Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION APRIL 2010

STATUS OF THE GRF

HIGHLIGHTS

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

The outlook for economic recovery grew brighter this month with reports showing signs of a pickup in the labor market. Nationwide job gains of 162,000 in March and revisions to previously released job numbers suggest that nationwide employment may have bottomed out, though improvements in Ohio's labor market generally lag by several months. The unemployment rate will likely remain high for a while longer, due to projections that hiring will be somewhat lackluster in the near term.

GRF tax revenues were above estimate in March, and essentially on target through the first three quarters of the fiscal year. Income tax receipts in April, which could be as high as two-thirds of estimated total tax receipts for the month, will be crucial to the budget picture in the last quarter of FY 2010.

Through March 2010, GRF sources totaled $17.58 billion:

- Receipts from the income tax were $53.5 million below estimate;
- Receipts from the sales and use tax were $13.7 million above estimate.

Through March 2010, GRF uses totaled $19.80 billion:

- Program expenditures were below estimate by $184.7 million, due primarily to a negative spending variance in the Public Assistance and Medicaid category.

VOLUME 33, NUMBER 8

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

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

Telephone: (614)466-3615

Table 1: General Revenue Fund Sources
Preliminary Actual vs. Estimate
Month of March 2010
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on April 7, 2010)

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$76,289	$69,037	$7,252	10.5%
Nonauto Sales and Use	$434,309	$456,600	-$22,291	-4.9%
Total Sales and Use Taxes	$510,598	$525,637	-$15,039	-2.9%
Personal Income	$442,764	$423,500	$19,264	4.5%
Corporate Franchise	$53,416	$30,000	$23,416	78.1%
Public Utility	$1,056	$1,045	$11	1.0%
Kilowatt Hour Excise	$18,301	$20,000	-$1,699	-8.5%
Commercial Activity Tax**	$0	$0	$0	---
Foreign Insurance	$92,840	$96,004	-$3,164	-3.3%
Domestic Insurance	$48	$8	$40	484.9%
Business and Property	-$2	$7	-$9	-136.6%
Cigarette	$69,040	$75,603	-$6,563	-8.7%
Alcoholic Beverage	$4,229	$4,250	-$21	-0.5%
Liquor Gallonage	$2,708	$2,630	$77	2.9%
Estate	$1,101	$1,388	-$287	-20.7%
Total Tax Revenue	**$1,196,099**	**$1,180,072**	**$16,026**	**1.4%**
NONTAX REVENUE				
Earnings on Investments	$0	$0	$0	---
Licenses and Fees	$6,461	$8,250	-$1,789	-21.7%
Other Revenue	$531	$4,650	-$4,119	-88.6%
Total Nontax Revenue	**$6,992**	**$12,900**	**-$5,908**	**-45.8%**
TRANSFERS				
Liquor Transfers	$17,000	$12,000	$5,000	41.7%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$19,255	$70,300	-$51,045	-72.6%
Total Transfers In	**$36,255**	**$82,300**	**-$46,045**	**-55.9%**
TOTAL STATE SOURCES	**$1,239,345**	**$1,275,272**	**-$35,927**	**-2.8%**
Federal Grants	$70,365	$69,557	$808	1.2%
TOTAL GRF SOURCES	**$1,309,711**	**$1,344,829**	**-$35,118**	**-2.6%**

* Revised tax estimates of the Office of Budget and Management received March 2010.
**Commercial activity tax receipts in FY 2010 are non-GRF.
Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Preliminary Actual vs. Estimate
FY 2010 as of March 31, 2010
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on April 7, 2010)

	Actual	Estimate*	Variance	Percent	FY 2009	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$626,695	$583,912	$42,783	7.3%	$637,552	-1.7%
Nonauto Sales and Use	$4,621,054	$4,650,153	-$29,099	-0.6%	$4,739,022	-2.5%
Total Sales and Use Taxes	$5,247,749	$5,234,065	$13,684	0.3%	$5,376,575	-2.4%
Personal Income	$4,897,460	$4,950,999	-$53,539	-1.1%	$5,407,071	-9.4%
Corporate Franchise	$56,300	$64,000	-$7,699	-12.0%	$368,703	-84.7%
Public Utility	$89,125	$119,518	-$30,392	-25.4%	$122,494	-27.2%
Kilowatt Hour Excise	$125,848	$136,102	-$10,254	-7.5%	$110,666	13.7%
Commercial Activity Tax**	$0	$0	$0	---	$0	---
Foreign Insurance	$262,853	$262,207	$646	0.2%	$261,387	0.6%
Domestic Insurance	$1,295	-$929	$2,224	239.5%	-$865	249.8%
Business and Property	$281	$436	-$156	-35.7%	$379	-25.9%
Cigarette	$604,035	$572,629	$31,406	5.5%	$643,481	-6.1%
Alcoholic Beverage	$40,815	$42,515	-$1,700	-4.0%	$41,839	-2.4%
Liquor Gallonage	$27,420	$27,169	$251	0.9%	$26,986	1.6%
Estate	$27,010	$30,759	-$3,749	-12.2%	$32,287	-16.3%
Total Tax Revenue	**$11,380,192**	**$11,439,471**	**-$59,279**	**-0.5%**	**$12,391,001**	**-8.2%**
NONTAX REVENUE						
Earnings on Investments	$21,443	$38,000	-$16,557	-43.6%	$97,770	-78.1%
Licenses and Fees	$58,445	$53,404	$5,041	9.4%	$58,461	0.0%
Other Revenue	$160,562	$176,153	-$15,591	-8.9%	$53,497	200.1%
Total Nontax Revenue	**$240,449**	**$267,557**	**-$27,107**	**-10.1%**	**$209,728**	**14.6%**
TRANSFERS						
Liquor Transfers	$124,000	$110,000	$14,000	12.7%	$122,000	1.6%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$690,821	827,564	-$136,743	-16.5%	$494,202	39.8%
Total Transfers In	**$814,821**	**$937,564**	**-$122,743**	**-13.1%**	**$616,202**	**32.2%**
TOTAL STATE SOURCES	**$12,435,462**	**$12,644,592**	**-$209,130**	**-1.7%**	**$13,216,931**	**-5.9%**
Federal Grants	$5,146,220	$5,396,305	-$250,085	-4.6%	$5,164,831	-0.4%
TOTAL GRF SOURCES	**$17,581,681**	**$18,040,897**	**-$459,216**	**-2.5%**	**$18,381,762**	**-4.4%**

* Revised tax estimates of the Office of Budget and Management received March 2010.

**Commercial activity tax receipts in FY 2010 are non-GRF.

Detail may not sum to total due to rounding.

March GRF sources were $35.1 million below estimate.

Year-to-date GRF tax revenues were $59.3 million below estimate and $1.01 billion below FY 2009 receipts.

REVENUES

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

Overview

For the month of March 2010, total GRF sources of $1.31 billion were $35.1 million below estimate, but tax receipts were $16.0 million above estimate for the month.[1] The shortfall in GRF sources was due primarily to a deficit of $46.0 million in transfers in. The shortfall in March GRF sources increased the year-to-date negative variance, which stood at $424.1 million at the end of February, to $459.2 million. Tables 1 and 2 show GRF sources for the month of March and for FY 2010 through March, 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 that receive federal funding and grants from the American Recovery and Reinvestment Act of 2009.[2]

GRF tax sources of $1.20 billion in March were 1.4% above estimate, with two of the three tax primary sources below expectations. The sales tax and the cigarette tax were below estimate, respectively, by $15.0 million and $6.6 million. The personal income tax, however, was $19.3 million above projection. The corporate franchise tax was also above estimate, by $23.4 million. Tax sources below estimate also included the foreign insurance tax, by $3.2 million, and the kilowatt hour excise tax, by $1.7 million. Although tax sources were above estimate, nontax receipts and transfers in fell short of estimate by $51.9 million in March, resulting in a shortfall of $35.9 million in state-source receipts. Federal grants were essentially on target for the month.

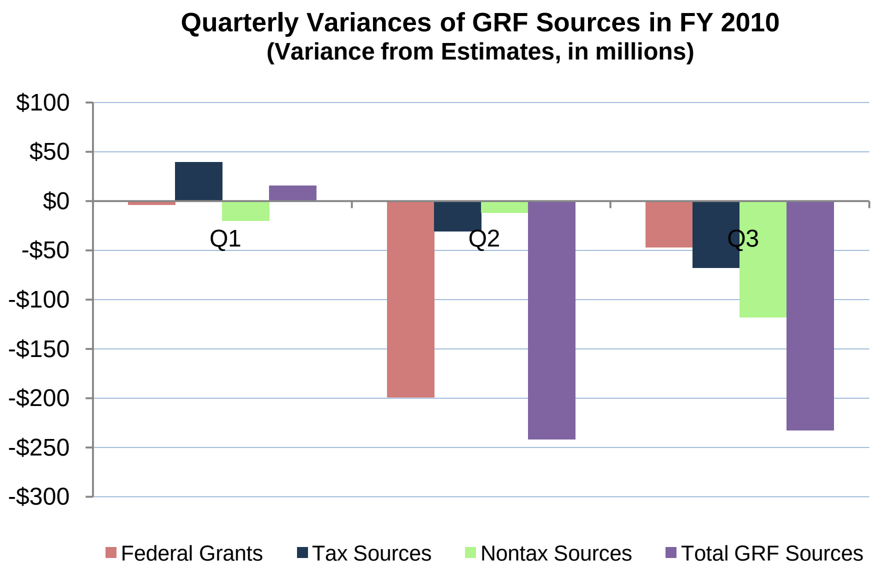
Through March, FY 2010 total GRF sources of $17.58 billion were 2.5% below estimate. All categories of GRF sources were below projections. Federal grants of $5.15 billion were below estimate by $250.1 million, due to lower than expected spending in Medicaid. State-source receipts of $12.44 billion were below estimate by $209.1 million, driven largely by $149.9 million in lower than expected revenues from

---

[1] The estimates for tax receipts, state-source receipts, and total GRF sources are revised estimates that the Office of Budget and Management reported to LSC in March. The estimates were revised to reflect additional personal income tax revenue from H.B. 318 which delayed the last of the income tax rate reductions enacted in H.B. 66 of the 126th General Assembly.

