	-15.5%
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers In	\$229,561	\$10,598	\$218,964	2066.1%	\$404,986	-43.3%
Total Transfers In	\$302,193	\$80,098	\$222,096	277.3%	\$490,963	-38.4%
TOTAL STATE SOURCES	\$11,235,149	\$11,420,546	-\$185,397	-1.6%	\$10,638,472	5.6%
Federal Grants	\$4,500,858	\$4,673,089	-\$172,231	-3.7%	\$4,994,147	-9.9%
TOTAL GRF SOURCES	\$15,736,007	\$16,093,635	-\$357,630	-2.2%	\$15,632,619	0.7%

* Tax estimates of the Office of Budget and Management as of September 2011.
**Liquor Transfers based on a report run in OAKS as of February 1, 2012.
Detail may not sum to total due to rounding.

REVENUES

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

Overview

January 2012 total GRF sources of \$2.39 billion were \$504.7 million (17.4%) below the estimates released by the Office of Budget and Management (OBM) in September 2011, due to a negative variance of \$551.7 million in nontax revenues. Anticipated payments of \$500 million related to the transfer of the state liquor franchise, and \$50 million related to the sale/leasing of prisons, did not occur during the month as projected by OBM. H.B. 153 of the 129th General Assembly, the operating budget act for the FY 2012-FY 2013 biennium, authorized the transfer of the state liquor operation to JobsOhio, a private not-for-profit entity created by H.B. 1 of the 129th General Assembly. In exchange for the state liquor franchise, OBM anticipates JobsOhio will pay a lump sum of \$1.4 billion, \$500 million of which will be deposited into the GRF this fiscal year. On January 30, 2012, the Controlling Board approved a series of agreements between the state and JobsOhio, thus moving forward the transfer process.

Tables 1 and 2 show GRF sources for the month of January and for FY 2012 through January, respectively. GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants, which are federal reimbursements for human service programs such as Medicaid that receive federal funding.

For the month of January, GRF tax revenues totaled \$1.92 billion, \$70.0 million above estimates. Through January, FY 2012 GRF tax revenues totaled \$10.89 billion, \$147.1 million above estimates. Major contributors to this positive variance include the sales and use tax, the personal income tax, and the commercial activity tax. Receipts from these three taxes were \$89.4 million, \$28.3 million, and \$15.6 million, respectively, above their year-to-date estimates.

Year-to-date GRF transfers in were \$222.1 million above estimate, due to reimbursement payments from the School District Tangible Property Tax Replacement Fund (Fund 7047) and the Local Government Tangible Property Tax Replacement Fund (Fund 7081). In November 2011, unanticipated temporary cash transfers totaling \$225.5 million, most of which has been transferred back, were made from the GRF to Fund 7047 and Fund 7081 to make payments to schools and local governments for tangible personal property tax losses.

January

GRF

sources

were

\$504.7 million

below

estimates

due largely

to a timing

issue.

Through

January,

FY 2012 tax

receipts

were

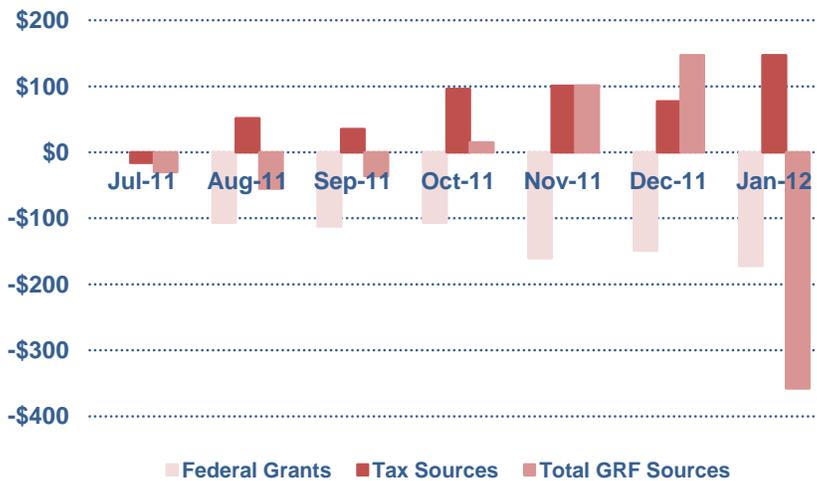
\$147.1 million

above

estimates.

Taking into account tax revenue, nontax revenue, and transfers in together, state-source receipts totaled \$11.24 billion, \$185.4 million below estimate. Year-to-date federal grants were \$4.50 billion, \$172.2 million below estimate, due largely to lower than expected expenditures in the Medicaid program (see the Expenditures section of this report). Year-to-date GRF sources as a whole totaled \$15.74 billion, \$357.6 million below estimate, though this negative variance is likely to reverse when JobsOhio's anticipated payment is received. The graph below shows the cumulative variances against estimate for federal grants, tax sources, and total GRF sources.

Cumulative Variances of GRF Sources in FY 2012
(Variance from Estimates, \$ in Millions)



Through January, FY 2012 federal grants were \$172.2 million below estimates.

FY 2012 year-to-date GRF sources increased \$103.4 million compared to receipts in the corresponding period in FY 2011. An increase of \$596.7 million in state-source receipts was partially offset by a decrease of \$493.3 million in federal grants.¹ The increase in state-source receipts was largely due to a gain of \$918.4 million in GRF tax receipts. Receipts from the personal income tax and the sales and use tax, the most important GRF tax sources, were above the previous year's levels, respectively, by \$343.5 million and \$251.6 million. The large year-over-year increase in tax receipts was due to the ongoing economic recovery and to changes in H.B. 153 to the allocation of tax receipts.²

Through January, FY 2012 tax receipts were \$918.4 million greater than such receipts in FY 2011.

¹ The American Recovery and Reinvestment Act of 2009 (ARRA) boosted FY 2011 federal grants, a portion of which was deposited in the GRF. ARRA revenues are no longer available, so that federal grants in FY 2012 are expected to be below the level of FY 2011.

² For an analysis of the fiscal impact of H.B. 153 tax changes in the first half of FY 2012, please see the Revenues section of last month's *Budget Footnotes*.

Personal Income Tax

Through January, FY 2012 GRF income tax receipts were \$28.3 million above estimates.

January GRF receipts from the personal income tax of \$973.2 million were \$46.0 million (5.0%) above estimate, and \$61.9 million (6.8%) above receipts in January 2011. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the Local Government Fund (LGF). Gross collections are the sum of employer withholding, quarterly estimated payments,³ trust payments, payments associated with annual returns, and miscellaneous payments.

In January, monthly employer withholding and quarterly estimated payments were above estimate, respectively, by \$9.4 million (1.2%) and \$17.3 million (5.3%). Also, refunds were below estimate by \$18.3 million (13.9%). For the year through January, the GRF received \$4.89 billion from the personal income tax, \$28.3 million above estimates. January's performance reversed a year-to-date shortfall of \$17.6 million at the end of December 2011. Fewer refunds and better than expected quarterly estimated payments were responsible for that positive variance, though receipts from employer withholding, the most important component of the personal income tax, were \$48.8 million below estimate. The table below summarizes FY 2012 income tax revenue variances from estimates and annual changes by component.

