Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION   JULY 2010

STATUS OF THE GRF

HIGHLIGHTS

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

GRF tax revenues fell again in FY 2010, despite an unprecedented fall in FY 2009. The decrease, $860 million, was due primarily to very sharp declines in the personal income and corporate franchise taxes, which fell by $381 million and $379 million, respectively. The latter decrease was due primarily to the scheduled phase-out of the tax on nonfinancial companies, but the former came despite passage of H.B. 318 to delay a fifth (and final) scheduled reduction in income tax rates. This month's Tracking the Economy article includes an update on economic forecasts for FY 2011.

A negative variance of $411 million in spending on Medicaid helped overcome a shortfall of $335 million in state-source revenue. The GRF finished the year with an unobligated cash balance of $139.2 million.

Simplified GRF Cash Statement, as of June 30, 2010 ($ in millions)	
Beginning Cash Balance	**$734.5**
Plus Revenues and Transfers in	$24,950.3
Less Expenditures and Transfers Out	$25,174.4
Ending Cash Balance	**$510.4**
Less Encumbrances	$371.2
Unobligated Ending Cash Balance	**$139.2**
Plus Budget Stabilization Fund (BSF) Balance	$0
Combined GRF and BSF Unobligated Ending Balance	**$139.2**

VOLUME 33, NUMBER 11

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

Next Issue:
September 2010
Have a Great Summer!

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

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$81,743	$71,475	$10,268	14.4%
Nonauto Sales and Use	$523,868	$530,000	-$6,132	-1.2%
Total Sales and Use Taxes	$605,612	$601,475	$4,137	0.7%
Personal Income	$744,088	$698,800	$45,288	6.5%
Corporate Franchise	$18,583	$6,000	$12,583	209.7%
Public Utility	$711	$552	$159	28.8%
Kilowatt Hour Excise	$9,353	$6,200	$3,153	50.9%
Commercial Activity Tax**	$0	$0	$0	---
Foreign Insurance	-$2,137	-$1,011	-$1,127	-111.4%
Domestic Insurance	$61,944	$11,386	$50,558	444.0%
Business and Property	$8,748	$2,453	$6,295	256.6%
Cigarette	$89,800	$73,986	$15,814	21.4%
Alcoholic Beverage	$5,588	$5,031	$557	11.1%
Liquor Gallonage	$3,125	$3,141	-$17	-0.5%
Estate	$574	$2,002	-$1,428	-71.3%
Total Tax Revenue	**$1,545,989**	**$1,410,016**	**$135,973**	**9.6%**
NONTAX REVENUE				
Earnings on Investments	$2,915	$21,500	-$18,585	-86.4%
Licenses and Fees	$853	$969	-$115	-11.9%
Other Revenue	$131,365	$132,747	-$1,382	-1.0%
Total Nontax Revenue	**$135,133**	**$155,216**	**-$20,082**	**-12.9%**
TRANSFERS				
Liquor Transfers	$16,695	$11,000	$5,695	51.8%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$554,463	$563,642	-$9,179	-1.6%
Total Transfers In	**$571,158**	**$574,642**	**-$3,484**	**-0.6%**
TOTAL STATE SOURCES	**$2,252,281**	**$2,139,874**	**$112,406**	**5.3%**
Federal Grants	$213,373	$176,617	$36,756	20.8%
TOTAL GRF SOURCES	**$2,465,654**	**$2,316,491**	**$149,163**	**6.4%**

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

Table 2: General Revenue Fund Sources
Preliminary Actual vs. Estimate
FY 2010 as of June 30, 2010
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on July 7, 2010)

	Actual	Estimate*	Variance	Percent	FY 2009	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$882,877	$793,400	$89,477	11.3%	$873,638	1.1%
Nonauto Sales and Use	$6,194,494	$6,201,753	-$7,259	-0.1%	$6,239,178	-0.7%
Total Sales and Use Taxes	$7,077,372	$6,995,153	$82,219	1.2%	$7,112,816	-0.5%
Personal Income	$7,247,224	$7,479,299	-$232,075	-3.1%	$7,627,989	-5.0%
Corporate Franchise	$141,748	$100,000	$41,749	41.7%	$520,771	-72.8%
Public Utility	$136,739	$180,000	-$43,261	-24.0%	$184,516	-25.9%
Kilowatt Hour Excise	$156,289	$166,202	-$9,913	-6.0%	$135,946	15.0%
Commercial Activity Tax**	$0	$0	$0	---	$0	---
Foreign Insurance	$250,776	$250,000	$776	0.3%	$249,214	0.6%
Domestic Insurance	$161,676	$182,000	-$20,324	-11.2%	$155,347	4.1%
Business and Property	$27,250	$24,000	$3,250	13.5%	$25,062	8.7%
Cigarette	$886,875	$823,000	$63,875	7.8%	$924,764	-4.1%
Alcoholic Beverage	$56,092	$58,000	-$1,908	-3.3%	$57,050	-1.7%
Liquor Gallonage	$36,544	$36,000	$544	1.5%	$35,800	2.1%
Estate	$55,024	$61,500	-$6,476	-10.5%	$64,403	-14.6%
Total Tax Revenue	**$16,233,609**	**$16,355,154**	**-$121,545**	**-0.7%**	**$17,093,678**	**-5.0%**
NONTAX REVENUE						
Earnings on Investments	$28,804	$79,750	-$50,946	-63.9%	$137,522	-79.1%
Licenses and Fees	$66,211	$61,800	$4,411	7.1%	$65,835	0.6%
Other Revenue	$300,675	$323,000	-$22,325	-6.9%	$74,765	302.2%
Total Nontax Revenue	**$395,691**	**$464,550**	**-$68,859**	**-14.8%**	**$278,122**	**42.3%**
TRANSFERS						
Liquor Transfers	$167,969	$143,000	$24,969	17.5%	$163,000	3.0%
Budget Stabilization	$0	$0	$0	---	$1,012,289	-100.0%
Other Transfers In	$1,254,200	1,423,706	-$169,506	-11.9%	$1,286,756	-2.5%
Total Transfers In	**$1,422,169**	**$1,566,706**	**-$144,537**	**-9.2%**	**$2,462,045**	**-42.2%**
TOTAL STATE SOURCES	**$18,051,469**	**$18,386,410**	**-$334,941**	**-1.8%**	**$19,833,844**	**-9.0%**
Federal Grants	$6,898,824	$7,184,127	-$285,303	-4.0%	$6,850,657	0.7%
TOTAL GRF SOURCES	**$24,950,293**	**$25,570,537**	**-$620,246**	**-2.4%**	**$26,684,501**	**-6.5%**

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

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

Detail may not sum to total due to rounding.

June GRF sources were $149.2 million above estimate.

FY 2010 GRF tax revenues were $121.5 million below estimate and $860.1 million below FY 2009 receipts.

Revenues

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

Overview

For the fourth consecutive fiscal year, tax receipts were below the previous year's level. FY 2010 tax receipts were $860.1 million (5.0%) below FY 2009 receipts, less than the negative growth of $2.33 billion (12.0%) in FY 2009, but more than the declines of $94.5 million (0.5%) in FY 2007 and $49.4 million (0.3%) in FY 2008.

For the month of June 2010, tax receipts of $1.55 billion were $136.0 million above estimate, due primarily to positive variances of $50.6 million in domestic insurance tax receipts, entirely due to timing,[1] and $45.3 million in personal income tax receipts. June tax receipts brought the year-to-date negative variance in tax revenues, which stood at $257.5 million through May 2010, to $121.5 million for the full fiscal year.

Total GRF sources in June were $2.47 billion, $149.2 million (6.4%) above estimate. Tables 1 and 2 show GRF sources for the month of June and for FY 2010, respectively. GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, transfers in, and federal grants, which are federal reimbursements for human services programs that receive federal funding and grants from the American Recovery and Reinvestment Act of 2009. State-source receipts and federal grants were, respectively, $112.4 million and $36.8 million, above estimate.

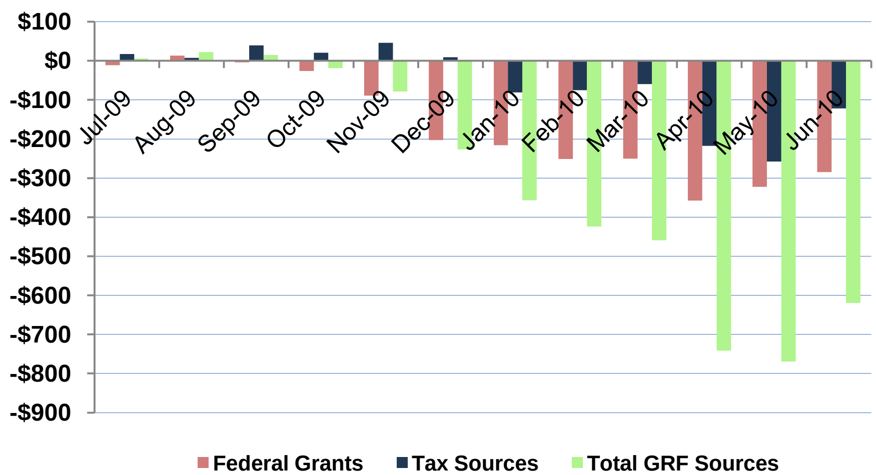
All primary tax sources performed relatively well in June. The personal income tax was above estimate by $45.3 million, the sales and use tax by $4.1 million, and the cigarette tax by $15.8 million. In addition, the corporate franchise tax, the business and property tax, and the kilowatt hour excise tax were, respectively, $12.6 million, $6.3 million, and $3.2 million above expectations. Most of the remaining tax sources were below projections, including a shortfall of $1.4 million in estate tax receipts. A negative variance of $23.5 million in nontax revenues and transfers reduced the positive variance in tax revenues in June.

[1] The Department of Insurance certified $162.2 million to the Treasurer of State for collection in May, but only $98.6 million was received. Most of the difference between the two amounts was booked in the first week of June, resulting in the positive variance for the month.

Through June, FY 2010 total GRF sources of $24.95 billion were $620.2 million below estimate. Federal grants were below estimate by $285.3 million, due primarily to a negative spending variance in Medicaid. State-source receipts of $18.05 billion were below estimate by $334.9 million, with lower than expected revenues from all categories, including a large negative variance of $144.5 million in transfers in. The graph below shows the cumulative variances against estimate for federal grants, tax sources, and total GRF sources.

FY 2010 GRF sources were $620.2 million below estimate.

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



For FY 2010, tax sources above estimate included the sales and use tax ($82.2 million), cigarette tax ($63.9 million), corporate franchise tax ($41.7 million), and business and property tax ($3.3 million). Tax sources below estimate included the personal income tax ($232.1 million), domestic insurance tax ($20.3 million), public utility excise tax ($43.3 million), kilowatt hour tax ($9.9 million), estate tax ($6.5 million), and alcoholic beverage tax ($1.9 million).

FY 2010 sources were $1.73 billion below FY 2009 sources.

Compared to FY 2009, FY 2010 GRF sources decreased $1.73 billion, due in large part to the absence of transfers from the Budget Stabilization Fund (BSF) and reduced tax receipts this fiscal year. In FY 2009, the Office of Budget and Management transferred $1.01 billion from the BSF to balance the budget that year.

