Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION JUNE 2010

STATUS OF THE GRF

HIGHLIGHTS

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

May GRF tax receipts were below estimate by almost $40 million, increasing the year-to-date negative variance to $257.5 million for tax receipts. Total transfers into the GRF were $141.1 million below estimate; however, according to the Office of Budget and Management, the majority of this negative variance would be resolved by transfers yet to be made. Through May, overall GRF program expenditures were also below estimate. GRF Medicaid expenditures were below estimate by $336.5 million.

Nationwide, the economy has added 431,000 jobs in May, but only 41,000 from the private sector. Ohio's economy added 8,000 jobs in March and another 37,000 in April, with most of the increase in private goods-producing and service-providing industries.

Through May 2010, GRF sources totaled $22.48 billion:

- Receipts from the income tax were $277.4 million below estimate;
- Receipts from the sales and use tax were $78.1 million above estimate.

Through May 2010, GRF uses totaled $24.27 billion:

- Public Assistance and Medicaid expenditures were $393.6 million below estimate;
- Expenditures were above estimate in Tax Relief and Other ($36.5 million) due largely to timing issues.

VOLUME 33, NUMBER 10

STATUS OF THE GRF

Highlights.................................. 1
Revenues 2
Expenditures 12

ISSUE UPDATES

Health Information Technology Initiative 17
Leaking Underground Storage Tank Program......... 18
Surface Water Improvement Grants 19
ARRA School Technology Grant................. 19
STEM Initiative Grants............. 20
Choose Ohio First Scholarships......................... 20
Medicaid Initiatives 21
Bureau for Children with Medical Handicaps............... 21
2010 Ohio State Fair Budget 22
Cincinnati School for the Creative and Performing Arts 23
Cultural Facilities Commission 23
Continued Professional Training for Law Enforcement Officers 23

TRACKING THE ECONOMY

The National Economy 26
The Ohio Economy.................. 30

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

Telephone: (614)466-3615

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

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$77,879	$61,960	$15,918	25.7%
Nonauto Sales and Use	$503,749	$515,600	-$11,851	-2.3%
Total Sales and Use Taxes	$581,627	$577,560	$4,067	0.7%
Personal Income	$428,180	$422,900	$5,280	1.2%
Corporate Franchise	$49,904	$20,000	$29,904	149.5%
Public Utility	$46,888	$52,849	-$5,961	-11.3%
Kilowatt Hour Excise	$8,280	$3,600	$4,680	130.0%
Commercial Activity Tax**	$0	$0	$0	---
Foreign Insurance	-$10,191	-$11,189	$998	8.9%
Domestic Insurance	$98,584	$171,543	-$72,958	-42.5%
Business and Property	$18,083	$21,802	-$3,719	-17.1%
Cigarette	$115,837	$110,592	$5,245	4.7%
Alcoholic Beverage	$3,967	$5,617	-$1,650	-29.4%
Liquor Gallonage	$3,031	$2,886	$145	5.0%
Estate	$9,417	$15,263	-$5,846	-38.3%
Total Tax Revenue	**$1,353,608**	**$1,393,423**	**-$39,815**	**-2.9%**
NONTAX REVENUE				
Earnings on Investments	$4	$0	$4	---
Licenses and Fees	$547	$1,600	-$1,053	-65.8%
Other Revenue	$5,074	$8,100	-$3,026	-37.4%
Total Nontax Revenue	**$5,625**	**$9,700**	**-$4,075**	**-42.0%**
TRANSFERS				
Liquor Transfers	$13,000	$11,000	$2,000	18.2%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$1,235	$22,500	-$21,265	-94.5%
Total Transfers In	**$14,235**	**$33,500**	**-$19,265**	**-57.5%**
TOTAL STATE SOURCES	**$1,373,467**	**$1,436,623**	**-$63,156**	**-4.4%**
Federal Grants	$774,087	$738,907	$35,181	4.8%
TOTAL GRF SOURCES	**$2,147,555**	**$2,175,530**	**-$27,975**	**-1.3%**

* 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 May 31, 2010
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on June 7, 2010)