[2] The primary such programs are Medicaid and Temporary Assistance for Needy Families (TANF).

nontax sources and transfers in. The graph below shows the quarterly variances against estimate for federal grants, tax sources, nontax sources and transfers, and total GRF sources. After a relatively benign first quarter, results from the following two quarters were poor. The deficit in total GRF sources in the second quarter was driven largely by a shortfall in federal grants, while tax sources and nontax sources were largely responsible for the shortage in the third quarter of FY 2010. Transfers in posted a shortfall of $104.3 million (23.1%) in the latest quarter.



For FY 2010 year to date, tax sources above estimate were the cigarette tax ($31.4 million), the sales and use tax ($13.7 million), and the domestic insurance tax ($2.2 million). Tax sources below estimate included the personal income tax ($53.5 million), the public utility excise tax ($30.4 million), the kilowatt hour excise tax ($10.3 million), the corporate franchise tax ($7.7 million), the estate tax ($3.7 million), and the alcoholic beverage tax ($1.7 million).

Compared to FY 2009, FY 2010 year-to-date GRF sources fell $800.1 million. A decrease of $1.01 billion in tax receipts was partially offset by an increase of $229.3 million in nontax revenues and transfers in. Federal grants fell $18.6 million. Receipts from the personal income tax and the sales and use tax were below the levels of 2009, respectively, by $509.6 million and $128.8 million. Other taxes with notable year-to-year revenue variances included decreases of $312.4 million in corporate franchise tax receipts, $33.4 million in public utility excise tax receipts, $39.4 million in cigarette tax receipts, $5.3 million in estate tax receipts, and increases of $15.2 million in kilowatt hour excise tax receipts, $2.2 million in domestic insurance tax receipts, and $1.5 million in foreign

March income tax receipts were $19.3 million above estimate and $83.5 million above last year's levels.

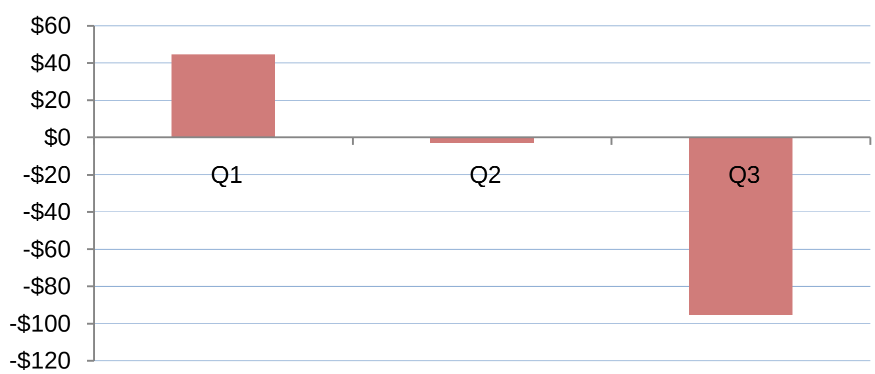
insurance tax receipts. The decline in receipts from the personal income tax and the corporate franchise tax were both due in significant part to tax changes made by H.B. 66 of the 126th General Assembly.

Personal Income Tax

March GRF receipts from the personal income tax of $442.8 million were $19.3 million (4.5%) above the revised estimate published in March 2010 and $83.5 million (23.2%) above receipts in March 2009. 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 increase in receipts for March 2010 compared to March 2009 was due to higher employer withholding (up $29.0 million) and lower refunds to taxpayers (down $41.4 million) this year.

March revenues reduced the FY 2010 year-to-date personal income tax negative variance of $72.8 million at the end of February, to $53.5 million. The graph below shows quarterly variances for the personal income tax through March 2010. First-half receipts were above estimates, but third-quarter shortfalls in quarterly estimated payments ($98.6 million) and employer withholding ($35.7 million) reversed the earlier positive variance.

Personal Income Tax Quarterly Variances in FY 2010
(Variance from Estimates, in millions)



[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.

Despite poor GRF income tax receipts in the third quarter, Ohio's labor market may be stabilizing. In the last two months, combined receipts from employer withholdings were about 1% above receipts in the February-March period last year.

FY 2010 Year-to-date Income Tax Revenue Variances and Changes by Component				
Category	Year-to-date Variance from Estimate		Year-to-date Changes from FY 2009	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	$12.9	0.2%	-$446.8	-7.9%
Quarterly Estimated Payments	-$106.2	-14.2%	-$240.9	-27.3%
Trust Payments	-$8.1	-31.9%	-$10.1	-36.7%
Annual Return Payments	-$12.5	-4.8%	-$20.9	-7.8%
Miscellaneous Payments	$21.2	39.4%	$21.2	39.4%
Gross Collections	-$92.8	-1.6%	-$697.5	-10.2%
Less Refunds	-$43.8	-5.2%	-$131.4	-14.0%
Less Local Government Fund Distribution	$4.6	1.0%	-$56.6	-10.9%
Income Tax Revenue	-$53.5	-1.1%	-$509.6	-9.4%

The table above summarizes FY 2010 income tax revenue variances from estimate and annual changes by component. Employer withholding (which accounted for about 75% of gross collections in FY 2009) were $12.9 million (0.2%) above estimate through March in FY 2010. Year-to-date withholdings were $446.8 million (7.9%) below FY 2009 receipts through March from both increasing unemployment and the final 4.2% reduction in tax rates enacted by H.B. 66 of the 126th General Assembly through December 2009. Quarterly estimated payments were $106.2 million (14.2%) below estimates and $240.9 million (27.3%) below FY 2009 estimated payments through March 2009.

April income tax collections are projected to be 19% of estimated FY 2010 GRF income tax receipts, as a large number of taxpayers pay the tax for tax year (TY) 2009 and the first quarterly estimated payment toward their TY 2010 income taxes. Income tax receipts are also estimated to be about two-thirds of total tax receipts in April 2010. Thus, the performance of this tax source in April will be critical to the fiscal health of the GRF in FY 2010.

Year-to-date nonauto sales tax receipts were $29.1 million below estimate.

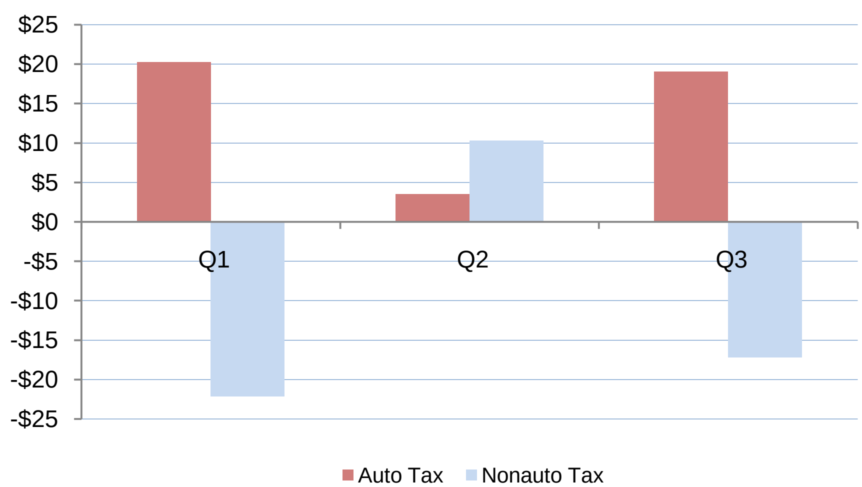
Sales and Use Tax

March 2010 GRF sales and use tax receipts of $510.6 million were $15.0 million (2.9%) below estimate and $20.0 million (4.1%) above receipts in March 2009. Through March, FY 2010 GRF receipts of $5.25 billion were $13.7 million (0.3%) above estimate, and $128.8 million (2.4%) below FY 2009 receipts in the same period.

For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[4] 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. The graph below shows quarterly variances from estimates for nonauto and auto sales taxes through March 2010. Positive variances from the auto sales tax more than offset weaknesses in the nonauto sales tax in the first and third quarters of FY 2010, while receipts from both tax sources were above estimate in the second quarter.

Year-to-date sales tax receipts were $13.7 million above estimate.