FY 2010 receipts from all three primary tax sources were below their levels of FY 2009. Receipts from the personal income tax, the cigarette tax, and the sales and use tax, declined, respectively, by $380.8 million, $37.9 million, and $35.4 million. The decline in receipts from the corporate franchise tax of $379.0 million was due to tax changes made by H.B. 66 of the 126th General Assembly. Other taxes with

June income tax receipts were $45.3 million above estimate, and $62.4 million above last year's levels.

significant year-to-year revenue variances include decreases of $47.8 million in public utility excise tax receipts and $9.4 million in estate tax receipts. The GRF received notable year-over-year increases of $20.3 million in kilowatt hour tax receipts, $6.3 million in domestic insurance tax receipts, $2.2 million in business and property tax receipts, and $1.6 million in foreign insurance tax receipts.

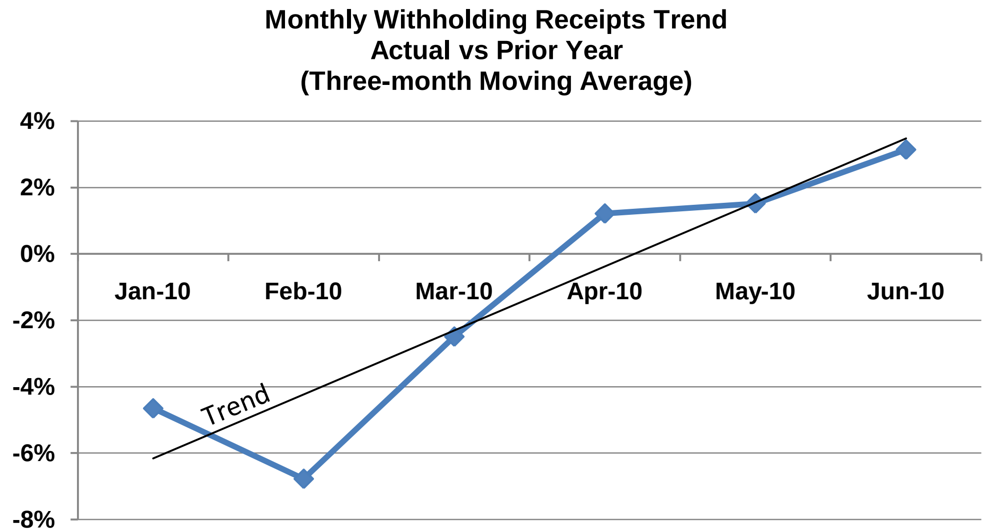
Personal Income Tax

GRF receipts from the personal income tax of $744.1 million in June were $45.3 million (6.5%) above the revised estimate published in March 2010. The positive variance was mostly from higher than estimated employer withholding. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the Local Government Fund (LGF). Gross collections are the sum of withholding, quarterly estimated payments,[2] trust payments, payments associated with annual returns, and miscellaneous payments.

June 2010 income tax receipts were $62.4 million (9.2%) above receipts in June 2009. Though revenues from most components of the income tax were above receipts in June 2009, the positive variance was largely due to higher employer withholding this year. June revenues reduced the FY 2010 year-to-date personal income tax negative variance, which was $277.4 million through May, to $232.1 million.

Overall, FY 2010 GRF receipts of $7.25 billion were $380.8 million (5.0%) below FY 2009 receipts. Ohio labor markets appear to have stabilized in the last few months, as shown in the following chart, in the change in monthly receipts from employer withholdings (which provide a real-time indicator of the health of labor markets). The comparison is with receipts in the corresponding months in FY 2009.

[2] 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 (TY) and January 15 of the following year. Most estimated payments are made by high-income taxpayers.



The following table summarizes FY 2010 income tax revenue variances from estimate and annual changes by component. Except for miscellaneous payments, receipts from various components were below their FY 2009 levels. FY 2010 receipts from employer withholdings of \$6.93 billion were \$394.2 million (5.4%) below FY 2009 receipts from both increasing unemployment, and the reduction in tax rates enacted by H.B. 66 of the 126th General Assembly through December 2009. (Withholding rates were identical from January through June in both fiscal years due to H.B. 318.[3]) Though quarterly estimated payments were \$228.2 million (18.6%) below their level of FY 2009, the decrease was concentrated in the quarterly estimates of September 2009 and January 2010, as taxpayers adjusted their quarterly estimates to lower annual income and lower than anticipated TY 2009 total tax liability. Quarterly estimated payments in the last two quarterly estimates (April and June) were \$12.7 million (3.7%) above corresponding payments in FY 2009, which may portend continued improvement for this volatile component of the income tax in FY 2011. Taxes due with annual returns were \$68.4 million (6.8%) lower than such payments in FY 2009. Less refunds to taxpayers and smaller distributions to the LGF this year partially offset the large negative variance in gross collections from the tax.

[3] H.B. 318 postponed for two years the last installment of H.B. 66 scheduled reductions. The final 4.2% reduction takes effect in taxable years starting in 2011.

FY 2010 sales and use tax receipts were $82.2 million above estimate and $35.4 million below FY 2009 receipts.

FY 2010 Income Tax Revenue Variances and Changes by Component				
Category	Variance from Estimate		Changes from FY 2009	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	$61.8	0.9%	-$394.2	-5.4%
Quarterly Estimated Payments	-$103.7	-9.4%	-$228.2	-18.6%
Trust Payments	-$5.8	-12.5%	-$10.2	-19.9%
Annual Return Payments	-$302.8	-24.4%	-$68.4	-6.8%
Miscellaneous Payments	$26.6	32.1%	$29.4	36.7%
Gross Collections	-$324.1	-3.7%	-$671.6	-6.9%
Less Refunds	-$93.7	-7.7%	-$235.2	-17.4%
Less Local Government Fund Distribution	$1.7	0.3%	-$55.7	-8.0%
Income Tax Revenue	-$232.1	-3.1%	-$380.8	-5.0%

Sales and Use Tax

June 2010 GRF sales and use tax receipts of $605.6 million were $4.1 million (0.7%) above estimate and $20.6 million (3.5%) above receipts in June 2009, with continuing good performance from the auto sales and use tax. Through June, FY 2010 GRF receipts of $7.08 billion were $82.2 million (1.2%) above estimate but $35.4 million (0.5%) below FY 2009 receipts in the same period.

For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[4] generally arise from the sale of motor vehicles while nonauto sales and use tax collections arise from other sales. However, auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax, instead of the auto tax.

Nonauto Sales and Use Tax

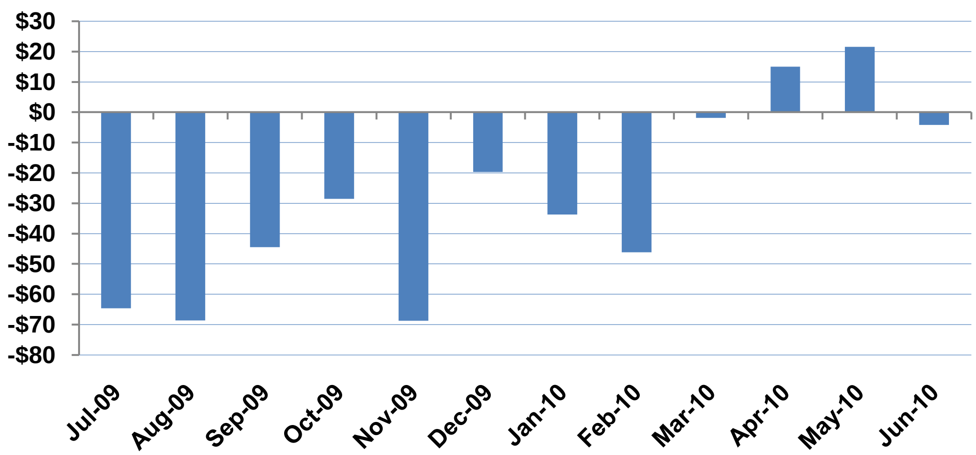
Nonauto sales and use tax receipts of $523.9 million in June were $6.1 million (1.2%) below estimate and $19.4 million (3.9%) above June 2009 receipts. For the fiscal year, nonauto sales and use tax receipts of

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

$6.19 billion were $7.3 million (0.1%) below estimate and $44.7 million (0.7%) below receipts in FY 2009. FY 2010 receipts reflect the expansion of the tax base this year and include payments for health care services provided by Medicaid health insuring corporations.[5] The expansion provided $209.5 million in total sales and use tax collections. State sales and use tax collections were $177.1 million, distributed to the GRF ($168.4 million) and the Public Library Fund (PLF, $8.7 million). Receipts from permissive county and transit authority taxes were $32.4 million. Excluding the revenue from the base expansion, FY 2010 taxable spending would be below last year's level by about 3.4%. However, the sharp decline in monthly taxable sales of the beginning of the fiscal year reversed in the last quarter of FY 2010; receipts from the nonauto sales and use tax were 2.2% above combined receipts in April, May, and June of 2009. The graph below shows the variance in monthly receipts against prior-year receipts in the same month in FY 2009, excluding receipts from the base expansion.

FY 2010 nonauto sales and use tax receipts were about $7.3 million below estimate.

Monthly Change from FY 2009 in Nonauto Sales Tax Receipts (Excluding Receipts from the Base Expansion, in millions)



FY 2010 auto sales tax receipts were $89.5 million above estimate.

Consumer fundamentals remain weak. Consumer borrowing, either due to lack of credit or unwillingness to borrow, continues to fall, monthly job growth is uneven, and wage growth is still limited. Taxable sales may grow, but likely at an uneven and low rate. Nationwide retail sales were softer in the second quarter, compared to the first quarter of calendar year (CY) 2010, indicative of a still-cautious consumer.

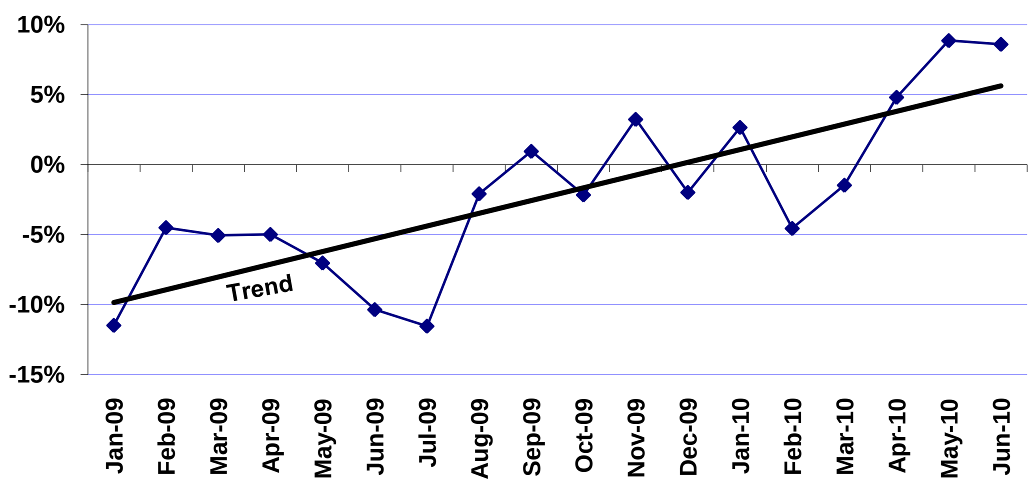
[5] New taxes were imposed on health care services provided by Medicaid health insuring corporations starting on October 1, 2009 (Am. Sub. H.B. 1, the operating budget act for the current biennium). Those services are newly taxed under the sales and use tax and the insurance taxes.

FY 2010 cigarette tax receipts were $89.9 million above estimate.