	Actual	Estimate*	Variance	Percent	FY 2009	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$801,134	$721,925	$79,209	11.0%	$793,089	1.0%
Nonauto Sales and Use	$5,670,626	$5,671,753	-$1,127	0.0%	$5,734,758	-1.1%
Total Sales and Use Taxes	$6,471,760	$6,393,678	$78,082	1.2%	$6,527,847	-0.9%
Personal Income	$6,503,136	$6,780,499	-$277,363	-4.1%	$6,946,310	-6.4%
Corporate Franchise	$123,165	$94,000	$29,165	31.0%	$463,144	-73.4%
Public Utility	$136,028	$179,448	-$43,420	-24.2%	$183,949	-26.1%
Kilowatt Hour Excise	$146,936	$160,002	-$13,066	-8.2%	$131,154	12.0%
Commercial Activity Tax**	$0	$0	$0	---	$0	---
Foreign Insurance	$252,914	$251,011	$1,903	0.8%	$250,222	1.1%
Domestic Insurance	$99,732	$170,614	-$70,883	-41.5%	$145,624	-31.5%
Business and Property	$18,501	$21,547	-$3,045	-14.1%	$22,492	-17.7%
Cigarette	$797,075	$749,014	$48,061	6.4%	$841,643	-5.3%
Alcoholic Beverage	$50,504	$52,969	-$2,465	-4.7%	$52,108	-3.1%
Liquor Gallonage	$33,419	$32,859	$560	1.7%	$32,664	2.3%
Estate	$54,450	$59,498	-$5,047	-8.5%	$62,311	-12.6%
Total Tax Revenue	**$14,687,620**	**$14,945,137**	**-$257,518**	**-1.7%**	**$15,659,469**	**-6.2%**
NONTAX REVENUE						
Earnings on Investments	$25,889	$58,250	-$32,361	-55.6%	$121,674	-78.7%
Licenses and Fees	$65,358	$60,831	$4,527	7.4%	$65,171	0.3%
Other Revenue	$169,311	$190,253	-$20,942	-11.0%	$66,864	153.2%
Total Nontax Revenue	**$260,557**	**$309,334**	**-$48,777**	**-15.8%**	**$253,709**	**2.7%**
TRANSFERS						
Liquor Transfers	$151,274	$132,000	$19,274	14.6%	$150,000	0.8%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$699,737	860,064	-$160,327	-18.6%	$705,305	-0.8%
Total Transfers In	**$851,011**	**$992,064**	**-$141,053**	**-14.2%**	**$855,305**	**-0.5%**
TOTAL STATE SOURCES	**$15,799,188**	**$16,246,536**	**-$447,348**	**-2.8%**	**$16,768,483**	**-5.8%**
Federal Grants	$6,685,451	$7,007,511	-$322,060	-4.6%	$6,320,233	5.8%
TOTAL GRF SOURCES	**$22,484,638**	**$23,254,046**	**-$769,409**	**-3.3%**	**$23,088,715**	**-2.6%**

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

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

Detail may not sum to total due to rounding.

REVENUES

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

Overview

May GRF sources were $28.0 million below estimate.

For the sixth time in FY 2010, monthly tax receipts were below estimate. May GRF tax receipts were $1.35 billion, $39.8 million below estimate, primarily due to a shortfall of $73.0 million in domestic insurance tax receipts. The shortfall from that tax was almost entirely due to timing; an additional $61.3 million was received by the 7th of June (nearly $50 million more than the estimate for that month).[1] Excluding the negative impact of the domestic insurance tax, tax receipts would have been $33.1 million above estimate for the month. The $39.8 million underperformance in May tax receipts brought the year-to-date negative variance in tax revenues, which stood at $217.7 million through April 2010, to $257.5 million.