Sales and Use Tax Quarterly Variances in FY 2010
(Variance from Estimates, in millions)



Nonauto Sales and Use Tax

Nonauto sales and use tax receipts were $434.3 million in March 2010, $22.3 million (4.9%) below estimate and $18.2 million (4.4%) above March 2009 receipts. For the fiscal year, year-to-date nonauto sales and

[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.

use tax receipts of $4.62 billion were $29.1 million (0.6%) below estimate and $118.0 million (2.5%) below receipts through March in FY 2009. With three months remaining in the fiscal year, the persistent weakness of the nonauto sales and use tax remains a concern, primarily because of high unemployment, many people running out of unemployment benefits, and an Ohio labor market that has yet to turn up. FY 2010 receipts reflect the expansion of the tax this year to include payments for health care services provided by Medicaid health insuring corporations.[5] Excluding the revenue effects of that expansion, taxable spending this fiscal year would be below last year's taxable spending by about 5.1%.

Auto Sales and Use Tax

Auto sales and use tax receipts of $76.3 million in March 2010 were $7.3 million (10.5%) above estimate and $1.8 million (2.4%) higher than receipts in March 2009. Through March, FY 2010 auto sales and use tax receipts of $626.7 million were $42.8 million (7.3%) above estimate, but they were $10.9 million (1.7%) below receipts through March in FY 2009.

Auto sales tax receipts have been strong all year, even with a slight pull back in taxable sales in the second quarter (after the "cash for clunkers" federal incentive program of the first quarter of FY 2010). Third-quarter receipts from the auto tax suggest that the underlying demand for vehicles may be improving gradually, although Ohio taxable auto sales are still below last year's levels.

Year-to-date Cigarette tax receipts were about $31.4 million above estimate.

Cigarette and Other Tobacco Products Tax

Receipts from the tax on cigarettes and other tobacco products were $69.0 million, $6.6 million (8.7%) below estimate and $12.5 million (15.4%) below March 2009 receipts. Through March, FY 2010 receipts of $604.0 million were $31.4 million (5.5%) above estimate and $39.4 million (6.1%) below FY 2009 receipts through March 2009. Receipts from cigarette sales were $567.4 million. Sales of products other than cigarettes provided $36.6 million. Compared to FY 2009, receipts from the sale of cigarettes declined $45.7 million (7.5%) and those from the sale of other tobacco products increased $6.3 million (20.7%). Receipts from the cigarette and other tobacco products tax are the third largest tax revenue source in FY 2010, after the personal income tax and the sales and use tax.

[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.

Year-to-date CFT receipts were about $7.7 million below estimate.

Corporate Franchise Tax

As part of the five-year phase-out of the corporate franchise tax (CFT) that was enacted by H.B. 66 of the 126th General Assembly, the CFT for nonfinancial corporations has been eliminated, and the tax is now a tax on the net worth of financial institutions. The second major tax payment by financial institutions, due March 31, 2010, provided CFT receipts of $53.4 million in March 2010. Those receipts were $23.4 million (78.1%) above estimate. Through March, FY 2010 CFT receipts were $56.3 million, $7.7 million (12.0%) below estimate. Comparisons with monthly receipts in the previous fiscal year are not meaningful.[6] The last major CFT tax payment is due May 31.

CAT receipts were below estimate by $106.1 million through March in FY 2010.

Commercial Activity Tax

As part of the five-year phase-in of the commercial activity tax (CAT) that was enacted by H.B. 66 of the 126th General Assembly, FY 2010 is the first year in which CAT taxpayers pay 100% of their tax liability. According to OBM, March receipts of $10.9 million were $5.4 million (33.2%) below estimate and $1.8 million (14.2%) below receipts in March 2009. FY 2010 year-to-date receipts of $996.5 million were $106.1 million (9.6%) below estimate and $39.7 million (4.1%) above FY 2009 receipts through March. The shortfall in CAT receipts has affected temporary transfers into the GRF, especially in the third quarter of FY 2010. The last major tax payment is due May 2010, but it is certain this tax will finish the year below expectations.

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.

[6] A large portion of the CFT tax base has been eliminated by the phase-out. In tax year 2008, the tax liability of financial institutions was less than 10% of total CFT tax liability (before credits and reduction factors from H.B. 66).

Table 3: General Revenue Fund Uses
Preliminary Actual vs. Estimate
Month of March 2010
($ in thousands)
(Actual based on OAKS reports run April 8, 2010)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary, Secondary, and Other Education	$350,253	$306,339	$43,914	14.3%
Higher Education	$191,876	$190,437	$1,440	0.8%
Total Education	$542,129	$496,775	$45,354	9.1%
Public Assistance and Medicaid	$529,762	$540,513	-$10,752	-2.0%
Health and Human Services	$47,907	$45,490	$2,418	5.3%
Total Welfare and Human Services	$577,669	$586,003	-$8,334	-1.4%
Justice and Public Protection	$147,781	$156,216	-$8,435	-5.4%
Environment and Natural Resources	$4,267	$3,939	$328	8.3%
Transportation	$1,022	$680	$342	50.3%
General Government	$42,216	$46,442	-$4,226	-9.1%
Community and Economic Development	$17,474	$6,013	$11,462	190.6%
Capital	$0	$0	$0	---
Total Government Operations	$212,760	$213,289	-$529	-0.2%
Tax Relief and Other	$71,522	$163,849	-$92,328	-56.3%
Debt Service	$56,953	$67,345	-$10,392	-15.4%
Total Other Expenditures	$128,475	$231,195	-$102,720	-44.4%
Total Program Expenditures	**$1,461,032**	**$1,527,261**	**-$66,229**	**-4.3%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$1,218	$0	$1,218	---
Total Transfers Out	$1,218	$0	$1,218	---
TOTAL GRF USES	**$1,462,250**	**$1,527,261**	**-$65,012**	**-4.3%**

* September 2009 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 2010 as of March 31, 2010
($ in thousands)
(Actual based on OAKS reports run April 8, 2010)

PROGRAM	Actual	Estimate*	Variance	Percent	FY 2009	Percent Change
Primary, Secondary, and Other Education	$5,241,146	$5,124,307	$116,839	2.3%	$5,477,848	-4.3%
Higher Education	$1,858,633	$1,845,219	$13,414	0.7%	$2,000,914	-7.1%
Total Education	$7,099,779	$6,969,526	$130,253	1.9%	$7,478,762	-5.1%
Public Assistance and Medicaid	$7,696,552	$8,019,854	-$323,302	-4.0%	$8,743,254	-12.0%
Health and Human Services	$781,004	$775,705	$5,299	0.7%	$927,777	-15.8%
Total Welfare and Human Services	$8,477,556	$8,795,559	-$318,003	-3.6%	$9,671,031	-12.3%
Justice and Public Protection	$1,488,684	$1,541,565	-$52,881	-3.4%	$1,665,916	-10.6%
Environment and Natural Resources	$68,184	$65,430	$2,754	4.2%	$77,830	-12.4%
Transportation	$13,804	$12,351	$1,453	11.8%	$16,145	-14.5%
General Government	$238,567	$250,057	-$11,490	-4.6%	$307,438	-22.4%
Community and Economic Development	$87,240	$71,698	$15,541	21.7%	$119,181	-26.8%
Capital	$330	$0	$330	---	$288	14.8%
Total Government Operations	$1,896,809	$1,941,102	-$44,293	-2.3%	$2,186,798	-13.3%
Tax Relief and Other	$964,038	$895,034	$69,004	7.7%	$842,633	14.4%
Debt Service	$334,300	$355,961	-$21,661	-6.1%	$519,034	-35.6%
Total Other Expenditures	$1,298,338	$1,250,994	$47,344	3.8%	$1,361,667	-4.7%
Total Program Expenditures	**$18,772,481**	**$18,957,181**	**-$184,699**	**-1.0%**	**$20,698,257**	**-9.3%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers Out	$1,026,345	$969,343	$57,002	5.9%	$847,768	21.1%
Total Transfers Out	$1,026,345	$969,343	$57,002	5.9%	$847,768	21.1%
TOTAL GRF USES	**$19,798,827**	**$19,926,524**	**-$127,697**	**-0.6%**	**$21,546,026**	**-8.1%**

* September 2009 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

Table 5: Medicaid Spending in FY 2010
($ in thousands)

Medicaid (600525) Payments by Service Category	March Actual	March Estimate	March Variance	March Percent Variance	Year to Date Actual thru March	Year to Date Estimate thru March	Year to Date Variance	Year to Date Percent Variance
Nursing Facilities	$212,232	$208,761	$3,471	1.7%	$2,002,998	$2,046,914	-$43,916	-2.1%
ICFs/MR	$41,592	$41,632	-$40	-0.1%	$404,559	$406,676	-$2,117	-0.5%
Inpatient Hospitals	$117,964	$102,173	$15,791	15.5%	$805,870	$839,702	-$33,832	-4.0%
Outpatient Hospitals	$43,529	$39,243	$4,286	10.9%	$316,547	$316,694	-$147	0.0%
Physicians	$34,051	$35,779	-$1,728	-4.8%	$252,256	$273,385	-$21,129	-7.7%
Prescription Drugs	$152,390	$175,546	-$23,156	-13.2%	$476,168	$560,340	-$84,172	-15.0%
ODJFS Waivers	$30,656	$33,235	-$2,579	-7.8%	$248,175	$269,684	-$21,509	-8.0%
MCP	$401,688	$417,464	-$15,776	-3.8%	$3,939,668	$4,006,910	-$67,242	-1.7%
All Other	$134,206	$131,236	$2,970	2.3%	$1,061,460	$1,081,163	-$19,703	-1.8%
DA Medical	$12	$60	-$48	-80.0%	$3,446	$5,145	-$1,699	-33.0%
Total Payments	$1,168,320	$1,185,129	-$16,809	-1.4%	$9,511,147	$9,806,613	-$295,466	-3.0%
Non-GRF Offsets	-$726,650	-$731,909	$5,259	-0.7%	-$2,645,287	-$2,681,302	$36,015	-1.3%
Total 600525 (net of offsets)	$441,670	$453,220	-$11,550	-2.5%	$6,865,860	$7,125,311	-$259,451	-3.6%
Medicare Part D (600526)	$0	$22,493	-$22,493	-100.0%	$173,855	$199,623	-$25,768	-12.9%
Total GRF	**$441,670**	**$475,713**	-$34,043	**-7.2%**	**$7,039,715**	**$7,324,934**	-$285,219	**-3.9%**
Total All Funds	**$1,168,320**	**$1,207,622**	-$39,302	**-3.3%**	**$9,685,002**	**$10,006,236**	-$321,234	**-3.2%**

Sources: Actuals based on OAKS reports run on April 7, 2010
Estimates from the Ohio Department of Job and Family Services

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

EXPENDITURES

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

For the first nine months of FY 2010, GRF uses were $127.7 million below estimate.