Auto Sales and Use Tax

The auto sales and use tax was particularly strong in FY 2010, starting with excellent receipts in the summer of 2009 and continuing throughout the year. Auto sales and use tax receipts of $81.7 million in June 2010 were $10.3 million (14.4%) above estimate and $1.2 million (1.5%) above receipts in June 2009. FY 2010 auto sales and use tax receipts of $882.9 million were $89.5 million (11.3%) above estimate, and $9.3 million (1.1%) above receipts in FY 2009. For CY 2010 year-to-date, nationwide sales are averaging 11.1 million units at an annual rate, above the level of 9.1 million units in the first half of 2009. As nationwide labor markets heal, sales are expected to continue rising this calendar year and next. The graph below, which compares monthly auto sales and use tax receipts with year-ago receipts in the same period, shows an upward trend in auto sales and use tax receipts in the last few months.

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



Cigarette and Other Tobacco Products Tax

June receipts from the tax on cigarettes and other tobacco products of $89.8 million, $15.8 million (21.4%) above estimate and $6.7 million (8.0%) above June 2009 receipts. FY 2010 receipts of $886.9 million were $63.9 million (7.8%) above estimate and $37.9 million (4.1%) below FY 2009 receipts. Receipts from cigarette sales were $838.4 million. Sales of products other than cigarettes provided $48.5 million. Compared to FY 2009, FY 2010 receipts from the sale of cigarettes declined $44.6 million (5.1%) and those from the sale of other tobacco products increased $6.7 million (16.1%). The decline in cigarette consumption and tax receipts was less severe than expected, which resulted in the positive variance against estimate. The estimated negative effects of the federal tax increase of April 1, 2009, on FY 2010 tax receipts were partially offset by cigarette tax increases in a number of states in 2009 and 2010, including Kentucky and Pennsylvania.[6] 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.

FY 2010 CFT receipts were $41.7 million above estimate.

Corporate Franchise Tax

As part of the five-year phase-out of the corporate franchise tax (CFT) that was enacted by H.B. 66 of the 126th General Assembly, FY 2010 was the first year the tax became a tax only on the net worth of financial institutions. The last major tax payment for the fiscal year, due May 31, 2010, yielded CFT receipts of $18.6 million in June. Those receipts were $12.6 million (209.7%) above estimate. FY 2010 CFT receipts of $141.7 million were $41.7 million (41.7%) above estimate, and were $379.0 million (72.8%) below FY 2009 receipts, as nonfinancial corporations were removed from the tax base.

FY 2010 CAT receipts were $58.0 million below estimate.

Commercial Activity Tax

As part of the five-year phase-in of the commercial activity tax (CAT) enacted by H.B. 66 of the 126th General Assembly, FY 2010 was the first year in which CAT taxpayers paid 100% of their tax liability. According to OBM, June receipts of $5.7 million were $6.7 million (54.7%) below estimate and $3.5 million (38.9%) below receipts in June 2009. FY 2010 receipts of $1.34 billion were $58.4 million (4.3%) below estimate and $166.1 million (14.1%) above FY 2009 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. In FYs 2006 through 2008, CAT receipts exceeded projections and provided more than enough money to make the required reimbursements. However, shortfalls in CAT receipts required GRF transfers of $96 million in FY 2009 and about $282 million in FY 2010.

[6] The federal cigarette tax increased $0.62 per pack and was expected to reduce Ohio consumption and tax receipts by up to $66 million in FY 2010. However, Kentucky doubled its cigarette tax rate to $0.60 per pack (July 1, 2009) and Pennsylvania raised its rate $0.25 to $1.60 per pack (November 1, 2009).

FY 2010 receipts from the insurance taxes were $19.3 million below estimate.

Kilowatt Hour Tax

In FY 2010, GRF receipts of $156.3 million from the kilowatt hour (KWH) tax were $9.9 million below estimate and $20.3 million higher than FY 2009 tax receipts. The positive variance against FY 2009 receipts was due to the reduction in distributions of GRF tax receipts to the PLF in H.B. 1 (128th General Assembly). H.B. 1 temporarily reduced the PLF's share of total GRF tax revenues from 2.22% to 1.97%. For accounting purposes, one-half of the amounts to be deposited into the PLF are debited from the KWH tax and the other half from the nonauto sales and use tax. Though GRF receipts from the KWH tax increased compared to FY 2009, KWH tax all funds receipts decreased by 4.8%, from the economic recession and resulting reduced electricity demand and consumption.

Public Utility Excise Tax

Receipts from the public utility excise tax totaled $136.7 million in FY 2010, $43.3 million less than the estimate and $47.8 million less than in FY 2009. Taxes paid by natural gas companies account for more than 97% of total tax receipts from the public utility excise tax. Revenues from this tax are based on utilities' gross receipts. The decrease in FY 2010 mainly reflected lower natural gas prices on average than in the previous fiscal year, as well as the lags between customer billing and payment, and between receipt of customer payments by utilities and remission of taxes due. Market prices for natural gas rose somewhat on balance during FY 2010, following a precipitous drop during most of FY 2009.

Foreign and Domestic Insurance Taxes

The domestic insurance tax ended the fiscal year $20.3 million (11.2%) below estimate, while the foreign insurance tax was essentially on target, exceeding the estimate by $0.8 million (0.3%). The domestic insurance tax is paid by insurance companies whose headquarters are located in Ohio, while the foreign tax is paid by those headquartered in other states. Revenues from the two taxes were $6.3 million (4.1%) and $1.6 million (0.6%), respectively, greater than revenues in FY 2009.

Revenue growth from FY 2009 to FY 2010 was affected by an expansion in the tax base to insurance premiums collected by health insuring corporations that cover Medicaid patients. This base expansion was enacted in H.B. 1 and accounted for $13.5 million in increased tax liability, according to a Department of Insurance official. The base expansion was expected to raise about $25 million in domestic insurance tax revenue according to OBM projections, so that the shortfall compared to estimate of revenue from the base expansion accounts for more than half of the overall negative variance for the tax.

The fact that the $13.5 million increase from the base expansion exceeds the combined revenue increases under the two taxes ($7.9 million) implies that the tax base defined on a pre-H.B. 1 basis decreased. Tax liabilities certified by the Department of Insurance reveal decreases in both the property and casualty and the life and health lines of business. The decreases are likely due to the continuing effects of the recession on insurance premiums paid to insurance companies. The effects of the recession are also likely responsible for the remaining negative variance for the domestic insurance tax.

Alcoholic Beverage Tax

FY 2010 alcoholic beverage tax receipts were $1.9 million below estimate.

Receipts from the alcoholic beverage tax were $56.1 million in FY 2010, $1.9 million below estimate, and $1.0 million below FY 2009 receipts. Like most consumer discretionary products, sales of beer, wine, and spirits were hurt by high levels of unemployment and uncertainty about the economic recovery. Though sales of wine and mixed beverages increased 5.1% this fiscal year, beer and malt beverages sales declined 3.1%, resulting in a shortfall in alcoholic beverage tax receipts. Beer and malt beverages generate about 83% of the total alcoholic beverage tax receipts. The next largest revenue source is the tax on wines at about 10%, followed by mixed beverages at about 5%. The remaining 2% comes from sales of vermouth, sparkling wines, and cider.

Liquor Gallonage Tax

Liquor gallonage tax receipts of $36.5 million in FY 2010 were $0.5 million above estimate, and $0.7 million higher than FY 2009 receipts. Liquor sales have increased steadily each year, as the market share for spirits grows at the expense of beer sales. Receipts growth averaged 2.8% between FY 2006 and FY 2008; however, growth was reduced in FY 2009 and again in FY 2010 due to the effects of the recession on consumer spending.

Business and Property Tax

The business and property tax (also called the dealers in intangibles tax) is imposed on businesses (excluding financial institutions and insurance companies) engaged in lending money or buying and selling notes, mortgages, and securities. The distribution of receipts from the eight-mill tax depends on the taxpayer. All taxes paid by "qualified" dealers are credited to the GRF. For "nonqualified" dealers, a share of the tax revenues, three mills, is deposited into the GRF. Revenues from the remaining five mills are distributed to counties. GRF receipts from the dealers in intangibles tax were $27.3 million in FY 2010, including

$19.1 million from qualified dealers and $8.2 million from nonqualified dealers. FY 2010 receipts were $3.2 million above estimate and $2.2 million above FY 2009 receipts. Receipts from qualified dealers increased $1.5 million while receipts from nonqualified dealers improved $0.7 million. Receipts have increased each year since FY 2007, though the rate of growth declined in FY 2009 and FY 2010, probably due to the economic recession and problems in the finance industry.

Estate Tax

The state GRF received $55.0 million from the estate tax in FY 2010. This amount was $6.5 million below estimate, and lower than FY 2009 receipts by $9.4 million. The estate tax is one of the more volatile state revenue sources. Estate tax receipts depend on the estate's value at the time a person dies and the time of settlement made by each county with the state. The total estate tax revenue is shared by the state GRF (20%) and counties (80%).

Earnings on Investments

In FY 2010, GRF earnings on investments of $28.8 million were $50.9 million below estimate and $108.7 million lower than FY 2009 earnings. Earnings on investment fell significantly because of declining state revenue collections and lower than expected interest rates.

Table 3: General Revenue Fund Uses
Preliminary Actual vs. Estimate
Month of June 2010
($ in thousands)
(Actual based on OAKS reports run July 1, 2010)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary, Secondary, and Other Education	$216,554	$235,663	-$19,109	-8.1%
Higher Education	$179,245	$187,348	-$8,103	-4.3%
Total Education	$395,800	$423,011	-$27,211	-6.4%
Public Assistance and Medicaid	$192,518	$254,863	-$62,345	-24.5%
Health and Human Services	$29,584	$41,344	-$11,760	-28.4%
Total Welfare and Human Services	$222,102	$296,207	-$74,105	-25.0%
Justice and Public Protection	$99,246	$137,863	-$38,617	-28.0%
Environment and Natural Resources	$982	$3,298	-$2,315	-70.2%
Transportation	$840	$946	-$105	-11.1%
General Government	$8,757	$16,858	-$8,101	-48.1%
Community and Economic Development	$3,588	$1,696	$1,893	111.6%
Capital	$0	$0	$0	---
Total Government Operations	$113,414	$160,660	-$47,246	-29.4%
Tax Relief and Other	$138,367	$169,582	-$31,216	-18.4%
Debt Service	$32,015	$26,815	$5,200	19.4%
Total Other Expenditures	$170,382	$196,398	-$26,016	-13.2%
Total Program Expenditures	**$901,697**	**$1,076,276**	**-$174,578**	**-16.2%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$5,271	$105,000	-$99,729	-95.0%
Total Transfers Out	$5,271	$105,000	-$99,729	-95.0%
TOTAL GRF USES	**$906,968**	**$1,181,276**	**-$274,308**	**-23.2%**

* June 2010 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

Table 4: General Revenue Fund Uses
Preliminary Actual vs. Estimate
FY 2010 as of June 30, 2010
($ in thousands)
(Actual based on OAKS reports run July 1, 2010)

