Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION FEBRUARY 2010

STATUS OF THE GRF

HIGHLIGHTS

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

A month into calendar year 2010, FY 2010 year-to-date GRF tax revenues have fallen below the estimate issued by the Office of Budget and Management in August 2009, for the first time. January tax receipts were poor, $89.6 million (5.4%) below estimate due to a large shortfall in personal income tax receipts which offset good results from other tax sources. Payroll employment decreased and unemployment rose in December 2009, and quarterly estimated income tax payments were below expectations. Consecutive monthly shortfalls in GRF tax receipts in December 2009 and January 2010 are worrisome and indicative of the Ohio economy struggling to find a bottom.

Through January 2010, GRF sources totaled $14.43 billion:

- Receipts from the personal income tax were $78.9 million (1.9%) below estimate;
- Sales and use tax receipts were $29.1 million (0.5%) above estimate.

Through January 2010, GRF uses totaled $16.58 billion:

- Spending on Public Assistance and Medicaid was below estimate by $296.7 million (4.5%);
- Spending on Tax Relief and Other was $219.2 million (32.6%) above estimate due primarily to a timing issue.

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Table 1: General Revenue Fund Sources
Preliminary Actual vs. Estimate
Month of January 2010
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on February 5, 2010)

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$61,340	$55,091	$6,249	11.3%
Nonauto Sales and Use	$616,266	$612,491	$3,775	0.6%
Total Sales and Use Taxes	$677,606	$667,582	$10,024	1.5%
Personal Income	$754,379	$875,100	-$120,722	-13.8%
Corporate Franchise	$42,481	$18,000	$24,481	136.0%
Public Utility	$257	$8,465	-$8,208	-97.0%
Kilowatt Hour Excise	$12,864	$14,111	-$1,248	-8.8%
Commercial Activity Tax**	$0	$0	$0	---
Foreign Insurance	$50	$97	-$47	-48.1%
Domestic Insurance	$6	$0	$6	---
Business and Property	$46	-$28	$73	265.0%
Cigarette	$72,385	$66,052	$6,332	9.6%
Alcoholic Beverage	$4,051	$4,341	-$290	-6.7%
Liquor Gallonage	$3,920	$3,834	$87	2.3%
Estate	$0	$116	-$116	-100.0%
Total Tax Revenue	**$1,568,043**	**$1,657,670**	**-$89,627**	**-5.4%**
NONTAX REVENUE				
Earnings on Investments	$9,824	$19,500	-$9,676	-49.6%
Licenses and Fees	$18,100	$13,770	$4,330	31.4%
Other Revenue	$4,391	$7,800	-$3,409	-43.7%
Total Nontax Revenue	**$32,314**	**$41,070**	**-$8,756**	**-21.3%**
TRANSFERS				
Liquor Transfers	$9,000	$12,000	-$3,000	-25.0%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$38,193	$54,500	-$16,307	-29.9%
Total Transfers In	**$47,193**	**$66,500**	**-$19,307**	**-29.0%**
TOTAL STATE SOURCES	**$1,647,550**	**$1,765,240**	**-$117,690**	**-6.7%**
Federal Grants	$599,259	$611,786	-$12,527	-2.0%
TOTAL GRF SOURCES	**$2,246,810**	**$2,377,026**	**-$130,216**	**-5.5%**

* 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 January 31, 2010
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on February 5, 2010)

	Actual	Estimate*	Variance	Percent	FY 2009	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$498,678	$468,683	$29,995	6.4%	$510,997	-2.4%
Nonauto Sales and Use	$3,742,165	$3,750,253	-$8,088	-0.2%	$3,883,010	-3.6%
Total Sales and Use Taxes	$4,240,843	$4,218,936	$21,907	0.5%	$4,394,007	-3.5%
Personal Income	$4,184,777	$4,263,699	-$78,922	-1.9%	$4,840,353	-13.5%
Corporate Franchise	-$16,545	-$2,039	-$14,506	-711.4%	$130,905	-112.6%
Public Utility	$57,163	$82,763	-$25,600	-30.9%	$84,803	-32.6%
Kilowatt Hour Excise	$90,392	$101,202	-$10,810	-10.7%	$80,204	12.7%
Commercial Activity Tax**	$0	$0	$0	---	$0	---
Foreign Insurance	$132,847	$137,110	-$4,263	-3.1%	$136,651	-2.8%
Domestic Insurance	$1,242	-$820	$2,062	251.5%	-$772	261.0%
Business and Property	$226	$430	-$203	-47.3%	$372	-39.1%
Cigarette	$477,140	$443,206	$33,934	7.7%	$501,449	-4.8%
Alcoholic Beverage	$32,647	$33,786	-$1,139	-3.4%	$33,265	-1.9%
Liquor Gallonage	$22,092	$21,861	$231	1.1%	$21,688	1.9%
Estate	$25,909	$29,371	-$3,462	-11.8%	$30,837	-16.0%
Total Tax Revenue	**$9,248,731**	**$9,329,503**	**-$80,772**	**-0.9%**	**$10,253,761**	**-9.8%**
NONTAX REVENUE						
Earnings on Investments	$21,441	$38,000	-$16,559	-43.6%	$97,747	-78.1%
Licenses and Fees	$38,603	$34,991	$3,612	10.3%	$37,543	2.8%
Other Revenue	$159,271	$165,653	-$6,382	-3.9%	$43,408	266.9%
Total Nontax Revenue	**$219,314**	**$238,644**	**-$19,330**	**-8.1%**	**$178,698**	**22.7%**
TRANSFERS						
Liquor Transfers	$94,000	$86,000	$8,000	9.3%	$87,000	8.0%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$380,893	429,764	-$48,871	-11.4%	$371,391	2.6%
Total Transfers In	**$474,893**	**$515,764**	**-$40,871**	**-7.9%**	**$458,391**	**3.6%**
TOTAL STATE SOURCES	**$9,942,938**	**$10,083,911**	**-$140,973**	**-1.4%**	**$10,890,850**	**-8.7%**
Federal Grants	$4,487,891	$4,703,483	-$215,592	-4.6%	$3,909,706	14.8%
TOTAL GRF SOURCES	**$14,430,829**	**$14,787,394**	**-$356,566**	**-2.4%**	**$14,800,557**	**-2.5%**

* 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.

January GRF sources were $130.2 million below estimate.

Year-to-date GRF tax revenues were $80.8 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 January 2010, total GRF sources of $2.25 billion were $130.2 million below estimate due to a large shortfall of $120.7 million in personal income tax revenue. The estimates for tax receipts, state-source receipts, and total GRF sources used for comparison here are the estimates made by the Office of Budget and Management in August 2009, and do not reflect additional revenue from H.B. 318.[1] This publication will use the new income tax estimate starting next month. January receipts increased the GRF negative variance for FY 2010 through January to $356.6 million, from $226.3 million at the end of December. Tables 1 and 2 show GRF sources for the month of January and for FY 2010 through January, respectively. GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants, which are federal reimbursements for human service programs that receive federal funding[2] and grants from the American Recovery and Reinvestment Act of 2009 (ARRA).

GRF tax sources of $1.57 billion in January were $89.6 million (5.4%) below estimate, pulled down by the performance of the personal income tax. The other two primary tax sources, the sales and use tax and the cigarette tax, were above estimate, respectively, by $10.0 million and $6.3 million. The corporate franchise tax was $24.5 million above expectations. The public utility tax and the kilowatt hour tax were below estimate, respectively, by $8.2 million and $1.2 million. In addition to the shortfall in the tax sources, transfers were below estimate by $19.3 million, nontax revenues by $8.8 million, and federal grants by $12.5 million.

Through January, FY 2010 total GRF sources of $14.43 billion were 2.4% below estimate, with all categories of sources below projections. Federal grants were below estimate by $215.6 million due to lower than expected expenditures in human service programs so far this fiscal year.