Overview

Tables 3 and 4 show GRF uses for the month of March and for FY 2010 through March, respectively. For March, GRF uses of $1.46 billion were $65.0 million (4.3%) below estimate. For the first nine months of FY 2010, GRF uses of $19.80 billion were $127.7 million (0.6%) below estimate. GRF uses consist primarily of program expenditures and also include transfers out. Through March, GRF program expenditures totaled $18.77 billion, which was $184.7 million (1.0%) below estimate, and transfers out totaled $1.03 billion, which was $57.0 million (5.9%) above estimate. Variances in transfers out are often due to timing. They generally resolve themselves as the fiscal year ends.

Year-to-date variances differ substantially from one program category to another. Program categories with expenditures significantly lower than their estimates include Public Assistance and Medicaid ($323.3 million), Justice and Public Protection ($52.9 million), Debt Service ($21.7 million), and General Government ($11.5 million). Together, these four program categories had a combined negative variance of $409.4 million, which was partially offset by a combined positive variance of $214.7 million in Primary, Secondary, and Other Education ($116.8 million), Tax Relief and Other ($69.0 million), Community and Economic Development ($15.5 million), and Higher Education ($13.4 million).

Year-to-date Medicaid expenditures were $285.2 million below estimate.

Negative Variances

Through March, GRF expenditures for Public Assistance and Medicaid were $323.3 million (4.0%) below estimate, of which $285.2 million occurred in Medicaid. Year-to-date GRF expenditures for Medicaid totaled $7.04 billion, which accounts for 91.4% of the $7.70 billion program expenditures for Public Assistance and Medicaid. Table 5 details Medicaid expenditures by service category.

As seen from Table 5, expenditures for all Medicaid service categories were below their year-to-date estimates. This is primarily due to lower than expected overall costs per person. Through March, FY 2010 GRF expenditures for Medicaid were 3.9% below estimate. Categories with significant negative variances include Prescription Drugs ($84.2 million), Managed Care Plans ($67.2 million), Nursing Facilities ($43.9 million), and Inpatient Hospitals ($33.8 million). In addition, year-to-date expenditures for Medicare Part D payments were

$25.8 million below estimate. These payments, referred to as "clawback" payments, are the states' share of the cost of Medicare prescription drug coverage for individuals eligible for both Medicare and Medicaid (dual eligibles).

The month of March contributed $23.2 million to the $84.2 million year-to-date negative variance in Prescription Drugs. To maximize rebates from drug manufacturers, prescription drugs that were previously included in Medicaid managed care plans are now "carved-out" of managed care plans and paid separately by the Ohio Department of Job and Family Services (ODJFS). March was the first month that this carve-out plan was fully implemented. The $25.8 million year-to-date negative variance in Medicare Part D was almost entirely due to a $22.5 million negative variance in March. No payments were made for Medicare Part D in March, which was likely due to the recent federal action that reduced the state's Medicare Part D payments. The reduced payments apply to the period of October 1, 2008 through December 31, 2010. States have the flexibility to realize the savings immediately (to offset the March 8 invoice or prior invoices that have not yet been paid) or wait until a subsequent period. Ohio's payments will be reduced by a total of $151.5 million. Overall, GRF Medicaid expenditures for the month of March totaled $441.7 million, which was $34.0 million (7.2%) below estimate.

GRF funding for Medicare Part D will be reduced by $151.5 million for the period of October 1, 2008 through December 31, 2010.

Non-Medicaid expenditures in the Public Assistance and Medicaid category were $38.1 million below estimate for the year to date. Appropriation line items with significant negative variances include 600521, Entitlement Administration-Local ($14.4 million), 600511, Disability Financial Assistance ($14.2 million), 600533, Child, Family, and Adult Community & Protective Services ($11.8 million), and 600321, Support Services ($8.8 million). These negative variances were partially offset by a year-to-date positive variance of $19.1 million in line item 600413, Child Care Match/Maintenance of Effort. All of these line items are in the budget of ODJFS. Item 600521 is used to advance to counties the state's share of administrative expenses incurred by counties for Medicaid, Food Assistance, and Disability Assistance programs. Item 600511 is used to provide cash assistance to certain persons who are unemployable due to a physical or mental impairment. Item 600533, which was created in H.B. 1, is used to help individuals maintain self-sufficiency by providing various home and community-based services to certain at-risk individuals. Item 600321 is the primary source of GRF funding for operating expenses of ODJFS. Finally, item 600413 is used in conjunction with other line items for publicly funded child care

Timing issues are the main contributing factors to the year-to-date positive variances in Primary, Secondary, and Other Education and Tax Relief and Other.

expenditures. Expenditures from this item are counted towards the state maintenance of effort required for certain federal funding.

The Justice and Public Protection program category expenditures were below their year-to-date estimate by $52.9 million (3.4%). Of this amount, $43.2 million occurred in the Department of Rehabilitation and Correction (DRC) and $8.3 million in the Department of Youth Services (DYS). DRC's medical service line item (505321) and mental health service line item (502321) contributed a combined $40.9 million of DRC's total year-to-date negative variance. As noted in previous issues of *Budget Footnotes*, the medical services expenditures on behalf of the inmate population were lower than anticipated because of less work being done on a contract basis. RECLAIM Ohio (item 470401), contributed $4.4 million to DYS's $8.3 million year-to-date negative variance. This item is used to provide institutional placement and community program services to youth who have been convicted of a felony offense and to any other delinquent child.

The Debt Service program category expenditures were $21.7 million (6.1%) below their year-to-date estimate. It is not unusual to see variances in this program category as debt service payments are somewhat dependent on the timing of bond issuances. Line items within this program category provide debt service payments for general obligation bonds issued to fund programs such as K-12 school facilities assistance and higher education instructional facilities construction and renovation.

Year-to-date expenditures for the General Government program category were $11.5 million (4.6%) below estimate, of which $5.2 million occurred in the Department of Administrative Services, the largest agency within this category. The General Government program category also includes all elected statewide offices except the Attorney General's Office, the Office of Budget and Management, the Department of Taxation, and all legislative agencies.

Positive variances

The Primary, Secondary, and Other Education program category increased its year-to-date positive variance from $72.9 million in February to $116.8 million (2.3%) on account of March expenditures that were $43.9 million (14.3%) above the monthly estimate. The Tax Relief and Other program category also remained above its year-to-date estimate by $69.0 million (7.7%), but this variance narrowed considerably as compared to the prior month because March expenditures for this category were $92.3 million (56.3%) below the monthly estimate. As reported in prior issues of *Budget Footnotes*, both of these variances are largely attributable to timing issues, and are expected to narrow as the fiscal year draws to a close. The positive variance in Primary, Secondary, and Other Education, for example, was mainly related to school foundation payments. According to the March payment reports calculated by the Department of Education, FY 2010 foundation payments will total $6.80 billion for schools, which is essentially on par with the estimates used for making appropriations in H.B. 1.

Two other program categories with expenditures that were significantly higher than their year-to-date estimates were Community and Economic Development ($15.5 million or 21.7%) and Higher Education ($13.4 million or 0.7%). The former was largely due to the Cultural Facilities Commission's line item 371401, Lease Rental Payment; a payment of $11.6 million from this item was made in March instead of April as originally planned. The Ohio College Opportunity Grant (OCOG), the state's need-based student financial aid program, contributed $10 million to Higher Education's $13.4 million year-to-date positive variance.

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

ISSUE UPDATES

Motion Picture Tax Credit Begins Inaugural Year

—Russ Keller, Economist, 614-644-1751

Through March, the Department of Development has determined that six Ohio movie productions are eligible for a total of $8.4 million in motion picture tax credit certificates, which were created in H.B. 1. The table below shows estimated tax credit awards for each of the six eligible films. According to the Department, these six films employ nearly 3,300 Ohioans and will bring roughly $30 million in economic activity to the state. Actual motion picture tax credit certificates will be issued only *after* production is complete and expenses are independently certified. Upon issuance, the certificate may be applied against any corporate franchise tax or personal income tax liabilities. The Department anticipates issuing actual tax credit certificates for these six films before the close of FY 2010.