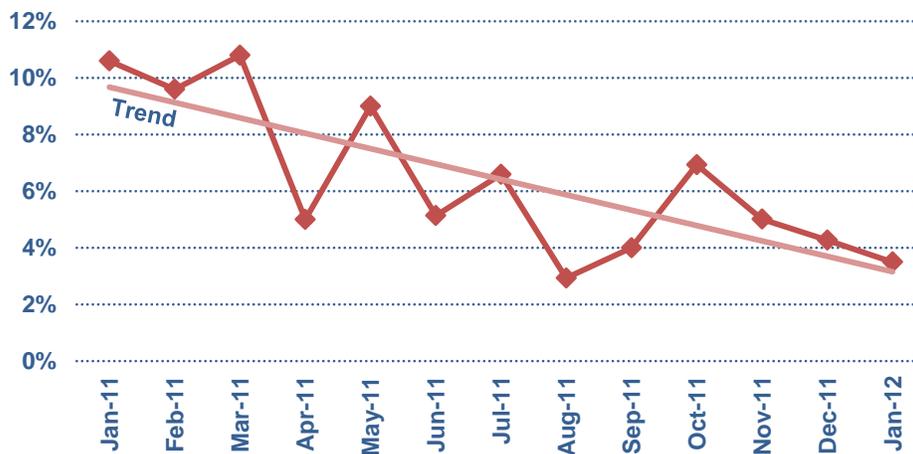
Through January, FY 2012 withholding receipts were \$48.8 million below estimates.

FY 2012 Year-to-Date Income Tax Revenue Variances and Changes by Component				
Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2011	
	Amount (\$ in millions)	Percentage (%)	Amount (\$ in millions)	Percentage (%)
Withholding	-\$48.8	-1.1%	\$199.1	4.6%
Quarterly Estimated Payments	\$27.8	3.7%	\$73.4	10.3%
Trust Payments	\$1.5	8.1%	\$3.8	23.3%
Annual Return Payments	\$12.2	9.2%	\$17.6	13.9%
Miscellaneous Payments	-\$0.5	-0.8%	\$0.9	1.5%
Gross Collections	-\$7.8	-0.1%	\$294.7	5.7%
Less Refunds	-\$38.8	-12.4%	-\$0.4	-0.1%
Less Local Government Fund Distribution	\$2.6	0.8%	-\$48.4	-12.5%
Income Tax Revenue	\$28.3	0.6%	\$343.5	7.6%

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. Most estimated payments are made by high-income taxpayers.

Through January, FY 2012 GRF receipts were \$343.5 million (7.6%) above receipts during the corresponding period in FY 2011. Gross collections increased \$294.7 million (5.7%). Revenues from employer withholding were \$199.1 million (4.6%) above receipts in this category last year. The graph below shows monthly changes, on a year-ago basis, in withholding receipts. Though the graph shows a downward trend in the growth rate, Ohio payrolls on this basis continue to expand. In the last three months, withholding growth was about 3.5%, on average, over the corresponding period in FY 2011. Quarterly estimated payments, the second most important income tax component, increased \$73.4 million (10.3%). Payments from annual returns increased \$17.6 million (13.9%). Distributions to the Local Government Fund were \$48.4 million below amounts in that category through January in FY 2011.

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



Sales and Use Tax

January GRF receipts from the sales and use tax of \$769.6 million were \$29.0 million (3.9%) above estimate and \$58.2 million (8.2%) above receipts in January 2011. Through January, FY 2012 GRF sales and use tax receipts totaled \$4.79 billion, \$89.4 million (1.9%) above estimate and \$251.6 million (5.5%) above receipts in the corresponding period last year. For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections⁴ generally

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.

Through January, FY 2012 employer withholding was \$199.1 million above similar receipts in FY 2011.

Through January, FY 2012 GRF sales and use tax receipts were \$89.4 million above estimates.

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.

Through January, GRF receipts from the nonauto sales and use tax were \$43.5 million above estimates.

Nonauto Sales and Use Tax

Monthly receipts from the nonauto sales and use tax were \$685.1 million, \$17.8 million (2.7%) above estimate, and \$47.0 million (7.4%) above January 2011 receipts. Through January, FY 2012 GRF nonauto sales and use tax receipts were \$4.20 billion. Those receipts were \$43.5 million (1.0%) above estimate, and \$205.9 million (5.2%) above receipts in the corresponding period in FY 2011. The nonauto sales and use tax base continues to expand, reflecting an improving economic environment. The graph below shows the trend in monthly receipts against prior-year receipts in the same month. In the last three months, nonauto sales and use tax receipts grew about 5.5% compared to the corresponding period in FY 2011.

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



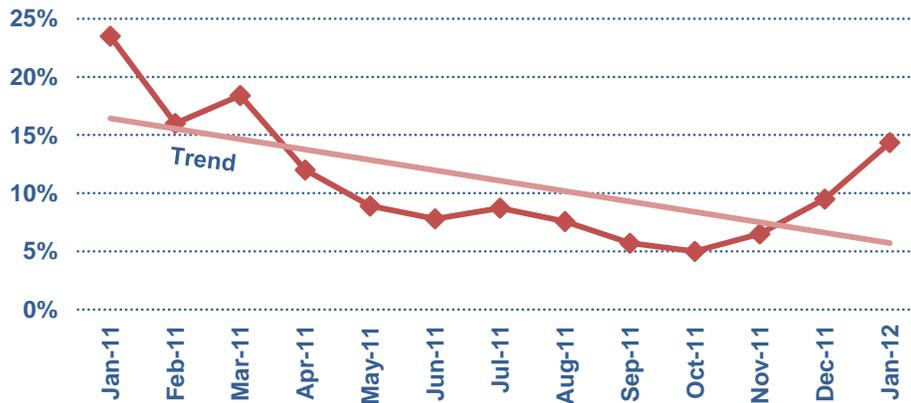
Through January, FY 2012 auto sales and use tax receipts were \$45.8 million above estimates.

Auto Sales and Use Tax

The auto sales and use tax continued its upward surge in January. GRF receipts of \$84.5 million were \$11.2 million (15.3%) above both estimate and January 2011 receipts. For the fiscal year, auto sales and use tax receipts to the GRF totaled \$595.7 million, \$45.8 million (8.3%) above estimate and \$45.7 million (8.3%) above receipts through January in FY 2011.

The graph below, which compares monthly auto sales and use tax receipts with year-ago receipts in the same period, shows a recent upward trend in the growth rate. In the last three months, growth has averaged 14.4% when compared to the corresponding period in FY 2011. The auto sales and use tax base is increasing due to higher unit sales and higher prices for both new and previously owned vehicles. January light vehicle sales (autos and light trucks) rose about 11% over a year ago to their fastest pace in nearly four years, excluding August 2009 when the federal "Cash for Clunkers" program boosted sales. Nationwide sales of light motor vehicles were at a 14.1 million unit seasonally adjusted annual rate, up from 13.5 million in December 2011.

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



Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax of \$66.2 million in January 2012 were \$1.2 million (1.7%) below estimate and \$4.1 million (5.9%) below receipts in the corresponding period in FY 2011.

Through January, FY 2012 receipts of \$444.8 million were \$5.8 million (1.3%) above estimates. Receipts from cigarette sales were \$414.4 million, and sales of products other than cigarettes provided \$30.4 million. Compared to FY 2011, total receipts were \$13.7 million (3.0%) below receipts in the corresponding period. Receipts from the sale of cigarettes decreased \$13.1 million and those from the sale of other tobacco products fell \$0.6 million. Generally, cigarette tax receipts experience a sustained downward trend on a year-ago basis.