PROGRAM	Actual	Estimate*	Variance	Percent	FY 2009	Percent Change
Primary, Secondary, and Other Education	$6,743,373	$6,789,897	-$46,524	-0.7%	$7,005,036	-3.7%
Higher Education	$2,424,091	$2,431,346	-$7,255	-0.3%	$2,632,584	-7.9%
Total Education	$9,167,464	$9,221,242	-$53,778	-0.6%	$9,637,621	-4.9%
Public Assistance and Medicaid	$9,421,903	$9,877,804	-$455,901	-4.6%	$11,108,523	-15.2%
Health and Human Services	$1,016,960	$1,047,611	-$30,651	-2.9%	$1,194,590	-14.9%
Total Welfare and Human Services	$10,438,863	$10,925,415	-$486,551	-4.5%	$12,303,113	-15.2%
Justice and Public Protection	$1,933,600	$2,001,234	-$67,634	-3.4%	$2,088,135	-7.4%
Environment and Natural Resources	$80,284	$82,536	-$2,252	-2.7%	$89,600	-10.4%
Transportation	$17,473	$16,630	$844	5.1%	$21,433	-18.5%
General Government	$283,228	$301,118	-$17,890	-5.9%	$354,436	-20.1%
Community and Economic Development	$108,320	$96,814	$11,506	11.9%	$146,297	-26.0%
Capital	$380	$0	$380	---	$312	21.8%
Total Government Operations	$2,423,286	$2,498,332	-$75,046	-3.0%	$2,700,213	-10.3%
Tax Relief and Other	$1,711,360	$1,706,138	$5,221	0.3%	$1,526,226	12.1%
Debt Service	$400,453	$460,183	-$59,730	-13.0%	$616,248	-35.0%
Total Other Expenditures	$2,111,812	$2,166,321	-$54,509	-2.5%	$2,142,473	-1.4%
Total Program Expenditures	**$24,141,425**	**$24,811,310**	**-$669,885**	**-2.7%**	**$26,783,420**	**-9.9%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers Out	$1,032,992	$1,074,343	-$41,351	-3.8%	$848,557	21.7%
Total Transfers Out	$1,032,992	$1,074,343	-$41,351	-3.8%	$848,557	21.7%
TOTAL GRF USES	**$25,174,417**	**$25,885,653**	**-$711,236**	**-2.7%**	**$27,631,977**	**-8.9%**

* June 2010 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	June Actual	June Estimate	June Variance	June Percent Variance	Year to Date Actual thru June	Year to Date Estimate thru June	Year to Date Variance	Year to Date Percent Variance
Nursing Facilities	$231,312	$231,998	-$686	-0.3%	$2,677,493	$2,733,083	-$55,590	-2.0%
ICFs/MR	$46,449	$46,310	$139	0.3%	$543,373	$544,050	-$677	-0.1%
Inpatient Hospitals	$80,352	$103,181	-$22,829	-22.1%	$1,031,446	$1,107,880	-$76,434	-6.9%
Outpatient Hospitals	$29,498	$40,621	-$11,123	-27.4%	$412,962	$422,473	-$9,511	-2.3%
Physicians	$24,649	$34,021	-$9,372	-27.5%	$328,789	$363,312	-$34,523	-9.5%
Prescription Drugs	$120,953	$172,362	-$51,409	-29.8%	$841,130	$1,021,327	-$180,197	-17.6%
ODJFS Waivers	$24,441	$34,851	-$10,410	-29.9%	$322,736	$359,488	-$36,752	-10.2%
MCP	$413,523	$420,028	-$6,505	-1.5%	$4,783,631	$4,871,652	-$88,021	-1.8%
All Other	$122,392	$134,058	-$11,666	-8.7%	$1,414,484	$1,443,584	-$29,100	-2.0%
DA Medical	$0	$15	-$15	-100.0%	$3,449	$5,205	-$1,756	-33.7%
Total Payments	$1,093,569	$1,217,445	-$123,876	-10.2%	$12,359,493	$12,872,054	-$512,561	-4.0%
Non-GRF Offsets	-$930,916	-$980,498	$49,582	-5.1%	-$3,921,973	-$4,071,244	$149,271	-3.7%
Total 600525 (net of offsets)	$162,653	$236,947	-$74,294	-31.4%	$8,437,520	$8,800,810	-$363,290	-4.1%
Medicare Part D (600526)	$0	$0	$0	0.0%	$173,855	$221,687	-$47,832	-21.6%
Total GRF	**$162,653**	**$236,947**	-$74,294	**-31.4%**	**$8,611,375**	**$9,022,497**	-$411,122	**-4.6%**
Total All Funds	**$1,093,569**	**$1,217,445**	-$123,876	**-10.2%**	**$12,533,348**	**$13,093,741**	-$560,393	**-4.3%**

Sources: Actuals based on OAKS reports run on July 6, 2010
Estimates from the Ohio Department of Job and Family Services

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

EXPENDITURES

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

FY 2010 GRF program expenditures and transfers out were below estimate by $669.9 million and $41.1 million, respectively, for a total negative variance of $711.2 million in GRF uses.

Overview

GRF uses totaled $25.17 billion in FY 2010, $711.2 million (2.7%) below the estimate revised by the Office of Budget and Management (OBM) in June 2010. The revised estimate mainly reflects the appropriation changes made in H.B. 318 of the 128th General Assembly, which increased the GRF appropriation for school foundation payments by $285.2 million for FY 2010 and reduced the lottery profits appropriation by the same amount. School foundation payments are funded by a combination of the GRF and lottery profits funds. Of the $711.2 million negative variance in FY 2010 GRF uses, $274.3 million was attributable to the month of June. Tables 3 and 4 show GRF uses for June and for FY 2010, respectively.

GRF uses consist primarily of program expenditures but also include transfers out. GRF program expenditures totaled $24.14 billion in FY 2010, $669.9 million (2.7%) below estimate. GRF transfers out totaled $1.03 billion in FY 2010, $41.4 million (3.8%) below estimate.

For reporting purposes, GRF program expenditures are grouped into 12 categories. Of the $24.14 billion in total program expenditures for FY 2010, $20.52 billion (85.0%) was spent in the following four areas: $9.42 billion (39.0%) in Public Assistance and Medicaid, $6.74 billion (27.9%) in Primary, Secondary, and Other Education, $2.42 billion (10.0%) in Higher Education, and $1.93 billion (8.0%) in Justice and Public Protection.

GRF expenditures for eight program categories were below estimate by a combined $687.8 million in FY 2010. GRF expenditures for the other four program categories were above estimate by a total of $18.0 million. Public Assistance and Medicaid had the largest negative variance at $445.9 million, followed by Justice and Public Protection ($67.6 million); Debt Service ($59.7 million) Primary, Secondary, and Other Education ($46.5 million); Health and Human Services ($30.7 million); and General Government ($17.9 million). Of the total $18.0 million of positive program variances, $11.5 million occurred in Community and Economic Development. Variances in these six program categories are briefly discussed below.

In addition to expenditures, OBM also estimated year-end GRF encumbrances at $293.5 million for FY 2010. The actual encumbrances totaled $371.2 million as of June 30, 2010, $77.7 million above OBM's estimate. See the Encumbrances section of this report for additional information on year-end GRF encumbrances.

Programs with Significant Variances in FY 2010

Public Assistance and Medicaid

GRF expenditures for Public Assistance and Medicaid totaled $9.42 billion in FY 2010, $455.9 million (4.6%) below estimate; $62.3 million of this variance was attributable to the month of June. Medicaid accounts for 91.4% of expenditures in this category. Table 5 details Medicaid expenditures by service category.

Medicaid spending in FY 2010 was below estimate by $411.1 million.

As seen from Table 5, GRF Medicaid expenditures in FY 2010 totaled $8.61 billion, $411.1 million (4.6%) below estimate. For the month of June, GRF Medicaid expenditures totaled $162.7 million, which was below estimate by $74.3 million (31.4%). This monthly negative variance was mainly due to a timing issue associated with the last fee-for-service provider payments for FY 2010. These payments were posted in the July (FY 2011) instead of June accounting book.

Expenditures for all Medicaid service categories were below their estimates for the year. This is mainly due to average monthly Medicaid caseloads being below estimate for the first eight months of the fiscal year and to overall lower than estimated per person costs. Categories with significant negative variances for FY 2010 include Prescription Drugs ($180.2 million), Managed Care Plans ($88.0 million), Inpatient Hospitals ($76.4 million), Nursing Facilities ($55.6 million), and Medicare Part D ($47.8 million).

The $180.2 million negative variance for the Prescription Drug category was mainly due to the "carve-out" of prescription drugs from managed care plans that began in February 2010. Prescription drugs are now paid separately by the Ohio Department of Job and Family Services (ODJFS) under a fee-for-service system in order to maximize rebates from drug manufacturers and to realize lower drug prices from greater economies of scale.

The $88.0 million negative variance for the Managed Care Plans category is primarily due to the later than expected return of mandatory managed care for aged, blind, and disabled (ABD) Medicaid recipients in the Northeast and Northwest regions of the state. For a large part of FY 2010, there was only one managed care choice available for ABD populations in each of these two regions. Current law makes managed care voluntary when there is a single option. As a result, ABD Medicaid recipients in the Northeast and Northwest regions had opted out of managed care and received services through the fee-for-service system for many months in FY 2010.

Spending in FY 2010 by the Department of Rehabilitation and Correction was below estimate by $50.8 million.

The $76.4 million negative variance in the Inpatient Hospital category is mainly due to lower than estimated costs per person.

The $55.6 million negative variance in the Nursing Facility category is due to lower than estimated Medicaid bed days and the later than expected implementation of the per diem reimbursement rate increases included in H.B. 1. The rate changes were subject to the approval of the federal government and were implemented for October payments.

Lastly, expenditures in the Medicare Part D category were $47.8 million below estimate for the year as a result of the mid-year federal action that reduced state payments to the federal government for Medicare Prescription Drug benefits.[7]

Justice and Public Protection

GRF expenditures for Justice and Public Protection were $67.6 million (3.4%) below their FY 2010 estimate. The Department of Rehabilitation and Correction (DRC), the largest agency within this program category, accounts for $50.8 million of the total. Three DRC appropriation items with large negative variances are: 505321, Institutional Medical Services ($15.5 million); 501321, Institutional Operations ($13.7 million); and 502321, Mental Health Services ($10.3 million). Expenditures for items 505321 and 502321 were below estimate for several months in FY 2010 as spending for medical and mental health services depends on the incidence of inmate illnesses. These negative variances also reflect an early 2010 decision made by DRC to hire psychiatrists who were on contracts as state employees to reduce costs. Item 501321 provides the majority of funds for DRC's operations.

The Department of Youth Services (DYS), the second largest agency within the Justice and Public Protection category, had a negative variance of $10.7 million in FY 2010, of which $7.4 million was attributable to item 470401, RECLAIM Ohio. This item funds institutional placement and community program services to youth who have been convicted of a felony offense and to any other delinquent child.

The Justice and Public Protection program category also includes the Supreme Court of Ohio, with expenditures $4.6 million below estimate, and one of the five elected statewide offices, the Office of the Attorney General,

[7] This federal action was discussed at greater length in an Issue Update article that appeared in the March 2010 edition of *Budget Footnotes*.

with expenditures $1.5 million below estimate in FY 2010. Expenditures for the other four statewide elected offices are included in the General Government program category, which is discussed below.

Debt Service

This program category funds general obligation bond debt service payments incurred by several state agencies for various capital improvement projects at the state and local levels. GRF debt service expenditures were $59.7 million (13.0%) below their FY 2010 estimates. The vast majority of this negative variance was attributable to the Board of Regents ($34.0 million), the Public Works Commission ($10.5 million), and the Ohio School Facilities Commission ($8.8 million). As reported in the January issue of *Budget Footnotes*, H.B. 1 assumed a debt restructuring plan that reduces GRF debt service payments during this biennium by a total of $736.8 million. In FY 2010, GRF debt service payments were reduced by $335 million through refunding bonds issued by the Ohio Public Facilities Commission and Ohio Building Authority.

Primary, Secondary, and Other Education

GRF expenditures for Primary, Secondary, and Other Education were $46.5 million (0.7%) below their FY 2010 estimate, of which $44.0 million was attributable to the Ohio Department of Education (ODE). ODE's appropriation items 200502, Pupil Transportation, and 200437, Student Assessment, were below their FY 2010 estimates by $29.4 million and $9.5 million, respectively. Much of the negative variances in these two items were offset by higher than expected encumbrances in these two items (see the Encumbrances section for additional information).