H.B. 1 limited the total value of all motion picture tax credits awarded for the FY 2010-FY 2011 biennium to $30 million, of which not more than $10 million may be allowed in FY 2010. Moreover, no single production may be awarded a tax credit greater than $5 million. Although the credit is refundable, it is not transferrable. According to the Department's proposed administrative rules, an applicant must pay a nonrefundable application fee equal to the lesser of $10,000 or 0.5% of the estimated value of the tax credit. The application fees are deposited into the Motion Picture Tax Credit Program Operating Fund and used to help defray the administrative costs incurred by the Department in administering the tax credit program.

Motion Picture Tax Credit Awards, FY 2010	
Title of Production	**Estimated Tax Credit ($ in millions)**
Unstoppable	$3.8
Cleopatra Smiles	$0.7
Strangeland 2	$1.3
The Kid Who Only Hit Homers	$1.2
Life After	$1.2
25 Hill	$0.2
Total	**$8.4**

Waiting List for Community-Based, Long-Term Care Services Eliminated

—Wendy Risner, Senior Budget Analyst, 614-644-9098

On March 8, the Controlling Board approved a request by the Ohio Department of Aging (ODA) to increase appropriations by $43.8 million to eliminate the waiting list for community-based, long-term care services and provide such services to an additional 375 individuals each month through the remainder of FY 2010. As of the end of February, there were 503 individuals on the waiting list: 454 for PASSPORT, 39 for Assisted Living, and ten for the Program of All-Inclusive Care for the Elderly (PACE). To eliminate this waiting list, appropriations in line items 490610, PASSPORT/Residential State Supplement, and 490623, Long Term Care Budget, were increased by $4.8 million and $39 million, respectively. These increases were supported by funds transferred from the Department of Job and Family Services and the additional federal Medicaid reimbursement generated from the services to be provided.

The PASSPORT Program helps Medicaid-eligible individuals age 60 or older to stay in their homes by providing them the needed long-term care services and supports, including personal care, home-delivered meals, adult day care, and medical transportation. Similarly, Assisted Living provides services to Medicaid-eligible individuals age 21 or older who live in residential care facilities. PACE is a managed care program that provides individuals age 55 or older with all of their needed health care, medical care, and ancillary services. There are currently two PACE sites in Ohio – Tri-Health Senior Link in Cincinnati and Concordia Care in Cleveland.

According to ODA, $24 million in additional state funding will likely be needed in order to avoid another waiting list in FY 2011. The federal government is considering legislation to extend from December 31, 2010 through June 30, 2011 the enhanced Medicaid reimbursements provided by the American Recovery and Reinvestment Act of 2009 (ARRA). Such an extension would reduce the amount of state funding needed for long-term care services in FY 2011.

Ohio Department of Commerce Begins Cigarette Certification Program

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

In February 2010, the Ohio Department of Commerce began to receive certification applications for cigarettes that meet reduced ignition propensity standards mandated under H.B. 500 of the 127th General Assembly. Through March, 11 manufacturers have applied for certification for 45 cigarette brand families. The term "brand family" refers to the various types of cigarettes, such as lights, menthols, 100's, and so forth, sold under the same trademark. The table below lists the brand families for which each manufacturer has submitted an application.

Cigarette Brand Family Certification Applications by Manufacturer	
Manufacturer	**Brand Family Number & Names**
Commonwealth Brands, Inc.	10 – Davidoff, Fortuna, Gauloises, Gitanes, Malibu, Montclair, Smoker Friendly (SF), Sonoma, USA Gold, West
Liggett Group, LLC	7 – Eve, Grand Prix, Liggett Select, Montego, Pyramid, Quality, Tourney
Lorillard Tobacco Co.	6 – Kent, Maverick, Max, Newport, Old Gold, True
U.S. Fluecured Tobacco Growers	5 – Eighteen Thirty Nine (1839), Shield, Ultrabuy, Wildhorse, 1st Class
Dosal Tobacco Corp.	4 – 305, DTC, Romy, Competidora
Vector Tobacco, Inc.	4 – Meridian, Quest 1, Silver Eagle, USA
Cheyenne International, LLC	3 – Cheyenne, Decade, Pulse
S & M Brands, Inc.	3 – Bailey's, Riverside, Tahoe
Carolina Tobacco Company	1 – Roger
Lignum – 2, Inc.	1 – Rave
National Tobacco Company, LP	1 – Zig-Zag

Cigarettes passing the ignition propensity standards are not as likely to set fire to certain types of fabrics, such as upholstered furniture or mattresses. To be certified by the state, each cigarette manufacturer must (1) test cigarettes through a laboratory or an alternative testing method to ensure the cigarettes meet the standards specified in law, (2) indicate on the packaging that the cigarettes meet fire safety standards, and (3) submit written certification to the State Fire Marshal's Office within the Department of Commerce that each type of cigarette tested meets the standards. Manufacturers must recertify each type of cigarette every three years. Overall, the Department of Commerce expects to certify the cigarettes of approximately 115 to 120 brand families under the program.

Cigarettes with a tax date stamp of May 1, 2010 or later cannot be sold on or after that date unless they are certified. However, the State Fire Marshal's Office will permit cigarettes that have a tax date stamp of April 30, 2010 or earlier to be sold until January 1, 2011, allowing for existing inventories of cigarettes to be sold without certification. To offset the State Fire Marshal's costs for administering the certification program, manufacturers pay a $1,000 fee for each brand family included in an application. This fee may be adjusted annually to ensure it is sufficient to defray the actual costs of certification, up to $2,500 per brand family. Proceeds from the fee are deposited into the Cigarette Enforcement Fund (Fund 5HV0).

Supreme Court Implements Court Interpreter Certification Program

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

The Supreme Court of Ohio adopted rules, effective January 1, 2010, for requiring the certification of foreign or sign language interpreters used in Ohio's courts. On March 8, the Controlling Board approved the Supreme Court's request to create the fee revenue-supported Court Interpreter Certification Fund (Fund 5HT0) and appropriated $39,000 in each of FYs 2010 and 2011 to line item 005617, Court Interpreter Certification, to support the program. The main purpose of the court interpreter certification program is to ensure minimum standards of language fluency are met. Currently, there are approximately 2,000 foreign language and sign language interpreters in Ohio, including those used for noncourt services such as hospitals.

An individual seeking certification must first submit an application, attend an orientation session, and take a written examination. The fees for this part of the certification process are $175 for an Ohio resident and $225 for a nonresident. Individuals who pass the written examination will then be required to attend a post-written examination training course and take an oral examination. The fees for this part of the certification process are $300 for an Ohio resident and $350 for a nonresident. To remain certified, the interpreters must complete at least 24 credit hours of continuing education approved by the Supreme Court for each two-year reporting period. Six of the 24 credit hours must consist of ethics instruction, and the remaining 18 must be relevant to the work of the interpreter in a legal setting. This continuing education will be provided by various accredited entities, including colleges and universities and the Ohio State Bar Association.

Federal Great Lakes Restoration Initiative Funds Two Land Acquisition Projects in Ohio

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

On February 19, 2010, the National Oceanic and Atmospheric Administration (NOAA) awarded just over $1.2 million in matching funds for two coastal land acquisition projects in Ohio under the Great Lakes Restoration Initiative. Of this amount, $476,000 will be used by Erie MetroParks in partnership with the Western Reserve Land Conservancy to acquire 18.5 acres of red cedar forest on Kelleys Island in Lake Erie. The remaining $732,600 will be used by Lake Metroparks in cooperation with the Trust for Public Land for the Lake Erie Bluff Preservation Project, involving the acquisition of 114 acres of coastal bluffs, beaches, and upland property in Lake County. The Lake Erie Bluff project was previously awarded a $399,999 Clean Ohio Green Space Conservation Grant from the Ohio Public Works Commission.

The Great Lakes Restoration Initiative is a multi-faceted $475 million plan overseen by the U.S. Environmental Protection Agency to clean and restore the Great Lakes. The land acquisition grants that NOAA awarded for these two projects in Ohio are part of the federal Coastal and Estuarine Land Conservation Program (CELCP). The goal of this program is to preserve and restore wildlife habitat along the Lake Erie coastline. CELCP is administered at the state level by the Office of Coastal Management in the Ohio Department of Natural Resources (DNR). DNR will receive the awards from the federal government and pass them on to the local entities.

Board of Regents Pursues Green Pathways Initiative

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

The Board of Regents (BOR), in collaboration with the Department of Job and Family Services (JFS) and other state agencies, recently began the Green Pathways Initiative – an effort to connect Ohio's students to environmentally sustainable jobs and industries. This effort is part of BOR's plan to provide more trained workers for in-demand industries. The Green Pathways Initiative is in the process of creating catalogs listing academic programs at Ohio's public institutions that are designed to prepare students to join Ohio's green workforce. Catalogs are currently available for community colleges and adult career technical education centers, with a university catalog nearing completion.[7] In December 2009, the Chancellor of the Board of Regents established the Ohio Green Pathways Advisory Panel with 20 members representing Ohio's industries, career development organizations, and institutions of higher education. The panel is charged with recommending ways to increase access to, the affordability of, and the availability of information about educational paths to jobs that are in green industries or focus on environmental sustainability. The Green Pathways Initiative is also connected to a $1 million federal grant through the American Recovery and Reinvestment Act. The federal grant will be used to research the specific needs of green industries and connect those needs to postsecondary curricula. The grant funds will also be used to transform the Green Pathways catalogs into an online searchable database.