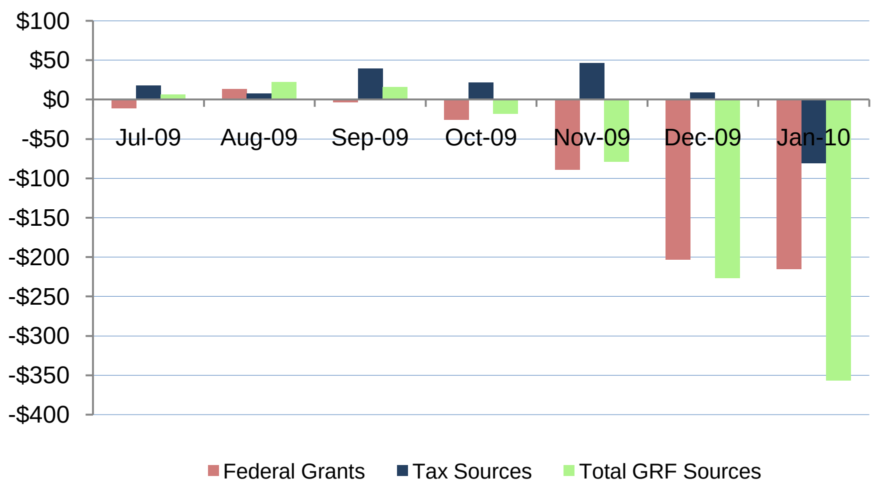
[1] H.B. 318, signed into law in December 2009, delayed the last of the income tax rate reductions enacted in H.B. 66 of the 126th General Assembly, and held tax rates unchanged in tax year (TY) 2009 and TY 2010 at the TY 2008 levels. This delay is expected to increase GRF personal income tax receipts by between $405 million and $416 million in FY 2010.

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

State-source receipts of $9.94 billion were below estimate by $141.0 million, with $60.2 million in lower than expected revenues from nontax sources and transfers adding to the deficit of $80.8 million in tax receipts. Total tax revenues of $9.25 billion fell below the year-to-date estimate for the first time this fiscal year. The trends in tax receipts in the last two months have been worrisome, as collections are sagging and moving in the wrong direction. The graph below shows the cumulative variance against estimate for federal grants, tax sources, and total GRF sources.

Year-to-date GRF tax revenues fall below estimate for the first time in January.

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



Unlike the personal income tax, the cigarette tax and the sales and use tax were above estimate for the fiscal year to date, by $33.9 million and $21.9 million, respectively, while most other tax sources were below estimate. Tax sources below estimate included the personal income tax ($78.9 million), the public utility excise tax ($25.6 million), the corporate franchise tax ($14.5 million), the kilowatt hour tax ($10.8 million), the foreign insurance tax ($4.3 million), and the estate tax ($3.5 million).

Compared to FY 2009, FY 2010 year-to-date GRF sources fell $369.7 million due to a decrease of $1.01 billion in tax receipts. The decrease in tax receipts was partially offset by an increase of $578.2 million in federal grants due to higher revenue this year from ARRA. Receipts from the personal income tax and the sales and use tax were below the levels of 2009, respectively, by $655.6 million and $153.2 million. Other taxes with notable year-to-date declines in revenue compared to FY 2009 included the corporate franchise tax ($147.5 million), the public utility excise tax ($27.6 million), the cigarette tax ($24.3 million), the estate tax ($4.9 million), and the foreign insurance tax ($3.8 million). The GRF received notable year-over-year increases of $10.2 million in

January income tax receipts were $120.7 million below estimate and $163.8 million below last year's levels.

kilowatt hour tax receipts and $2.0 million in domestic 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

January receipts from this tax source indicate that signs of stabilization of the labor market seen in the second quarter of FY 2010 may be fleeting. January GRF receipts from the personal income tax of $754.4 million were $120.7 million (13.8%) below the estimate published in August 2009[3] and $163.8 million (17.8%) below receipts in January 2009. The personal income tax exceeded revenue estimates in each of the first five months of the year. In the last two months, however, the tax has fallen below estimate.

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,[4] trust payments, payments associated with annual returns, and miscellaneous payments. Employer withholding was 3.6% and 6.8% below estimate, respectively, in December 2009 and January 2010. Compared to the previous year, employer withholding was 12.1% and 12.5% below the levels of December 2008 and January 2009, after it had averaged about 9.1% below prior-year levels in the first five months of FY 2010. Withholding tables used by employers were changed to reflect tax rate reductions in January 2009, meaning that the comparison of December 2008 withholding to December 2009 withholding reflects in part a reduction in tax rates. This may also be partially true of the comparison of January 2009 to January 2010 withholding, depending on the timing of withholding payments. However, the declines in both months reflect substantial decreases in employer payrolls.

In addition to the shortfall in employer withholding, quarterly estimated payments were below estimate by $15.7 million (15.4%) in December 2009 and $95.4 million (26.6%) in January 2010. The shortfall in estimated quarterly payments in those two months more than accounts for the year-to-date shortfall in the personal income tax. The

[3] As of this writing, OBM has not published revised monthly estimates.

[4] Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than $500. Payments are due on or before April 15, June 15, and September 15 of the tax year and January 15 of the following year. Most estimated payments are made by high-income taxpayers.

huge shortfall in personal income tax receipts this month turned the positive cumulative variance of $41.8 million at the end of December 2009 into a negative cumulative variance of $78.9 million (1.9%) through January 2010.

The GRF received $4.18 billion from the personal income tax through January in FY 2010. This amount was $655.6 million (13.5%) below receipts during the corresponding months of FY 2009. The table below 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 $3.5 million (0.1%) above estimate through January in FY 2010, down from $48.6 million above estimate in the previous month. Year-to-date withholdings were $451.8 million (10.1%) below FY 2009 receipts through January from both high levels of unemployment, and the final 4.2% reduction in tax rates enacted by H.B. 66 of the 126th General Assembly in the first half of FY 2010 (the tax rates in the second half of FY 2010 will be the same as those in the second half of FY 2009 due to H.B. 318). For the year to date through January, quarterly estimated payments were $103.0 million (14.3%) below estimate and $237.7 million (27.8%) below the levels of FY 2009.

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	$3.5	0.1%	-$451.8	-10.1%
Quarterly Estimated Payments	-$103.0	-14.3%	-$237.7	-27.8%
Trust Payments	-$8.0	-33.8%	-$9.9	-38.7%
Annual Return Payments	$0.7	0.5%	-$30.1	-18.0%
Miscellaneous Payments	$7.5	21.6%	$7.6	21.7%
Gross Collections	-$99.2	-2.2%	-$722.0	-13.0%
Less Refunds	-$24.7	-7.9%	-$19.4	-6.3%
Less Local Government Fund Distribution	$4.4	1.2%	-$47.0	-11.5%
Income Tax Revenue	-$78.9	-1.9%	-$655.6	-13.5%

Year-to-date sales tax receipts were $21.9 million above estimate.

Sales and Use Tax

January 2010 GRF sales and use tax receipts of $677.6 million were $10.0 million (1.5%) above estimate and $26.5 million (4.1%) above receipts in January 2009. Through January, FY 2010 GRF receipts of $4.24 billion were $21.9 million (0.5%) above estimate due to strong receipts from the auto sales tax more than offsetting weaker receipts from the nonauto sales tax. Year-to-date receipts were $153.2 million (3.5%) below FY 2009 receipts in the same period a recession-shrunk taxable base.

For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[5] 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 GRF receipts were $616.3 million in January 2010, $3.8 million (0.6%) above estimate. Those receipts were $30.5 million (5.2%) above January 2009 receipts, both from an expansion of the tax base[6] and better holiday sales this year. For the fiscal year, year-to-date nonauto sales and use tax receipts of $3.74 billion were $8.1 million (0.2%) below estimate and $140.8 million (3.6%) below receipts through January in FY 2009. Thus, even with added receipts from the base expansion, the nonauto sales tax is still very weak from the lingering effect of the recession on consumer spending and high unemployment.

Year-to-date auto sales tax receipts were $30.0 million above estimate through January.

Auto Sales and Use Tax

Auto sales and use tax receipts of $61.3 million in January 2010 were $6.2 million (11.3%) above estimate and $4.0 million (6.2%) below receipts in January 2009. Through January, FY 2010 auto sales and use tax receipts of $498.7 million were $30.0 million (6.4%) above estimate,

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[5] The clerks of court generally make auto sales and use tax payments on Monday for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled. Therefore, auto sales and use tax receipts largely reflect vehicles sold and titled during the month.

[6] New taxes were imposed on health care services provided by Medicaid health insuring corporations starting on October 1, 2009 (H.B. 1, the operating budget act for the current biennium). Those services are taxed under the sales and use tax and the insurance taxes.

but they were $12.3 million (2.4%) below receipts through January in FY 2009. The positive variance against estimate this year is due to additional sales from the "cash for clunkers" federal incentive program last summer, but auto sales have been firming of late. Vehicle sales fell to 10.8 million units on an annualized basis in January, from 11.2 million in December 2009. But the January sales rate was above the 10.4 million units in 2009. Although still low compared to historical sales rates, the enhancement of sales is expected to be gradual, as the labor and credit markets improve in the next few months.

Cigarette tax receipts were above estimate by $33.9 million through January in FY 2010.

