# Budget Footnotes

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# STATUS OF THE GRF

## HIGHLIGHTS

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

Recent national economic indicators have generally shown an economy on the mend and heading in the right direction. The November employment report, the best so far in 2009, pegged job losses nationwide at 11,000, far below losses in previous months, and the national unemployment rate fell to 10.0%. However, overall economic activity in the region that includes Ohio remained relatively sluggish, and labor markets weaker, according to the Federal Reserve Bank of Cleveland.

GRF revenues for November 2009 were 2.9% below expectations due to a shortfall in federal grants, though tax revenues continue to perform reasonably well, 2.2% above estimate for the month, and 0.7% for the fiscal year to date.

**Through November 2009, GRF sources totaled $9.95 billion:**

- Revenues from the personal income tax were $85.9 million (3.2%) above estimate;
- Sales and use tax receipts were $0.2 million (0.0%) below estimate.

**Through November 2009, GRF uses totaled $12.76 billion:**

Program expenditures were $165.5 million (1.4%) above estimate primarily due to timing issues. Primary, Secondary, and Other Education ($201.3 million) and Tax Relief and Other ($236.9 million) contributed the most to this variance.

**Table 1: General Revenue Fund Sources**
**Preliminary Actual vs. Estimate**
**Month of November 2009**
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on December 7, 2009)

| | Actual | Estimate* | Variance | Percent |
|---|---|---|---|---|
| **STATE SOURCES** | | | | |
| ***TAX REVENUE*** | | | | |
| Auto Sales | $53,893 | $44,805 | $9,088 | 20.3% |
| Nonauto Sales and Use | $533,685 | $524,567 | $9,118 | 1.7% |
| Total Sales and Use Taxes | $587,578 | $569,372 | $18,206 | 3.2% |
| Personal Income | $493,589 | $458,200 | $35,389 | 7.7% |
| Corporate Franchise | -$45,517 | -$12,000 | -$33,517 | -279.3% |
| Public Utility | $20,737 | $25,453 | -$4,716 | -18.5% |
| Kilowatt Hour Excise | $11,417 | $10,950 | $467 | 4.3% |
| Commercial Activity Tax** | $0 | $0 | $0 | --- |
| Foreign Insurance | -$112 | $8,725 | -$8,838 | -101.3% |
| Domestic Insurance | -$269 | -$116 | -$153 | -132.4% |
| Business and Property | $17 | $0 | $17 | --- |
| Cigarette | $69,169 | $59,611 | $9,559 | 16.0% |
| Alcoholic Beverage | $4,330 | $4,683 | -$353 | -7.5% |
| Liquor Gallonage | $3,119 | $3,106 | $12 | 0.4% |
| Estate | $10,774 | $1,723 | $9,051 | 525.3% |
| **Total Tax Revenue** | **$1,154,831** | **$1,129,706** | **$25,125** | **2.2%** |
| ***NONTAX REVENUE*** | | | | |
| Earnings on Investments | $9 | $0 | $9 | --- |
| Licenses and Fees | $395 | $650 | -$255 | -39.2% |
| Other Revenue | $2,630 | $8,500 | -$5,870 | -69.1% |
| **Total Nontax Revenue** | **$3,034** | **$9,150** | **-$6,116** | **-66.8%** |
| ***TRANSFERS*** | | | | |
| Liquor Transfers | $0 | $12,000 | -$12,000 | -100.0% |
| Budget Stabilization | $0 | $0 | $0 | --- |
| Other Transfers In | $321,755 | $326,100 | -$4,345 | -1.3% |
| **Total Transfers In** | **$321,755** | **$338,100** | **-$16,345** | **-4.8%** |
| **TOTAL STATE SOURCES** | **$1,479,620** | **$1,476,956** | **$2,664** | **0.2%** |
| Federal Grants | $537,583 | $600,648 | -$63,065 | -10.5% |
| **TOTAL GRF SOURCES** | **$2,017,203** | **$2,077,604** | **-$60,401** | **-2.9%** |

* Tax estimates of the Office of Budget and Management released August 2009.
**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 November 30, 2009**
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on December 7, 2009)

| | Actual | Estimate* | Variance | Percent | FY 2009 | Percent Change |
|---|---|---|---|---|---|---|
| **STATE SOURCES** | | | | | | |
| ***TAX REVENUE*** | | | | | | |
| Auto Sales | $378,764 | $357,786 | $20,977 | 5.9% | $382,717 | -1.0% |
| Nonauto Sales and Use | $2,497,362 | $2,518,514 | -$21,152 | -0.8% | $2,709,452 | -7.8% |
| Total Sales and Use Taxes | $2,876,126 | $2,876,301 | -$175 | 0.0% | $3,092,169 | -7.0% |
| Personal Income | $2,763,433 | $2,677,500 | $85,933 | 3.2% | $3,150,755 | -12.3% |
| Corporate Franchise | -$54,157 | -$18,039 | -$36,118 | -200.2% | $1,201 | -4608.5% |
| Public Utility | $56,785 | $73,529 | -$16,745 | -22.8% | $75,336 | -24.6% |
| Kilowatt Hour Excise | $66,182 | $73,762 | -$7,580 | -10.3% | $56,210 | 17.7% |
| Commercial Activity Tax** | $0 | $0 | $0 | --- | $0 | --- |
| Foreign Insurance | $132,704 | $137,698 | -$4,994 | -3.6% | $137,238 | -3.3% |
| Domestic Insurance | $1,133 | -$820 | $1,952 | 238.2% | -$772 | 246.8% |
| Business and Property | $123 | $382 | -$259 | -67.8% | $323 | -61.9% |
| Cigarette | $330,108 | $301,211 | $28,897 | 9.6% | $338,553 | -2.5% |
| Alcoholic Beverage | $23,943 | $25,043 | -$1,100 | -4.4% | $24,675 | -3.0% |
| Liquor Gallonage | $15,296 | $15,130 | $165 | 1.1% | $14,971 | 2.2% |
| Estate | $20,239 | $24,026 | -$3,787 | -15.8% | $25,253 | -19.9% |
| **Total Tax Revenue** | **$6,231,912** | **$6,185,722** | **$46,190** | **0.7%** | **$6,915,911** | **-9.9%** |
| ***NONTAX REVENUE*** | | | | | | |
| Earnings on Investments | $11,611 | $18,500 | -$6,889 | -37.2% | $51,426 | -77.4% |
| Licenses and Fees | $19,904 | $20,471 | -$567 | -2.8% | $19,772 | 0.7% |
| Other Revenue | $26,972 | $28,553 | -$1,581 | -5.5% | $32,307 | -16.5% |
| **Total Nontax Revenue** | **$58,487** | **$67,524** | **-$9,037** | **-13.4%** | **$103,505** | **-43.5%** |
| ***TRANSFERS*** | | | | | | |
| Liquor Transfers | $57,000 | $62,000 | -$5,000 | -8.1% | $69,000 | -17.4% |
| Budget Stabilization | $0 | $0 | $0 | --- | $0 | --- |
| Other Transfers In | $341,700 | 363,764 | -$22,064 | -6.1% | $46,054 | 642.0% |
| **Total Transfers In** | **$398,700** | **$425,764** | **-$27,064** | **-6.4%** | **$115,054** | **246.5%** |
| **TOTAL STATE SOURCES** | **$6,689,099** | **$6,679,010** | **$10,089** | **0.2%** | **$7,134,471** | **-6.2%** |
| Federal Grants | $3,262,708 | $3,351,584 | -$88,876 | -2.7% | $2,628,045 | 24.1% |
| **TOTAL GRF SOURCES** | **$9,951,808** | **$10,030,594** | **-$78,787** | **-0.8%** | **$9,762,515** | **1.9%** |

* Tax estimates of the Office of Budget and Management released August 2009.

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

*Detail may not sum to total due to rounding.*

November GRF sources were $60.4 million below estimate.

Year-to-date GRF tax revenues were $46.2 million above estimate and $684.0 million below FY 2009 receipts.

# REVENUES

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

## Overview

Total GRF sources of $2.02 billion in November 2009 were $60.4 million below estimate due to a shortfall of $63.1 million in federal grants. But GRF tax revenues exceeded estimate by $25.1 million for the month, increasing the positive variance for tax revenue for FY 2010 through November to $46.2 million. Tables 1 and 2 show GRF sources for the month of November and for FY 2010 through November, 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.[1]

GRF tax sources of $1.15 billion in November included good performances from all three primary tax sources. The personal income tax, the sales and use tax, and the cigarette tax, were above expectations, respectively, by $35.4 million, $18.2 million, and $9.6 million. The estate tax was $9.1 million above estimate for the month, partly reversing last month's deficit of $10.1 million. The foreign insurance tax was below estimate by $8.8 million, due to a timing issue that is expected to reverse next month. The corporate franchise tax was below estimate by $33.5 million and the public utility tax's shortfall was $4.7 million. Interestingly, GRF tax sources in November 2009 were 1.0% above tax receipts in November 2008.[2] A shortfall of $22.5 million from nontax sources and transfers partially offset the gain in tax revenues. November liquor transfers, estimated to be $12.0 million, were booked December 1, 2009, accounting for slightly over half of the overall shortfall in the combined categories.