[7] The catalog is available on the University System of Ohio's web site: www.uso.edu. Follow the links for opportunities – sustainability – green pathways.

SFC Reduces Clay Local School District's Share of Facilities Project

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

In February, the School Facilities Commission (SFC) approved a change to the master facilities plan of Clay Local school district in Scioto County, lowering Clay's share of the project by $228,223. The Controlling Board subsequently approved the change to Clay's master facilities plan in March. The change to Clay's $22.8 million project reduced the district's share from 20%, or $4.5 million, to 19%, or $4.3 million. H.B. 1 required SFC to reduce by 1% a district's share of the cost of its facilities project if its percentile ranking in property valuation per pupil as estimated in FY 2008 was one percentile lower than on an alternate ranking required by H.B. 562, the capital appropriations act of the 127th General Assembly. The alternate ranking includes a district's net student gain in open enrollment in calculating the district's property valuation per pupil, which effectively lowers the district's property valuation per pupil and may also lower the district's percentile ranking in this measure. A district's percentile ranking in property valuation per pupil generally equals the district's local share of the SFC-assisted school facilities project. Clay is the only school district affected by the H.B. 1 provision.

School District Academic Distress Commission Meets in March

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

The state's first Academic Distress Commission, established for the Youngstown City School District, held its initial meeting on March 1. H.B. 66 of the 126th General Assembly mandated the establishment of the commissions to assist in improving a district's academic performance. The Superintendent of Public Instruction must establish a commission for any school district that receives a rating of "academic emergency" and fails to make adequate yearly progress for four or more consecutive school years. A commission consists of five members – three appointed by the Superintendent of Public Instruction and two appointed by the president of the district's board of education. State law grants a commission authority to appoint school building administrators and reassign administrative personnel, terminate the contracts of administrators or administrative personnel, and contract with an entity to perform school or district management functions. A commission must adopt an academic recovery plan within 120 days of its first meeting.

Second School District in FY 2010 Receives Solvency Assistance

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

On March 8, 2010, the Controlling Board approved an advance from the state's School District Solvency Assistance Fund of $3.7 million for Bellaire Local Schools. This was the second advance of FY 2010; the first was $2.0 million for McDonald Local Schools on October 19, 2009. Each advance is to be repaid by the respective school districts over the next two fiscal years.

Districts in fiscal emergency may qualify for an advance. Three school districts (Beaver Local, Bellaire Local, and McDonald Local) have been declared to be in a state of fiscal emergency in FY 2010, bringing the total number of districts with fiscal emergency status to eight. One district (Salem City) was removed from fiscal watch status in FY 2010, leaving a total of five school districts in that category. These two designations and a third, fiscal caution, are applied to school districts deemed to be operating under a certified or anticipated deficit or failing to meet other fiscal or budgetary guidelines established by the Superintendent of Public Instruction and the Auditor of State. Currently there are 19 districts under fiscal caution. Districts in either fiscal emergency or fiscal watch as of March 15, 2010 are listed in the table below.

School Districts in Fiscal Emergency or Watch as of March 15, 2010	
District Name	**County**
Fiscal Emergency	
Beaver Local	Columbiana
Bellaire Local	Belmont
East Cleveland City	Cuyahoga
Federal Hocking Local	Athens
Jefferson Township Local	Montgomery
McDonald Local	Trumbull
Springfield Local	Summit
Youngstown City	Mahoning
Fiscal Watch	
Brookfield Local	Trumbull
Cloverleaf Local	Medina
Coventry Local	Summit
Mansfield City	Richland
Niles City	Trumbull

Legal Rights Service Submits Transition Feasibility Report

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

On January 19, 2010, the Ohio Legal Rights Service Commission (OLRS), as required by H.B. 1, submitted its final report to the Governor and Ohio General Assembly on the feasibility of transitioning its duties to a nonprofit organization. The report concludes that it is feasible. The report details the potential effects on service delivery, access to resources, and the organization, including particular challenges with transitioning and funding for the Ombudsperson Program. The report also includes a process plan for redesignation and transition. Implementation of the plan would likely take 18 to 30 months.

While transition is feasible, the report also states that based on the potential effects on service delivery and OLRS staff, the Commission finds no compelling reason to recommend a transition of the agency's programs and services at this time. However, if it becomes inevitable, the report states that the Commission is committed to working with the Governor's office and federal regulators on the terms and timing of any transition. The final report and complete feasibility study are available on the OLRS web site and can be accessed at http://olrs.ohio.gov/ASP/about_Commission.asp.

OLRS is a state agency that advocates for the rights of people with disabilities with an annual budget of $5.1 million for the FY 2010-FY 2011 biennium. More than 95% of the agency's funding comes from federal and other non-GRF sources.

OBM and DAS Announce New Funding Methods for OAKS Operating and Capital Costs

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

In late February, the Office of Budget and Management (OBM) and the Department of Administrative Services (DAS) announced a new calculation method for agency charges for the operating costs of the Ohio Administrative Knowledge System (OAKS). Beginning in FY 2011, OAKS operating costs will be recovered through a charge based on each agency's total operating budget, which includes payroll, purchased personal services, maintenance, and equipment. The current method takes into account only payroll. According to OBM and DAS, predicating the charges on total operations expenditures provides a cost allocation consistent with agency burdens on OAKS. The OBM and DAS rates will be set so that the new method will not change the total amount to be collected from agencies in FY 2011 ($18.1 million). Individually, 85 agencies will pay less in FY 2011 under the new formula while the other 18 will pay more, as approximately $1.6 million in OAKS operating cost charges will be redistributed. The impact on each agency depends on the ratio of payroll to the agency's overall operating budget.

A new method of financing the capital costs of future OAKS capital improvements was also announced. To reduce the need to issue additional debt, OBM will include GRF debt service expenditures for OAKS in its annual Statewide Cost Allocation Plan (SWCAP) billings beginning in FY 2010, pending federal approval. The SWCAP provides for the recovery of statewide indirect costs from any federal or state non-GRF fund. Statewide indirect costs are defined as GRF-funded operating costs incurred by an agency in providing unbilled services to other agencies. These cost allocations must be approved by the federal government, after which OBM makes cash transfers from the appropriate funds to the GRF. Including OAKS debt service expenditures within SWCAP billings would create a new cash flow for future OAKS improvements without having to issue new debt. The total amount of debt issued to support OAKS development and implementation is approximately $185.2 million.

A total of 23 agencies would be billed for OAKS debt service costs beginning in FY 2010, which is expected to generate $6.8 million this fiscal year based on the FY 2008 OAKS debt service amount (the SWCAP operates on a two-year lag). Once the charges are transferred into the GRF, they would be diverted from the GRF to the OAKS Support Organization Fund (Fund 5EB0) to pay for OAKS upgrades through a new line item. Billings for future fiscal years would generate revenue based on the applicable amount of OAKS debt service costs allocated to federal and state non-GRF funds (amounts that would have been allocated to the GRF are excluded). Due to the two-year lag on SWCAP billings, this new funding mechanism would generate OAKS capital improvement funding through FY 2026, even though OAKS debt service payments are scheduled through FY 2024.

TRACKING THE ECONOMY

—Phil Cummins, Economist, 614-387-1687

Overview

The economic upturn is becoming more solidly entrenched, though protracted unemployment and underemployment remain high and income growth is weak. Employment nationwide rose in March by the most since 2007. In Ohio, employment rose in February but the unemployment rate rose to the highest level of the current business cycle. Industrial production edged higher in February, though manufacturing output fell. Surveys of purchasing managers indicate growth in March in both the manufacturing and nonmanufacturing sectors.

Consumer spending expanded in the first quarter through February, and light motor vehicle sales hit a stronger pace in March. Home sales slowed in February, and construction activity weakened again, but an index of new contracts for home purchases rose, perhaps stimulated by federal tax credit programs for home purchases that expire in the second quarter. In last year's fourth quarter, inflation-adjusted gross domestic product (real GDP) rose solidly as inventory liquidation was sharply reduced. Inflation remains low for finished goods and services, though commodity prices including energy costs were higher.

The National Economy

Employment and Unemployment

Total nonfarm payroll employment nationwide, about 130 million people, rose by 162,000 in March, the largest month-to-month increase in three years.

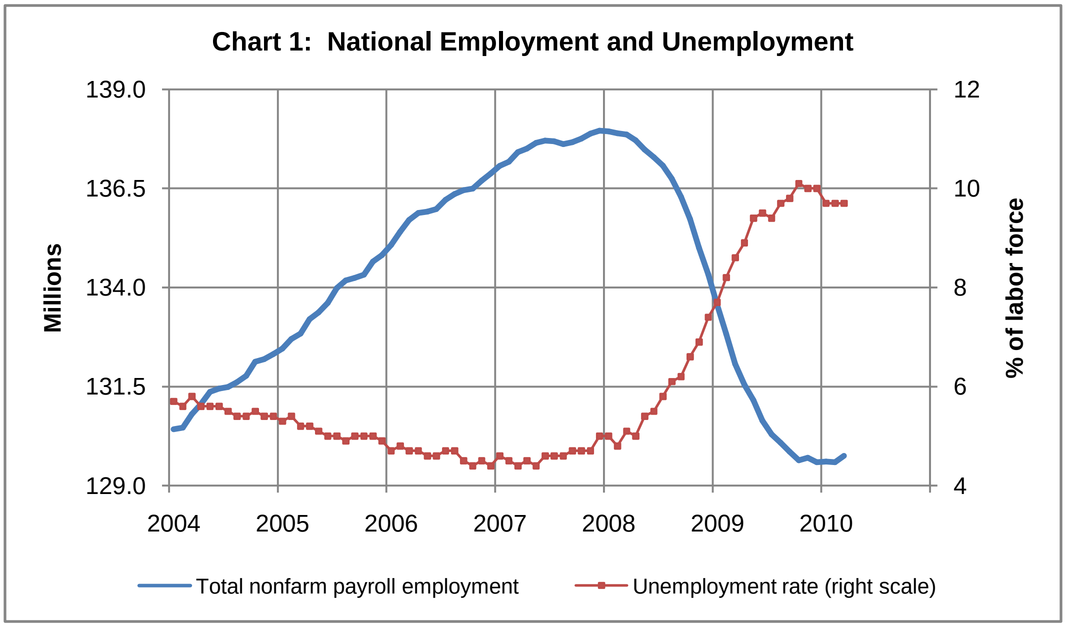
Total nonfarm payroll employment nationwide, about 130 million people, rose by 162,000 in March, the largest month-to-month increase in three years.