Cigarette and Other Tobacco Products Tax

Receipts from the tax on cigarettes and other tobacco products were $72.4 million, $6.3 million (9.6%) above estimate and $5.2 million (6.7%) below January 2009 receipts. Through January, FY 2010 receipts of $477.1 million were $33.9 million (7.7%) above estimate and $24.3 million (4.8%) below FY 2009 receipts through January 2009. Receipts from cigarette sales were $450.1 million. Sales of products other than cigarettes provided $27.1 million. Compared to FY 2009, receipts from the sale of cigarettes declined $27.5 million (5.9%) and those from the sale of other tobacco products increased $3.2 million (13.5%). 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.

Corporate Franchise Tax

Year-to-date CFT receipts were about $14.5 million below estimate.

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 first major tax payment made by financial institutions this year yielded CFT receipts of $42.5 million in January. These receipts were $24.5 million (136.0%) above estimate. However, through December, net refunds from this tax were $39.0 million higher than expected. Thus, FY 2010 CFT net refunds through January were still $14.5 million higher than estimated refunds. In other words, CFT receipts were below estimate by the same amount. Comparisons with monthly receipts in the previous fiscal year are not meaningful.[7] The next two major CFT tax payments are due March 31 and May 31.

[7] A large portion of the CFT tax base has been eliminated by the phase-out. In TY 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).

CAT receipts were below estimate by $64.4 million through January 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 OAKS, January receipts were $37.5 million, $17.0 million (31.1%) below estimate and $3.6 million (8.8%) below receipts in January 2009. Year-to-date receipts of $694.7 million in FY 2010 were $64.4 million (8.8%) below estimate and $7.3 million (1.1%) above FY 2009 receipts through January. Growth in the CAT tax base stalled in 2008 and reversed throughout 2009. Consequently, this tax source may underperform this fiscal year, unless the next two major payments in February and May exceed current expectations. The February payment will be based on 2009 fourth-quarter taxable gross receipts.

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 January 2010
($ in thousands)
(Actual based on OAKS reports run February 3, 2010)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary, Secondary, and Other Education	$769,295	$552,597	$216,699	39.2%
Higher Education	$198,149	$189,720	$8,429	4.4%
Total Education	$967,444	$742,317	$225,127	30.3%
Public Assistance and Medicaid	$737,991	$819,935	-$81,944	-10.0%
Health and Human Services	$142,651	$139,796	$2,855	2.0%
Total Welfare and Human Services	$880,642	$959,731	-$79,089	-8.2%
Justice and Public Protection	$186,313	$200,485	-$14,172	-7.1%
Environment and Natural Resources	$6,385	$5,909	$476	8.1%
Transportation	$1,535	$909	$626	68.9%
General Government	$22,863	$16,226	$6,638	40.9%
Community and Economic Development	$4,435	$4,714	-$279	-5.9%
Capital	$75	$0	$75	---
Total Government Operations	$221,606	$228,242	-$6,637	-2.9%
Tax Relief and Other	$5,573	$17,850	-$12,277	-68.8%
Debt Service	$46,451	$42,143	$4,308	10.2%
Total Other Expenditures	$52,024	$59,993	-$7,969	-13.3%
Total Program Expenditures	**$2,121,716**	**$1,990,284**	**$131,432**	**6.6%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$3,701	$1,977	$1,724	87.2%
Total Transfers Out	$3,701	$1,977	$1,724	87.2%
TOTAL GRF USES	**$2,125,417**	**$1,992,261**	**$133,156**	**6.7%**

* 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 January 31, 2010
($ in thousands)
(Actual based on OAKS reports run February 3, 2010)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2009**	**Percent Change**
Primary, Secondary, and Other Education	$4,381,068	$4,188,697	$192,371	4.6%	$4,394,562	-0.3%
Higher Education	$1,448,118	$1,452,660	-$4,542	-0.3%	$1,541,753	-6.1%
Total Education	$5,829,185	$5,641,357	$187,828	3.3%	$5,936,315	-1.8%
Public Assistance and Medicaid	$6,370,268	$6,666,952	-$296,684	-4.5%	$6,958,573	-8.5%
Health and Human Services	$682,607	$696,580	-$13,973	-2.0%	$806,709	-15.4%
Total Welfare and Human Services	$7,052,875	$7,363,532	-$310,657	-4.2%	$7,765,282	-9.2%
Justice and Public Protection	$1,214,226	$1,254,837	-$40,611	-3.2%	$1,337,766	-9.2%
Environment and Natural Resources	$59,309	$57,228	$2,081	3.6%	$70,122	-15.4%
Transportation	$11,178	$10,777	$400	3.7%	$14,369	-22.2%
General Government	$182,156	$183,660	-$1,504	-0.8%	$232,742	-21.7%
Community and Economic Development	$62,885	$59,992	$2,894	4.8%	$89,798	-30.0%
Capital	$330	$0	$330	---	$187	76.5%
Total Government Operations	$1,530,084	$1,566,494	-$36,410	-2.3%	$1,744,984	-12.3%
Tax Relief and Other	$891,875	$672,714	$219,161	32.6%	$797,456	11.8%
Debt Service	$252,971	$256,314	-$3,343	-1.3%	$396,525	-36.2%
Total Other Expenditures	$1,144,846	$929,028	$215,818	23.2%	$1,193,981	-4.1%
Total Program Expenditures	**$15,556,989**	**$15,500,410**	**$56,579**	**0.4%**	**$16,640,561**	**-6.5%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers Out	$1,025,027	$969,343	$55,684	5.7%	$844,504	21.4%
Total Transfers Out	$1,025,027	$969,343	$55,684	5.7%	$844,504	21.4%
TOTAL GRF USES	**$16,582,017**	**$16,469,753**	**$112,263**	**0.7%**	**$17,485,065**	**-5.2%**

* 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	January Actual	January Estimate	January Variance	January Percent Variance	Year to Date Actual thru Jan	Year to Date Estimate thru Jan	Year to Date Variance	Year to Date Percent Variance
Nursing Facilities	$224,281	$233,982	-$9,701	-4.1%	$1,566,071	$1,604,454	-$38,383	-2.4%
ICFs/MR	$46,192	$46,348	-$156	-0.3%	$316,666	$318,700	-$2,034	-0.6%
Inpatient Hospitals	$68,918	$80,263	-$11,345	-14.1%	$606,730	$655,585	-$48,855	-7.5%
Outpatient Hospitals	$25,777	$30,051	-$4,274	-14.2%	$236,049	$246,039	-$9,990	-4.1%
Physicians	$22,943	$25,324	-$2,381	-9.4%	$188,755	$209,793	-$21,038	-10.0%
Prescription Drugs	$33,445	$40,278	-$6,833	-17.0%	$274,201	$318,744	-$44,543	-14.0%
ODJFS Waivers	$25,341	$27,048	-$1,707	-6.3%	$192,485	$209,671	-$17,186	-8.2%
MCP	$395,397	$412,884	-$17,487	-4.2%	$3,136,126	$3,174,123	-$37,997	-1.2%
All Other	$110,556	$111,803	-$1,247	-1.1%	$806,849	$837,061	-$30,212	-3.6%
DA Medical	$12	$558	-$546	-97.8%	$3,422	$4,677	-$1,255	-26.8%
Total Payments	$952,862	$1,008,539	-$55,677	-5.5%	$7,327,354	$7,578,847	-$251,493	-3.3%
Non-GRF Offsets	-$295,094	-$307,922	$12,828	-4.2%	-$1,623,879	-$1,639,187	$15,308	-0.9%
Total 600525 (net of offsets)	$657,768	$700,617	-$42,849	-6.1%	$5,703,475	$5,939,660	-$236,185	-4.0%
Medicare Part D (600526)	$21,578	$21,804	-$226	-1.0%	$152,101	$154,684	-$2,583	-1.7%
Total GRF	**$679,346**	**$722,421**	-$43,075	**-6.0%**	**$5,855,576**	**$6,094,344**	-$238,768	**-3.9%**
Total All Funds	**$974,440**	**$1,030,343**	-$55,903	**-5.4%**	**$7,479,455**	**$7,733,531**	-$254,076	**-3.3%**

Sources: Actuals based on OAKS reports run on February 9, 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

For the first seven months of FY 2010, GRF uses of $16.58 billion were $112.3 million (0.7%) above estimate.