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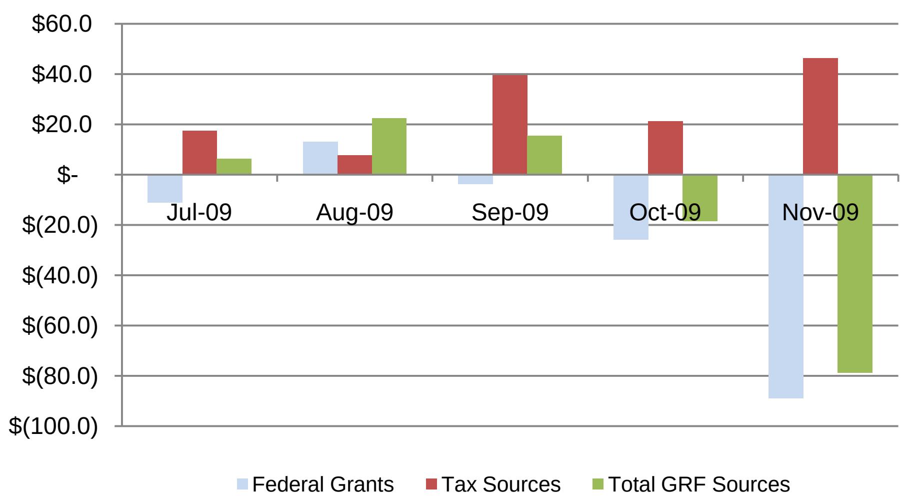
[1] The primary such programs are Medicaid and Temporary Assistance for Needy Families (TANF). During the current biennium, GRF federal grant receipts include funding for other purposes provided by the American Recovery and Reinvestment Act of 2009.

[2] A monthly positive variance in tax receipts compared to year-ago receipts has not occurred in more than a year. The favorable comparison is due, in part, to the new tax 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 taxed under the sales and use tax and the insurance taxes.

Through November, FY 2010 total GRF sources of $9.95 billion were $78.8 million below estimate. As with the receipts for the month, this shortfall was driven by federal grants, which were below estimate by $88.9 million. State-source receipts of $6.69 billion were above estimate by $10.1 million. The graph below shows the cumulative variance against estimate for federal grants, tax sources, and total GRF sources. Total tax revenues of $6.23 billion were $46.2 million above estimate. The following tax sources were above estimate: the personal income tax ($85.9 million), the cigarette tax ($28.9 million), and the domestic insurance tax ($2.0 million). November sales and use tax receipts brought total revenue from this source almost to the year-to-date estimate. Most other tax sources were below estimate, including the corporate franchise tax ($36.1 million), the public utility excise tax ($16.7 million), the kilowatt hour tax ($7.6 million), the foreign insurance tax ($5.0 million), and the estate tax ($3.8 million).

Year-to-date GRF sources were $78.8 million below estimate.

**Cumulative Variances of GRF Sources in FY 2010**
**(Variance from estimates, in millions)**




Compared to FY 2009, FY 2010 year-to-date GRF sources increased $189.3 million from an increase of $634.7 million in federal grants due to higher receipts this year from the American Recovery and Reinvestment Act of 2009 (the federal stimulus bill of February 2009), and an increase of $283.6 million in transfers in. (The large majority of transfers in for November 2008 were booked in early December 2008, which accounts for the above increase in transfers in.) Those increases were partially offset by a reduction of $684.0 million in tax receipts. Receipts from the personal income tax and the sales and use tax were below the levels of 2009, respectively, by $387.3 million and $216.0 million. Other taxes with notable year-to-year revenue variances included decreases of $55.4 million in corporate franchise tax receipts, $18.6 million in public utility excise tax

November income tax receipts were $35.4 million above estimate and $3.9 million below last year's levels.

receipts, $8.4 million in cigarette tax receipts, $5.0 million in estate tax receipts, and $4.5 million in foreign insurance tax receipts, and increases of $10.0 million in kilowatt hour tax receipts and $1.9 million in domestic insurance tax receipts. The decline in receipts from the 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

November GRF receipts from the personal income tax of $493.6 million were $35.4 million (7.7%) above estimate and $3.9 million (0.8%) below receipts in November 2008. The personal income tax has performed well so far in FY 2010, with receipts exceeding estimate in each month of the current fiscal year. Through November, the GRF received $2.76 billion from the personal income tax in FY 2010. This amount was $85.9 million (3.2%) above estimate and $387.3 million (12.3%) below receipts during the corresponding months of FY 2009. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the local government funds. Gross collections are the sum of withholding, quarterly estimated payments,[3] trust payments, payments associated with annual returns, and miscellaneous payments.

**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* | $72.2 | 2.7% | -$277.5 | -9.1% |
| *Quarterly Estimated Payments* | $8.1 | 3.1% | -$126.6 | -32.1% |
| *Trust Payments* | -$4.3 | -32.7% | -$5.2 | -37.0% |
| *Annual Return Payments* | $7.6 | 7.2% | -$23.3 | -17.0% |
| *Miscellaneous Payments* | $6.4 | 24.8% | $6.5 | 24.9% |
| **Gross Collections** | $90.0 | 3.2% | -$426.2 | -11.7% |
| Less Refunds | $1.3 | 0.7% | $5.4 | 3.1% |
| Less Local Government Fund Distribution | $2.8 | 1.1% | -$44.3 | -14.7% |
| **Income Tax Revenue** | $85.9 | 3.2% | -$387.3 | -12.3% |

[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.

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) was $72.2 million (2.7%) above estimate through November in FY 2010. However, it was $277.5 million (9.1%) below FY 2009 receipts through November from both increasing unemployment, as well as the final 4.2% reduction in tax rates enacted by H.B. 66 of the 126th General Assembly. Excluding the effect of the rate reduction, FY 2010 payrolls have declined compared to payrolls in the same period in FY 2009. Significant job losses are continuing, although the pace appears to be abating from the levels of earlier months this year. The last two months have been encouraging. Combined withholdings in the last two months were about 7.6% below receipts in the October-November period last year. In comparison, withholdings through September in FY 2010 were 10.1% below withholding in the first quarter of FY 2009.

## Sales and Use Tax

November 2009 GRF sales and use tax receipts of $587.6 million were $18.2 million (3.2%) above estimate and $3.7 million (0.6%) above receipts in November 2008. Through November, FY 2010 GRF receipts of $2.88 billion were $0.2 million (0.0%) below estimate, with the positive variance in auto sales tax almost matching the nonauto sales tax's shortfall. Year-to-date total sales and use tax receipts were $216.0 million (7.0%) below FY 2009 receipts in the same period. Weak consumer fundamentals are continuing, even though many of the drags on spending are moderating, or at least not intensifying. The economy has been steadily bleeding jobs, though the pace of job losses is moderating. Wage and salary income is below its year-ago level, and consumers lack cash. Asset income, including dividend income, has fallen off dramatically. Finally, credit availability is still tight. Consumer lending shrank again in October according to the Federal Reserve Board, the ninth consecutive drop, extending the decline of financing available to help fuel spending. Early data on November retail sales have not been encouraging for the first leg of what is traditionally an important two-month period for retailers and the sales and use tax. On the positive side, the hiring of temporary workers is increasing and full-time workers are getting more hours per week.

For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[4]

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[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,

Year-to-date nonauto sales tax receipts were $21.1 million below estimate.

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.

### Nonauto Sales and Use Tax

Nonauto sales and use tax receipts were $533.7 million in November 2009, $9.1 million (1.7%) above estimate and $5.7 million (1.1%) below November 2008 receipts. For the fiscal year, year-to-date nonauto sales and use tax receipts of $2.50 billion were $21.1 million (0.8%) below estimate and $212.1 million (7.8%) below receipts through November in FY 2009. Monthly receipts have been below receipts in the same month in the previous year by large amounts. But, the comparison to year-ago receipts has improved of late, from 8.7% lower than the prior year in September and 5.6% lower in October, to 1.1% in November. This relative improvement reflects both the poor performance of the tax in November 2008 when the recession was intensifying and the expansion of the tax base this year, yielding added receipts from the new tax on health care services provided by Medicaid health insuring corporations.