Commercial Activity Tax

Through
January,
FY 2012
GRF CAT
receipts were
\$15.6 million
above
estimates.

January GRF receipts from the commercial activity tax (CAT) of \$12.6 million were \$3.1 million (33.0%) above estimate. CAT receipts to the GRF in FY 2012 totaled \$209.1 million, \$15.6 million (8.1%) above estimate. Overall, FY 2012 total (all funds) CAT receipts of \$852.8 million were \$98.0 million (13.0%) above receipts through January in FY 2011. The third payment for calendar quarterly CAT taxpayers is due in February.

Through FY 2011, revenues from the tax were not deposited into the GRF as they were fully earmarked for reimbursing school districts and other local governments for the reductions and phase-out of local taxes on most tangible personal property.

Table 3: General Revenue Fund Uses				
Preliminary Actual vs. Estimate				
Month of January 2012				
(\$ in thousands)				
(Actual based on OAKS reports run February 3, 2012)				
PROGRAM	Actual	Estimate*	Variance	Percent
Primary, Secondary, and Other Education	\$565,092	\$544,054	\$21,039	3.9%
Higher Education	\$162,203	\$165,990	-\$3,788	-2.3%
Total Education	\$727,295	\$710,044	\$17,251	2.4%
Public Assistance and Medicaid	\$915,926	\$984,846	-\$68,920	-7.0%
Health and Human Services	\$104,081	\$91,869	\$12,212	13.3%
Total Welfare and Human Services	\$1,020,007	\$1,076,715	-\$56,708	-5.3%
Justice and Public Protection	\$175,249	\$180,759	-\$5,510	-3.0%
Environment and Natural Resources	\$5,334	\$6,182	-\$848	-13.7%
Transportation	\$652	\$1,158	-\$505	-43.7%
General Government	\$17,140	\$18,945	-\$1,805	-9.5%
Community and Economic Development	\$5,878	\$5,818	\$60	1.0%
Capital	\$0	\$0	\$0	---
Total Government Operations	\$204,253	\$212,861	-\$8,608	-4.0%
Tax Relief and Other	\$4,991	\$5,204	-\$213	-4.1%
Debt Service	\$44,669	\$49,263	-\$4,594	-9.3%
Total Other Expenditures	\$49,659	\$54,467	-\$4,807	-8.8%
Total Program Expenditures	\$2,001,215	\$2,054,088	-\$52,873	-2.6%
TRANSFERS				
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers Out	\$4,088	\$19,437	-\$15,349	-79.0%
Total Transfers Out	\$4,088	\$19,437	-\$15,349	-79.0%
TOTAL GRF USES	\$2,005,303	\$2,073,525	-\$68,222	-3.3%
* September 2011 estimates of the Office of Budget and Management.				
<i>Detail may not sum to total due to rounding.</i>				

Table 4: General Revenue Fund Uses
Preliminary Actual vs. Estimate
FY 2012 as of January 31, 2012
(\$ in thousands)
(Actual based on OAKS reports run February 3, 2012)

PROGRAM	Actual	Estimate*	Variance	Percent	FY 2011	Percent Change
Primary, Secondary, and Other Education	\$4,095,049	\$4,085,792	\$9,258	0.2%	\$4,275,318	-4.2%
Higher Education	\$1,253,920	\$1,266,492	-\$12,572	-1.0%	\$1,440,910	-13.0%
Total Education	\$5,348,970	\$5,352,284	-\$3,314	-0.1%	\$5,716,228	-6.4%
Public Assistance and Medicaid	\$7,681,178	\$8,052,952	-\$371,774	-4.6%	\$7,023,410	9.4%
Health and Human Services	\$662,063	\$643,470	\$18,593	2.9%	\$712,454	-7.1%
Total Welfare and Human Services	\$8,343,241	\$8,696,422	-\$353,181	-4.1%	\$7,735,864	7.9%
Justice and Public Protection	\$1,124,272	\$1,184,551	-\$60,279	-5.1%	\$1,200,264	-6.3%
Environment and Natural Resources	\$47,774	\$47,658	\$116	0.2%	\$48,540	-1.6%
Transportation	\$5,918	\$7,278	-\$1,360	-18.7%	\$9,916	-40.3%
General Government	\$177,346	\$193,665	-\$16,319	-8.4%	\$172,854	2.6%
Community and Economic Development	\$59,108	\$63,700	-\$4,593	-7.2%	\$61,077	-3.2%
Capital	\$120	\$0	\$120	---	\$24	402.1%
Total Government Operations	\$1,414,538	\$1,496,852	-\$82,314	-5.5%	\$1,492,674	-5.2%
Tax Relief and Other	\$870,051	\$847,239	\$22,812	2.7%	\$846,682	2.8%
Debt Service	\$229,937	\$244,181	-\$14,244	-5.8%	\$325,909	-29.4%
Total Other Expenditures	\$1,099,987	\$1,091,420	\$8,568	0.8%	\$1,172,591	-6.2%
Total Program Expenditures	\$16,206,735	\$16,636,978	-\$430,242	-2.6%	\$16,117,358	0.6%
TRANSFERS						
Budget Stabilization	\$246,899	\$246,899	\$0	0.0%	\$0	---
Other Transfers Out	\$320,808	\$105,428	\$215,379	204.3%	\$995,113	-67.8%
Total Transfers Out	\$567,707	\$352,327	\$215,379	61.1%	\$995,113	-43.0%
TOTAL GRF USES	\$16,774,442	\$16,989,305	-\$214,863	-1.3%	\$17,112,471	-2.0%

* September 2011 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

Table 5: FY 2012 Medicaid Expenditures

(\$ in thousands)

(Actuals based on OAKS report run on February 7, 2012)

Medicaid (600525) Payments by Service Category	January				Year to Date			
	Actual	Estimate	Variance	Percent Variance	Actual thru Jan	Estimate thru Jan	Variance	Percent Variance
Managed Care Plans	\$580,429	\$590,009	-\$9,580	-1.6%	\$3,606,097	\$3,677,688	-\$71,591	-1.9%
Nursing Facilities	\$220,548	\$210,776	\$9,772	4.6%	\$1,439,522	\$1,469,244	-\$29,722	-2.0%
Hospitals	\$104,928	\$135,902	-\$30,974	-22.8%	\$725,530	\$857,913	-\$132,383	-15.4%
Prescription Drugs	\$42,489	\$52,177	-\$9,688	-18.6%	\$687,942	\$714,267	-\$26,325	-3.7%
Aging Waivers	\$44,257	\$51,222	-\$6,965	-13.6%	\$365,284	\$357,623	\$7,661	2.1%
ICFs/MR	\$45,969	\$47,683	-\$1,714	-3.6%	\$326,169	\$328,465	-\$2,296	-0.7%
ODJFS Waivers	\$28,576	\$33,130	-\$4,554	-13.7%	\$187,138	\$207,848	-\$20,710	-10.0%
Physicians	\$20,740	\$32,524	-\$11,784	-36.2%	\$160,995	\$203,881	-\$42,886	-21.0%
All Other	\$135,605	\$154,688	-\$19,083	-12.3%	\$937,296	\$979,138	-\$41,842	-4.3%
Total Payments	\$1,223,541	\$1,308,111	-\$84,570	-6.5%	\$8,435,973	\$8,796,066	-\$360,093	-4.1%
Total Offsets (non-GRF)	-\$392,540	-\$416,038	\$23,498	-5.6%	-\$1,359,607	-\$1,397,310	\$37,703	-2.7%
Total 600525 (net of offsets)	\$831,001	\$892,073	-\$61,072	-6.8%	\$7,076,366	\$7,398,756	-\$322,390	-4.4%
Medicare Part D (600526)	\$20,576	\$23,277	-\$2,701	-11.6%	\$137,912	\$159,242	-\$21,330	-13.4%
Total GRF	\$851,577	\$915,350	-\$63,773	-7.0%	\$7,214,278	\$7,557,998	-\$343,720	-4.5%
Total All Funds	\$1,244,117	\$1,331,388	-\$87,271	-6.6%	\$8,573,885	\$8,955,308	-\$381,423	-4.3%

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

Through January, FY 2012 GRF uses of \$16.77 billion were \$214.9 million below estimate.