EXPENDITURES

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

Overview

Tables 3 and 4 show GRF uses for the month of January and for FY 2010 through January, respectively. For January, GRF uses of $2.13 billion were $133.2 million (6.7%) above the estimate released by the Office of Budget and Management (OBM) in September 2009. For the first seven months of FY 2010, GRF uses of $16.58 billion were $112.3 million (0.7%) above estimate. GRF uses consist primarily of program expenditures and also include transfers out. In January, GRF program expenditures totaled $2.12 billion, $131.4 million (6.6%) above estimate. A relatively small amount – $3.7 million – was transferred out in January, which was $1.7 million (87.2%) more than anticipated. Through January, GRF program expenditures totaled $15.56 billion, $56.6 million (0.4%) above estimate. This year-to-date positive variance was accompanied by a $55.7 million (5.7%) positive variance in transfers out.

Fiscal year-to-date variances differ substantially from one program category to another. Categories with expenditures substantially lower than estimates include Public Assistance and Medicaid ($296.7 million) and Justice and Public Protection ($40.6 million). However, these negative year-to-date variances were more than offset by positive variances in the Tax Relief and Other ($219.2 million) and Primary, Secondary, and Other Education ($192.4 million) categories.

Positive Variances

As discussed in the January issue of this report, the positive variance in the Tax Relief and Other program category is due to timing and will likely narrow in the coming months as future expenditures are expected to be below monthly estimates. The variance in Primary, Secondary, and Other Education continues to be mainly attributable to foundation payments for schools. As reported last month, a payment that was expected to be accounted for in December was accounted for in January, causing a negative monthly variance in December that has been offset by a positive monthly variance in January. The remaining year-to-date variance stems from the positive variance in October that is due to a timing issue related to a change in payment methodology.

Negative Variances

The Public Assistance and Medicaid category was below estimate by $296.7 million (4.5%) for the year to date; for January, expenditures for this category were below estimate by $81.9 million (10.0%). The Medicaid Program accounts for the majority of expenditures in this category, and Table 5 details Medicaid expenditures by service category. GRF Medicaid expenditures for the fiscal year-to-date were $5.86 billion, $238.8 million (3.9%) below estimate. For the month of January, GRF Medicaid expenditures totaled $679.3 million, which was $43.1 million (6.0%) below estimate. For the year-to-date, expenditures for all Medicaid categories of service were below estimate. This is primarily due to overall lower costs per person than estimated and no enrollment in the Children's Health Insurance Program expansion (assumed to begin July 1, 2009 when the current budget was enacted). Categories with significant negative variances include Inpatient Hospitals ($48.9 million), Prescription Drugs ($44.5 million), Nursing Facilities ($38.4 million), Managed Care Plans ($38.0 million), and All Other ($30.2 million). The All Other category includes payments for some smaller service categories (including Hospice, Home Health Services, and Durable Medical Equipment) and the Medicare Buy-in Program.

Medicaid expenditures are $238.8 million below estimate for the year-to-date.

Expenditures in the Justice and Public Protection program category totaled $1.21 billion year to date, $40.6 million (3.2%) below estimate. Of this variance, $33.5 million was in the Department of Rehabilitation and Corrections' (DRC) budget. DRC's medical services line item (505321) was $11.1 million below its year-to-date estimate mainly due to a negative variance of $8.4 million in January. Spending from this item varies depending on the monthly incidence of inmate illnesses. Year-to-date expenditures for DRC's mental health services line item (502321) were $10.0 million lower than those estimated by OBM. Rather than using private contracts for psychiatric services, DRC is hiring these professionals as civil servants, a move which the agency expects to reduce expenditures.

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

ISSUE UPDATES

More Than 4.5 Million Doses of Flu Vaccine Made Available to Ohioans

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

As of January 26, 2010, more than 4.5 million doses of flu vaccine have been made available to Ohioans for this year's flu season, including 4.1 million doses of the influenza A (H1N1) vaccine and 450,000 doses of the seasonal flu vaccine. Whereas all of the H1N1 vaccine doses were provided by the federal Centers for Disease Control and Prevention (CDC), the seasonal flu vaccine doses were provided by the CDC (380,000 doses) and the state (70,000 doses). The H1N1 vaccine was initially distributed to local departments of health and hospitals and was limited to high-risk populations such as health care workers, pregnant women, individuals six months to 24 years of age, and individuals 25 to 64 years of age with chronic medical conditions. On December 14, 2009, eligibility was expanded to include all Ohioans.

The CDC provides states with the seasonal flu vaccine through the CDC Immunization Grant and the Vaccines for Children programs. These federal programs provide vaccines for children who are underinsured or whose parents cannot afford the out-of-pocket costs associated with vaccinations. The Ohio Department of Health (ODH) purchased 70,000 doses of the seasonal flu vaccine at a cost of $490,000 in GRF money. It distributed 45,000 of the doses to local health departments and federally qualified health centers to vaccinate high-risk adults. The remaining 25,000 doses were distributed to local departments of health and other public and private providers to vaccinate children. In addition to the vaccine, the CDC has provided $47.3 million to Ohio for H1N1 prevention efforts. Approximately 90% of these funds will be distributed by ODH to local departments of health. The remainder will be used by ODH for staff support, data system development, epidemiological tracking, and lab testing.

Local departments of health may provide vaccinations for free or charge a reasonable fee and are required by law to reimburse the state fifty cents per dose for vaccines provided by ODH. The reimbursement is deposited into the GRF and is not retained by ODH. Other providers may also charge a fee. However, no public provider may deny vaccination due to an inability to pay the fee.

Ohio Jobs Stimulus Bill Has Significantly Boosted Public Works Commission Spending on Local Infrastructure Projects

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

Expenditures on road, bridge, and other infrastructure projects overseen by the Public Works Commission (PWC) have increased significantly through the first half of FY 2010 as a result of $320 million in stimulus infrastructure funding provided by the Ohio Jobs Stimulus Bill, H.B. 554 of the 127th General Assembly. As the table below shows, through December 2009, spending on the State Capital Improvements Program (SCIP) is $41.1 million (62.1%) higher than at the same point in FY 2009, while spending on the Local Transportation Improvement Program (LTIP) is $17.1 million (38.7%) higher than at the same point in FY 2009. Funding for SCIP and LTIP flows to 19 district public works integrating committees statewide.

H.B. 554 provided additional appropriations of $200 million for road and bridge projects through LTIP and a further $120 million for SCIP for local infrastructure such as water supply, wastewater and storm water collection, solid waste disposal systems, and road improvements. While the entire amount of SCIP funding has been committed to projects, only the first $100 million in LTIP funding has been committed. The second $100 million will be included in the amounts committed to projects on July 1, 2010. Because PWC disburses moneys as projects are constructed, the additional funding provided for these two infrastructure programs in H.B. 554 is likely to be disbursed in varying levels throughout FY 2010 and FY 2011.

Year-to-date SCIP and LTIP Expenditures by PWC District, FY 2009-FY 2010 ($ in millions)

District	Primary County	SCIP			LTIP		
		FY 2009	FY 2010	*Change*	FY 2009	FY 2010	*Change*
1	Cuyahoga	$8.53	$9.01	*5.6%*	$2.71	$5.38	*98.8%*
2	Hamilton	$4.12	$6.72	*63.4%*	$5.75	$3.36	*-41.5%*
3	Franklin	$6.28	$11.36	*80.9%*	$3.58	$1.05	*-70.6%*
4	Montgomery	$3.27	$5.58	*70.7%*	$1.56	$2.88	*85.2%*
5	Wood	$2.69	$3.62	*34.3%*	$2.84	$3.47	*22.1%*
6	Mahoning	$2.09	$5.34	*155.3%*	$3.44	$1.48	*-57.0%*
7	Lake	$2.39	$3.84	*60.6%*	$1.06	$3.08	*191.1%*
8	Summit	$3.98	$4.46	*12.0%*	$1.47	$1.82	*24.5%*
9	Lorain	$3.72	$6.72	*80.7%*	$1.63	$1.75	*7.1%*
10	Butler	$2.13	$6.74	*216.9%*	$2.62	$3.00	*14.6%*
11	Greene	$4.34	$5.70	*31.2%*	$3.64	$4.50	*23.8%*
12	Lucas	$2.11	$3.29	*55.9%*	$1.00	$2.61	*162.2%*
13	Allen	$3.95	$3.61	*-8.6%*	$0.79	$3.67	*363.8%*
14	Columbiana	$2.13	$4.04	*89.5%*	$1.37	$5.06	*268.3%*
15	Scioto	$3.07	$4.52	*47.1%*	$1.87	$4.29	*129.7%*

Year-to-date SCIP and LTIP Expenditures by PWC District, FY 2009-FY 2010 ($ in millions)							
District	Primary County	SCIP			LTIP		
		FY 2009	FY 2010	*Change*	FY 2009	FY 2010	*Change*
16	Richland	$2.54	$5.52	*117.5%*	$3.57	$3.67	*2.8%*
17	Licking	$4.04	$6.07	*50.2%*	$2.25	$4.78	*112.9%*
18	Muskingum	$3.96	$5.82	*47.0%*	$0.97	$4.97	*413.5%*
19	Stark	$0.84	$5.33	*531.7%*	$1.95	$0.27	*-86.3%*
	Total	**$66.18**	**$107.27**	***62.1%***	**$44.05**	**$61.11**	***38.7%***

Adjutant General's Department Releases $5 million in Federal Stimulus Capital Improvements Project Funding

—Jeffrey R. Kasler, Budget Analyst, 614-644-5231

Through January 2010, the Adjutant General's Department has received Controlling Board approval to release almost $5 million in federal stimulus funds to design and initiate the construction phase of 18 capital improvements projects. These funds are part of a larger $8.5 million award that the Department received from the American Recovery and Reinvestment Act of 2009 (ARRA) to help finance a list of 22 specific capital improvements projects approved by the U.S. Department of Defense's National Guard Bureau. The purpose of these ARRA funds is to improve, repair, or modernize Department of Defense facilities or to invest in the energy efficiency of such facilities.