### Auto Sales and Use Tax

Auto sales and use tax receipts of $53.9 million in November 2009 were $9.1 million (20.3%) above estimate and $9.4 million (21.0%) above receipts in November 2008. Through November, FY 2010 auto sales and use tax receipts of $378.8 million were $21.0 million (5.9%) above estimate, but they are $4.0 million (1.0%) below receipts through November in FY 2009.

Nationwide sales of light vehicles (autos and light trucks) in November 2009, at an annualized rate of 10.9 million units, were up from 10.4 million units in October 2009 and 9.2 million units in September 2009. Last year, light vehicle sales were an annualized 10.4 million units in November 2008. Sales are still depressed, but November sales represent the best performance of 2009 (excluding sales induced by the cash for clunkers federal program in July and August 2009). The long decline in new auto sales may have bottomed out. But sales will not begin to turn up in a convincing way until the labor and credit markets improve.

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watercraft, and outboard motors titled. Therefore, auto sales and use tax receipts largely reflect vehicles sold and titled during the month.

## Cigarette and Other Tobacco Products Tax

Receipts from the tax on cigarettes and other tobacco products were $69.2 million, $9.6 million (16.0%) above estimate and $5.5 million (8.7%) above November 2008 receipts. Through November, FY 2010 receipts of $330.1 million were $28.9 million (9.6%) above estimate and $8.4 million (2.5%) below FY 2009 receipts through November 2008. Receipts from cigarette sales were $309.3 million. Sales of products other than cigarettes provided $20.8 million. Compared to FY 2009, receipts from the sale of cigarettes declined $12.6 million (3.9%) and those from the sale of other tobacco products increased $4.2 million (25%). Receipts from this tax source have been surprisingly robust so far in FY 2010. The decline in consumption of taxed cigarettes appears to be smaller than anticipated after the federal tax increase on tobacco products (April 1, 2009). Also, the tax yield from the sale of other tobacco products has increased dramatically, as the Ohio taxable base (Ohio wholesale value) includes federal taxes.[5] 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.

Year-to-date cigarette tax receipts were above estimate by $28.9 million.

## 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 has become a tax on the net worth of financial institutions. Except for filing amended returns and other reconciliations of tax accounts in FY 2010, the CFT report for 2009 was generally the last one for nonfinancial corporations. In November 2009, CFT refunds exceeded receipts by $45.5 million. Net refunds of $12.0 million were expected for the month. Through November, FY 2010 CFT actual refunds exceeded estimated refunds by $36.1 million. Comparisons with monthly receipts in the previous fiscal year are not meaningful.[6]

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[5] The tax increase for products other than cigarettes ranged from 76% (snuff) to more than 2,000% (little cigars).

[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 factor from H.B. 66).

Year-to-date CAT receipts were $46.9 million below estimate.

## 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 OAKS, November CAT receipts, which were based on taxable gross receipts in the first quarter of FY 2010, were $274.2 million, $51.8 million (15.9%) below estimate and $1.2 million (0.4%) above receipts in November 2008. Year-to-date CAT receipts of $646.3 million were $46.9 million (6.8%) below estimate, and $9.7 million (1.5%) above receipts through November 2008 in FY 2009.

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.

**Table 3: General Revenue Fund Uses**
**Preliminary Actual vs. Estimate**
**Month of November 2009**
($ in thousands)
(Actual based on OAKS reports run December 11, 2009)

| ***PROGRAM*** | **Actual** | **Estimate*** | **Variance** | **Percent** |
|---|---|---|---|---|
| Primary, Secondary, and Other Education | $594,409 | $581,940 | $12,469 | 2.1% |
| Higher Education | $281,093 | $287,153 | -$6,060 | -2.1% |
| **Total Education** | $875,502 | $869,093 | $6,409 | 0.7% |
| Public Assistance and Medicaid | $832,305 | $881,204 | -$48,899 | -5.5% |
| Health and Human Services | $71,874 | $64,281 | $7,593 | 11.8% |
| **Total Welfare and Human Services** | $904,178 | $945,484 | -$41,306 | -4.4% |
| Justice and Public Protection | $165,264 | $125,401 | $39,863 | 31.8% |
| Environment and Natural Resources | $19,336 | $17,531 | $1,805 | 10.3% |
| Transportation | $2,128 | $1,516 | $612 | 40.4% |
| General Government | $23,021 | $21,096 | $1,925 | 9.1% |
| Community and Economic Development | $8,240 | $6,188 | $2,051 | 33.1% |
| Capital | $0 | $0 | $0 | --- |
| **Total Government Operations** | $217,989 | $171,732 | $46,257 | 26.9% |
| Tax Relief and Other | $227,994 | $171,791 | $56,202 | 32.7% |
| Debt Service | $0 | $0 | $0 | --- |
| **Total Other Expenditures** | $227,994 | $171,791 | $56,202 | 32.7% |
| **Total Program Expenditures** | **$2,225,663** | **$2,158,100** | **$67,563** | **3.1%** |
| ***TRANSFERS*** | | | | |
| Budget Stabilization | $0 | $0 | $0 | --- |
| Other Transfers Out | $118 | $0 | $118 | --- |
| **Total Transfers Out** | $118 | $0 | $118 | --- |
| **TOTAL GRF USES** | **$2,225,781** | **$2,158,100** | **$67,681** | **3.1%** |

* 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 November 30, 2009**
($ in thousands)
(Actual based on OAKS reports run December 11, 2009)

| ***PROGRAM*** | **Actual** | **Estimate*** | **Variance** | **Percent** | **FY 2009** | **Percent Change** |
|---|---|---|---|---|---|---|
| Primary, Secondary, and Other Education | $3,324,664 | $3,123,369 | $201,295 | 6.4% | $3,294,980 | 0.9% |
| Higher Education | $1,051,479 | $1,074,340 | -$22,861 | -2.1% | $1,174,220 | -10.5% |
| **Total Education** | $4,376,143 | $4,197,709 | $178,434 | 4.3% | $4,469,200 | -2.1% |
| | | | | | | |
| Public Assistance and Medicaid | $4,668,173 | $4,932,331 | -$264,158 | -5.4% | $5,172,831 | -9.8% |
| Health and Human Services | $487,748 | $496,618 | -$8,870 | -1.8% | $575,478 | -15.2% |
| **Total Welfare and Human Services** | $5,155,920 | $5,428,949 | -$273,029 | -5.0% | $5,748,309 | -10.3% |
| | | | | | | |
| Justice and Public Protection | $898,936 | $873,420 | $25,516 | 2.9% | $1,012,379 | -11.2% |
| Environment and Natural Resources | $47,751 | $44,849 | $2,903 | 6.5% | $57,411 | -16.8% |
| Transportation | $8,471 | $9,080 | -$609 | -6.7% | $8,517 | -0.5% |
| General Government | $140,453 | $140,796 | -$343 | -0.2% | $187,151 | -25.0% |
| Community and Economic Development | $48,651 | $47,859 | $792 | 1.7% | $69,732 | -30.2% |
| Capital | $255 | $0 | $255 | --- | $37 | 581.8% |
| **Total Government Operations** | $1,144,518 | $1,116,004 | $28,514 | 2.6% | $1,335,228 | -14.3% |
| | | | | | | |
| Tax Relief and Other | $878,728 | $641,864 | $236,864 | 36.9% | $787,102 | 11.6% |
| Debt Service | $188,625 | $193,908 | -$5,283 | -2.7% | $302,250 | -37.6% |
| **Total Other Expenditures** | $1,067,353 | $835,772 | $231,581 | 27.7% | $1,089,352 | -2.0% |
| | | | | | | |
| **Total Program Expenditures** | **$11,743,935** | **$11,578,435** | **$165,500** | **1.4%** | **$12,642,088** | **-7.1%** |
| | | | | | | |
| ***TRANSFERS*** | | | | | | |
| | | | | | | |
| Budget Stabilization | $0 | $0 | $0 | --- | $0 | --- |
| Other Transfers Out | $1,021,326 | $967,366 | $53,960 | 5.6% | $835,268 | 22.3% |
| **Total Transfers Out** | $1,021,326 | $967,366 | $53,960 | 5.6% | $835,268 | 22.3% |
| | | | | | | |
| **TOTAL GRF USES** | **$12,765,262** | **$12,545,801** | **$219,461** | **1.7%** | **$13,477,357** | **-5.3%** |