Through January, FY 2012 GRF program expenditures totaled \$16.21 billion, \$430.2 million below the estimate released by the Office of Budget and Management (OBM) in September 2011. Year-to-date GRF transfers out totaled \$567.7 million, \$215.4 million above estimate. GRF uses as a whole were \$16.77 billion, \$214.9 million below estimate for the year to date. Tables 3 and 4 show GRF uses for the month of January and for FY 2012 through January, respectively.

Categories that had significant negative year-to-date variances include Public Assistance and Medicaid (\$371.8 million) and Justice and Public Protection (\$60.3 million). Categories that had significant positive year-to-date variances include Transfers Out (\$215.4 million) and Tax Relief and Other (\$22.8 million). The variance in Public Assistance and Medicaid will be discussed in the next section. The remainder of this section will briefly discuss the variances in the other three categories. For more information on these three categories' variances, see the January issue of *Budget Footnotes*.

The negative year-to-date variance in Justice and Public Protection was largely due to a higher than expected personnel vacancy rate related to the organizational restructuring in the departments of Rehabilitation and Correction (DRC) and Youth Services (DYS). Expenditures for DRC's two main appropriation items 501321, Institutional Operations, and 505321, Institution Medical Services, were \$21.0 million and \$18.2 million, respectively, below their year-to-date estimates. Year-to-date expenditures for the largest appropriation item in the DYS budget, 470401, RECLAIM Ohio, were \$5.0 million below estimate.

GRF transfers out will remain above estimate for the remainder of the fiscal year, due to unanticipated temporary GRF cash transfers made in November. However, the GRF has been partially reimbursed, by a total of \$180.7 million. The positive year-to-date variance in Tax Relief and Other reflects the fact that actual expenditures for the first of two annual property tax relief settlements were above the OBM estimate.

Public Assistance and Medicaid

Year-to-date GRF expenditures for Public Assistance and Medicaid totaled \$7.68 billion, \$371.8 million (4.6%) below estimate. Medicaid, including both state and federal shares, accounts for 94% of expenditures in this program category. Medicaid is mainly funded with the GRF but is also supported by various non-GRF funds. Table 5 details Medicaid GRF expenditures by service category and also summarizes Medicaid expenditures across all funds. Through January, FY 2012 Medicaid GRF expenditures totaled \$7.21 billion, which was \$343.7 million (4.5%) below estimate. Across all funds, year-to-date Medicaid expenditures amounted to \$8.57 billion, which was \$381.4 million (4.3%) below estimate.

As seen from Table 5, GRF expenditures were below their year-to-date estimates for all but one service category. Categories with significant negative year-to-date variances include Hospitals (\$132.4 million, 15.4%), Managed Care Plans (\$71.6 million, 1.9%), Physicians (\$42.9 million, 21.0%), and All Other (\$41.8 million, 4.3%). The implementation of the new Medicaid Information Technology System (MITS) in August 2011 appears to be the main reason behind these negative variances. According to the Ohio Department of Job and Family Services (ODJFS), the implementation of MITS is expected to produce some savings in several of the categories. In other words, expenditures for those categories are likely to be somewhat lower than estimates for the fiscal year. Compared with the prior payment system, MITS has built in a more comprehensive mechanism to properly reject payment claims that should be denied.

On the other hand, as with any major new information technology project, there exist programming issues in MITS that still need to be resolved. These programming issues have affected timing of certain payments. MITS has deemed many Medicaid eligible individuals ineligible for Medicaid, thus denying payments to various providers who have provided services to those individuals. For example, approximately 12,000 to 16,000 Aged, Blind, and Disabled (ABD) enrollees are not being recognized as eligible by MITS. Once these individuals' eligibility is "restored" in MITS, providers will be paid for their services. ODJFS is currently working on fixing the programming issues. It anticipates being able to provide, in the next few months, a clearer picture of how much of the negative year-to-date variances were actual savings resulting from MITS implementation and how much of those variances were due to timing. The eligibility programming issue has made year-to-date actual caseload data somewhat unreliable, which complicates the caseload and expenditure variance analysis. While some savings is expected, variances are likely to narrow significantly in many service categories in coming

Year-to-date
GRF
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below
estimate,
due partially
to timing.

months. For example, ODJFS expects expenditures for various waiver programs to be fairly close to estimates once the programming issues are fixed. Through January, expenditures for ODJFS Waivers were \$20.7 million (10.0%) below estimate.

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

ISSUE UPDATES

Ohio's Medicaid Program Awarded a \$21 million Performance Bonus

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

On December 28, 2011, the U.S. Department of Health and Human Services awarded Ohio a \$21 million performance bonus for successfully enrolling more children into the Medicaid Program in federal fiscal year (FFY) 2011. The enrollment increase was accomplished primarily through two program changes: easing the application process by eliminating the requirement for a face-to-face interview and guaranteeing continued coverage for at least one year. In FFY 2011, the number of children in Ohio with health insurance provided through Medicaid increased by about 55,000, or 4.8%. Ohio also received a bonus for FFY 2010 in the amount of \$12.4 million. Money from that performance bonus is being used to implement Medicaid modernization strategies and health care reform related programs. At this time, the state has not decided how it will use the \$21 million award.

Ohio Repays Federal Government \$533 million for Unemployment Benefits

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

In 2011, Ohio repaid the federal government a total of \$533 million for amounts the state borrowed to pay regular unemployment benefits. A payment of \$298 million was made in September followed by a payment of \$100 million in November and two payments totaling \$135 million in December. Payments were made from the state's Unemployment Compensation Trust Fund, as required by the federal government. Regular unemployment benefits are paid by the state for up to 26 weeks to individuals who lose their jobs through no fault of their own. Extended benefits, those beyond 26 weeks, are paid by the federal government.

The state's trust fund receives revenue from unemployment taxes paid by private employers. The balance in the fund peaked in August 2000, at \$2.42 billion, and gradually declined with unemployment benefits exceeding revenues in eight of the past ten years. Borrowing began in January 2009 when the fund was depleted. Ohio borrowed a total of \$2.61 billion from 2009 to 2011. At the beginning of calendar year 2012, Ohio's outstanding loan balance was \$2.08 billion.