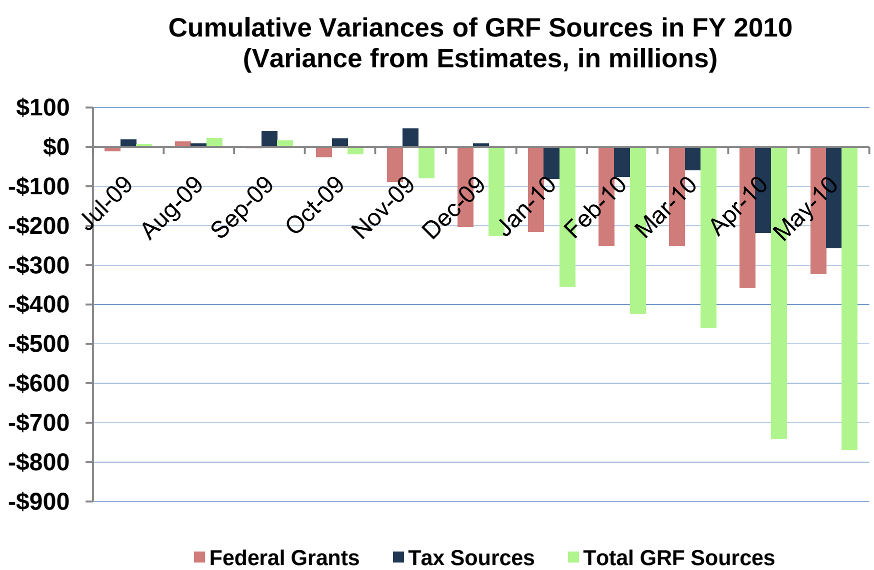
Total GRF sources in May were $2.15 billion, $28.0 million (1.3%) below estimate. Tables 1 and 2 show GRF sources for the month of May and for FY 2010 through May, respectively. GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants, which are federal reimbursements for human services programs that receive federal funding and grants from the American Recovery and Reinvestment Act of 2009. Federal grants, $35.2 million above estimate in May, partially offset a deficit of $63.2 million in state-source receipts.

Year-to-date GRF tax revenues were $257.5 million below estimate and $971.8 million below FY 2009 receipts.

Though total GRF tax sources were below estimate for the month, the primary tax sources performed relatively well. The sales and use tax was above estimate by $4.1 million, the personal income tax by $5.3 million, and the cigarette tax by $5.2 million. Also, the corporate franchise tax and the kilowatt hour excise tax were $29.9 million and $4.7 million, respectively, above expectations. Most of the remaining tax sources were below projections, including shortfalls of $6.0 million in public utility tax receipts, $5.8 million in estate tax receipts, $3.7 million in business and property tax receipts, and $1.7 million in alcoholic beverage tax receipts. A negative variance of $23.3 million in nontax revenues and transfers added to the shortfall in tax revenues.

[1] The Department of Insurance certified $162.2 million to the Treasurer of State for collection for FY 2010, meaning revenue for the year should end up about $20 million below estimate.

Through May, FY 2010 total GRF sources of $22.48 billion were $769.4 million (3.3%) below estimate. Federal grants of $6.69 billion were below estimate by $322.1 million, due primarily to continued monthly negative spending variances in Medicaid. State-source receipts of $15.80 billion were below estimate by $447.3 million, with lower than expected revenues from all categories, including a large fiscal year-to-date negative variance of $141.1 million in total transfers in. The graph below shows the cumulative variances against estimate for federal grants, tax sources, and total GRF sources.



For FY 2010 through May, tax sources above estimate included the sales and use tax ($78.1 million), cigarette tax ($48.1 million), corporate franchise tax ($29.2 million), and foreign insurance tax ($1.9 million). The combined positive variance from these taxes was more than offset by negative variances from other tax sources, including the personal income tax ($277.4 million), domestic insurance tax ($70.9 million), public utility excise tax ($43.4 million), kilowatt hour tax ($13.1 million), estate tax ($5.0 million), and alcoholic beverage tax ($2.5 million).

Compared to FY 2009, FY 2010 year-to-date GRF sources decreased $604.1 million, from a decrease of $971.8 million in tax receipts. This decline was partially offset by an increase of $365.6 million in federal grants. Receipts from the personal income tax and the sales and use tax were below their year-to-date levels of 2009, respectively, by $443.2 million and $56.1 million. The decline in receipts from the corporate franchise tax of $340.0 million was due in significant part to tax changes made by H.B. 66 of the 126th General Assembly. Other taxes with significant year-to-year revenue variances included decreases of $47.9 million in public utility excise tax receipts, $45.9 million in domestic insurance receipts, $44.6 million in cigarette tax receipts, and $7.9 million in estate tax receipts. The GRF received notable year-over-year increases of $15.8 million in kilowatt hour tax receipts and $2.7 million in foreign insurance tax receipts.

Personal Income Tax

May income tax receipts were $5.3 million above estimate, and $18.3 million above last year's levels.