The costs of the 18 projects that have reached the construction phase are summarized in the table below. As seen from the table, the total project cost is $8.1 million. Of this amount, $4.9 million comes from ARRA and $3.1 million comes from the state. The ARRA funding covers 100% of the costs in six of these projects and 50% on eight projects. For the remaining four projects the federal share ranges widely from 40% to 95%.

Adjutant General's ARRA Capital Improvements Projects Under Construction (As of January 25, 2010)			
County	Project	ARRA Funds Allocated	Total Project Cost
Butler	Middletown Plumbing Renovation	$110,608	$221,216
Cuyahoga	Cleveland Window/Door Replacement	$62,194	$124,388
Erie	Sandusky Plumbing Renovation	$92,868	$185,736
Franklin	Rickenbacker/Roof Replacement	$970,013	$970,013
	Beightler HVAC Renovation	$1,500,000	$3,721,362
	Beightler Solar Panels	$445,515	$594,020
	Defense Supply Center, Fire Protection	$155,388	$155,388
	Defense Supply Center, Section 10	$100,000	$100,000
Lucas	Toledo Solar System	$602,500	$637,393

Adjutant General's ARRA Capital Improvements Projects Under Construction (As of January 25, 2010)			
County	Project	ARRA Funds Allocated	Total Project Cost
Ottawa	Camp Perry Tower Window Replacement	$54,498	$54,498
Summit	Akron-Hawkins Roof Replacement	$37,106	$74,212
	Green Roof Replacement	$221,385	$422,413
	Green Window/Door Replacement	$78,835	$157,670
	Stow Window/Door Replacement	$40,318	$80,636
Trumbull	Camp Ravenna Joint Facility Roof Repair	$98,069	$98,069
	Camp Ravenna Joint Facility Solar System	$257,600	$257,600
Wood	Walbridge Window/Door Replacement	$95,337	$165,208
Various	Statewide Occupancy Sensors	$61,424	$122,849
	Totals	**$4,983,658**	**$8,142,671**

Department of Youth Services Awarded Four ARRA Grants Totaling $1.1 Million

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

The Department of Youth Services has been awarded four ARRA grants totaling $1.1 million. The largest of the grants, $437,553, will be used to install video conferencing equipment at six juvenile courts and three community corrections facilities and to pay the costs of a network administrator. This will increase the number of sites where institutional and parole authorities, juvenile courts, and institutionalized youth and their families can be linked through video conferencing for the purpose of making release decisions. Once a youth is committed to the Department, the Department assumes legal custody until the youth reaches the age of 21, but the juvenile court retains control over decisions concerning judicial release, early release, and supervised release of the youth. Currently, the Department transports many youth to and from juvenile court hearings. The Department is in the process of developing a statewide video conferencing network to reduce the costs it incurs transporting youth around the state and to make more timely and better informed decisions on the disposition of youth.

The second largest of the ARRA grants, $357,585, will be used to help fund a community-based treatment center (CBTC) in Hamilton County for nonviolent youth offenders. The center will utilize a cognitive behavior treatment model developed by the University of Cincinnati's School of Criminal Justice. A vendor will be selected through a Request for Proposal process to operate a 24-bed treatment facility for reentry and aftercare services. Training, coaching, and counseling on the treatment model components will be provided by the University of Cincinnati. CBTCs provide community-based alternatives to state incarceration for nonviolent youth offenders. Currently, there is no CBTC in the greater Cincinnati area.

The final two ARRA grant awards are for $199,275 and $137,000, respectively. The former will be used to pay for education and training services that assist in reintegrating youth sex offenders in public schools. The latter will be used to fund a mental health juvenile justice liaison to foster better coordination among state agencies and the courts involved in treating youth with mental health problems.

Department of Development Receives $24.8 Million in Contingency Funding for the Home Energy Assistance Program

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

On January 21, 2010, the Ohio Department of Development (ODOD) announced that it will receive an additional $24.8 million in FY 2010 from the U.S. Department of Health and Human Services (HHS) for the Home Energy Assistance Program (HEAP). These funds are part of $490 million in contingency funds that HHS is releasing to all 50 states and the District of Columbia, and are in addition to regular HEAP block grant funds already released. Including this latest release, HHS has released $134.5 million to Ohio for the program in FY 2010.

HEAP is a federal program administered by the states to provide financial assistance for low-income households to pay their heating bills. In addition to regular year-around assistance, emergency assistance is provided for the summer (July 1 through August 31) and winter (November 1 through March 31) months. In Ohio, the program is managed by ODOD's Office of Community Services. Assistance depends on a household's size and income, and households with elderly or disabled members may qualify for additional assistance. To qualify during the 2009-2010 program year, a household must have a total gross income over the past three months at or below 200% of the 2009 federal poverty guidelines, as shown in the table below. In the 2008-2009 program year, about 394,000 households in Ohio received year-around assistance and 180,000 households received emergency assistance.

HEAP Income Guidelines for the 2009-2010 Program Year		
Size of Household	Annual Income	Income in Last 3 Months
1	$21,660	$5,415
2	$29,140	$7,285
3	$36,620	$9,155
4	$44,100	$11,025
5	$51,580	$12,895
6	$59,060	$14,765
7	$66,540	$16,635
8	$74,020	$18,505

Manufactured Homes Commission Granted Additional Appropriation for Expanded Oversight Responsibilities

—Nick Thomas, Budget Analyst, 614-466-6285

On January 11, 2010, the Controlling Board increased the Ohio Manufactured Homes Commission's (MHC) operating appropriation from $400,000 in each fiscal year of the FY 2010-FY 2011 biennium to $720,825 in FY 2010 and $742,100 in FY 2011. This increase is in response to provisions of H.B. 1 that consolidate regulatory oversight of manufactured homes into MHC. The increase will be used to cover expenses for (1) four new staff members, including an administrative assistant, a fiscal specialist, a licensing specialist, and an inspector-investigator, (2) new office equipment and vehicles, (3) web site and other IT upgrades, and (4) legal services that the Commission will require for rulemaking.

Prior to H.B. 1, MHC, the Ohio Department of Health (ODH), and the Bureau of Motor Vehicles shared regulatory oversight of manufactured homes in Ohio. Under H.B. 1, MHC continues to be responsible for establishing and enforcing standards of quality and uniformity in the installation of manufactured homes within manufactured home parks. It also assumes oversight of manufactured home park inspections that were done by local health departments under ODH. In Ohio, manufactured home parks have to meet certain construction, drainage, flood-plain management, sanitation, safety, and operation standards. ODH transferred its authority to MHC on October 6, 2009, almost three months earlier than the H.B. 1 timeline of January 1, 2010.[8] Furthermore, MHC will assume oversight of licensing manufactured home dealers and brokers who have been regulated by the Bureau of Motor Vehicles. The Bureau is to turn over its authority on July 1, 2010. Once the H.B. 1 transition is completed, MHC will have sole jurisdiction over manufactured homes in Ohio. All fees associated with manufactured homes will be collected by MHC and deposited into the Occupational Licensing and Regulatory Fund (Fund 4K90) to support MHC's operations.

[8] H.B. 186 of the 128th General Assembly, which was reported by House Financial Institutions, Real Estate, and Securities Committee on January 21, 2010, makes additional changes on regulatory oversight of manufactured home parks and provides for the transfer of funds from ODH to MHC for this purpose.