* 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 | November Actual | November Estimate | November Variance | November Percent Variance | Year to Date Actual thru Nov | Year to Date Estimate thru Nov | Year to Date Variance | Year to Date Percent Variance |
|---|---|---|---|---|---|---|---|---|
| Nursing Facilities | $258,137 | $235,255 | $22,882 | 9.7% | $1,118,103 | $1,144,187 | -$26,084 | -2.3% |
| ICFs/MR | $46,090 | $46,358 | -$268 | -0.6% | $225,902 | $227,562 | -$1,660 | -0.7% |
| Inpatient Hospitals | $79,764 | $99,006 | -$19,242 | -19.4% | $446,037 | $496,583 | -$50,546 | -10.2% |
| Outpatient Hospitals | $29,681 | $38,821 | -$9,140 | -23.5% | $168,133 | $185,823 | -$17,690 | -9.5% |
| Physicians | $27,244 | $32,944 | -$5,700 | -17.3% | $136,080 | $158,892 | -$22,812 | -14.4% |
| Prescription Drugs | $31,390 | $48,972 | -$17,582 | -35.9% | $200,316 | $239,544 | -$39,228 | -16.4% |
| ODJFS Waivers | $25,448 | $33,810 | -$8,362 | -24.7% | $136,814 | $155,883 | -$19,069 | -12.2% |
| MCP | $468,424 | $467,791 | $633 | 0.1% | $2,244,308 | $2,248,324 | -$4,016 | -0.2% |
| All Other | $115,269 | $128,575 | -$13,306 | -10.3% | $579,438 | $615,574 | -$36,136 | -5.9% |
| DA Medical | $543 | $752 | -$209 | -27.8% | $3,373 | $3,551 | -$178 | -5.0% |
| Total Payments | $1,081,990 | $1,132,284 | -$50,294 | -4.4% | $5,258,504 | $5,475,923 | -$217,419 | -4.0% |
| Non-GRF Offsets | -$370,017 | -$370,475 | $458 | -0.1% | -$1,033,764 | -$1,035,988 | $2,224 | -0.2% |
| Total 600525 (net of offsets) | $711,973 | $761,809 | -$49,836 | -6.5% | $4,224,740 | $4,439,935 | -$215,195 | -4.8% |
| Medicare Part D (600526) | $21,541 | $21,725 | -$184 | -0.8% | $109,331 | $111,117 | -$1,786 | -1.6% |
| **Total GRF** | **$733,514** | **$783,534** | -$50,020 | **-6.4%** | **$4,334,071** | **$4,551,052** | -$216,981 | **-4.8%** |
| **Total All Funds** | **$1,103,531** | **$1,154,009** | -$50,478 | **-4.4%** | **$5,367,835** | **$5,587,040** | -$219,205 | **-3.9%** |

*Sources: Actuals from the Ohio Administrative Knowledge System.*
*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**

## Overview

Through November, FY 2010 GRF uses totaled $12.77 billion, $219.5 million (1.7%) above the estimate released by the Office of Budget and Management (OBM) in September 2009. Of this positive variance, $67.6 million occurred in the month of November. Tables 3 and 4 show GRF uses for November and for FY 2010 through November, respectively. GRF uses mainly consist of program expenditures but also include transfers out. For the first five months of FY 2010, GRF program expenditures were $11.74 billion, $165.5 million (1.4%) above estimate, and transfers out were $1.02 billion, $54.0 million (5.6%) above estimate.

Year-to-date program expenditures were $165.5 million above estimate, largely due to timing issues.

The overall year-to-date positive variance of $165.5 million was almost entirely attributable to timing issues, and the positive variances in most program categories are expected to be reduced in the coming months. The three program categories contributing the most to this positive variance were Tax Relief and Other ($236.9 million), Primary, Secondary, and Other Education ($201.3 million), and Justice and Public Protection ($25.5 million). Programs with major offsetting negative variances included Public Assistance and Medicaid ($264.2 million), Higher Education ($22.9 million), and Health and Human Services ($8.9 million). The variances in these six program categories are briefly discussed below.

## Positive Variances

The Tax Relief and Other program category yielded a positive variance of $56.2 million (32.7%) for the month of November, bringing this program category's year-to-date positive variance to $236.9 million (36.9%). The higher than expected expenditures in October and November were due to counties submitting reimbursement requests sooner than was anticipated by OBM. The positive variance is expected to be reduced in future months. The property tax relief reimbursements are made twice per year, one based on the February property tax settlement and the other one based on the August property tax settlement. Reimbursements based on the August 2009 property tax settlement will be complete in December; the last two counties submitted their reimbursement requests in November.

Expenditures in the Primary, Secondary, and Other Education program category totaled $3.32 billion for the year to date, $201.3 million (6.4%) above estimate. Although the month of November registered a positive variance of $12.5 million (2.1%), the year-to-date positive variance was mainly the result of a positive variance of $229.6 million in October. As explained in the prior issue of *Budget Footnotes*, the Ohio Department of Education has adopted a new payment methodology for making school foundation payments. While no change is made to the total annual school foundation aid amount, the new method appears to pay out state aid to certain districts sooner than under the previous method. Implementation of the new method led to a one-time increase in school foundation payments in October that will be offset by lower payments throughout the remainder of the fiscal year.

The year-to-date positive variance of $25.5 million (2.9%) in the Justice and Public Protection program category was the result of a positive variance of $39.9 million (31.8%) in November. The Institutional Operations line items of the Department of Rehabilitation and Correction (DRC) accounted for the majority of these variances. In FY 2010, DRC's operating expenses are mainly supported by the state GRF ($780.9 million through appropriation item 501321, Institutional Operations) and federal stimulus funding deposited into the GRF ($111.2 million through appropriation item 501620, Institutional Operations – Federal Stimulus). For the first five months of FY 2010, these two items registered a combined positive variance of $21.6 million. The timing of payrolls affects the expenditures of these two items. Three payrolls, including the annual sick leave cash out for state employees, were posted in November, which resulted in larger than normal payroll expenses. The positive variance resulting from DRC's payroll expenditures is expected to be reduced in future months.

## Negative Variances

GRF expenditures for the Public Assistance and Medicaid program category were $264.2 million (5.4%) below estimate for the first five months of FY 2010, of which $48.9 million occurred in November. Medicaid spending comprises the vast majority of expenditures for this category, and Table 5 details Medicaid expenditures by service category.

Year-to-date GRF Medicaid expenditures were $4.33 billion, $217.0 million (4.8%) below estimate. The month of November contributed $50.0 million to this negative variance due to a timing issue. According to OBM, $69.9 million in Medicaid payments budgeted for November were disbursed in December.

Year-to-date expenditures for the Nursing Facilities category were below estimate by $26.1 million (2.3%); however, expenditures for this category in November were above estimate by $22.9 million (9.7%). The

As of December 1, 2009, outstanding prior year encumbrances totaled $179.3 million.

positive variance in November was mainly due to a "catch-up" payment related to implementation of the per diem reimbursement rate increases included in H.B. 1. The rate changes were implemented in October after the state received federal approval. Expenditures for this category were below estimate from July through September. In November, a lump-sum payment of $31.7 million was made for those months. This payment led to expenditures in this category to be above estimate for November and to be closer to estimate for the year to date.

Other categories that had significant negative year-to-date variances included Inpatient Hospitals ($50.5 million), Prescription Drugs ($39.2 million), All Other ($36.1 million), and Physicians ($22.8 million). The All Other category includes payments for some smaller service categories and Medicare Part D.

Through November, FY 2010 expenditures for Higher Education were $22.9 million (2.1%) below estimate. As explained in the prior issue of *Budget Footnotes*, the changes made to the Ohio College Opportunity Grant by H.B. 1 have delayed payments for the 2009-2010 academic year. These expenditures are expected to return to estimated levels by February 2010. On the other hand, the year-to-date negative variance of $8.9 million (1.8%) in the Health and Human Services program category was a result of the buildup of relatively small variances in the various agencies and line items that comprise this category, including $4.8 million in the Department of Health and $3.1 million in the Department of Aging.