Health and Human Services

GRF expenditures for Health and Human Services were $30.7 million (2.9%) below their FY 2010 estimates, of which $25.4 million was attributable to the Department of Developmental Disabilities (DODD, $10.4 million), the Department of Mental Health (DMH, $9.9 million), and the Department of Health (DOH, $5.1 million).

Item 322504, Martin Settlement, accounts for $4.5 million of DODD's total negative variance. This item is used to make payments for Medicaid waiver services in compliance with a federal class action law suit filed by the Ohio Legal Rights Service in 1989 that claimed undue segregation in institutions for individuals with developmental disabilities. DODD encumbered $4.5 million for provider payments as service providers have up to one year to bill for providing waiver services. Item 334408, Community and Hospital Mental Health Services, accounts for

Encumbrances totaled $371.2 million at the end of FY 2010.

$7.0 million of DMH's total negative variance. This item provides funding for state mental health hospitals, including state hospital employee compensation, and for subsidies to community mental health boards. Mandatory furlough days for state employees were the main reason for the negative variance in item 334408. DOH's FY 2010 negative variance was spread out fairly equally among several program areas, including Healthy Ohio, Help Me Grow, federally qualified health centers, health care quality assurance, public health lab, and immunizations for children.

General Government

GRF expenditures for General Government were $17.9 million (5.9%) below estimate in FY 2010. Of this total, $5.5 million was attributable to the Department of Taxation, $4.9 million to the Department of Administrative Services, $5.3 million to the five legislative agencies (the House of Representatives, the Senate, the Legislative Service Commission, the Joint Committee on Agency Rule Review, and the Joint Legislative Ethics Committee), and $1.6 million to four of the five elected statewide offices: Governor, Treasurer of State, Auditor of State, and Secretary of State. As reported earlier, the Office of Attorney General, the other elected statewide office, is in the Justice and Public Protection program category.

Community and Economic Development

Community and Economic Development is the only program category with a relatively large positive variance in FY 2010, at $11.5 million (11.9%). This program category includes expenditures from the Department of Development, Ohio Cultural Facilities Commission, Department of Agriculture, Air Quality Development Authority, and Ohio Expositions Commission. The positive variance in this category was mainly attributable to item 195422, Technology Action, in the Department of Development's budget. Expenditures from item 195422 were $10.9 million above estimate. These expenditures supported parts of the grants and the operating expenses of the Third Frontier Program.

Encumbrances

As indicated earlier, as of June 30, 2010, state agencies encumbered a total of $371.2 million in GRF funds for expenditure in FY 2011. An agency generally has five months to spend prior-year encumbrances for operating expenses. Any unspent operating expense encumbrances generally will lapse at the end of the five-month period and will become part of the GRF cash balance. 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.

The table below summarizes the encumbrances by the fiscal year for which funds were originally appropriated. As seen from the table, the majority of the encumbrances were originally appropriated in FY 2010, but smaller amounts were first appropriated for earlier years back to FY 2003.

Of the total encumbrances, 64.7% are attributed to the Department of Education and the Department of Job and Family Services.

FY 2010 Year-End Encumbrances by Fiscal Year for Which Appropriations Were Originally Made		
Fiscal Year	**Amount (in millions)**	**Percentage of Total**
2003	$0.32	0.1%
2004	$0.12	0.0%
2005	$0.46	0.1%
2006	$0.79	0.2%
2007	$2.23	0.6%
2008	$24.57	6.6%
2009	$63.11	17.0%
2010	$279.63	75.3%
Total	**$371.23**	**100.0%**

The encumbrance amounts vary greatly from agency to agency. As show in the table below, ODE has the largest encumbrance amount at $122.4 million, 33.0% of the total, followed by ODJFS, a close second, at $117.8 million, 31.7% of the total. Three other agencies with significant encumbrance amounts are DOD at $48.5 million (13.1% of the total), DRC at $24.8 million (6.7%), and the Board of Regents at $10.9 million (2.9%). Together, these five agencies account for $324.4 million (87.4%) of the total encumbrances. These five agencies' encumbrances are briefly discussed below. All other agencies encumbered the remaining $46.8 million, 12.6% of the total.

FY 2010 Year-End Encumbrances by Agency		
Agency	**Amount (in millions)**	**Percentage of Total**
Education	$122.36	33.0%
Job and Family Services	$117.83	31.7%
Development	$48.54	13.1%
Rehabilitation and Correction	$24.76	6.7%
Regents	$10.91	2.9%
All Other Agencies	$46.84	12.6%
Total	**$371.24**	**100.0%**

Department of Education

The Ohio Department of Education (ODE) encumbered $122.4 million for expenditure in FY 2011. Six appropriation items with significant encumbrances are: (1) item 200550, Foundation Funding, at $42.8 million, (2) item 200502, Pupil Transportation, at $29.4 million, (3) item 200437, Student Assessment, at $13.1 million, (4) item 200511, Auxiliary Services, at $10.9 million, (5) item 200540, Special Education Enhancements, at $6.0 million, and (6) item 200532, Nonpublic School Administrative Cost Reimbursement, at $4.5 million. These six items' encumbrances account for $106.8 million of the total. The remaining $15.6 million was encumbered in various other items for outstanding obligations, including payments for providers of preschool programs for low-income children, career technical education enhancement grants, and school improvement initiative grants.

GRF appropriation items 200550 and 200502 are two of the four items that fund school foundation aid, the main source of state aid for schools.[8] Funds encumbered in these two items will be used mainly to meet the outstanding pupil transportation component of FY 2010 school foundation aid and potential year-end foundation aid adjustments. Funds encumbered in item 200437 will be used to pay contractors for scoring tests this summer that were administered in the spring and other bills not yet received from vendors. Funds encumbered in item 200540 will mainly be used mainly for outstanding subsidy payments to county boards of developmental disabilities that provide preschool special education services.

Encumbrances in items 200511 and 200532 were a result of S.B. 181 of the 128th General Assembly. S.B. 181 requires $15 million in appropriations be transferred in FY 2010 from item 200550: $10.5 million to item 200511 and $4.5 million to item 200532. Items 200511 and 200532 provide state funding for chartered nonpublic schools.

S.B. 181 also appropriates $25 million in FY 2010 to Fund 5JA0 appropriation item 200611, ARRA Compliance, to be used for an additional per pupil subsidy to be paid to schools if such an additional subsidy is required under ARRA. Fund 5JA0 is to be funded with GRF encumbered balances in ODE's budget that would have otherwise lapsed.

[8] The other two items are lottery profits appropriation item 200612, Foundation Funding, and ARRA supported GRF appropriation item 200551, Foundation Funding – Federal Stimulus.

Department of Job and Family Services

The Ohio Department of Job and Family Services (ODJFS) encumbered $117.8 million for expenditure in FY 2011. The encumbrances in six appropriation items account for $110.4 million of the total. These six items are: item 600525, Health Care/Medicaid ($66.1 million); item 600511, Disability/Other Assistance ($18.3 million); item 600416, Computer Projects ($8.8 million); item 600537, Children's Hospital ($6.0 million); item 600321, Support Services ($5.7 million); and item 600523, Children and Family Subsidy ($5.5 million).

The $66.1 million of encumbrances in item 600525, Health Care/Medicaid, will be used mainly to make payments to nursing facilities whose payments were withheld due to changes in facility ownership, as well as for targeted case management services and service-based contracts. Of the total encumbered in this line item, $32.0 million (48.4%) is from FY 2010 appropriations and the remaining $34.1 million is from previous fiscal years.

The $18.3 million of encumbrances in item 600511, Disability Financial Assistance, mainly resulted from Disability Financial Assistance (DFA) payments returned to the state from individuals who started receiving federal Social Security Insurance (SSI) benefits retroactively for the time they received DFA benefits. Individuals who receive such retroactive SSI payments are required to return to the state DFA benefits received over the course of the retroactive period. ODJFS plans to use these "refunds" to help fund DFA payments in FY 2011.

The $8.8 million of encumbrances in item 600416, Computer Projects, will be used to make payments on contracts for the electronic benefit payment system for public assistance programs, the child support payment system, and computer equipment. A portion will also be used for a payment to the Office of Information Technology within the Department of Administrative Services for use of state computer systems.

The $6.0 million of encumbrances in item 600537, Children's Hospital, represents the whole amount of the FY 2010 appropriation for this item. This item was newly created in H.B. 1. According to ODJFS, the payment amounts for the year could not be calculated until the fiscal year ended. The FY 2010 payments to children's hospitals are expected to be made early in FY 2011.

The $5.7 million of encumbrances in item 600321, Support Services, are mainly for postage, Medicaid provider training, contracts, and interagency agreements.

Finally, the $5.5 million of encumbrances in item 600523, Children and Family Subsidy, are mainly for training of foster care givers, who are allowed 18 months to claim their stipend from ODJFS.

Department of Development

The Department of Development (DOD) encumbered $48.5 million for expenditure in FY 2011. These encumbrances are largely attributable to various economic development incentive grants that have been awarded but not yet disbursed. Many of DOD's grant programs are operated on a reimbursement basis, whereby grant recipients do not receive money from the state until a project has been completed or certain conditions have been met. For example, a grantee may be awarded grants in FY 2010 from FY 2010 appropriations but not receive them until FY 2011 or later. More than half ($27.4 million) of the DOD's $48.5 million encumbrance was originally appropriated prior to FY 2010.

Appropriation item 195422, Technology Action, has the largest encumbrance for DOD at $14.6 million, mainly for use under the Third Frontier Program. Item 195412, Rapid Outreach Grants, is a close second with an encumbrance of $12.0 million. Other items with large encumbrances include: item 195434, Industrial Training Grants ($8.6 million), item 195416, Governor's Office of Appalachia ($6.7 million), and item 195401, Thomas Edison Program ($4.3 million). Together, these five items account for $46.3 million of DOD's total encumbrance.

Department of Rehabilitation and Correction

The Department of Rehabilitation and Correction (DRC) encumbered $24.8 million for expenditure in FY 2011, of which $20.8 million occurred in items 505321, Institution Medical Services ($12.4 million), and 501321, Institutional Operations ($8.4 million). Funds were encumbered from item 505321 to pay various outstanding bills for providing medical services to inmates, including $4.6 million for ER physicians and $1.9 million for dental services. Funds were encumbered from item 501321 for a mix of purchased personal services, supplies, maintenance, repairs, materials, and other minor expenditures at DRC and institutions, including $1.7 million for the private management and operation of the Lake Erie Correctional Institution and the North Coast Correctional Treatment Facility.

Board of Regents

The Board of Regents encumbered $10.9 million for expenditure in FY 2011. The majority ($8.2 million) of the total was encumbered in item 235438, Choose Ohio First Scholarship, to pay the state's obligations to scholarship receipts. Another $2.3 million was encumbered in item 235444, Adult Career-Technical Education, to pay outstanding payments to adult workforce education service providers.

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

ISSUE UPDATES

ARRA Revenues and Expenditures Both Exceed $3 billion in FY 2010

—Wendy Zhan, Deputy Director, 614-728-4814

For FY 2010, ARRA revenues and expenditures total $3.46 billion and $3.36 billion, respectively.[9] Including FY 2009's numbers, ARRA revenues received and expenditures incurred amount to $4.27 billion and $4.17 billion, respectively. The table below shows FY 2010 ARRA revenues and expenditures for each of the 23 agencies receiving such funding as well as total ARRA revenues and expenditures for FY 2009.