Total nonfarm payroll employment nationwide, about 130 million people, rose by 162,000 in March, the largest month-to-month increase in three years. The number of persons counted as unemployed also rose in March, to 15.0 million, 9.7% of the labor force. Nonfarm payroll employment and the unemployment rate nationwide are shown in Chart 1. Federal employment of workers for the decennial census rose by 48,000 in March. Employment in the private sector, about 107 million persons, increased by 123,000, with more employees in temporary help services, health care, mining, construction of nonresidential buildings, and durable goods manufacturing. Total manufacturing employment has risen each month since December. Employment fell in finance.

The unemployment rate for March is down from the peak for this cycle of 10.1% last October. But the unemployed included 6.5 million people who have been out of work for more than six months, an all-time high on records kept since 1948. The employed included an estimated

9.1 million part-time workers who would have preferred full-time work, near the all-time high (records kept since 1955) of 9.2 million late last year. Those not in the labor force included 1.0 million persons referred to as discouraged workers, who wanted and were available for work, and had searched for jobs in the prior 12 months, but had not looked for work in the most recent four weeks (a requirement to be counted as unemployed) because they believed no jobs were available for them.

Layoffs and discharges totaled about 1.8 million in February, down from a peak of 2.6 million in January 2009.



In February, employers were seeking to fill about 2.7 million job openings nationwide, according to a U.S. Bureau of Labor Statistics survey, up from a low of 2.3 million job openings in July 2009. For each job opening, about 5.5 persons were counted as unemployed and looking for work in February, down from a peak of 6.2 unemployed persons per job opening last year, but up from 1.8 at the start of the recession in December 2007. About 4.0 million people were hired in February and about the same number ceased to be employed during the month. The number of persons hired during the month was up slightly from the recession low of 3.9 million in June 2009, but well below hiring in excess of 5 million per month during much of 2004-2007. Layoffs and discharges totaled about 1.8 million in February, down from a peak of 2.6 million in January 2009. About 1.8 million people quit their jobs in February, up only a little from a low of 1.7 million in September 2009.

Production, Shipments, and Inventories

The third estimate of the nation's gross domestic product was generally similar to the report released a month earlier. Real GDP rose at a 5.6% annual rate, revised down from 5.9%. This follows growth at a

2.2% annual rate in the third quarter, and declines in the previous four quarters totaling 3.8%, the steepest recession of the post-World War II era. Inventory liquidation slowed precipitously, while consumer spending, residential fixed investment, business equipment investment spending, and exports rose. Nonresidential construction and government spending slowed. Broad inflation measures increased slowly. Corporate profits in the fourth quarter were higher than a year earlier, after year-over-year declines for nearly three years.

Industrial production rose 0.1% in February, the eighth consecutive increase in the index. The Federal Reserve, the source agency for this report, commented that winter storms in the Northeast likely restrained February output. Manufacturing production fell 0.2% in February while the other components of the total index rose, mining output by 2% and utility output by 0.5%. Compared with a year earlier, the industrial production index was higher by 1.7%, on increases in output of automotive products, information processing equipment, various nondurable products, and most types of industrial materials.

Industrial production rose 0.1% in February, the eighth consecutive increase in the index.

The dollar value of manufacturers' shipments fell 0.1% in February after rising in the previous five months including a 0.7% increase in January. Factory new orders rose 0.6% in February after a 2.5% increase in January, and have risen in ten of the last 11 months. Manufacturers' unfilled orders rose in the latest two months, after 15 consecutive months of declines. Inventories rose 0.5% in February.

Purchasing managers reported further manufacturing expansion in March. The Institute for Supply Management (ISM), in its monthly survey of purchasing managers, said that production, new orders, unfilled orders, employment, and inventories all rose last month. The increase in inventories was particularly noteworthy, the first month in which inventories rose following 46 consecutive months of reductions. A composite index based on five measures of activity in the ISM manufacturing report rose to its highest level since 2004. Increases in prices paid were the most widespread in 19 months. A comparable ISM survey of purchasing managers with nonmanufacturing organizations showed growing business activity, new orders, and order backlogs in March, but declining inventories and employment. The nonmanufacturing business activity index rose to its highest level since 2006, and new orders were highest since 2005.

Total inflation-adjusted sales of business – manufacturers, wholesalers, and retailers – have trended higher since the cyclical low point last June, though sales fell 0.5% in January, the latest month. Total inflation-adjusted business inventories reached a new cyclical low in

Excluding transfer payments, and adjusted for inflation, personal income reached a cyclical low last September and was only 0.1% higher in February.

January, but the rate of decline has slowed considerably, and total inventories rose in October and November. Retailers have, on balance, added to inventories since August.

Consumer Spending

Personal income was little changed in February, after growing 0.3% in January. Excluding transfer payments, and adjusted for inflation, personal income reached a cyclical low last September and was only 0.1% higher in February. Growth of employee compensation since then has only about kept pace with inflation. Much of what little growth has occurred in personal income since September has been in transfer payments.[8] Consumer spending continued to increase through February, and was growing in the first quarter at about a 3% annual rate, inflation adjusted.

In March, sales of light motor vehicles rose to an 11.8 million unit seasonally adjusted annual rate from a 10.3 million unit rate in February. Apart from last August, when sales were boosted by the federal "Cash for Clunkers" Program, the March sales pace was the highest since September 2008. U.S. sales of cars and light trucks in calendar year 2009 totaled only 10.4 million units, down from 13.2 million units in 2008 and 16.1 million units in 2007.

Sales at large retailers in March, on a same-store basis, were 9.1% higher than a year earlier, a strong performance, in a compilation of reports from 28 retail chains by Thomson Reuters as reported by the Reuters news service. Comparisons on a same-store basis include only sales at store locations open in both the current and year-earlier months.

Consumer credit outstanding declined again in February after increasing in January, seasonally adjusted. These numbers exclude borrowings secured by real estate. Total consumer credit outstanding, about $2.45 trillion, was at its lowest level since 2007. Revolving credit, mainly credit cards, was at its lowest level since 2006.

Construction and Real Estate

Mortgage interest rates have risen but remain low. The contract interest rate on 30-year fixed rate first mortgage commitments, in Freddie Mac's weekly survey, rose to 5.21% for the week ended April 8. The rate is up from a low of 4.71% late last year, but remains very low compared with levels over the past several decades. A Federal Reserve program

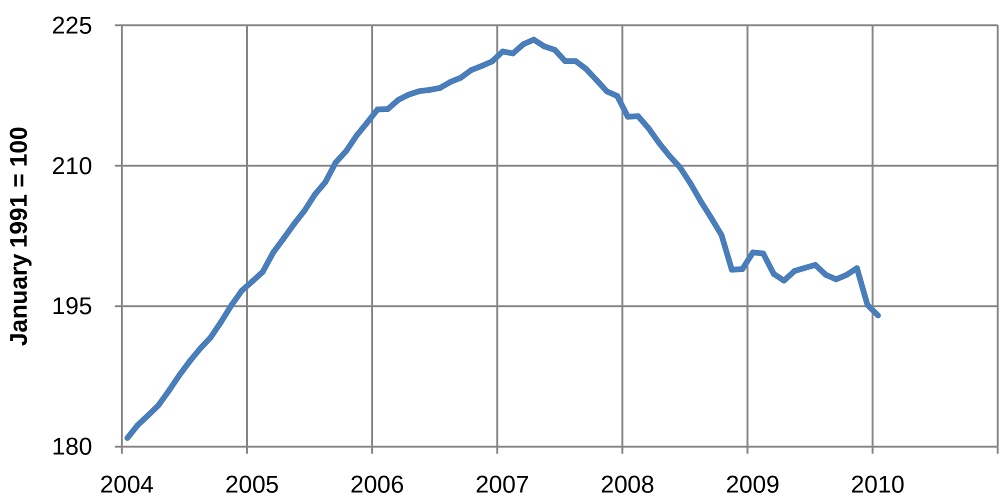
[8] Transfer payments include Social Security benefits, unemployment insurance, veterans benefits, aid to families with dependent children, and other government social benefits to persons.

that entailed purchasing more than $1.7 trillion of U.S. Treasury securities and securities issued or guaranteed by the housing-related government-sponsored entities through the end of March likely helped hold down mortgage interest rates.[9] Though the purchase program ended, the Federal Reserve continues to hold large amounts of these obligations on its books.