## Prior Year Encumbrances

As reported in the July issue of *Budget Footnotes*, state agencies carried into FY 2010 more than $345 million in encumbered funds that were originally appropriated for fiscal years prior to FY 2010. An agency generally has five months to spend prior year encumbrances for operating expenses. Any unspent operating expense encumbrances will lapse at the end of the five-month period and will become part of the GRF cash balance once OBM cancels the encumbrance. Subject to the approval of the Director of Budget and Management, an agency may carry funds encumbered for purposes other than operating expenses beyond the five-month period. Encumbrances for some grant and aid payments may be carried for several months or even years.

| Prior Year Encumbrances by Agency ($ in millions) | | | | |
|---|---|---|---|---|
| Agency | Prior Year Encumbrances as of July 1, 2009 | Amount Expended | Outstanding Encumbrances as of Dec. 1, 2009 | Amount Lapsed |
| Education | $110.4 | $67.6 | $41.4 | $1.4 |
| Job & Family Services | $97.4 | $11.8 | $76.4 | $9.2 |
| Development | $65.7 | $19.7 | $45.0 | $1.1 |
| Rehabilitation and Correction | $15.6 | $14.8 | $0.4 | $0.4 |
| Transportation | $9.9 | $3.7 | $6.1 | $0.0 |
| Regents | $8.7 | $5.1 | $3.3 | $0.2 |
| Developmental Disabilities | $8.4 | $3.6 | $4.7 | $0.0 |
| Arts Council | $5.2 | $4.9 | $0.3 | $0.0 |
| Youth Services | $5.2 | $4.1 | $0.1 | $1.0 |
| All Other Agencies | $18.7 | $14.6 | $1.6 | $2.5 |
| **Total** | **$345.1** | **$149.9** | **$179.3** | **$15.9** |

As shown in the table above, as of December 1, 2009, $149.9 million (43.4%) of the $345.1 million in total encumbrances was spent, $179.3 million was still outstanding, and the remaining $15.9 million lapsed. Of the $179.3 million in total outstanding encumbrances, $129.7 million (72.3%) was originally appropriated for FY 2009 and $42.4 million (23.7%) was originally appropriated for FY 2008. The Ohio Department of Job and Family Services (ODJFS) had the largest share (42.6%) of the total outstanding encumbrances, followed by the Department of Development (DOD) at 25.1% and the Department of Education (ODE) at 23.1%. Together, these three agencies had $162.8 million (90.8%) of the $179.3 million in total outstanding encumbrances.

Medicaid alone accounted for $46.3 million (60.6%) of ODJFS's total outstanding encumbrances. The vast majority of DOD's outstanding encumbrances were for various economic development grants. Many of these grant programs are operated on a reimbursement basis, under which grantees have to carry out the programs and certify that certain requirements or objectives have been met before they are reimbursed by the state. For example, a grantee may be awarded grants in FY 2009 but not receive them until FY 2010 or later, depending on the scope of the project. Foundation funding accounted for $33.5 million (80.9%) of ODE's total outstanding encumbrances. This money will be used for the final adjustments of FY 2009 school foundation aid, which will occur sometime in early 2010.

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

# ISSUE UPDATES

## Passage of Issue 3 Provides No Direct Additional GRF Funds

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

Ohio voters opened up the state to casino gambling with the passage of Issue 3 on November 3, 2009, but the amendment will not yield additional money to the GRF from the tax on gross casino revenue. Construction and operation of casinos may indirectly increase tax receipts, primarily from the personal income tax, the sales and use tax, the lodging tax, and the commercial activity tax. The casinos are likely to reduce future profits from the sales of lottery tickets and the potential yield to the GRF from video lottery terminals at Ohio's seven horse racing tracks. However, the Ohio Supreme Court ruled on September 21, 2009 that the H.B. 1 provision to install video lottery terminals at the horse racing tracks was subject to a statewide referendum.

The constitutional amendment authorizes the establishment of four full-service casinos, one each in Cleveland, Cincinnati, Columbus, and Toledo, but with no specific requirements or date by which the casinos must be built. The language establishes license fees of up to $200 million and a tax rate of 33% on the gross income of casinos (revenue after payment of prizes but before payment of expenses). Revenue from the fee is designated to support regional job training programs. The tax on gross income is earmarked for local governments and school districts (90%), the Ohio State Racing Commission (3%), the Ohio Casino Control Commission (to be created; 3%), a state fund to be used for problem gambling issues (2%), and a state fund for training of law enforcement agencies (2%).

Casinos will increase state and local government expenditures. Those costs could include expansion or installation of public infrastructure to support the facilities, environmental remediation, and roadway improvements to provide access to those facilities.

## Youth Services Opens First Community-Based Treatment Center

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

On October 1, 2009, the Department of Youth Services opened Starr Commonwealth, its first community-based treatment center (CBTC). A CBTC is a local residential facility intended to treat moderate risk youth who have committed a felony-level crime as an alternative to incarceration in a juvenile correctional facility. Starr Commonwealth, which is located in Franklin County, is the first of two CBTCs scheduled to open this biennium. It is designed to house and treat up to 24 youth at a time. Typically, each youth would stay for a period of around four months. A second

CBTC is scheduled to open in FY 2011, and, depending upon the outcome of a request for proposal process, will be located in either Cuyahoga or Hamilton County. These CBTCs are part of a larger departmental effort to reduce the size of its institutional population and to increase the community and residential treatment options available to the local juvenile justice system.

The Department has allocated a total of $2.2 million in each of FYs 2010 and 2011 from GRF line item 470401, RECLAIM Ohio, to fund its CBTC initiative, of which approximately $115,000 has been spent thus far in FY 2010. These moneys have been largely used to cover payments totaling $93,000 to the University of Cincinnati for staff training, model development, coaching, and consultation, as well as Starr Commonwealth's operating expenses. The Department anticipates that its actual CBTC expenditures may be less than the amount allocated for FY 2010, as the initiative started later than was originally anticipated.

## Medical Utilization Review Program Nets State's Prison System $2.9 Million Savings

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

In FY 2009, the Department of Rehabilitation and Correction's (DRC) medical utilization review program produced a net savings estimated at $2.9 million. Under the program, the Department contracts with Permedion, a company located in Westerville, Ohio, to provide two deliverables intended to reduce annual expenditures on institutional medical services provided to inmates: precertification and retrospective review. Precertification involves determining the medical necessity of inmate clinical services and diagnostic procedures being requested by institutional medical personnel. Retrospective review involves a review of certain claims after an inmate's hospitalization to ensure that the services were medically necessary, provided in the appropriate setting, and billed accurately and appropriately.

The table below summarizes the service fees paid by the Department to Permedion and the estimated medical cost savings to the Department in FY 2009. The precertification savings represents the cost of tests and procedures requested by clinicians and subsequently denied after Permedion's precertification review. The retrospective review savings represents the amount of medical bills the Department did not have to pay as a result of Permedion's retrospective review of medical files of inmates.

**Permedion Service Fees and DRC Medical Cost Savings, FY 2009**

| Deliverable | Service Fees | Gross Cost Savings | Net Cost Savings |
|---|---|---|---|
| Precertification Review | $232,633 | $664,512 | $431,879 |
| Retrospective Review | $156,212 | $2,600,000 | $2,443,788 |
| **TOTALS** | **$388,845** | **$3,264,512** | **$2,875,667** |

## EPA Releases $119.2 Million in ARRA Funding for Water Pollution Control and Drinking Water Projects

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

As of November 2009, the Ohio Environmental Protection Agency (EPA) has issued $119.2 million in low-interest loans funded by the American Recovery and Reinvestment Act of 2009 (ARRA) for State Revolving Fund projects, including $68.0 million for 107 water pollution control project loans and $51.2 million for 51 drinking water system project loans. The total amount loaned to date represents nearly 43% of the combined ARRA allotments to the Ohio Water Pollution Control Loan Fund ($220.6 million) and the Water Supply Revolving Loan Account ($58.5 million). Overall, ARRA funding will support 267 water pollution control projects in 160 communities and 65 drinking water projects in 52 communities.

The Ohio Water Pollution Control Loan Fund issues loans to qualified political subdivisions for wastewater treatment and storm water construction projects. The Water Supply Revolving Loan Account issues loans to qualified political subdivisions for the planning, design, and construction of community water systems. Applications for ARRA funding through these programs were due in March 2009 and EPA announced its intended project priority list in late April. Once the intended projects were determined, the Agency was required to create an intended use plan (IUP) that was to be made available for public inspection before any funding could be released to eligible political subdivisions. EPA revised and finalized its project list and IUP on June 8, 2009, and has been distributing ARRA funds to political subdivisions since that time.

## Department of Natural Resources Awards 25 Clean Ohio Trail Grants

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

On November 2, 2009, the Department of Natural Resources (DNR) announced the fifth round of awards under the Clean Ohio Trails Program, totaling $6.25 million for 25 projects (see table below). The recipients will use these grant moneys to help build or expand recreational trail systems and preserve natural areas. Appropriations for the program total $12.5 million for the FY 2009-FY 2010 capital biennium. Including this fifth round of awards, the program has awarded a total of $31.25 million to support 122 local recreational trail projects since its inception in 2000. In order to qualify for state funding, grantees must provide a 25% local match.