May GRF receipts from the personal income tax of $428.2 million were $5.3 million (1.2%) above the revised estimate published in March 2010. This positive variance was mostly from lower than estimated refunds. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the Local Government Fund. Gross collections are the sum of withholding, quarterly estimated payments,[2] trust payments, payments associated with annual returns, and miscellaneous payments.

May 2010 income tax receipts were $18.3 million (4.5%) above receipts in May 2009. Though revenue from most components of the income tax was less in May 2010, the positive variance was largely due to lower refunds this year compared to May 2009. May revenues reduced the FY 2010 year-to-date personal income tax negative variance, which was $282.6 million through April, to $277.4 million. FY 2010 GRF receipts of $6.50 billion through May were $443.2 million (6.4%) below year-to-date receipts in the corresponding period 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 and January 15 of the following year. Most estimated payments are made by high-income taxpayers.

FY 2010 Year-to-date Income Tax Revenue Variances and Changes by Component				
Category	**Year-to-date Variance from Estimate**		**Year-to-date Changes from FY 2009**	
	Amount ($ in millions)	**Percentage (%)**	**Amount ($ in millions)**	**Percentage (%)**
Withholding	$12.8	0.2%	-$447.0	-6.6%
Quarterly Estimated Payments	-$109.3	-12.1%	-$239.5	-23.2%
Trust Payments	-$4.5	-10.9%	-$8.3	-18.4%
Annual Return Payments	-$301.6	-24.6%	-$69.8	-7.0%
Miscellaneous Payments	$29.0	41.0%	$31.8	46.8%
Gross Collections	-$373.7	-4.7%	-$732.8	-8.2%
Less Refunds	-$99.6	-8.3%	-$236.8	-17.8%
Less Local Government Fund Distribution	$3.3	0.6%	-$52.8	-8.3%
Income Tax Revenue	-$277.4	-4.1%	-$443.2	-6.4%

Year-to-date withholding receipts were $12.8 million above estimate.

The table above summarizes FY 2010 income tax revenue variances from estimate and annual changes by component. Employer withholding (which accounted for about 75% of gross collections in FY 2009) was $12.8 million (0.2%) above estimate through May in FY 2010, down from $27.1 million above estimate in the previous month. Year-to-date receipts from employer withholdings of $6.33 billion were $447.0 million (6.6%) below FY 2009 receipts through May from both higher unemployment and the final 4.2% reduction in tax rates enacted by H.B. 66 of the 126th General Assembly through December 2009. (Withholding rates are identical from January through May in both fiscal years due to H.B. 318.) Quarterly estimated payments were $109.3 million (12.1%) below estimate, but the underperformance was concentrated in the first two quarterly estimates of the fiscal year (September and January),[3] as taxpayers adjusted their quarterly estimates to lower annual income and lower than anticipated TY 2009 total tax liability. Quarterly estimated payments were $239.5 million (23.2%) below FY 2009 estimated payments through May 2009.

[3] April quarterly estimated payments were $2.8 million below estimate and $1.5 million above April 2009 quarterly estimated payments.

Year-to-date sales and use tax receipts were $78.1 million above estimate.

Sales and Use Tax

May 2010 GRF sales and use tax receipts of $581.6 million were $4.1 million (0.7%) above estimate and $30.2 million (5.5%) above receipts in May 2009, with continuing remarkable performance of the auto sales and use tax. Through May, FY 2010 GRF receipts of $6.47 billion were $78.1 million (1.2%) above estimate and $56.1 million (0.9%) 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

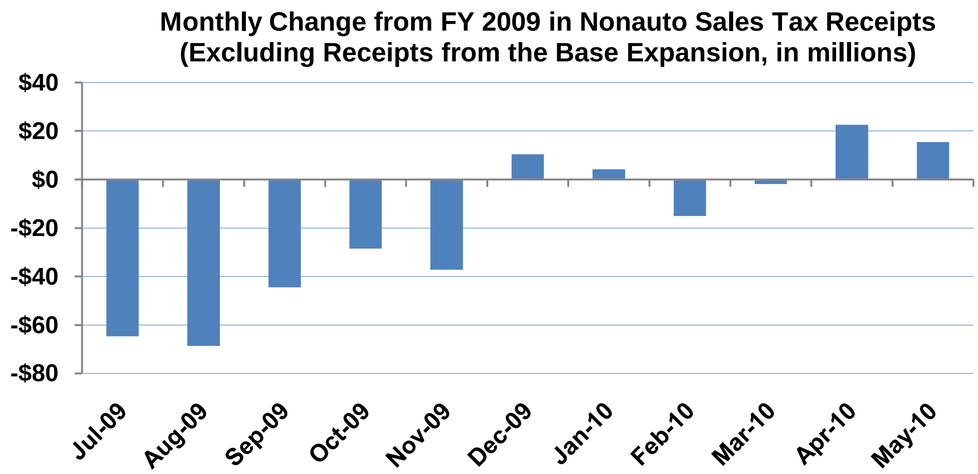
Year-to-date nonauto sales and use tax receipts were $1.1 million below estimate.