Housing prices on average nationwide began to stabilize a year or more ago, after falling through much of 2007 and 2008, but may have resumed their slide in the latest two months. One broad indicator, from the Federal Housing Finance Agency (FHFA), shown in Chart 2, fell 2% in December and 0.6% in January, seasonally adjusted. The FHFA index in January was 3.3% below a year earlier, and fell 11% from the peak in early 2007 through late 2008, with home prices in some local areas down much more sharply than this. Another national housing price measure, the S&P/Case-Shiller home price indexes, also fell in December and January, but by less than the FHFA index. The Case-Shiller index for ten large cities was unchanged in January from a year earlier, and the index for 20 cities was 0.7% lower.

Housing prices on average nationwide began to stabilize a year or more ago, after falling through much of 2007 and 2008, but may have resumed their slide in the latest two months.

Chart 2: U.S. Housing Price Index
Federal Housing Finance Agency



The number of housing units started nationwide fell 6% in February, seasonally adjusted. Some starts likely were deferred because of the severity of the storms in parts of the country. Although starts in February on construction of new housing units were 20% higher than at

[9] Ben S. Bernanke, "Economic Challenges: Past, Present, and Future," remarks at the Dallas Regional Chamber, Dallas, Texas, April 7, 2010.

The consumer price index was unchanged in February, and 2.1% higher than a year earlier.

the recession low in April 2009, they remained weak, 75% below the peak rate for recent years in January 2006.

New home sales fell 2% in February, seasonally adjusted, to the lowest level on records kept since 1963. The sales pace was 78% below the all-time peak in July 2005. Builders' inventories of homes under construction and completed fell to an all-time low (records kept since 1973), but the median number of months to sell homes following completion rose to 14.4, an all-time high (records kept since 1975), because of the weak pace of sales. Nationwide median and average prices have risen from lows early in 2009, when the recession was most severe. The median price of a new home sold in February, $220,500, was 5% higher than a year earlier. The average price, $282,600, was 9% higher.

Home sales reported by the National Association of Realtors (NAR), generally previously occupied homes, declined 0.6% in February, and have fallen each month since a recent peak in November, when they were boosted by a federal tax credit program. Sales in February were 7% higher than a year earlier, the eighth consecutive year-over-year increase. The NAR home sales figures represent closings, or completed sales. Another NAR series, for pending home sales, rose 8% in February. Pending home sales measure contracts newly entered into for the sale of a home. The June deadline to complete home purchase transactions to qualify for the current federal tax credit program, and the April deadline to be in contract for these purchases, may boost sales later this spring and early summer.

The value of construction put in place nationwide fell again in February, declining 1.3% seasonally adjusted. Construction spending in the first two months of 2010 was 14% below a year earlier, with private residential construction put in place 8% lower, private nonresidential building 25% lower, and public construction 4% lower. This follows a 13% decline in all of 2009, including a 28% drop in private residential building, a 12% decline in private nonresidential construction, and a 3% rise in public construction.

Inflation

The consumer price index was unchanged in February, and 2.1% higher than a year earlier. A month-to-month decline in the energy price index in February was offset by small increases in the price indexes for food and for all items other than food and energy. Compared with a year earlier, higher prices for gasoline and other energy commodities accounted for part of the year-over-year increase in the overall index.

The rise in the price index for all items less food and energy was 1.3%, the lowest year-over-year change since 2004.

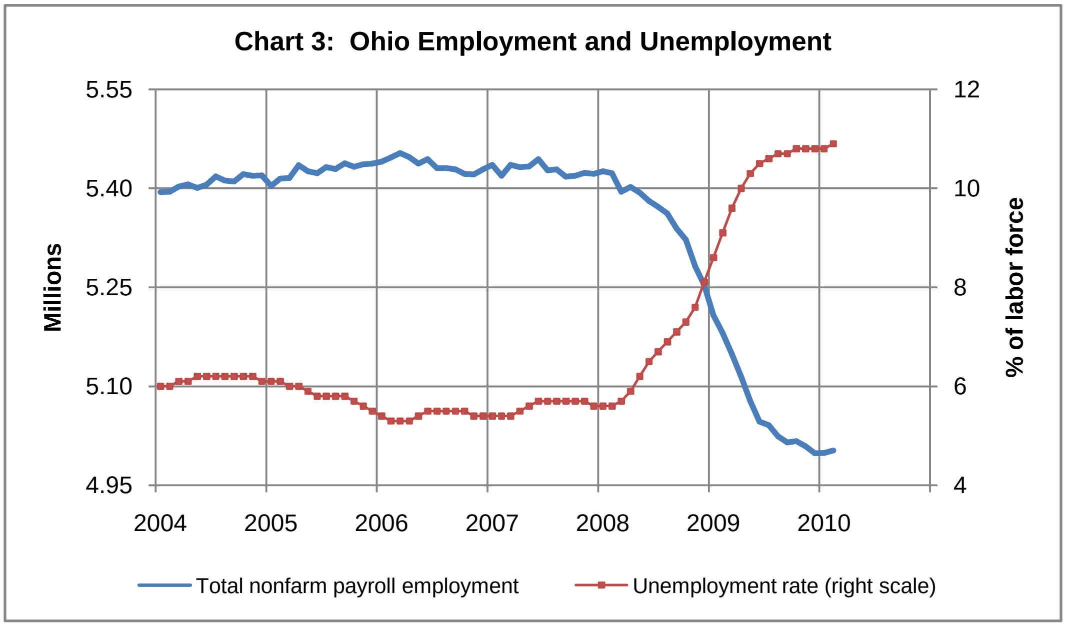
The producer price index (PPI) for finished goods fell 0.6% in February, mainly reflecting lower energy prices, particularly for gasoline. Compared with a year earlier, the PPI for finished goods was 4.4% higher, its fourth consecutive year-over-year increase. Excluding food and energy prices, however, the PPI for finished goods was only 1.0% higher. At earlier stages in the production process, prices for nonfood, nonenergy goods are up more sharply. The PPI for intermediate goods in February was 5.6% higher than a year earlier, and excluding food and energy prices was 2.8% higher. The PPI for crude materials was 28.6% higher than a year earlier, and excluding food and energy prices was 34.9% higher.

Nationwide average prices for regular gasoline, in the Energy Information Administration's weekly report, rose to about $2.83 per gallon on April 5, highest since October 2008. In Ohio, the average was about $2.73 per gallon on that date. The price for the benchmark U.S. grade of crude oil, West Texas Intermediate, has remained persistently above $80 per barrel in recent weeks, around its highs since October 2008.

The Ohio Economy

Total nonfarm payroll employment in Ohio rose 3,500 (0.1%) in February, seasonally adjusted, but was 177,900 (3.4%) lower than a year earlier. The number of persons counted as unemployed in the state rose to 647,000 in February, 10.9% of the labor force, the highest rate in the current business cycle based on revised figures (earlier estimates showed a peak of 11.2% in July 2009). Ohio employment and unemployment are shown in Chart 3. The increase in nonfarm payroll employment from January to February resulted from more service-sector jobs and fewer jobs in manufacturing and construction. The decline in employment since February 2009 reflects declines in most industries, with particularly large declines in construction; real estate, rental, and leasing; durable goods manufacturing; and transportation, warehousing, and utilities. The number of persons on nonfarm payrolls statewide in February, about 5.0 million, was more than 635,000 below the all-time peak in 2000.

The number of persons counted as unemployed in the state rose to 647,000 in February, 10.9% of the labor force, the highest rate in the current business cycle.



By metropolitan area in Ohio, unemployment rates in February ranged from 9.7% in Columbus up to 15.3% in Steubenville-Weirton.

By metropolitan area in Ohio, unemployment rates in February ranged from 9.7% in Columbus up to 15.3% in Steubenville-Weirton. Unemployment rates in selected other metropolitan areas were 10.6% in Cleveland, 10.9% in Cincinnati, 12.5% in Dayton, 11.6% in Akron, and 13.4% in Toledo. These rates are not seasonally adjusted.

Personal income in Ohio rose 0.8% from the third quarter to the fourth quarter (seasonally adjusted, not at an annual rate), less than a 0.9% increase nationwide. Income growth in the state ranked 36th among the 50 states. The national increase was the largest quarterly rise since the second quarter of 2008. The industry with the biggest contribution to the fourth-quarter increase, nationwide and in Ohio, was health care. Income from manufacturing also rose, in the nation and Ohio, and construction earnings rose in Ohio, in contrast with a decline nationwide.

The number of homes sold in Ohio in January and February, reported by the Ohio Association of Realtors, was 3% lower than a year earlier, perhaps in part due to the heavy snowfall and ice in February. Unit home sales in 2009 were 8% lower than in 2008. The average sale price in January and February was 12% higher than a year earlier. Last year, the average price fell 5%.

An index of Ohio housing prices from the Federal Housing Finance Agency, based on home purchases only (excluding refinancings), was 0.9% higher in the fourth quarter than a year earlier. This increase followed three consecutive years of year-over-year declines in prices of Ohio homes, by this measure, totaling nearly 10% at the low point, from a peak in 2006. The Case-Shiller housing price index for 20 cities includes Cleveland. The Case-Shiller index for Cleveland fell 0.7% from December to January, after falling 0.9% from November to December, and was 0.2% higher in January than a year earlier.