The Clean Ohio Trails Program is one of four components of the statewide Clean Ohio Fund, which was originally approved by voters in 2000 and reauthorized in 2008. A total of $800 million general obligation bonds have been approved for the Clean Ohio Fund, including $50 million for the Clean Ohio Trails Program. The other three components of the Clean Ohio Fund are the Clean Ohio Revitalization Fund, the Clean Ohio Agricultural Easement Purchase Program, and the Clean Ohio Green Space Conservation Program.

| Clean Ohio Trail Awards – Fifth Round | | | |
|---|---|---|---|
| **Grantee (County)** | **Amount** | **Grantee (County)** | **Amount** |
| City of Cuyahoga Heights (Cuyahoga) | $500,000 | Metropolitan Park District of the Toledo Area (Lucas) | $205,497 |
| Mill Creek Restoration Project (Hamilton) | $500,000 | Franklin Township (Mercer) | $195,000 |
| City of Akron (Summit) | $500,000 | Darke County Park District (Darke) | $188,000 |
| Columbus Recreation & Parks Dept. (Franklin) | $485,000 | City of Harrison (Hamilton) | $173,215 |
| City of Urbana (Champaign) | $444,500 | Pickaway County Park District (Pickaway) | $155,500 |
| Knox County Commissioners (Knox) | $383,500 | Stark County Park District (Stark) | $121,000 |
| City of Bedford Heights (Cuyahoga) | $374,726 | Moonville Rail Trail Association (Vinton) | $110,250 |
| City of Grove City (Franklin) | $275,000 | Mead Township Park District (Belmont) | $106,757 |
| Orange Township (Delaware) | $274,750 | West Creek Preservation Committee (Cuyahoga) | $103,125 |
| City of Canton (Stark) | $265,000 | Village of Craig Beach (Mahoning) | $71,050 |
| Gahanna Dept. of Parks & Recreation (Franklin) | $250,000 | Fairfield Heritage Trail Association (Fairfield) | $45,000 |
| City of Celina (Mercer) | $250,000 | Erie Metro Parks District (Erie) | $23,130 |
| Metro Parks Serving Summit County (Summit) | $250,000 | **Total** | **$6,250,000** |

## The Centers for Medicare and Medicaid Services Allocates $285.3 Million to Ohio's Children's Health Insurance Program

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

The federal Centers for Medicare and Medicaid Services, using a new allotment formula, allocated $285.3 million to Ohio's State Children's Health Insurance Program (SCHIP) for the second half of federal fiscal year 2009 (April 1, 2009 to September 30, 2009). Ohio projected it would spend $259.3 million for that period; however, final spending figures are not yet available. The difference between Ohio's allotment and what was actually spent will be available to Ohio for FFY 2010. In addition, Ohio will receive a new allotment for SCHIP for FFY 2010. SCHIP, created by Title XXI of the Social Security Act in 1997, provides health care coverage for children in low- and moderate-income families who cannot afford private insurance. Ohio implemented SCHIP as a Medicaid expansion in 1998.

The Children's Health Insurance Program Reauthorization Act of 2009 (CHIPRA) provides additional funding for SCHIP through FFY 2013 and modifies the allotment formula. The previous formula was based primarily on a state's share of low-income children and low-income children without health insurance. The new allotment formula provides funding to more accurately reflect state spending on the program. Under prior law, federal allotments to states were available for three years. Under CHIPRA, federal allotments are available for two years only. After two years, unexpended allotments will be redistributed to states that are projected to have funding shortfalls in their programs.

## Final Payments to Early Learning Initiative Providers Made in August

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

Final payments to Early Learning Initiative (ELI) providers were made in August, when the last contracts expired. H.B. 1 discontinued ELI, but some children continued to receive services through August. Payments in FY 2010 totaled $11.8 million for 10,266 children served in July and 9,049 children served in August. When the program ended, some of these children reached kindergarten age and have since enrolled in school; some transitioned to publicly funded child care if they met eligibility criteria. In FY 2009, ELI served an average of 12,640 children per month with annual expenditures of $116.8 million.

Launched in FY 2006, ELI provided young children educational experiences to prepare them for kindergarten while meeting the child care needs of working families on a full-day or part-day basis. Services were delivered through a partnership between the departments of Job and Family Services and Education. To be eligible for ELI, children must have been at least three years old but not of compulsory school age or enrolled in kindergarten. For FY 2009, family income could not exceed 200% of the federal poverty guidelines (FPG) ($36,620 annually for a family of three); from FY 2006 to FY 2008 the income ceiling was 185% FPG. Since the inception of the program, the state has expended a total of $405 million for ELI, all from the Temporary Assistance for Needy Families (TANF) Block Grant.

## Department of Education Begins Disbursement of Nearly $2 Million in ARRA Homeless Assistance Funds

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

The Department of Education (ODE) has begun disbursing ARRA McKinney-Vento homeless assistance funds. In June 2009, ODE awarded allocations totaling more than $1.9 million and ranging from $2,840 to $262,691 to 49 public school districts, 4 community schools, and 3 educational service centers. Allocation amounts were based on the number of homeless students identified by each entity with eligibility limited to those entities with at least 20 homeless students. Funds awarded under this program may be used for activities such as tutoring, provision of school supplies, mentoring, and summer programs to support the needs of homeless students. These one-time funds are intended to supplement the McKinney-Vento funds made available under the regular FY 2009 appropriation. According to an ODE ARRA first quarter report, these homeless assistance funds are being used to create or retain 9.4 teaching, life-skill coaching, or support staff positions on a full-time equivalency basis.

H.B. 2, the transportation budget bill of the 128th General Assembly, created the Federal Stimulus McKinney-Vento Grant Fund (Fund 3DG0) to receive federal stimulus payments made to the state for the McKinney-Vento Homeless Assistance Act, appropriated $1.4 million in FY 2009 to appropriation item 200630, Federal Stimulus-McKinney-Vento Grants, and reappropriated any unexpended portion of these funds for disbursement in FY 2010. However, Ohio's final federal allocation was $1.9 million. According to a spokesperson, ODE will likely seek appropriation of the remaining $0.5 million of the state's allocation in FY 2011.

## 52 School Districts Receive Qualified School Construction Bond Allocations

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

The School Facilities Commission (SFC) has announced that 52 school districts were awarded nearly $235.1 million in calendar year (CY) 2009 qualified school construction bond allocations. ARRA authorized the bonds, which provide federal tax credits for bond holders, in lieu of interest, in order to reduce an issuer's cost of borrowing. For Ohio, the total ARRA allocation was $267.1 million in CY 2009.[7] Any unused allocation amounts for CY 2009 may be used in CY 2010 in addition to the allocated amounts set by ARRA for that year. H.B. 1 authorized SFC, in consultation with the Director of Budget and Management, to allocate the bonds.

The qualified school construction bonds are to be used for the construction, rehabilitation, or repair of a public school facility, or for the acquisition of land on which a facility may be constructed. The 52 districts competed for and were awarded their allocations from the following three pools. Pool A consists of districts that were ready to issue bonds for a major school facility project. Nine districts were awarded a total of $68.9 million in bonds from this pool. Pool B consists of districts that had major school facility projects in the planning stage but needed to pass a levy in November 2009 before issuing bonds for the project. Thirty-eight districts were approved in this pool, but only eight districts passed their levies in November. These eight districts were awarded a total of $100.0 million in bonds. Pool C consists of districts with energy

[7] In addition to the $267.1 million state allocation, ARRA allocated $151.7 million in CY 2009 directly to the Akron, Cincinnati, Cleveland, Columbus, and Toledo school districts.

conservation and other small construction projects. Thirty-five districts were awarded a total of $66.2 million in bonds from this pool. The 52 districts awarded bond allocations have 120 days after receiving notice of their approval to complete the sale of the bonds.

# TRACKING THE ECONOMY

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

## Overview

National economic indicators in the past month have shown expansion in some cases and weakness in others. Gross domestic product, adjusted for inflation (real GDP), rose in the third quarter, though the rate of growth was revised down from the initial report, and corporate profits surged. Payroll employment declined slightly (-11,000) in November after sizable declines every month, averaging more than 300,000 fewer jobs each month, since the December 2007 peak. The national unemployment rate fell in November to 10.0%. Total industrial production rose slightly in October, the fourth consecutive monthly increase, but factory production declined. Purchasing managers with manufacturers said activity increased in November while those with nonmanufacturing organizations reported contraction following three months of growth. Total manufacturing and trade sales through September, adjusted for inflation, remained above the recession low reached in June.

Consumer spending, overall, grew in October, and unit sales of light motor vehicles increased in November. However, sales of large retail chains were little changed (+0.1%) from a year earlier in November, a very weak performance at the start of the holiday sales season. Personal incomes, the main resource supporting consumer spending, have been augmented by government transfer payments. Personal incomes from all sources other than transfer payments, and adjusted for inflation, were at a new recession low in October. Housing starts fell in October but home sales rose. Residential investment will likely be supported for the next few quarters by extension and expansion of the federal tax credit for home purchases. Nonresidential construction activity fell in October.