FY 2010 ARRA Revenues and Expenditures by Agency

	FY 2010 Revenues		FY 2010 Expenditures	
Agency	**GRF Only**	**All Funds**	**GRF Only**	**All Funds**
Job and Family Services	$765,306,595	$1,888,863,730	$765,306,595	$1,820,858,910
Education	$417,618,845	$782,966,566	$417,567,145	$782,914,287
Regents	$281,022,236	$281,022,236	$281,022,236	$281,022,236
Transportation	$0	$210,724,282	$0	$208,770,216
Development	$167,117	$118,664,263	$0	$118,647,396
Rehabilitation and Correction	$110,029,321	$110,254,604	$110,029,321	$110,287,147
Public Safety	$0	$39,672,434	$0	$10,676,744
Health	$0	$6,614,828	$0	$6,575,914
Rehabilitation Services	$0	$6,474,911	$0	$6,361,881
Aging	$0	$4,879,569	$0	$4,915,833
Commerce	$417,976	$4,024,524	$0	$218,072
Attorney General	$0	$3,185,759	$0	$3,251,106
Natural Resources	$95,009	$2,007,469	$0	$1,912,460
Adjutant General	$0	$1,680,825	$0	$2,461,857
Environmental Protection	$0	$1,204,760	$0	$1,169,219
eTech	$0	$469,714	$0	$217,752
Administrative Services	$0	$392,963	$0	$392,963
Arts Council	$0	$277,400	$0	$239,175
Alcohol and Drug Addition Services	$0	$264,712	$0	$264,712
Public Works	$111,852	$111,852	$0	$0
Public Utility	$0	$89,381	$0	$49,249
Youth Services	$0	$74,624	$169	$151,030
Agriculture	$0	$63,202	$0	$63,606
FY 2010 Subtotal	**$1,574,768,951**	**$3,463,984,607**	**$1,573,925,466**	**$3,361,421,764**
FY 2009 Subtotal	**$577,108,619**	**$808,753,636**	**$577,108,619**	**$807,045,299**
Total ARRA	**$2,151,877,570**	**$4,272,738,243**	**$2,151,034,085**	**$4,168,467,043**

[9] The differences between revenues and expenditures are largely due to different accounting rules for when to recognize revenues (when they are received) and expenditures (when they are incurred).

As seen from the table, the Ohio Department of Job and Family Services (ODJFS) had the largest share of ARRA revenues and expenditures for FY 2010, followed by the Ohio Department of Education (ODE). The majority of ARRA revenues received by ODJFS came from eFMAP (enhanced federal medical assistance percentage) for Medicaid and several other human service programs. For FY 2010, eFMAP revenues totaled $1.45 billion on an all-funds basis, of which $765.3 million was deposited into the GRF. ODE's GRF ARRA revenues came from the State Fiscal Stabilization Fund (SFSF), a part of the federal stimulus money designated for education and other general government services. ODE's non-GRF ARRA revenues were mainly for special education and Title I programs. Title I is a federally funded program for economically disadvantaged students. ARRA revenues for the Board of Regents (BOR) and the Department of Rehabilitation and Correction (DRC) also came from the SFSF. Ohio's SFSF allocation totals $1.79 billion. H.B. 1 appropriated a total of $808.7 million of this allocation in FY 2010 to ODE, BOR, and DRC. The remaining SFSF funds will be spent in FY 2011.

Ohio Department of Transportation Issues Build America Bonds to Fund Highway Programs

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

During April and May of 2010, the Treasurer of State issued $170 million in general obligation state highway bonds and $215 million in highway infrastructure grant anticipation revenue vehicles, which are known as GARVEE bonds. These bond issuances, totaling $385 million, will fund Ohio Department of Transportation (ODOT) highway pavement preservation and major new capacity projects. All of the general obligation state highway bonds as well as $136.8 million of the GARVEE bonds are taxable bonds issued under the Build America Bonds program, which was authorized in the American Recovery and Reinvestment Act of 2009 (ARRA). The remaining amount of GARVEE bonds issued, $78.2 million, are tax exempt.

The Build America Bonds program permits states and local governments to issue taxable bonds in calendar years 2009 and 2010 to finance any capital expenditures for which they otherwise could issue tax-exempt governmental bonds.[10] In return, the federal government subsidizes a portion of the interest to lower borrowing costs. Concurrent with each bond payment, ODOT will receive federal reimbursement for 35% of each payment's interest costs. The subsidy will end up saving ODOT approximately $49.2 million in interest costs over the life of the bonds. The overall interest rates on the general obligation state highway and GARVEE bonds issued are

[10] Taxable bonds may attract a larger pool of investors, which makes taxable bonds generally more marketable.

3.11% and 2.55%, respectively, both of which are net of federal interest cost reimbursements. The GARVEE bonds will mature in 2021, followed by the general obligation state highway bonds in 2025.

The general obligation state highway bonds are authorized by H.B. 2 of the 128th General Assembly, the transportation budget act for FY 2010-FY 2011, and are backed primarily by state motor fuel tax revenue. H.B. 2 permits up to $352 million of these bonds to be issued over the biennium, the proceeds from which are deposited in the Highway Capital Improvement Fund (Fund 7042). GARVEE bonds are issued pursuant to federal law and Ohio's State Infrastructure Bank program created in R.C. Chapter 5531. and are primarily retired with ODOT's federal highway program revenues. GARVEE bond proceeds are deposited into the Infrastructure Bank Obligations Fund (Fund 7045).

Privately Operated State Prisons Save $5.5 million in FY 2010

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

The Department of Rehabilitation and Correction (DRC) estimates that its two privately operated prisons save the state approximately $5.5 million in FY 2010. Since FY 2002, DRC has contracted with a private sector vendor, Management and Training Corporation (MTC), of Centerville, Utah, to manage and operate two of Ohio's 31 prisons in order to reduce operating costs. One of the stipulations in these contracts is that MTC must be able to operate the two prisons at least 5% below DRC's estimated costs of operating a comparable institution. Based on data provided by DRC, the table below summarizes the estimated annual savings from FYs 2002 through 2010. According to DRC, one of the primary sources of the savings is that MTC administrators have greater control over various payroll expenses, including salaries, fringe benefits, holidays, overtime, and pensions.

Privately Operated Prison Savings Relative to Comparable Publicly Operated Prison

Fiscal Year	North Coast Correctional Treatment Facility		Lake Erie Correctional Institution	
	Savings in Dollars	% Below DRC Cost	Savings in Dollars	% Below DRC Cost
2002	$676,416	5.0%	$2,905,908	12.6%
2003	$673,328	5.0%	$3,011,131	12.9%
2004	$2,749,873	17.1%	$4,307,818	16.7%
2005	$2,749,873	17.1%	$4,307,818	16.7%
2006	$2,788,483	17.4%	$2,430,986	10.2%
2007	$2,788,483	17.4%	$2,430,986	10.2%
2008	$2,564,744	16.0%	$1,393,749	6.0%
2009	$2,564,744	16.0%	$1,393,749	6.0%
2010	$2,411,107	14.8%	$3,106,742	11.6%
Totals	**$19,967,051**	**N/A**	**$25,288,887**	**N/A**

Source: Department of Rehabilitation and Correction

The two privately operated prisons are the North Coast Correctional Treatment Facility (Lorain County), a 552 bed minimum security facility, and the Lake Erie Correctional Institution (Ashtabula County), a 1,380 bed minimum/medium security facility for male offenders. The state of Ohio retains ownership of these correctional institutions as well as the authority to establish the laws and regulations governing them. As a condition of the contracts, MTC is required to follow all federal and state laws, and all rules and policies that DRC deems necessary to safe operation and management. MTC is also contractually obligated to provide staffing at or above the minimum level that DRC determines is necessary to provide adequate security and medical and mental health services.

Department of Taxation Hires More Auditors

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

The Department of Taxation has filled 102 auditor positions in FY 2010 with appropriations provided in H.B. 1 for the hiring of more auditors. H.B. 1 appropriates $6.4 million in FY 2010 and $8.5 million in FY 2011 for this purpose. In June of 2009, the Department anticipated that the additional audit staff members would increase revenues in FY 2011 by about $49 million, including about $42 million in increased revenues to the GRF, but projected no additional revenues in FY 2010 because of the time lags in hiring and training new staff. The additional positions include nine positions in the Commercial Activity Tax Division. These nine positions have already generated over $5 million in increased revenue in FY 2010. Of the remaining 93 filled positions, eight are in the Income Tax Division and 85 are in the Audit Division. The Department still expects to reach $49 million in increased revenue in FY 2011 as a result of these additions to its staff.

Ohio Livestock Care Standards Board Receives Funding for FY 2011

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

The Ohio Livestock Care Standards Board will operate in FY 2011 with funding transferred from the Commercial Feed and Seed Fund (Fund 4C90), used by the Department of Agriculture. The Board was established by a constitutional amendment approved by the voters in November 2009 and implemented under H.B. 414 of the 128th General Assembly, enacted in March 2010. That act outlines the role of the 13-member board in overseeing regulations concerning livestock care, biosecurity, animal disease prevention, and food safety, and also provides the Board with the authority to enforce these policies. However, the act does not specify a permanent source of operating revenue for the Board. Instead, until the General Assembly establishes a permanent source of funding, the act requires the Director of Agriculture to identify cash in other funds within the Department's budget that can be transferred to the Ohio Livestock Care Standards Fund (Fund 5HP0) to be used by the Board. These transfers are subject to Controlling Board approval.

On May 10, 2010, the Controlling Board approved a transfer of $354,188 cash from Fund 4C90 to Fund 5HP0. Of this amount, $219,513 (62%) is slated for payroll, including salary and fringe benefits for the executive director ($102,688), one administrative assistant ($57,790), and a half share of the salary and fringe benefit costs for an enforcement agent ($27,498) and a livestock inspector ($31,537) whose services will be shared with another program. A further $110,013 (31%) is budgeted for supplies, maintenance, and equipment. The remaining $24,662 (7%) will be used to pay for studies and acquire data relevant to the Board's work, as well as administrative hearings.

Commission on Dispute Resolution and Conflict Management's Doors to Remain Open in FY 2011

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

On June 14, 2010, the Controlling Board approved a Commission on Dispute Resolution and Conflict Management request to establish an FY 2011 Gifts and Grants Fund appropriation totaling $400,000 for the purpose of allowing the Commission to continue operations into FY 2011. Absent that Controlling Board action, the Commission would presumably have ceased service delivery operations at the close of FY 2010 as H.B. 1 appropriated no funding to support the Commission's operating expenses for FY 2011.

The FY 2011 appropriated amount consists of three distinct revenue sources. The first revenue source, in excess of $140,000, represents the cash balance in the Gifts and Grants Fund that will be carried into FY 2011. That cash balance alone will allow the Commission to continue operations for an estimated three to six months into FY 2011. The second revenue source, about $75,000, is additional revenue from the Ohio Supreme Court for a dispute resolution project. The third revenue source is a federal grant requested in the amount of approximately $200,000 that, if approved, would likely be sufficient to allow the Commission to operate through FY 2011 in its entirety. To sustain the Commission in future years, the Director is currently exploring alternative funding options, such as fee-for-service or partnering with a university or other nonprofit organization.

The Commission was established in November 1989 for the purpose of providing Ohioans with constructive, nonviolent forums, processes, and techniques for resolving disputes. The Commission complies with this statutory mandate by delivering dispute resolution and conflict management training, facilitation and mediation services, consultation, and technical program assistance to schools, communities, courts, and state and local governments. The Commission is governed by 12 volunteer commissioners and has a staffing level of four employees.