Department of Developmental Disabilities Submits Fiscal Sustainability Plan for Home and Community-Based Waiver Services

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

As required by H.B. 1, on December 31, 2009, the Ohio Department of Developmental Disabilities (ODODD) submitted a fiscal sustainability plan for Medicaid waiver services to the Director of Job and Family Services. These waivers enable certain individuals with developmental disabilities to receive services in their homes or other community-based settings instead of in intermediate care facilities for the mentally retarded (ICF/MR). To develop the plan, the Director of Developmental Disabilities convened a 13-member workgroup, which included representatives of county boards of developmental disabilities as well as service recipients and providers. The plan sets forth 15 recommendations including cost caps for waiver services, utilization review, revenue enhancements, and service delivery improvement. Specifically, the workgroup recommends that Ohio: (a) institute an annual $165,000 cost cap for new Individual Option waiver enrollees, (b) create a new self-directed cost-capped flexible support waiver, (c) require a review of services when an individual's annual service costs exceed $137,000, (d) enhance federal revenue by requesting an increase in the rate paid to targeted case management providers, and (e) maximize federal reimbursement for administrative costs.

Currently, ODODD administers two Medicaid waivers: Individual Option and Level One. In FY 2009, ODODD's expenditures for waiver services totaled $913.7 million and about 22,500 individuals were served. The following table provides a breakdown of those expenditures and individuals served by waiver type. In order to enroll in a waiver, an individual must have an ICF/MR level of care approved by the Department of Job and Family Services. The annual cost cap, however, applies only to the Level One waiver, which largely explains why the average cost for Individual Option is much higher than Level One.

Developmental Disability Medicaid Waivers, FY 2009			
Waiver Type	**Expenditures**	**Recipients**	**Average Cost**
Individual Option	$825,560,561	15,345	$53,800
Level One	$60,580,710	7,062	$8,578

Source: Decision Support System, Ohio Department of Job and Family Services

SFC Issues Results of School District Community Use Survey

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

The School Facilities Commission (SFC) issued the results of its community use survey of school districts at its monthly meeting in December 2009. H.B. 1 required SFC to survey districts with SFC-assisted classroom facilities projects and to compile descriptions of how spaces in those facilities are used for activities, services, and programs shared between schools and other public and private community entities. H.B. 1 also required SFC to recommend best practices for increasing shared community spaces in future projects.

According to SFC, over 400 superintendents whose school districts participated in an SFC program were asked to participate in the online survey and 218 of the superintendents responded. Of the survey respondents, the following percentages allowed community use of the indicated facility spaces:

- Over 90% allowed use of the gymnasium, athletic fields, and classrooms;
- Over 70% allowed use of the auditeria/cafetorium, conference rooms, and media center/library;
- Over 50% allowed use of the computer labs, locker rooms, weight room, auditorium, and running track.

Of the respondents that allowed use of space about 50% indicated the space was used by youth organizations including most often sports clubs, Boy Scouts, Girl Scouts, 4-H, YMCA, and religious groups. The next most popular use, cited by 42% of respondents, was for community meetings. Organizations cited included Lion's Club, Rotary, Kiwanis, parent teacher organizations, booster clubs, and alumni groups.

In addition to the survey results, SFC issued two reports in December summarizing information from workshops hosted by the agency regarding "Building Quality 21st Century Learning Environments." One of the issues addressed in the workshops was effective community partnerships. These two reports and the survey results are available under the "library" tab on the SFC web site at www.osfc.state.ohio.us.

eTech Submits Ohio's *Educational Technology Plan, 2009-2014*

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

In early January, eTech submitted Ohio's *Educational Technology Plan, 2009-2014*, to the Governor and the General Assembly in accordance with the requirements of H.B. 1. For the current biennium, the plan focuses on the:

- alignment of educational technology initiatives across all levels of education, from early childhood through higher education (the "P-20 continuum");
- support of public media through funding and collaboration;
- coordination with the Department of Education and the Board of Regents to expand and connect longitudinal data systems;
- expansion and dissemination of distance learning options through the Distance Learning Clearinghouse;
- expansion of synchronous advanced placement and foreign language distance learning courses to 90 classrooms;
- increase of asynchronous "on demand" distance learning courses to more than 100 classrooms;
- development of free educational resources; and
- provision of educator professional development on the integration of educational technology into classroom lessons.

The complete plan is available on eTech's web site, www.etech.oh.gov.

Ohio Receives Continuation of Shifting Gears and Making Opportunity Affordable Grants

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

The Board of Regents (BOR) recently announced the continuation of two grants to support the improvement of higher education administration and access in Ohio. The Making Opportunity Affordable Program and Shifting Gears Initiative were established through grants from private organizations. The Making Opportunity Affordable Program began in Ohio in FY 2009 with initial funding totaling approximately $200,000 provided by the Lumina Foundation for Education, a private organization devoted to increasing postsecondary degree attainment. The initial grants supported the development of a plan to increase administrative efficiency at BOR and across Ohio's campuses. In November of 2009, BOR announced that Ohio would receive a continuation grant of $950,000. The new grant, which will extend for up to four years, will focus on consolidating administrative activities across the University System of Ohio and expanding joint purchasing agreements. According to BOR, these initiatives could result in savings of over $100 million.

Ohio's Shifting Gears Initiative received its first appropriation of $500,000 in FY 2009 through a grant from the Joyce Foundation, a non-profit organization dedicated to support of education in the Great Lakes region. In January 2010, the Controlling Board approved an appropriation increase of $190,000 for FY 2010 and $250,000 for FY 2011. The Shifting Gears Initiative focuses on adult workforce education and attempts to broaden access to higher education and shorten paths to postsecondary credentials through collaborative relationships with other Ohio adult workforce development programs, including Adult Basic and Literacy Education (ABLE), Adult Workforce Education, and the Ohio Skills Bank.

TRACKING THE ECONOMY

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

Overview

The economy grew in last year's second half but employment continued to fall through January.

The nation's gross domestic product, adjusted for inflation (real GDP), expanded in last year's fourth quarter at the highest rate since 2003. Industrial production, sales, and incomes have risen since last June. Gains generally have been more robust in manufacturing, as inventory drawdowns have slowed. Employment, in contrast, continued to decline through January, and was revised sharply lower than previously reported for earlier months. The downward revisions to employment may lead to downward revisions of other statistics which are estimated in part using labor hours or earnings as inputs, including industrial production and personal income. Unemployment eased to 9.7% of the labor force in January from a peak of 10.1% in October, but the number of persons unemployed for more than six months continued to climb. Construction activity, overall, remains weak. In Ohio, nonfarm payroll employment fell in December and the unemployment rate rose to 10.9%, near its peak last July. Inflation generally remains low.

Following its meeting in late January, the central bank's Federal Open Market Committee (FOMC) held its interest rate target for the federal funds rate unchanged at zero to 0.25%, where it has been since December 2008, and reiterated that economic conditions are likely to warrant an "exceptionally low" rate on federal funds for "an extended period." One committee member voted against this policy, indicating that he believed the expectation that the rate on federal funds would remain exceptionally low for an extended period was not justified any longer. The FOMC continued programs under which the Federal Reserve System purchases federal agency mortgage-backed securities and agency debt. The meeting summary noted continued strengthening of the economy, with household spending expanding, business buying of equipment and software picking up, inventories in better balance with sales, and functioning of financial markets improved. However, business investment in structures continued to contract, employers were reluctant to hire, and bank lending was shrinking. The Federal Reserve is phasing out, in the first half of this year, some of its programs that have provided exceptional support to financial markets and the economy.

Recovery is underway in economies around the world. The International Monetary Fund (IMF), in its *World Economic Outlook* issued in January, projected that world output would grow about 4% in 2010, following contraction last year. The projection for 2010 was revised upward from the IMF's previous prediction published in October. Advanced economies as a group were predicted to grow 2% this year and emerging and developing economies were projected to grow 6%. The IMF noted the important role in the global rebound played by expansionary monetary and fiscal stimulus, and raised concerns about the strength of private-sector demand growth.

Recovery is underway in economies around the world.