Nonauto sales and use tax receipts of $503.7 million in May were $11.9 million (2.3%) below estimate and $22.1 million (4.6%) above May 2009 receipts. For the fiscal year through May, year-to-date nonauto sales and use tax receipts of $5.67 billion were $1.1 million (0.0%) below estimate and $64.1 million (1.1%) below receipts in the corresponding period 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] Excluding the revenue from the base expansion, year-to-date taxable spending this fiscal year would be below last year's level by about 3.8%. However, in the last three months, receipts from the nonauto sales and use tax source were 1.8% above combined receipts in March, April, and May 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.

---

[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.

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



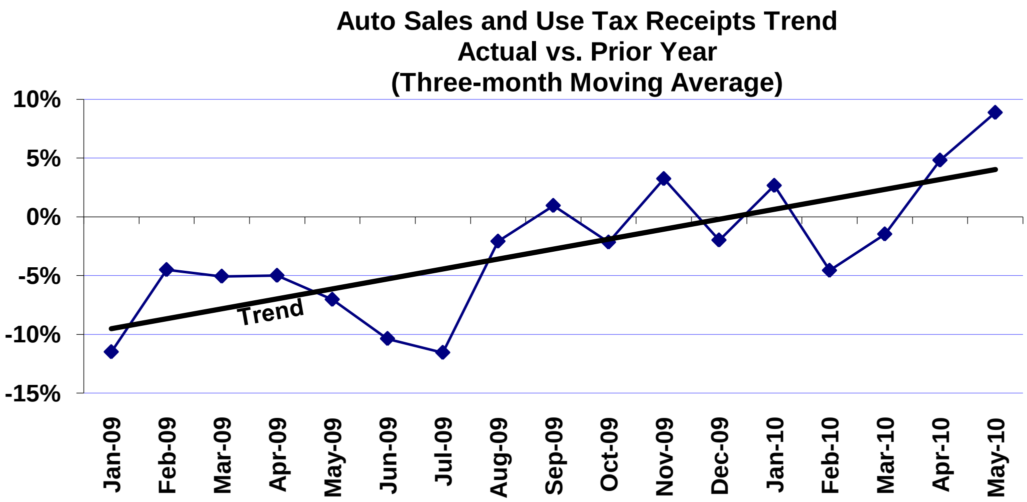
Consumer fundamentals are improving but remain weak. Consumer borrowing continues to fall, the economy is adding jobs, but not enough to appreciably lower the unemployment rate, and wage growth is still limited. In this environment, taxable sales may grow, but likely at a low rate. Nationwide retail sales were softer in April and May,[6] compared to the first quarter of CY 2010, indicative of a still-cautious consumer. Also, sales tax receipts may be affected by the outcome of a proposal pending in the U.S. Congress to extend unemployment benefits.

Year-to-date auto sales and use tax receipts were $79.2 million above estimate.

Auto Sales and Use Tax

Auto sales and use tax receipts of $77.9 million in May 2010 were $15.9 million (25.7%) above estimate and $8.0 million (11.5%) above receipts in May 2009. Except for October 2009, the performance of this tax source has been remarkable throughout the fiscal year. Consequently, through May, FY 2010 auto sales and use tax receipts of $801.1 million were $79.2 million (11.0%) above estimate, and $8.0 million (1.0%) above receipts through May 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 9.6 million units in CY 2009 through May. A factor that still constrains sales is access to credit for buyers with less than stellar credit. While vehicle loans are being extended to such buyers, the terms, including high down payments, can be prohibitive. Nationwide sales are expected to continue rising modestly and are expected to average 11.6 million to 12.0 million units according to most forecasters for CY 2010.