ODE Awarded $5.1 million for Longitudinal Data Systems

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

The Ohio Department of Education (ODE) was recently awarded $5.1 million to enhance statewide longitudinal data systems (SLDS). Funds for the competitive SLDS grant were provided through ARRA and awarded by the U.S. Department of Education. The grant will be used to interconnect current data systems that collect information about Ohio's pre-kindergarten, primary, secondary, and post-secondary education systems, as well as Ohio's workforce. The interconnected data systems will enable the state to track student progress, provide parents with information, and assist teachers in understanding the impact of their instruction. Including this most recent grant, Ohio has been awarded $13.7 million in SLDS grants since their inception in 2005.

OTTA Chooses BlackRock to Manage Investor-Sold Options

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

In May, the Ohio Tuition Trust Authority (OTTA) announced that BlackRock, one of the investment managers for its 529 college savings investment options, would soon be the only manager to offer advisor-sold 529 options in Ohio. Named after the section of the federal Internal Revenue Code authorizing them, 529 tax-advantaged investment options are offered and operated by OTTA to help Ohio families save for their children's college education. OTTA has 59 college savings investment options with over $6.0 billion in total assets and nearly 780,000 beneficiaries, as of March 31, 2010. Thirty-six of OTTA's investment options are available exclusively through financial advisors. Putnam was the first investment manager to partner with OTTA for an advisor-sold option in 2000, and currently has 19 advisor-sold options. OTTA added BlackRock options in June 2009 and it currently offers 17 options. All assets currently in Putnam options will be transferred to BlackRock for management in October 2010. As of March 31, 2010, total assets in Putnam's OTTA offerings are approximately $3.5 billion and have 375,000 beneficiaries. OTTA indicates that existing Putnam accounts will be transferred to BlackRock options with similar packages. OTTA indicates that following the transition to exclusivity, BlackRock may add more options to meet consumer demand.

OWF Recipients Receive One-Time $100 Supplemental Payment

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

On May 24, 2010, the Controlling Board approved an appropriation increase to the federal TANF Block Grant line item (600689) to fund a one-time $100 supplemental payment for 101,785 Ohio Works First (OWF) recipients. The payments, made in June, totaled $10.2 million. Of this amount, $8.1 million was paid with federal funds provided under ARRA and the remaining $2.1 million was paid with other non-GRF funds. The federal government has encouraged states to provide supplemental cash assistance payments since recipients did not receive a cost-of-living adjustment (COLA) for 2010.

Ohio law requires that the Department of Job and Family Services increase OWF benefits each year if there is an increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers from the third quarter of one year to the third quarter of the next. There was no increase in the index from the third quarter of 2008 to the third quarter of 2009 (the index actually decreased 2.1% during that period), thus there was no COLA for 2010. The last annual COLA increase for OWF recipients was 5.8% in January 2009 (a $252 annual increase in benefits for a family of three).

Over 2,000 Indigent Individuals Reimbursed for Attending Driver Intervention Programs in FY 2010

— Jim Ramey, Budget Analyst, 614-644-5231

For FY 2010, the Department of Alcohol and Drug Addiction Services reimbursed 2,156 indigent individuals for a total of $585,756 for attending driver intervention programs, which are jail diversion programs that provide screening and education services to first-time drunk drivers. Indigent individuals who complete a 48 or 72-hour intervention program are eligible for a maximum reimbursement of $275. An individual is classified as indigent if they are receiving Medicaid, Temporary Assistance for Needy Families, Supplemental Security Income, or Social Security Disability Insurance. An individual may also qualify if their income is below 100% of the federal poverty guidelines ($10,830 annually for an individual).

Reimbursement is paid from the Statewide Treatment and Prevention Fund, which receives a percentage of gross profits from liquor sales and liquor permit renewal fees, and a portion of the driver's license reinstatement fee. State law authorizes the Director of Alcohol and Drug Addiction Services to allocate a share of the fund to be used for driver intervention programs. For FY 2011, $625,730 has been allocated for this purpose.

TRACKING THE ECONOMY

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

Employment on nonfarm payrolls fell by 125,000 in June. Private-sector payroll employment increased 83,000.

Overview

Although the economy continues to expand, the pace of growth has slowed. Hiring has increased but remains limited, constraining incomes and consumer willingness to spend. Residential investment has fallen back to very low levels with expiration of a federal stimulus program for this sector (except for closings on transactions already in contract). Business investment in equipment continues to grow but investment in structures remains weak. Concerns about the strength of economic growth coupled with low inflation have contributed to very low interest rates on longer-term U.S. Treasury obligations and on mortgage loans. Abroad, the sovereign debt crisis afflicting less creditworthy European nations and fiscal belt tightening by others will limit near-term growth prospects for these U.S. trading partners.

The Federal Reserve's Open Market Committee (FOMC), following its June meeting, kept its short-term interest rate target for the federal funds rate unchanged at zero to 0.25%, and reiterated its expectation that conditions "are likely to warrant exceptionally low levels of the federal funds rate for an extended period." In its post-meeting press release, the FOMC noted that "(f)inancial conditions have become less supportive of economic growth on balance, largely reflecting developments abroad." The FOMC continues to expect gradual economic recovery with subdued inflation.

The National Economy

Employment and Unemployment

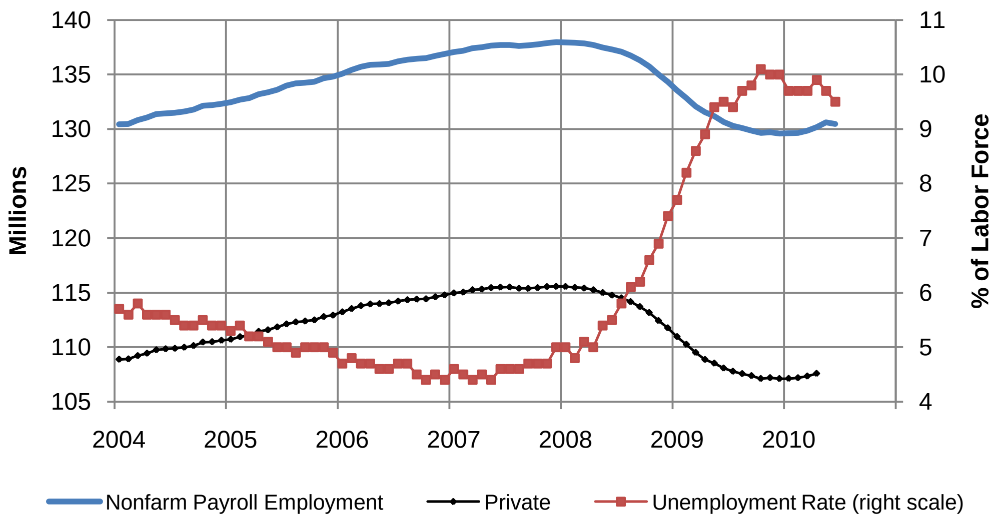
Employment on nonfarm payrolls fell by 125,000 in June as the federal government reduced the number of temporary workers on the 2010 Census by 225,000. Private-sector payroll employment increased by 83,000, larger than a 33,000 increase in May but below gains averaging 200,000 a month in March and April. The number of persons counted as unemployed fell to 14.6 million, or 9.5% of the labor force, less than still higher unemployment rates during the previous ten months.[11] These trends are shown in Chart 1. The number of long-term unemployed,

[11] Over the past half century, the nationwide unemployment rate averaged 6%, and exceeded 9.5% in only about 4% of the months.

The nation's real GDP rose at a 2.7% annual rate in the first quarter of 2010.

those out of work for more than six months, was about unchanged at 6.8 million persons. Private-sector employment gains in June were reported in manufacturing; mining; amusements, gambling, and recreation; temporary help services; transportation and warehousing; management and technical consulting; and business support services. Construction employment fell. The number of jobs with state and local governments continued the general downtrend underway for nearly two years.

Chart 1: U.S. Employment and Unemployment



Production, Shipments, and Inventories

The nation's inflation-adjusted gross domestic product (real GDP) rose at a 2.7% annual rate in the first quarter of 2010, after growing at nearly a 4% annual rate in last year's second half, and declining in the four quarters before that.[12] Consumer spending, business investment in equipment and software, and exports grew in the first quarter. Business shifted from inventory liquidation to accumulation, adding to demand for goods. On the other hand, residential fixed investment fell, after two quarters of growth; investment in private nonresidential structures declined; and state and local government spending slowed for the third consecutive quarter. Imports continued to grow, for the third straight quarter. Broad measures of inflation remained low but were up from even lower rates during much of last year. The GDP implicit price deflator, for example, increased at a 1.1% annual rate in the first quarter, its largest rise since the first quarter of 2009.

[12] First quarter 2010 growth was revised downward, based on more complete information, from a 3.0% rate of growth estimated a month ago, and 3.2% in the initial estimate.

Industrial production rose again in May, continuing the recovery underway since mid-2009. Revised data show a 1.3% increase in total industrial production in May, and indicate that the industrial production index has risen about 8% since its recession low in June 2009. The data revision shifts the pre-recession peak in the industrial production index from December 2007 to September of that year. Total industrial production in May was still about 8% below the September 2007 peak. Manufacturing output rose in May reflecting widespread gains among most durable goods producers. Output of consumer goods as well as business equipment rose. Production of construction supplies increased for the third consecutive month.

Industrial production rose again in May, continuing the recovery underway since mid-2009.

The dollar value of manufacturers' new orders fell 1.4% in May after increasing in each of the previous eight months. Much of the decline was at petroleum refineries, and appears to reflect a drop in oil prices during the month. Factory shipments also fell, by 1.3%, after two consecutive monthly increases. Unfilled orders of manufacturers increased 0.2% in May, and increased in four of the latest five months. Nearly half of the backlog of unfilled orders is aircraft and parts. Factory inventories fell 0.4% after four straight monthly increases. The latest decline was more than accounted for by a lower value for petroleum refinery inventories, also likely a result of lower oil prices.

Manufacturing activity continued to expand in June, as indicated by the monthly survey of purchasing managers from the Institute for Supply Management (ISM). However, reports of improvement were less widespread than earlier this year. Production, new orders, and order backlogs continued to grow. Those who said they were paying higher prices continued to outnumber those paying less, but by a smaller margin than in previous months. A comparable ISM survey of purchasing managers in nonmanufacturing industries also showed continued but less widespread growth in activity, accompanied by less widespread reports of rising prices.

Consumer Spending

Personal income increased 0.4% in May, continuing the slow uptrend underway in most months this year. The dollar value of consumer spending rose 0.2% in May. Adjusted for a month-to-month decline in average prices, mainly reflecting lower energy prices, consumer spending rose 0.3%. Based on the April-May data, inflation-adjusted consumer spending was tracking ahead of first quarter expenditures at nearly a 3% annual rate. However, when the initial estimate of real GDP for the second quarter is reported near the end of this month, inflation-adjusted consumer spending may be reported up at a slower rate than

New home sales fell 33% in May to a 300,000 unit seasonally adjusted annual rate, the lowest level on records kept since 1963.

this, reflecting weaker light vehicle sales in June (see below).

Retail and food service sales fell 1.2% in May, reflecting a sharp drop in sales at building materials dealers, following a rise of a similar magnitude in April, perhaps related to the program of federally funded rebates on purchases of energy-efficient appliances. Gasoline station sales fell in May, probably a reflection mostly of lower prices. Clothing and general merchandise sales fell. Sectors showing strength included nonstore retailers (catalog and Internet).

In June, sales of light motor vehicles slowed, to an 11.1 million unit seasonally adjusted annual rate from 11.6 million in May. The sales pace so far this year has stayed above that in the depths of the 2007-2009 recession, when the annualized rate remained below 10 million units throughout the first half of 2009. But sales have not recovered to the level of 2008, when more than 13 million light vehicles were sold, and have been well below those in 2007, when sales exceeded 16 million light vehicles.