The National Economy

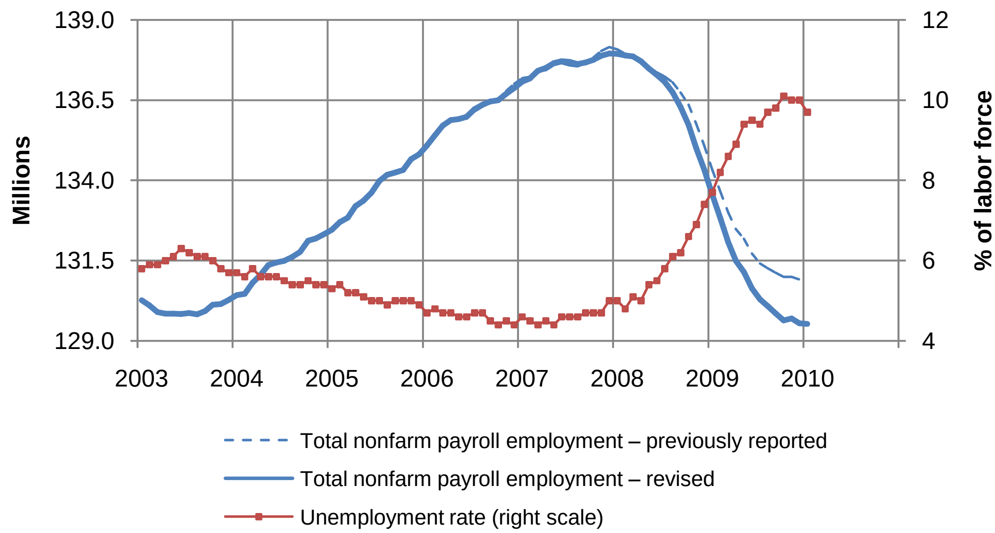
Employment and Unemployment

Total nonfarm payroll employment nationwide declined by 20,000 persons from December to January, and unemployment declined to 9.7% of the labor force in January, lowest since August. Total employment declined in every month since December 2007 except November 2009, when it rose 64,000. In its annual revision of the payroll employment statistics, benchmarking them to a count of employment as of March 2009 primarily derived from the unemployment insurance tax system, the U.S. Bureau of Labor Statistics (BLS) sharply lowered its estimates of employment. For December 2009, the downward revision to total nonfarm payroll employment was by 1.39 million persons. Total nationwide employment and unemployment, seasonally adjusted, are shown in Chart 1. With the downward revision, the decline in total employment since the peak in December 2007 totals 8.4 million.

BLS reported that employment declines continued in January in construction and at courier and messenger services. Employment rose at temporary help services, retailers, and health care providers. Federal government employment rose, in part because of hiring of workers for the decennial census.

Real GDP rose in the fourth quarter of 2009 at a 5.7% annual rate, the most rapid increase since 2003.

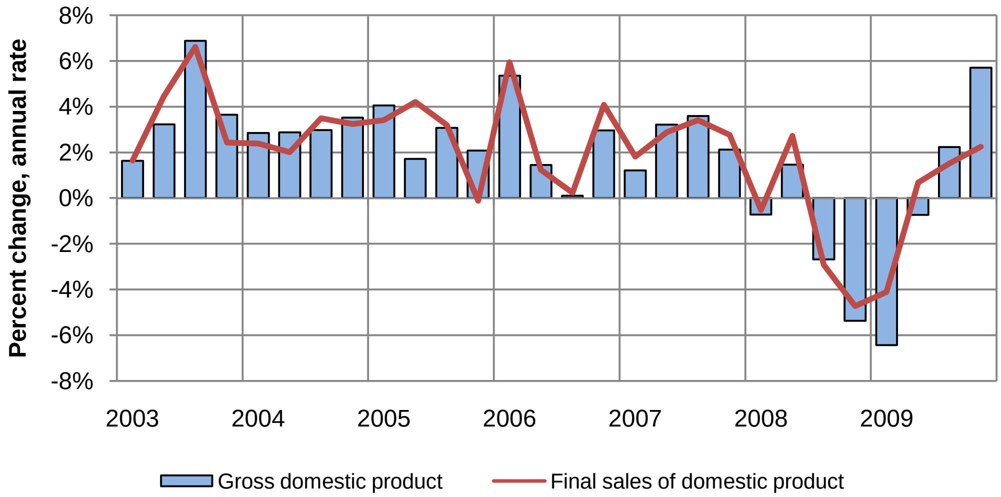
Chart 1: National Employment and Unemployment



Production, Shipments, and Inventories

Real GDP rose in the fourth quarter of 2009 at a 5.7% annual rate, the most rapid increase since 2003. Stronger growth of real GDP reflects a sharp slowing in the pace of inventory liquidation, which implies that more of the goods sold to consumers, businesses, and governments were coming from current period production. This is illustrated in Chart 2, which shows growth of real GDP and of final sales of domestic product, which is real GDP adjusted to exclude the change in business inventories. Consumer spending grew at a modest pace in the fourth quarter, increasing at a 2% annual rate after a 2.8% rate in the third quarter. Residential fixed investment increased for the second consecutive quarter. Nonresidential fixed investment grew after falling for five consecutive quarters. Export growth continued strong, for the second straight quarter. Government spending edged down slightly.

Chart 2: U.S. Gross Domestic Product Adjusted for Inflation



Industrial production in the U.S. rose 0.6% in December, the sixth consecutive rise in the index from its recession low in June. The increase in December mainly reflected a 5.9% rise in utility output in response to unseasonably cold weather. Manufacturing production edged down 0.1% for the month, but was 4.6% higher than at the recession low point in June. Production rose in the second half of 2009 in most industry and market groups. Increased output of motor vehicles and parts accounted for more than one-third of the rise in the index for total industrial production during the six months since June, and higher primary metals production accounted for another 15%. Light vehicle assemblies were depressed in June by the bankruptcies and restructurings at General Motors and Chrysler, as well as the plunge in car and truck sales during the recession.

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Factory shipments and new orders continued to increase in December. Manufacturers' shipments rose 1.9% in December, and increased in six of the past seven months. New orders rose 1.0%, and increased in eight of the most recent nine months. Factory backlogs of unfilled orders fell 1.0%, the fifteenth consecutive decline. Because of their long lead times, aircraft and parts account for 44% of this backlog. Inventories of manufacturers fell 0.1% in December following increases in the previous two months.[9]

[9] The manufacturers' shipments, inventories, and orders data are in seasonally adjusted dollars not adjusted for inflation.

Data through November continue to show June 2009 as the recession low point for sales of business.

Manufacturing production growth evidently continued in January, as indicated by purchasing managers surveyed by the Institute for Supply Management (ISM). Those saying production rose substantially outnumbered those saying it fell. New orders and backlogs of unfilled orders also grew. Reports of higher prices paid by manufacturers in January were the most widespread since August 2008. Other segments of the economy look more anemic. An ISM survey of purchasing managers with nonmanufacturing organizations reported growth in January of business activity and new orders, but contraction in employment, inventories, order backlogs, and new export orders. Prices paid rose for the sixth consecutive month.

Data through November continue to show June 2009 as the recession low point for sales of business (manufacturers, wholesalers, and retailers), on an inflation-adjusted basis. Business inventories rose in October and November, after falling in most months since a peak in February 2008.

Consumer Spending

Consumers' incomes nationwide continued to grow through December, both in nominal dollars and after adjustment for inflation. Growth of wages and salaries was outpaced in recent months by other types of income, including proprietors' income, rental income, and interest and dividends. Continued expansion of transfer payments accounted for part, but not all, of income growth. Consumer spending rose 0.1% in December adjusted for inflation, and increased every month since May except for September, following expiration of federal incentives for new car sales. Consumption of services rose in December, seasonally adjusted, probably in part reflecting increased use of utility services for heating.

Retail sales fell 0.3% in December following a 1.8% increase in November. Performance across most industry segments was mixed, though nonstore retailers – catalog and Internet – outpaced most other kinds of businesses, with monthly sales gains in November and December, and sales in December 10.3% above a year earlier. General merchandise store sales fell 0.8% in December after rising 0.5% in November. Gasoline station sales in December were sharply higher than a year earlier reflecting low gasoline prices in December 2008.

Sales of light motor vehicles slowed in January to a 10.8 million unit annual rate from an 11.2 million rate in December. The sales pace was above recession lows but remained far short of the 15 million or more units typically sold in most years since the mid-1990s. Prospective buyers appear to be constrained by job losses and concerns about future household income as well as tight availability of credit.

Sales at 31 large retailers in January were 2.4% higher than a year earlier, the fifth consecutive increase. These figures are reported on a same-store basis, including only locations open in the current and year-earlier month. Sales fell, compared with a year earlier, from September 2008 through August 2009.[10]

Housing starts and permits remain above lows in April of last year, but are at very weak levels.

Construction and Real Estate

Housing starts in the U.S. fell 4% in December but permits for construction of new housing units rose 11% in December to the highest level in more than a year, seasonally adjusted. Starts and permits remain above lows in April of last year, but are at very weak levels. Housing starts last year were 39% lower than in 2008, and 73% lower than in 2005, the peak year for starts. Figures for housing permits are similar. The number of units under construction at the end of 2009 was at the lowest level on records kept since 1970.