In Ohio, unemployment rose in October, raising the statewide unemployment rate to 10.5%. Employment in the state registered a small increase in October from a month earlier but remained far below pre-recession levels.

Monetary policy remains very accommodative. The nation's central bank continues to maintain its target for the federal funds rate, the interest rate on overnight loans between banks, as a range from 0% to 0.25%, and expects economic conditions and inflation to warrant an "exceptionally low" federal funds rate for "an extended period." The

National economic indicators in the past month have shown expansion in some cases and weakness in others.

Nonfarm payrolls nationwide in November declined by only 11,000.

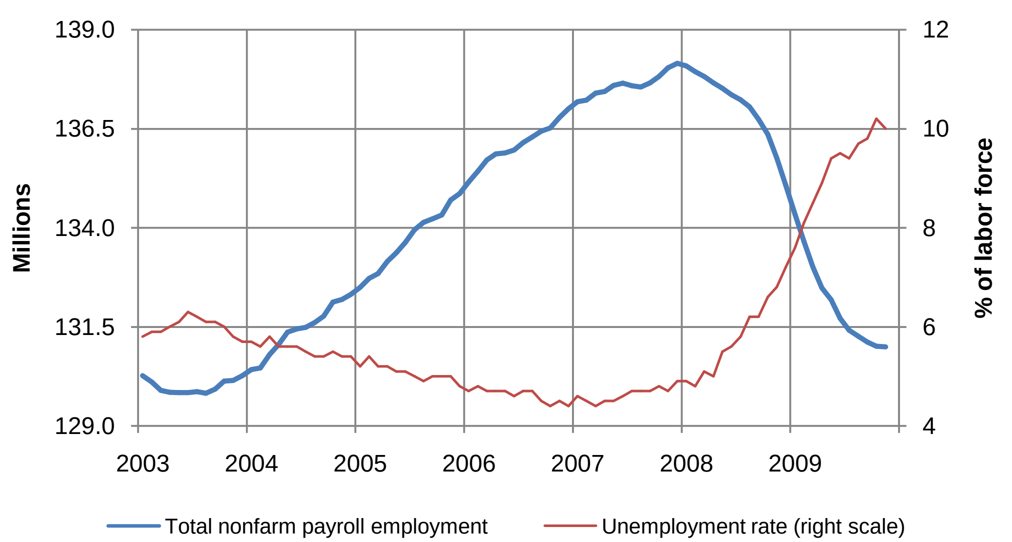
Federal Reserve System's balance sheet remains enlarged by various programs to acquire assets and make additional liquidity available to the private sector. Nevertheless, banks continue to tighten lending standards and terms for loans to households and businesses. Consumer credit continues to contract. Small businesses report more difficulty borrowing and tougher terms than before the recession, though slack demand for their products or services appears to be a bigger challenge for these firms.[8] The next meeting of the central bank's monetary policy decision-making group, the Federal Open Market Committee, is scheduled for December 15-16.

## The National Economy

### Employment and Unemployment

In a surprisingly positive report, nonfarm payrolls nationwide in November were reported to have declined by only 11,000 employees, and employment in the previous two months was revised to show smaller declines than before. Unemployment in the U.S. declined by 325,000 in November to 15.4 million, and the unemployment rate fell 0.2 percentage point to 10.0% (see Chart 1). However, those out of work for more than six months rose to 38.3% of the unemployed, the highest that long-term unemployment has been as a share of the total from 1948 to the present. In November, employment declined in manufacturing, construction, and several service industries, but rose in professional and

Chart 1: National Employment and Unemployment




[8] These comments on small business are based on the National Federation of Independent Business, *Small Business Economic Trends*, November 2009.

business services, notably in temporary help services, in health care, and in government, specifically in education. Employment in temporary help services has risen 117,000 since the low point in July. Ahead of the last trough for total employment, in August 2003, temporary help services turned up four months before total employment. This relationship is not consistent, however. At the previous employment low point in May 1991, temporary help services reached bottom in the same month as the total.

Industrial production rose 0.1% in October after monthly increases that averaged 0.9% in July, August, and September.

### Production, Shipments, and Inventories

The nation's real GDP grew at a 2.8% annual rate in the third quarter, after contracting for four consecutive quarters. Third quarter growth was revised down from 3.5% estimated initially. Consumer spending, residential fixed investment, exports, and government outlays expanded in the quarter. Inventory investment fell but by less than in the previous quarter. Business investment in structures fell while purchases of equipment increased after falling for six consecutive quarters. The report also showed that corporate profits growth in the third quarter was the strongest since 2004.

Industrial production rose 0.1% in October after monthly increases that averaged 0.9% in July, August, and September. The index of manufacturing output fell 0.1% in October, after rising in the third quarter, as durable goods production fell 0.4%. Sizable declines, more than 1.5%, were reported for nonmetallic mineral products, motor vehicles, and furniture, with smaller declines in several other durable goods industries, but primary metals output rose 3.5% and machinery output also increased. Nondurable goods production rose 0.2%.

Manufacturing activity expanded in November, as indicated by the Institute for Supply Management's survey of supply executives. Reports of expansion were less widespread than the month before, however. More survey respondents reported production increases than said production decreased, for the sixth consecutive month. New orders rose for the fifth straight month. Backlogs of unfilled orders rose for the fourth month in a row. Inventories continued to decline, a contraction underway for more than three years. Prices paid by manufacturers rose for the fifth consecutive month.

In a comparable survey of purchasing managers with nonmanufacturing organizations, those saying that business activity slowed in November outnumbered those reporting expansion. Business activity increased in the previous three months, seasonally adjusted. Those surveyed indicated that new orders rose in November, but employment and inventories contracted. The nonmanufacturing survey

Personal consumption expenditures rose 0.4% in October, adjusted for inflation, after declining 0.7% in September.

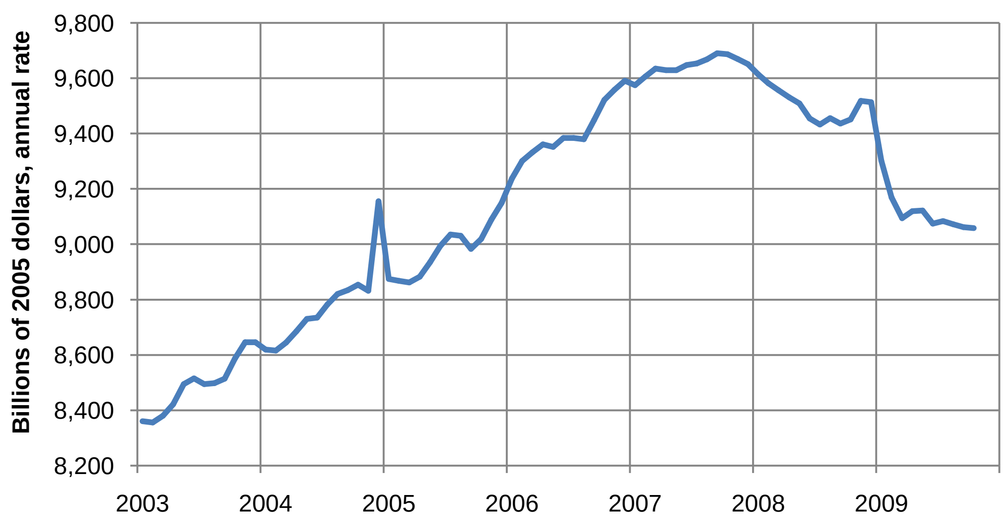
covers construction, mining, and agriculture as well as private service industries and public administration.

The dollar value of manufacturers' inventories rose 0.4% in October, after declining for 13 consecutive months. Manufacturers' shipments increased 0.8% in October, and have risen in four of the last five months. Factory new orders, up in six of the most recent seven months, rose 0.6% in October. However, the backlog of unfilled orders of manufacturers fell 0.4% in October, the thirteenth straight decline.

## Consumer Spending

Personal consumption expenditures rose 0.4% in October, adjusted for inflation, after declining 0.7% in September. The fluctuations were mainly due to large swings in motor vehicle sales, which in October recovered part of September's big drop following the end of the federal vehicle sales stimulus program. Personal income has trended higher this year reflecting in part a resumption of price increases. Adjusted to exclude increases that just keep pace with inflation, the recent low point for personal income was in March. The increase since then is more than accounted for by higher government transfer payments. Proprietors' incomes and rents are also estimated to have risen over this period. Excluding transfer payments, inflation-adjusted personal income declined through October, though the rate of decline has been much less steep in recent months than earlier (see Chart 2).