[6] The International Council of Shopping Centers reported increases in April and May that were the smallest since November 2009 for stores opened at least a year.



Year-to-date cigarette tax receipts were $48.1 million above estimate.

The graph above, 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.

Cigarette and Other Tobacco Products Tax

Receipts from the tax on cigarettes and other tobacco products were $115.8 million, $5.2 million (4.7%) above estimate and $8.4 million (6.8%) below May 2009 receipts. Through May, FY 2010 receipts of $797.1 million were $48.1 million (6.4%) above estimate and $44.6 million (5.3%) below FY 2009 receipts through May 2009. Receipts from cigarette sales were $753.9 million. Sales of products other than cigarettes provided $43.2 million. Compared to FY 2009, year-to-date receipts from the sale of cigarettes declined $50.6 million (6.3%) and those from the sale of other tobacco products increased $6.0 million (16.3%). Receipts from the cigarette and other tobacco products tax are the third largest tax revenue source in FY 2010, after the personal income tax and the sales and use tax.

Year-to-date CFT receipts were $29.2 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, the tax is now a tax on the net worth of financial institutions. The last major tax payment by financial institutions for the fiscal year, due May 31, 2010, yielded CFT receipts of $49.9 million for the month. Those receipts were $29.9 million (149.5%) above estimate. Through May, FY 2010 CFT net receipts of $123.2 million were $29.2 million (31.0%) above estimate. Comparisons with monthly receipts in the previous fiscal year are not meaningful. Nonfinancial companies are no longer paying the CFT, thus a large portion of the CFT tax base has been eliminated.

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 is the first year in which CAT taxpayers pay 100% of their tax liability. According to OAKS, May receipts of $287.0 million were $21.1 million (7.9%) above estimate and $87.8 million (44.1%) above receipts in May 2009. FY 2010 year-to-date receipts of $1.34 billion were $43.9 million (3.2%) below estimate and $173.8 million (14.9%) above FY 2009 receipts through May.

CAT receipts were below estimate by $43.9 million through May in FY 2010.

Through FY 2011, revenues from the tax are not deposited into the GRF as they are earmarked for reimbursing school districts and other local governments for the reductions and phase-out of local taxes on most tangible personal property (TPP). CAT receipts are distributed to the School District Tangible Property Tax Replacement Fund (70%) and to the Local Government Tangible Property Tax Replacement Fund (30%). If CAT receipts are insufficient for the reimbursements, current law requires a GRF subsidy to the two funds.

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

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary, Secondary, and Other Education	$726,381	$618,061	$108,320	17.5%
Higher Education	$205,815	$210,961	-$5,146	-2.4%
Total Education	$932,196	$829,022	$103,174	12.4%
Public Assistance and Medicaid	$950,192	$976,573	-$26,381	-2.7%
Health and Human Services	$73,503	$70,198	$3,305	4.7%
Total Welfare and Human Services	$1,023,696	$1,046,772	-$23,076	-2.2%
Justice and Public Protection	$162,438	$132,231	$30,206	22.8%
Environment and Natural Resources	$7,599	$9,831	-$2,232	-22.7%
Transportation	$1,274	$1,009	$266	26.4%
General Government	$19,450	$16,952	$2,497	14.7%
Community and Economic Development	$7,573	$5,834	$1,739	29.8%
Capital	$50	$0	$50	---
Total Government Operations	$198,384	$165,858	$32,526	19.6%
Tax Relief and Other	$370,958	$211,432	$159,527	75.5%
Debt Service	$0	$0	$0	---
Total Other Expenditures	$370,958	$211,432	$159,527	75.5%
Total Program Expenditures	**$2,525,235**	**$2,253,084**	**$272,151**	**12.1%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$780	$0	$780	---
Total Transfers Out	$780	$0	$780	---
TOTAL GRF USES	**$2,526,015**	**$2,253,084**	**$272,931**	**12.1%**