Department of Rehabilitation and Correction Awards \$7.9 million in County Probation Improvement Grants

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

In January 2012, the Department of Rehabilitation and Correction (DRC) awarded 36 probation improvement and incentive grants totaling \$7.9 million to 28 county courts of common pleas. Of this total, \$6.5 million was awarded as program improvement grants to 25 courts; these recipients are eligible for additional incentive funding if they meet certain specified performance measures. The remaining \$1.4 million was awarded to 11 courts as one-time training and technology grants for improving the overall performance of county probation departments. These 36 grants are part of a \$10 million GRF-funded community corrections initiative designed to meet certain provisions of H.B. 86, the criminal sentencing and juvenile justice reform act of the 129th General Assembly. H.B. 86, which became effective September 30, 2011, requires DRC to establish probation improvement grants for county court of common pleas probation departments that supervise felony offenders. It also requires incentive grants to be awarded to the probation improvement grant recipients that have achieved the highest success in meeting specified performance measures, key among which is reducing the number of felony offenders whose terms of probation supervision are revoked. The remainder of that \$10.0 million – \$2.1 million – has been reserved for incentive funding.

The awarded money will be disbursed in quarterly payments, with the initial payment having been made in January. The table below lists the 28 counties in which courts of common pleas were awarded at least one grant. In addition, one multi-county project led by Franklin County will benefit two other counties (Delaware and Tuscarawas) while a second multi-county project led by Trumbull County will benefit another three counties (Ashtabula, Geauga, and Lake). Overall, the \$7.9 million in probation improvement and incentive grants will serve a total of 33 counties.

List of Counties Awarded Probation Improvement Grants			
Adams	Cuyahoga	Jefferson	Richland
Allen	Darke	Licking	Sandusky
Butler	Erie	Lucas	Scioto
Champaign	Franklin	Medina	Summit
Clark	Greene	Montgomery	Trumbull
Clermont	Hamilton	Morrow	Wayne
Columbiana	Hancock	Portage	Williams

Regents Recognizes First Graduating Choose Ohio First Scholars

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

On January 23, 2012, the Chancellor of the Board of Regents (BOR) recognized the first graduating scholars of the Choose Ohio First Scholarship Program in an event that also provided an opportunity for the scholars to network with potential employers. More than 500 scholarship recipients attended the event and about 430 of them are graduating in 2012, the fourth year of the program. The Choose Ohio First Scholarship Program promotes the study of science, technology, engineering, mathematics, and medicine subjects at Ohio's public and private institutions of higher education. It awards participating students scholarships ranging from \$1,500 to \$5,200 per student, per academic year. From the program's start in FY 2009 through FY 2011, approximately \$19.5 million in GRF funding was awarded to more than 4,400 recipients at 41 Ohio two-year and four-year institutions. Approximately 32% of scholars are from a racial or ethnic minority and 10% are nontraditional students. BOR indicates that the Choose Ohio First Scholarship Program will continue to expand, and in the 2012-2013 academic year, the program will include six additional institutions of higher education and 44 new degree programs.

Ohio Department of Education Awards \$500,000 in Shared Services Grants

—Michele Perch, Budget Analyst, 614-644-1262

On December 15, 2011, the Ohio Department of Education awarded \$500,000 in shared services grants to the Southeastern Ohio Regional Service Center Collaborative and the Interagency Shared Services Network of Southwest Ohio. These two groups are comprised of 11 educational service centers (ESCs)⁵ that serve a total of 80 school districts and about 527,000 students. The grants were funded in H.B. 153 through an earmark in GRF appropriation line item 200550, Foundation Funding, for a shared service pilot project involving at least two ESCs.

Under the shared services pilot project, school districts are expected to achieve cost efficiencies in transportation, information technology, and other areas. The southeast Ohio group plans to cut districts' transportation expenditures by up to \$5.0 million by expanding cooperative purchasing contracts, reducing maintenance facility costs, and merging bus routes for students who attend private and community schools. The southwest Ohio group will utilize shared bus routes for students with

⁵ ESCs partner with school districts to provide services such as supervisory and administrative support, gifted and special education, purchasing, and professional development, etc. There are 56 ESCs in Ohio.

disabilities and use a shared services approach to help districts implement the new teacher evaluation model established by H.B. 153. Districts served by both groups are expected to reduce expenditures related to computer purchases and other technology-related services. The participating ESCs are required to report, by September 1, 2013, any real or projected cost efficiencies through the pilot project.

In southeast Ohio, the counties covered by the pilot project are Athens, Belmont, Carroll, Coshocton, Gallia, Guernsey, Harrison, Hocking, Jefferson, Meigs, Monroe, Morgan, Muskingum, Noble, Perry, Tuscarawas, Vinton, and Washington counties. The southwest group serves Butler, Clermont, Hamilton, and Montgomery counties.

Review of Ohio's Year One RttT Implementation Was Mixed

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

On January 12, 2012, the U.S. Department of Education (USDOE) released a report⁶ on Ohio's progress in meeting its goals for the Race to the Top (RttT) grant program. The report assesses Ohio's Year One RttT Program by highlighting successes and accomplishments, identifying challenges, and providing lessons learned thus far from implementation. Currently, 471 local educational agencies (LEAs) in Ohio participate in RttT. RttT focuses on comprehensive education reform in four areas: standards and assessments, data systems to support instruction, great teachers and leaders, and turning around the lowest-achieving schools.

Accomplishments noted in the report include the provision of various supports to LEAs in implementing RttT plans, adoption of Common Core State Standards in English language arts and mathematics, revised standards for science and social studies, competitive grant awards made to LEAs to create and implement innovative models for school reform efforts, participation with LEAs and stakeholders to identify and validate requirements for a state standard instructional improvement system, development of principal and teacher evaluation systems, and progress in turning around the lowest-achieving schools. Also, the report indicates some success with lowering achievement gaps among various subgroups. On the other hand, the state did not meet targets for student proficiency in reading for grades four and eight nor was the target hit for proficiency in mathematics among fourth graders. However, the target was achieved for mathematics proficiency among eighth graders. The report indicated that transitions in leadership and key staffing positions at ODE resulted in delays for a number of RttT initiatives.

⁶ The full report is available on the USDOE's web site at <http://www2.ed.gov/programs/racetothetop/performance.html>. A similar year one progress report composed by the Ohio Department of Education (ODE) may be found on the ODE web site by searching for "Race to the Top progress report."

Ohio was awarded a four-year RttT grant totaling \$400 million. ODE plans for about half of the total to be used for statewide education reform work. The remaining half will be distributed as grants to participating LEAs. Since the program's start in FY 2011, about \$48.2 million has been disbursed while another \$32.7 million has been encumbered. About three-fourths of the amount disbursed (\$36.5 million) has been distributed as subsidy to the LEAs. Due to a slower than expected start, ODE will be working with USDOE to revise Ohio's RttT grant budget. The revised plan expects most of the grant money to be disbursed in the last two years of the four-year grant period.

Ohio Secretary of State Reports Increased Business Filings in 2011

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

The Ohio Secretary of State reported an increase in state business filings for calendar year (CY) 2011. Overall, 82,601 entities filed to conduct business in Ohio last year, an increase of 2,520 (3.2%) over total filings of 80,081 in CY 2010. While the number of overall filings increased, there was also an increase in the number of new business filings compared to the prior calendar year, up 237 (3.8%) to 6,463 in CY 2011. The articles of incorporation filing fee for a new business is \$125.