**Chart 2: Personal Income Excluding Transfer Payments**



Retail and food service sales rose 1.4% in October after falling 2.3% in September. Excluding motor vehicles and parts, retail sales rose 0.2% in October after increasing 0.4% in September. Sales at durable goods retailers other than motor vehicle dealers fell in October, as did sales at sporting goods, hobby, book, and music stores. Sales increased at restaurants and bars, nonstore retailers (catalog and Internet), and at several other categories of nondurable goods retailers.

Sales of cars and light trucks rose 4% in November, reaching a 10.9 million unit seasonally adjusted annual rate, after recovering to 13% in October. Light vehicle sales slumped in September following the end of the federal credit program to encourage purchases of new, more fuel-efficient vehicles. The sales rate remains far short of pre-recession levels, when yearly sales exceeded 16 million units for nearly a decade.

At large retailers that report their results monthly, sales in November were only 0.1% higher than a year earlier, on a same-store basis (including only store locations open in November of both 2008 and 2009).[9] This is an exceptionally weak performance in view of the 6.8% sales decline reported for November 2008 compared with a year earlier.

October housing starts were at the lowest rate since the recession low point in April. Sales of new homes rose.

### Construction and Real Estate

In October, the number of housing units started in the nation was 11% lower than in September and at the lowest rate since the recession low point in April. The slowing occurred in all regions, and in both homes and apartments. Issuance of permits authorizing construction of new housing units also slowed in October, declining 4%.

Sales of new homes nationwide in October were at a 430,000 unit seasonally adjusted annual rate, 6% higher than a month earlier and 31% higher than at the low point in January. The current sales pace remains well below sales a few years ago. From 2003 to 2006, more than one million new homes were sold each year. The number of new homes that had been completed and were available for sale at the end of October was the lowest since 2005, and the number under construction was lowest on records kept since 1973. Despite the stimulus from the $8,000 federal credit for new homeowners, the median number of months that homes had been for sale since completion rose to 13.5 months, highest on records kept since 1975.

[9] Figures cited here are from Bank of Tokyo-Mitsubishi UFJ's monthly compilation of same-store sales reported by about 32 large retail chains. The figures no longer include WalMart, by far the largest general merchandise retailer, which now publishes sales results quarterly.

The consumer price index for all urban consumers rose 0.3% in October and was 0.2% lower than a year earlier.

Sales of homes reported by the National Association of Realtors, generally previously occupied units, rose 10% in October after increasing 9% in September, seasonally adjusted. The pace of sales was 36% higher than at the low point last January. Increased sales have helped bring down the number of unsold listings, to the lowest level relative to sales since early 2007. Distressed property sales continue to account for a high share of the market. The sales surge appears to be in part an effort to close sales ahead of the previous deadline at the end of November for closings on home purchases in order to be eligible to claim the federal tax credit. The credit of up to $8,000 for homebuyers who had not owned a home in the past three years was extended in early November to include home purchase contracts signed by April 30, 2010, provided the transaction closes by June 30. In addition, a credit of up to $6,500 was created for others who do not qualify as "first-time homebuyers" and income limits for the credits were raised.

The total value of construction spending in October was estimated to be little changed from September, seasonally adjusted, as higher outlays for private residential construction about offset lower spending on private nonresidential structures and a slight decline in public construction. Private residential building activity has trended upward in the most recent four months, while private nonresidential construction has declined. Public construction spending grew through July but has declined on balance since then. Through the first ten months of 2009, the total value of construction put in place was 13% lower than a year earlier, reflecting a 19% decline in spending on private construction and a 4% rise in public construction.

### Inflation

The consumer price index for all urban consumers rose 0.3% in October. The index was 0.2% lower than a year earlier, mainly reflecting lower energy prices than in October 2008. However, an index of all consumer energy prices rose this October and has increased in five of the latest six months. Prices for all items other than food and energy were 1.7% higher in October than a year earlier.

Prices for regular gasoline nationwide averaged $2.63 per gallon on December 7, in the U.S. Energy Information Administration's weekly survey. Prices have fluctuated between $2.44 per gallon and $2.69 per gallon since late May, after falling to $1.61 per gallon at the end of 2008. In Ohio, regular gasoline prices averaged $2.56 per gallon on December 7. The benchmark grade of U.S. crude oil, West Texas Intermediate, has generally traded in a $70 per barrel to $80 per barrel range since early October, after falling to around $30 per barrel late last year.

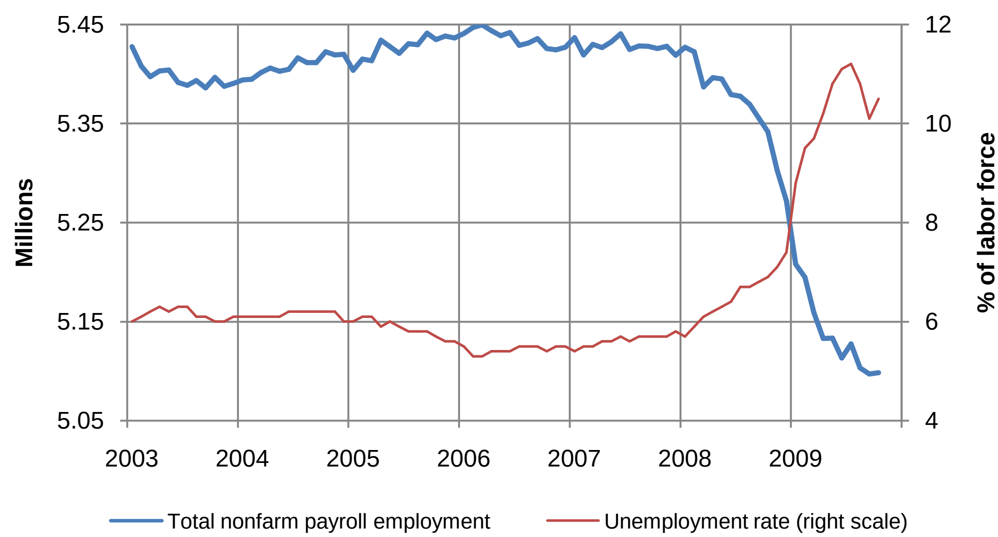
The producer price index for finished goods rose 0.3% in October. Reflecting earlier declines, particularly in late 2008, this index was 1.9% lower than in October 2008. At earlier stages in the production process, prices received by manufacturers of intermediate goods rose 0.3% in October and have increased in six of the last seven months, following earlier declines. Prices of crude materials rose 5.4% in October and rose in five of the most recent seven months.

## The Ohio Economy

The unemployment rate in Ohio rose to 10.5% in October, and has been more than 10% for the past seven months. The number of unemployed Ohioans in October was estimated at 618,000, up from 409,000 a year earlier. Employment on nonfarm payrolls rose 1,400 in October but was 243,200 (4.6%) lower in that month than a year earlier (see Chart 3).

The unemployment rate in Ohio rose to 10.5% in October. Employment was 243,200 (4.6%) lower than a year earlier.

**Chart 3: Ohio Employment and Unemployment**




The number of homes sold in Ohio in October, reported by the Ohio Association of Realtors, was 7% higher than a year earlier, the first year-over-year increase in home sales in 14 months. Sales were higher in 14 of 20 local markets reporting results. The average sales price statewide was 0.7% above a year earlier, as prices were higher in 11 of the 20 local markets.

Economic conditions showed little change in recent weeks, according to the Federal Reserve Bank of Cleveland's section of the Beige

Economic conditions showed little change in recent weeks in this region, according to the Beige Book.

Book published December 2.[10] This contrasts with reports of a pickup in activity or improvement in conditions from eight of the other 11 banks in the Federal Reserve System. Overall activity in this region remained sluggish. Factory production was about unchanged or up slightly. Freight transport volumes were reported to be little changed. Retail sales were also said to be about flat. New home sales were little changed to up slightly compared with a year earlier, with buying of lower-cost homes performing relatively well, apparently supported by the first-time home buyer tax credit. Commercial and industrial construction remains very weak, while public works construction is more stable. Obtaining financing is difficult, for both residential and nonresidential builders. Lending to businesses and consumers weakened further. Labor markets remain weak, but some companies were recalling small numbers of workers, and staffing firms saw more job openings in various industries.

[10] The Beige Book is a summary of comments from business and other contacts outside the Federal Reserve System, written by its twelve regional banks. The Federal Reserve Bank of Cleveland serves all of Ohio and parts of Kentucky, Pennsylvania, and West Virginia.