The overall financial condition of households continued to recover in this year's first quarter, though individual circumstances varied widely. Household net worth rose an estimated $1.1 trillion (2%) in the first quarter, and as of March 31 had risen $6.3 trillion (13%) from the low point at the end of the 2009 first quarter. The recovery is incomplete, however, as estimated household net worth previously tumbled $16 trillion (25%) in 2008 and in last year's first quarter. Much of the recovery from that low point was in corporate equities, and the net decline in broad stock market indices since the end of March likely eroded part of the gain in household net worth.

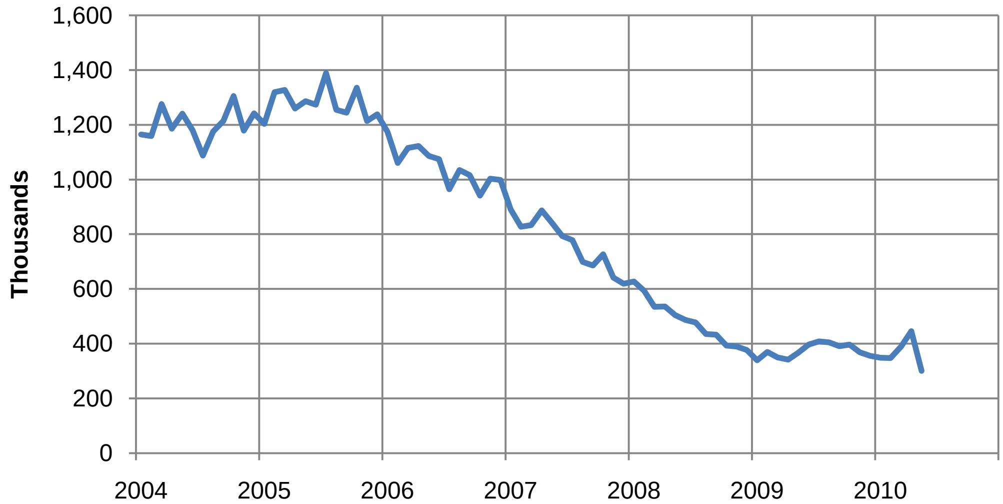
Construction and Real Estate

Housing starts nationwide fell 10% in May. Starts in April were the highest since October 2008, seasonally adjusted. The drop in May and the strength in April may have been influenced by the federal stimulus program for housing sales. Under this just-expired federal stimulus program, eligible buyers could claim income tax credits up to $8,000 for purchases that were in contract by April 30 and closed by June 30. Recent legislation extended the deadline for these closings to September 30. The May housing starts rate remained ahead of starts in all of last year, the lowest on records kept since 1959. Year-to-date housing starts are 20% higher than a year earlier.

New home sales fell 33% in May to a 300,000 unit seasonally adjusted annual rate, the lowest level on records kept since 1963. The new home sales figures represent contracts newly entered into for purchases. A sizable drop in new home sales in May appeared inevitable with the expiration of the stimulus plan, but the sales rate in the latest month was very low, less than half of sales in a typical year over the past nearly half century and less than one-fourth of sales in peak year 2005. The drop in numbers of contracts for new home sales is shown in Chart 2. Builders' inventories are at low levels, but completed homes have been taking more than 14 months to sell.

Construction spending in January through May was 12% below a year earlier.

Chart 2: New Homes Sold
Seasonally Adjusted Annual Rates



Home sales as reported by the National Association of Realtors (NAR), generally of previously occupied homes, were 2% lower in May than in April, but above the sales pace last year and early in 2010. This NAR series represents closings on transactions. Under the federal tax credit program, otherwise qualified buyers could receive the credit for home purchase transactions closed in May, and also in June through September. Nationwide average selling prices were above those at the cyclical low point (to date) in February.

A separate NAR series on pending home sales, representing contracts newly entered into for home purchase-sale transactions, fell 30% in May.

Construction spending declined 0.2% in May, following increases in April and March, as lower private-sector construction activity more than offset increased public construction. The value of year-to-date construction put in place was 12% below a year earlier, reflecting a 2% increase in private residential construction, 26% lower private nonresidential construction, and 5% lower public construction.

Ohio nonfarm payroll employment rose for the third consecutive month in May.

Inflation

The consumer price index (CPI) for all items fell 0.2% in May, seasonally adjusted, after declining 0.1% in April. Both declines resulted from lower energy prices, particularly for gasoline. Compared with a year earlier, the CPI for all items was 2.0% higher, reflecting energy prices that were 14.7% higher, food prices 0.7% higher, and prices for all items less food and energy 0.9% higher.

The nationwide average price for regular gasoline, in the U.S. Department of Energy's weekly survey, fell from more than $2.90 per gallon in early May to $2.70 in mid-June, and has since been somewhat higher than this. Gasoline prices in Ohio also fell in May, and have since risen. The price of the benchmark U.S. crude oil, West Texas Intermediate, fell from more than $80 a barrel in April to less than $70 in May, and has recovered to above $70.

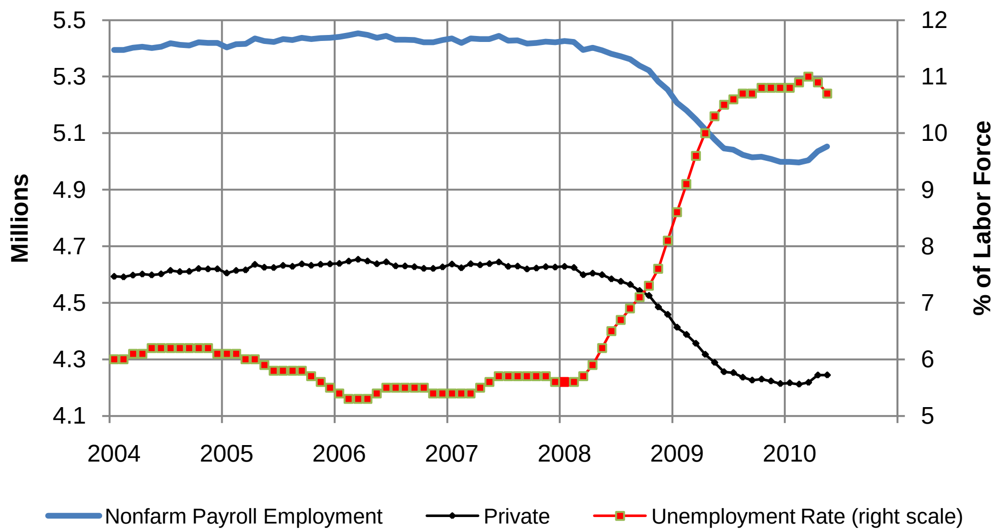
The producer price index (PPI) for finished goods declined 0.3% in May, its second consecutive monthly decline, as price indices for finished energy and foods fell in both months. Compared with a year earlier, the PPI for finished goods was 5.3% higher, but excluding food and energy was only 1.3% higher. The PPI for crude materials fell 2.8% in May, its third monthly decline this year. This index was 21% higher than in May 2009, reflecting sizable increases in earlier months.

The Ohio Economy

Ohio nonfarm payroll employment rose for the third consecutive month in May, increasing by 17,100 (0.3%). Much of the increase was accounted for by temporary Census 2010 and other jobs with the federal government. The statewide unemployment rate declined to 10.7%, still high but the lowest level since last September. Employment in durable goods manufacturing rose 5,900 (1.4%) in May. Employment in construction rose 1,700 (1.0%). Trends in Ohio employment and unemployment are shown in Chart 3.

Personal income rose in all but two of the 50 states in this year's first quarter. In Ohio, personal income (in dollars, not adjusted for inflation) rose at a 4.3% seasonally adjusted annual rate in the first quarter, higher than the 3.8% rate of increase for the U.S. as a whole. Adjusted for inflation, personal income in Ohio turned down earlier than nationwide personal income and fell further. Inflation-adjusted personal income in Ohio peaked in the first quarter of 2007, then declined in most of the next eleven quarters, by a total of 4.2%, reaching a cyclical trough in the fourth quarter of 2009. For the nation, inflation-adjusted personal income peaked in the fourth quarter of 2007, then fell by a total of 3.2% to a cyclical low point in the 2009 fourth quarter.

Chart 3: Ohio Employment and Unemployment



Sales of homes in this state reported by the Ohio Association of Realtors were boosted in May by the federal home buyer tax credit program. The number of homes on which sales were closed in May was 28% higher than a year earlier. For the year to date, the number of units sold was 16% higher than a year earlier. The average sales price statewide in January through May was about $129,800, 10% higher than in the year-earlier period.

Economic Forecast Update

Ohio's economy is projected by forecasting firm Global Insight to continue expanding in FY 2011, FY 2012, and FY 2013, as indicated in the following table. The June 2010 baseline forecast is compared in the table with that organization's baseline and pessimistic forecasts released in May 2009, which served as the basis for LSC's economic forecasts presented to the Conference Committee on the current biennium budget. In FY 2010, Ohio personal income is now estimated to have increased, in contrast with declines projected a year ago in both the baseline and pessimistic forecasts. This better performance likely reflects in part the effects of transfer payments. Ohio wage and salary disbursements are estimated to have fallen in FY 2010 by 2.5%, near the low end of the range of last year's baseline and pessimistic projections. Similarly, employment in FY 2010 fell more than anticipated. On the other hand, the unemployment rate did not rise as high as Global Insight projected.

Despite some economic indicators coming at the low end of expectations in FY 2010, wage and salary income and employment were expected in June to be at higher levels in FY 2011 than they were last year. Global Insight projects that wage and salary income in the current fiscal

Ohio's economy is projected by forecasting firm Global Insight to continue expanding in FY 2011, FY 2012, and FY 2013.

year will climb 3.7%, followed by growth of 4.1% in each of the two fiscal years of the upcoming biennium. Wage and salary income is an important driver of personal income tax revenue, but does not include other types of income, of which capital gains realizations are a particularly volatile determinant of tax receipts. The slow recovery that Global Insight anticipates for the state's economy is projected to result in only slow growth of employment, and slow declines in unemployment.

Revisions to Global Insight Economic Forecast (selected variables, state fiscal year basis)

	May 2009		June 2010
Fiscal Year	**Baseline**	**Pessimistic**	**Baseline**
Ohio Real GDP (change from previous fiscal year)			
2010	-1.7%	-3.5%	-0.7%
2011	2.2%	0.9%	2.1%
2012	3.0%	2.5%	1.4%
2013	2.6%	2.1%	1.5%
Ohio Personal Income (change from previous fiscal year)			
2010	-0.6%	-1.7%	0.6%
2011	2.2%	0.4%	4.2%
2012	3.8%	3.8%	3.7%
2013	4.9%	5.5%	4.0%
Ohio Wage and Salary Disbursements (change from previous fiscal year)			
2010	-1.6%	-2.7%	-2.5%
2011	1.6%	-0.4%	3.7%
2012	3.1%	2.6%	4.1%
2013	4.4%	4.7%	4.1%
Ohio Nonfarm Payroll Employment (change from previous fiscal year)			
2010	-3.2%	-3.9%	-4.0%
2011	-0.2%	-1.4%	1.0%
2012	1.2%	0.8%	1.7%
2013	1.9%	1.9%	1.7%
Ohio Unemployment Rate (average during the fiscal year)			
2010	11.3%	12.0%	10.8%
2011	10.7%	12.3%	10.4%
2012	9.6%	11.3%	10.2%
2013	8.8%	10.5%	9.6%