All business filing fees collected by the Secretary of State are deposited into the Business Services Fund (Fund 5990). Fund 5990 is used to support the Business Services Division of the Secretary of State's office, which consists of approximately 150 employees. In addition, the fund subsidizes a portion of the operating costs of the Elections Services Division of the Secretary of State's office. For FY 2012, Fund 5990 is being used to pay the salaries and fringe benefits of nine Elections Services Division employees for a total estimated payroll cost of \$675,000. Fund 5990 collected approximately \$14.1 million in filing fee revenue in FY 2010 and \$15.1 million in FY 2011.

Tax Commissioner Recommends Small Claims Process and Other Changes for Board of Tax Appeals

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

In November 2011, the Tax Commissioner issued a report recommending a number of changes to increase efficiency of the Board of Tax Appeals (BTA), along with temporary help from the staff of the Department of Taxation (TAX) in clearing out BTA's large case backlog. The report was required by H.B. 153, which also increases BTA's GRF budget by more than \$550,000 in FY 2012. The case backlog at BTA had

grown to 8,077 at the end of FY 2011, nearly triple the backlog three years earlier, due largely to the housing market downturn coupled with BTA budget cuts in FY 2010.⁷ Budget increases in H.B. 153 are expected to help, by allowing an increase in BTA staff. However, after a review of the operations of BTA, the Tax Commissioner concluded that "simply adding more employees will not correct the problem."

The report recommends that small claims appealed to BTA be handled separately from more complex cases, and that this process be established for all residential valuation cases. Small claims cases would involve no discovery phase, and would be decided by the hearing examiner, with no right of appeal and no precedential value. The report favors this small claims process as better serving taxpayers by allowing less complex cases to be resolved more efficiently. It projects that appeals of property valuations for tax purposes will continue to increase given the state of the housing market.

The report proposes a temporary Tax Commissioner Backlog Assistance Program, staffed by employees of TAX rather than BTA, to handle existing cases that would fit into the small claims category. This program would be aimed at reducing BTA's case backlog quickly, and would expire within two years after its establishment. Participation of appellants in this latter, alternative venue would be voluntary. Evidence at the hearing for each case would be limited to that presented at the local board of revision.

The report also recommends other efficiency enhancements, including increased use of technology, several changes in the ways that BTA manages cases, and new rules to standardize hearing procedures and documentation of boards of revision. The full report is available at: www.tax.ohio.gov.

Ohio EPA Awards Nearly \$340,000 in Environmental Education Grants

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

In late 2011, the Ohio Environmental Protection Agency's (EPA) Office of Environmental Education made ten General Grant Program awards totaling \$339,498 (see table below). Under this program, up to \$1 million is available annually to fund grants of up to \$50,000. These grants are awarded twice annually and the Ohio EPA expects to award another round of General Grants in the spring of 2012. The grants are paid from the Environmental Education Fund (Fund 6A10), which receives one-half of all civil penalties collected by Ohio EPA air and water pollution control programs. By statute, these funds are to be used to enhance public awareness and understanding of issues affecting environmental quality.

⁷ For more discussion on BTA's workload increases in recent years and budget cuts, see an Issue Updates article included in the March 2010 issue of *Budget Footnotes*.

In addition to the General Grant Program, Fund 6A10 also supports the Mini-Grant Program. Under this program, up to \$100,000 is available annually for projects lasting up to 12 months and costing between \$500 and \$5,000. In October 2011, ten Mini-Grant Program awards totaling \$42,813 were made; the Ohio EPA expects to award another \$50,000 in the spring of 2012. These two programs target three groups (the regulated community, the general public, and kindergarten through university students and faculty) and six priority areas: compliance assistance, community issues, environmental public health, standards-based education, career development, and environmental sustainability.

Winter 2011 Ohio Environmental Education General Grant Program Awards			
Grant Recipient	Counties Impacted	Program/Project	Grant Award
Grand Lake St. Mary's Community Improvement Corporation	Auglaize, Mercer	Grand Again Watershed Campaign	\$49,900
LBS Consultants	Belmont, Harrison, Jefferson, Monroe	Lead-Safe Work Practices	\$47,490
OSU Extension Office	Butler	Youth Scientists	\$46,585
Mill Creek Restoration	Hamilton	Green Careers & Urban Environments	\$46,000
Center of Science and Industry	Franklin	COSI on Wheels	\$41,648
Department of Rehabilitation and Correction	Fairfield	Green Prison	\$40,900
Talawanda High School	Butler	Healthy Water, Healthy People – Erik Sustainability Initiative	\$30,937
Delaware County Soil and Water Conservation District	Delaware	Worm's-Eye View of Soil Conservation	\$15,623
Little Beaver Creek Land Foundation	Columbiana	Rain Gardens	\$10,680
Kenyon College	Knox	Kokosing River Education Campaign	\$9,735
Total			\$339,498

Public Safety Awards Almost \$687,000 in Federal Law Enforcement Grants

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

In January 2012, the Department of Public Safety's Office of Criminal Justice Services granted 109 federal Edward Byrne Memorial Justice Assistance Grant – Law Enforcement (JAG-LE) awards totaling \$686,677.⁸ These awards fund projects that enhance local law enforcement in 56 different counties (see table below). Law enforcement agencies that are not eligible for direct federal funding are eligible for JAG-LE through the Department of Public Safety. Funding may be used for hiring and

⁸ A complete list of funded projects can be found at http://www.ocjs.ohio.gov/FY2011_JAG_LE_FundingDecisions.pdf.

training new law enforcement officers and necessary support personnel, paying overtime costs, and procuring equipment, computer technology, and other materials directly related to law enforcement functions.

Edward Byrne Memorial Justice Assistance Grant – Law Enforcement Awards by County							
County	Amount	County	Amount	County	Amount	County	Amount
Allen	\$10,000	Gallia	\$16,000	Madison	\$5,184	Preble	\$5,000
Ashtabula	\$4,000	Geauga	\$12,732	Mahoning	\$29,117	Putnam	\$14,000
Athens	\$8,385	Greene	\$6,750	Marion	\$7,500	Seneca	\$10,000
Auglaize	\$5,000	Hamilton	\$1,610	Medina	\$32,096	Shelby	\$8,000
Belmont	\$19,099	Harrison	\$15,000	Mercer	\$28,048	Stark	\$30,586
Carroll	\$2,700	Highland	\$10,000	Miami	\$10,000	Summit	\$26,895
Clermont	\$27,304	Hocking	\$13,776	Monroe	\$10,000	Trumbull	\$23,536
Crawford	\$11,880	Jackson	\$5,000	Montgomery	\$19,100	Tuscarawas	\$15,000
Cuyahoga	\$10,000	Jefferson	\$9,125	Morgan	\$10,000	Union	\$10,000
Delaware	\$2,500	Lake	\$13,100	Morrow	\$15,000	Warren	\$6,705
Erie	\$3,673	Lawrence	\$10,000	Muskingum	\$6,894	Washington	\$7,964
Fairfield	\$4,500	Licking	\$5,000	Paulding	\$10,000	Wayne	\$10,000
Franklin	\$22,420	Logan	\$13,600	Perry	\$15,000	Wood	\$9,621
Fulton	\$10,000	Lorain	\$13,747	Portage	\$20,000	Wyandot	\$4,530

TRACKING THE ECONOMY

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

Overview

Various indicators show the U.S. economy expanding at the start of 2012. Most notably, growth of nonfarm payroll employment picked up in January, and the nationwide average unemployment rate fell to 8.3%, the lowest in nearly three years. The pace of car and light truck sales rose in January. Industrial production rose in December, and purchasing managers surveyed said that activity at their organizations expanded further in January. Personal income rose in December, though due in part to one-time events. The new housing market remains weak, overall, but construction of apartments has increased. Fourth quarter growth of inflation-adjusted gross domestic product (real GDP) was 2.8% at an annual rate, in the initial estimate, the highest growth rate since the second quarter of 2010. Inflation nationwide has been very low in recent months. In Ohio, unemployment fell to 8.1% of the labor force in December, a three-year low, but payroll employment has trended lower, seasonally adjusted, since August.