New home sales nationwide fell 8% in December after falling 9% in November. The timing of new home sales was shifted by the federal "first time" home buyer program offering an $8,000 tax credit to home purchasers who had not owned their primary residences in the previous three years. This program had been set to expire at the end of November but was extended on November 6 to cover homes purchased by June 30, 2010, under contracts entered into by April 30. Many prospective home purchasers likely rushed to satisfy all requirements to complete their purchases by the previous November 30 deadline, so were no longer in the market for new homes during December. The new home sales figures are for purchase contract signings, which often precede actual purchases by a month or more.

Sales of homes reported by the National Association of Realtors, generally previously owned homes, fell 17% from November to December, seasonally adjusted. These figures are based on closings on home purchases. A decline in sales was to be expected because many renters ready to buy homes in response to the federal incentives would have entered into purchase contracts well ahead of the November 30 deadline for closings, and prior to the November 6 signing into law of an

[10] Figures cited are from Bank of Tokyo-Mitsubishi's compilation of reports from general merchandise and apparel stores and drugstores, and exclude chains that report results quarterly, including the largest general merchandise retailer, Wal-Mart.

The consumer price index, excluding food and energy prices, in December was 1.8% higher than a year earlier, the same as the change in the 12 months of 2008.

extension of the program to this year. This does not imply that the extension of the program will be ineffective in motivating additional buyers, since some who were not ready to buy ahead of the previous deadline may do so by the current deadline this June 30. An additional credit of up to $6,500, enacted for buyers who have been homeowners for at least five years, may stimulate additional transactions between now and the end of June.

The monthly index of house prices nationwide compiled by the Federal Housing Finance Agency (FHFA) rose 0.7% in November, seasonally adjusted, after increasing 0.4% in October. This index is based on a large database of the purchase prices of houses pledged as collateral for mortgage loans sold to or guaranteed by Fannie Mae or Freddie Mac. The housing price index fell precipitously from April 2007 through the end of 2008, and has fluctuated in a narrow range since then. From peak to trough, the FHFA housing price index fell 11%. The nationwide average price index in November was around its level in March 2005. Another set of housing price indicators, the S&P/Case-Shiller indexes, has also stabilized recently. Through November, these indexes were down to around their levels in late 2003. Average home prices as measured by the Case-Shiller indexes fell by about one-third from peak to trough.

The value of construction spending fell in December, seasonally adjusted, continuing a downward trend underway since 2006. Total construction spending in 2009 was 12% lower than in 2008 and 20% lower than in 2006. Private residential construction activity bottomed out in mid-2009, but for the year as a whole was 28% lower than in 2008. Private nonresidential construction spending was 11% lower in 2009 than in peak year 2008. Public construction activity was 4% higher for the year as a whole, but fell in the second half of the year, mainly because of reduced spending for education.

Inflation

The consumer price index (CPI) for all items rose only 0.1% from November to December, but was 2.7% higher than a year earlier, the largest year-over-year increase since October 2008. The biggest source of upward pressures on prices, in the year-over-year comparison, was from consumers' costs for gasoline and other energy products and services, which rose in the first half of 2009 offsetting part of the precipitous drop in the second half of 2008. Excluding energy and also food prices, the CPI rose 0.1% from November to December, and was 1.8% higher than a year earlier, the same as the change in the 12 months of 2008.

Gasoline prices on average nationwide, in the Energy Information Administration's weekly survey, rose to a recent peak of $2.75 per gallon, for regular grade, on January 11, and averaged $2.66 per gallon on February 1. In Ohio, prices for regular grade averaged $2.48 on February 1. Prices for the benchmark U.S. crude oil grade rose above $80 per barrel in January, but have since eased back.

The producer price index (PPI) for finished goods rose 0.2% from November to December, and was 4.4% higher than in December 2008, the largest change from a year earlier since October 2008. As with consumer prices, the year-to-year swings in the PPI were dominated by energy prices, which plunged in the second half of 2008 then recovered partially in 2009, mainly in the year's first half. Excluding food and energy, producer prices for finished goods were unchanged from November to December, and 0.9% above a year earlier. At an earlier stage in the production process, an index of prices for crude nonfood materials less energy was 28% higher in December than a year earlier, as the cost of various industrial raw materials rose throughout much of last year after plummeting in the second half of 2008.

Pay increases continue to be modest. In the 12 months through December, compensation gains for civilian workers averaged only 1.5%, the smallest year-over-year rise in this series collected since 1981. Wages and salaries rose 1.5% in the latest 12 months, as did employer costs for benefits, also the smallest increases on record.

Growth of the economy in the second half of 2009, declining employment, and small increases in labor compensation imply an absence of labor cost pressures on business. In the year ending in last year's fourth quarter, labor productivity (output per hour) in nonfarm business rose 5.1%. Hourly compensation for nonfarm businesses rose 2.2%. Unit labor costs, the compensation paid for the labor to produce a unit of output, declined 2.8%.

The Ohio Economy

Nonfarm payroll employment in Ohio in December, at about 5.1 million, fell by 16,700 (0.3%) from November, seasonally adjusted, and was 184,900 (3.5%) lower than in December 2008. The decline in the number of jobs from November to December was mostly in service-providing industries. The decline in comparison with a year earlier was virtually across the board, with increases only in health care and social assistance and in local government employment. Unemployment statewide rose in December to 641,000, 17,000 more Ohioans than a month earlier and 196,000 higher than a year earlier. Unemployment in

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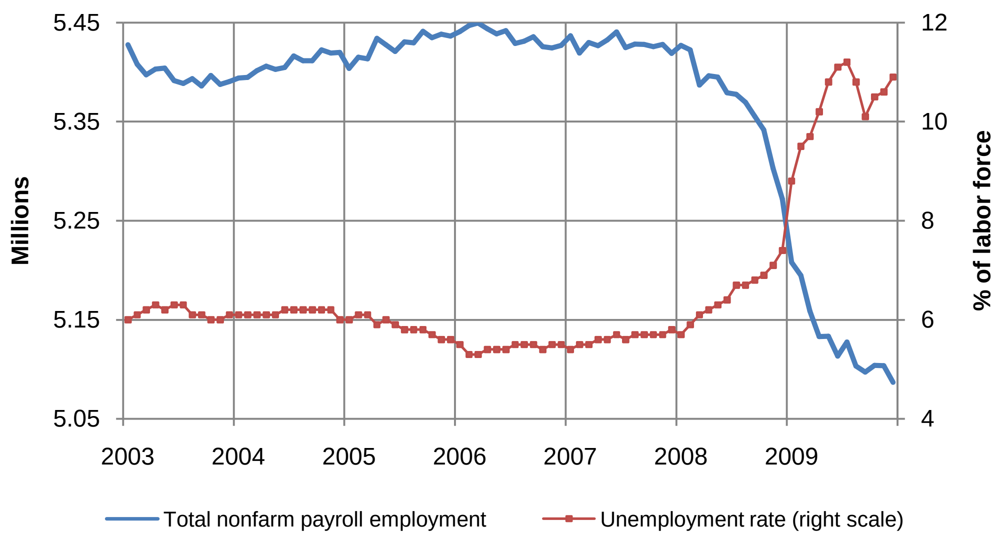
December was 10.9% of the state's labor force, nearly as high as the 11.2% peak in July 2009. Ohio employment and unemployment are shown in Chart 3.

Chart 3: Ohio Employment and Unemployment



The economy in this part of the country has shown some indications of improvement recently, according to the Federal Reserve's Beige Book for the Cleveland District, which includes all of Ohio plus nearby portions of Kentucky, Pennsylvania, and West Virginia. The most recent edition includes reports on economic conditions received from business and other contacts through January 4. Total economic activity remains at a low level. The Cleveland bank's contacts with manufacturing firms said production was stable to up slightly, with potential sales growth noted in export markets. New home construction was seen about flat, but a small rise was noted in nonresidential contract awards. Retail sales including motor vehicles were described as about unchanged, with consumers focused on purchases of necessities. Freight transport volumes were reported slightly higher, though still below year-earlier levels.

An annual summary of interstate household moves, published by United Van Lines based on moves by its customers, shows Ohio as the ninth largest state in 2009 measured by total shipments. Of 9,752 total shipments to or from Ohio, 54% were moves out of Ohio and 46% were moves into the state. Ohio had more net outbound shipments last year than all but five states. Michigan had the most net outbound moves in 2009, followed by Illinois, Pennsylvania, New Jersey, and New York. The total number of household moves nationwide on this company's trucks last year was 37% lower than the recent peak in 2006, consistent with other reports of reduced mobility of American households.