Following its January meeting, the central bank's principal monetary policy setting group, the Federal Open Market Committee (FOMC), announced that it expected to keep the federal funds rate, the interest rate charged on overnight loans between banks, at "exceptionally low levels" through late 2014. Previously this guidance had extended through mid-2013. The Committee kept its federal funds target at zero to 0.25% and continued other programs aimed at supporting the economy. In a break with the past, the post-meeting announcement included additional details on FOMC members' expectations, saying that five members of the group (out of 17) forecast that the first firming of the federal funds target would take place in 2014, with fewer than five members expecting the first firming to occur in each of 2012, 2013, 2015, and 2016. The FOMC also set an explicit inflation target of 2%, measured by the annual rate of change in the personal consumption expenditures price index, and estimated a longer-run normal rate of unemployment centered on 5.2% to 6%. This latter range, however, was not a fixed target and was expected to vary over time.

Various indicators show the U.S. economy expanding at the start of 2012.

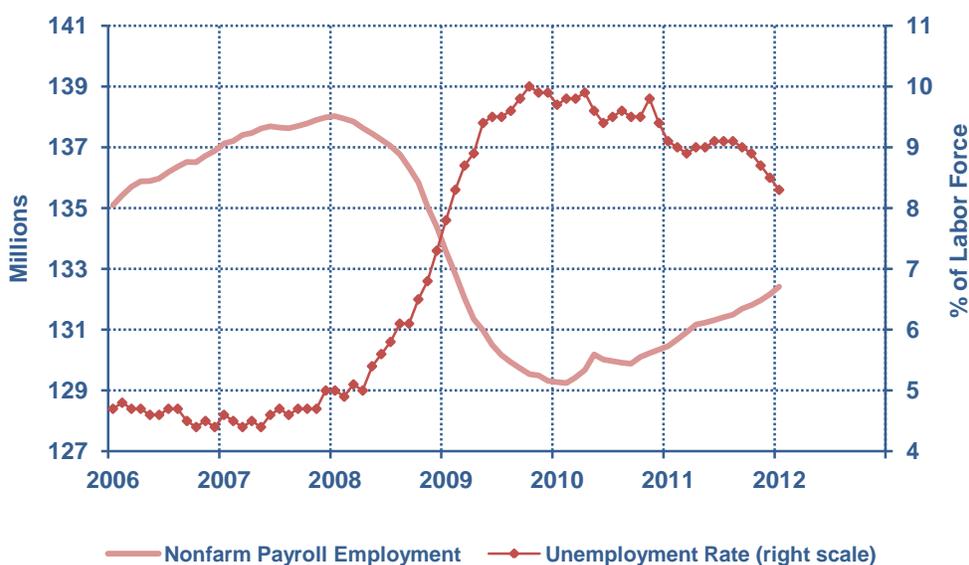
The National Economy

Employment and Unemployment

The U.S. unemployment rate declined to 8.3% in January.

Total employment on nonfarm payrolls in the U.S. rose by 243,000 (0.2%) from December to January and the unemployment rate declined from 8.5% in December to 8.3% in January, lowest since February 2009. The nonfarm payroll employment estimates were adjusted, in an annual benchmarking to a comprehensive count of payroll jobs as of March 2011, which with other changes resulted in an upward revision of the December 2011 total by 266,000 (0.2%). The current estimates of total nonfarm payroll employment and of the unemployment rate are shown in Chart 1.

Chart 1: U.S. Employment and Unemployment



The increase on total nonfarm payroll employment in January was up from an average monthly increase in 2011 of 152,000. Private-sector job growth was widespread in January, with the largest gains in professional and business services (70,000), manufacturing (50,000), and leisure and hospitality (44,000). Several other private-sector industry groups also added to employment. The number of government jobs fell by 14,000.

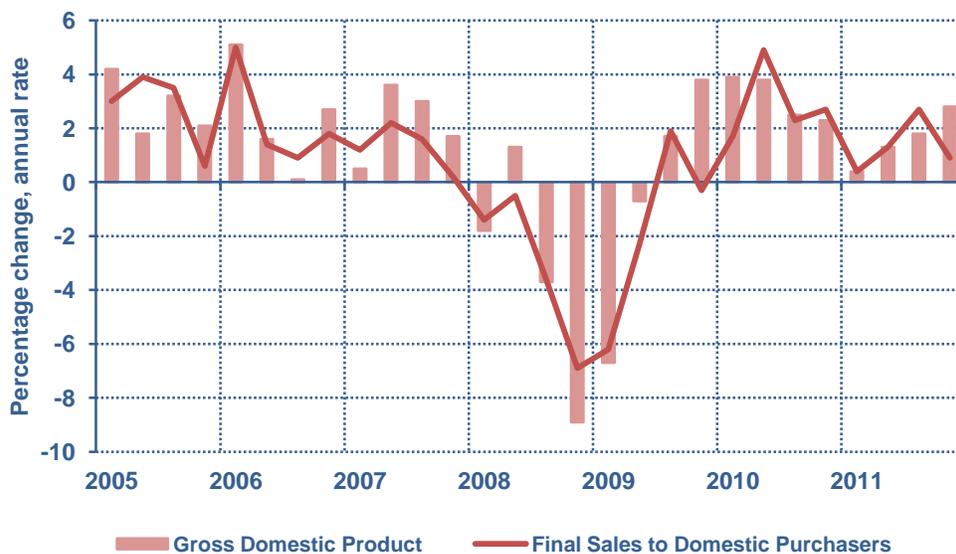
Since August of last year, the number of people counted as unemployed declined by about 1.2 million and the unemployment rate fell from 9.1%. Of the approximately 12.8 million unemployed in January, about 5.5 million had been out of work for more than six months.

Production, Shipments, and Inventories

Real GDP rose at a 2.8% annual rate in the fourth quarter, the strongest increase in this broad measure of U.S. production since the 2010 second quarter. An upturn in inventory building accounted for a substantial part of the increase. Real consumer spending grew at a 2.0% annual rate, reflecting a sharp rise in purchases of durable goods. Residential fixed investment rose more rapidly, while business spending on equipment and software grew more slowly and nonresidential fixed investment in structures fell. Government spending also fell at both the federal and the state and local levels. Trends in growth of real GDP and of real final sales to domestic purchasers are shown in Chart 2.

Real GDP
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2.8% annual
rate in the
fourth
quarter.

Chart 2: Real Gross Domestic Product and Related Measure



The industrial production index rose 0.4% in December, more than reversing a 0.3% decline in November, and was at its highest level since August 2008. Total industrial output in December was 14% higher than at the recession trough in June 2009 but remained 5% short of the all-time peak in September 2007. Manufacturing output rose 0.9% from November to December with similar gains in both durables and nondurables. Utility output fell in December, seasonally adjusted, as a result of unseasonably warm weather that limited demand for heating. Compared with a year earlier, production of consumer goods in December was 0.9% higher, with automotive products 12.5% higher and most other sectors registering only small increases or declines. Production of business equipment in December was 9.5% higher than a year earlier, with transit equipment particularly strong. Output of construction supplies in December was 4.6% higher than a year earlier.

In January, manufacturing activity expanded further, based on a survey of purchasing managers by the Institute for Supply Management (ISM). Factory new orders and production increased. Order backlogs rose after contracting in the previous seven months. Prices paid for inputs rose after falling in the previous three months. A comparable ISM survey of purchasing managers with organizations in industries other than manufacturing also showed continued expansion in January.

Consumer Spending

Personal income rose 0.5% in December, the largest increase since March, on gains in employee compensation, proprietors' income, dividends, and transfer payments.⁹ The rise in transfer payments reflected in part one-time payments resulting from recalculation of Social Security benefits for some recent retirees. Consumer spending, however, was flat in current dollars and declined 0.1% adjusted for inflation. The decline in real consumer spending in the latest month followed increases in the previous three months, with outlays for durable goods, nondurable goods, and services all lower in December than in November.

Sales of new light motor vehicles rose in January to a 14.1 million unit seasonally adjusted annual rate, 5% higher than the fourth quarter rate. January deliveries were at the highest pace since August 2009 when sales were boosted by the federal "Cash for Clunkers" Program, and before that since May 2008 and before. The strong January performance may be due to a further rise in sales to consumers, but may also have been boosted by deliveries to businesses.

A preliminary tally of early reports from large retailers that release their results monthly indicated that sales on a same-store basis were 4.8% higher in January than a year earlier, according to the International Council of Shopping Centers (ICSC) which tabulates the figures. ICSC characterized the gain as stronger than expected, and noted that sales at high-end stores continued to outpace other types of retailers, but said also that a more complete tally would likely show a smaller rise. Same-store sales include only locations open in both the current and year-earlier months, so exclude gains or losses from store openings or closings.

Sales of new light motor vehicles rose in January to a 14.1 million unit seasonally adjusted annual rate.

⁹ Personal transfer payments are mostly from government social benefit programs, including Social Security, Medicare, Medicaid, and others.

Construction and Real Estate

Housing starts declined 4% in December, seasonally adjusted, after a 9% rise the month before. In the 12 months of 2011, housing starts rose 3% from 2010, with single-family starts 9% lower, starts on units in two-to-four unit structures 5% lower, and starts on units in buildings with five or more units 60% higher than in the prior year.

Total construction spending in December rose 2% from November, seasonally adjusted, with gains in residential and nonresidential building activity and in public construction. The large increase may have resulted in part from mild weather during the month. For all of 2011, private residential construction declined 1% from the year before, private nonresidential construction rose 2%, and public construction fell 7%.

Inflation

The consumer price index was unchanged in December, after being unchanged in November and declining 0.1% in October. Reflecting earlier increases, the index was 3.0% higher in December than a year earlier. Food prices averaged 4.7% higher at the end of 2011 than a year earlier, consumer energy prices were 6.6% higher, and all items less food and energy were 2.2% higher.

The producer price index for finished goods declined 0.1% in December, after increasing 0.3% in November and declining 0.3% in October. Compared with its level a year earlier, the index was 4.8% higher, with food prices 6.1% higher, energy prices 8.4% higher, and average prices for all other finished goods 3.0% higher. At earlier stages in the production process, intermediate goods prices on average were 6.1% higher in December than a year earlier, and crude materials were 6.4% higher.

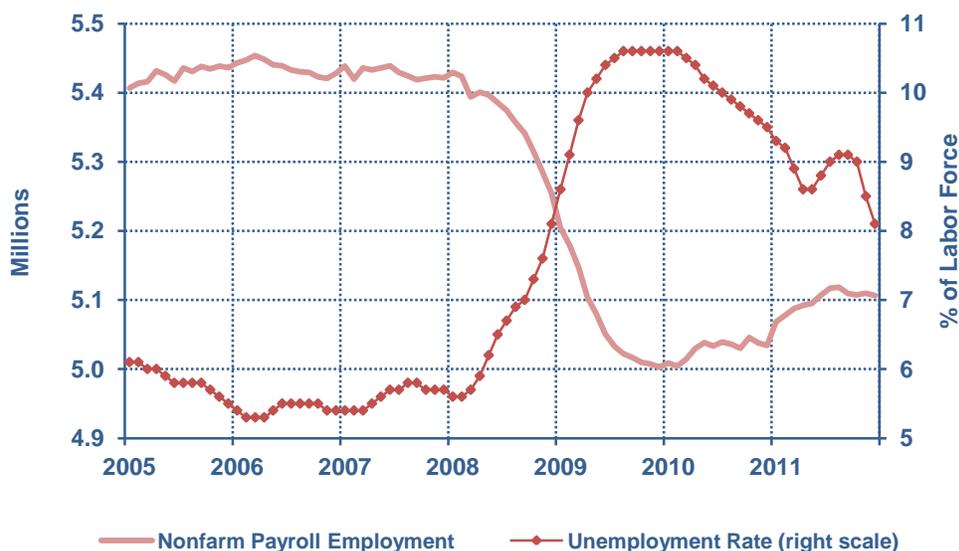
The Ohio Economy

Ohio's statewide unemployment rate fell to 8.1% in December, its lowest level in three years. The number of persons counted as unemployed declined to 469,000, lowest in more than three years but high relative to levels prior to the 2007-2009 recession. Total nonfarm payroll employment in the state declined 3,300 from November to December, but was 72,400 (1.4%) higher in December than a year earlier. Trends in Ohio nonfarm payroll employment and in the unemployment rate are shown in Chart 3.

The consumer price index was unchanged in December, after being unchanged in November and declining 0.1% in October.

Ohio's statewide unemployment rate fell to 8.1% in December, its lowest level in three years.

Chart 3: Ohio Employment and Unemployment



The economy in this region grew slowly in recent weeks, according to the Federal Reserve Bank of Cleveland's Beige Book section, a summary of reports from business and other outside contacts.¹⁰ Manufacturers' new orders and production were characterized as stable, with little change in demand expected in upcoming months. Single-family home building activity was said to be better with builders slightly more optimistic. Nonresidential construction activity was steady, mostly factory and health care projects. Reports on consumer spending through November indicated strong new-vehicle sales and mixed results for other retail lines. Freight transport volumes were expected to grow slowly in 2012. In the energy sector, shale gas extraction activity increased, but uncertainties regarding future drilling were noted because of low natural gas prices. Coal output was stable but may decline because of lower demand from Europe, competition from natural gas, and regulatory issues for utilities that burn coal.

Unit sales of homes in Ohio, reported by the Ohio Association of Realtors, were 6% higher in December than a year earlier. In all of 2011, unit sales were about unchanged from 2010. The average sales price of these homes was about \$127,800, 4% lower than in 2010.

¹⁰ The latest Beige Book was based on reports received on or prior to December 30. The area covered by the Federal Reserve Bank of Cleveland's report includes all of Ohio and adjacent areas of Kentucky, Pennsylvania, and West Virginia.