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

Table 4: General Revenue Fund Uses
Preliminary Actual vs. Estimate
FY 2010 as of May 31, 2010
($ in thousands)
(Actual based on OAKS reports run June 8, 2010)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2009**	**Percent Change**
Primary, Secondary, and Other Education	$6,526,818	$6,554,234	-$27,416	-0.4%	$6,649,462	-1.8%
Higher Education	$2,244,845	$2,243,997	$848	0.0%	$2,459,621	-8.7%
Total Education	$8,771,664	$8,798,231	-$26,567	-0.3%	$9,109,083	-3.7%
Public Assistance and Medicaid	$9,229,385	$9,622,940	-$393,555	-4.1%	$10,375,954	-11.1%
Health and Human Services	$987,376	$998,917	-$11,541	-1.2%	$1,153,686	-14.4%
Total Welfare and Human Services	$10,216,761	$10,621,857	-$405,096	-3.8%	$11,529,640	-11.4%
Justice and Public Protection	$1,834,355	$1,863,371	-$29,017	-1.6%	$1,988,371	-7.7%
Environment and Natural Resources	$79,301	$79,238	$63	0.1%	$88,871	-10.8%
Transportation	$16,633	$15,684	$949	6.1%	$19,758	-15.8%
General Government	$274,472	$283,581	-$9,109	-3.2%	$346,363	-20.8%
Community and Economic Developmen	$104,732	$95,118	$9,614	10.1%	$141,290	-25.9%
Capital	$380	$0	$380	---	$288	32.2%
Total Government Operations	$2,309,872	$2,336,992	-$27,120	-1.2%	$2,584,941	-10.6%
Tax Relief and Other	$1,572,993	$1,536,482	$36,511	2.4%	$1,432,075	9.8%
Debt Service	$368,438	$433,368	-$64,930	-15.0%	$588,275	-37.4%
Total Other Expenditures	$1,941,430	$1,969,850	-$28,420	-1.4%	$2,020,350	-3.9%
Total Program Expenditures	**$23,239,728**	**$23,726,930**	**-$487,203**	**-2.1%**	**$25,244,015**	**-7.9%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers Out	$1,027,721	$969,343	$58,378	6.0%	$848,172	21.2%
Total Transfers Out	$1,027,721	$969,343	$58,378	6.0%	$848,172	21.2%
TOTAL GRF USES	**$24,267,449**	**$24,696,273**	**-$428,825**	**-1.7%**	**$26,092,187**	**-7.0%**

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

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

Medicaid (600525) Payments by Service Category	May Actual	May Estimate	May Variance	May Percent Variance	Year to Date Actual thru May	Year to Date Estimate thru May	Year to Date Variance	Year to Date Percent Variance
Nursing Facilities	$219,109	$223,206	-$4,097	-1.8%	$2,446,353	$2,501,085	-$54,732	-2.2%
ICFs/MR	$45,393	$44,749	$644	1.4%	$496,901	$497,740	-$839	-0.2%
Inpatient Hospitals	$82,614	$82,089	$525	0.6%	$955,258	$1,004,698	-$49,440	-4.9%
Outpatient Hospitals	$28,542	$32,551	-$4,009	-12.3%	$381,298	$381,851	-$553	-0.1%
Physicians	$25,937	$27,659	-$1,722	-6.2%	$304,034	$329,291	-$25,257	-7.7%
Prescription Drugs	$123,706	$141,585	-$17,879	-12.6%	$720,176	$848,965	-$128,789	-15.2%
ODJFS Waivers	$25,106	$27,529	-$2,423	-8.8%	$298,122	$324,638	-$26,516	-8.2%
MCP	$410,455	$419,290	-$8,835	-2.1%	$4,370,107	$4,451,624	-$81,517	-1.8%
All Other	$122,378	$114,437	$7,941	6.9%	$1,294,855	$1,309,526	-$14,671	-1.1%
DA Medical	$1	$18	-$17	-94.4%	$3,449	$5,189	-$1,740	-33.5%
Total Payments	$1,083,241	$1,113,113	-$29,872	-2.7%	$11,270,553	$11,654,607	-$384,054	-3.3%
Non-GRF Offsets	-$180,231	-$205,578	$25,347	-12.3%	-$2,995,379	-$3,090,745	$95,366	-3.1%
Total 600525 (net of offsets)	$903,010	$907,535	-$4,525	-0.5%	$8,275,174	$8,563,862	-$288,688	-3.4%
Medicare Part D (600526)	$0	$0	$0	0.0%	$173,855	$221,687	-$47,832	-21.6%
Total GRF	**$903,010**	**$907,535**	-$4,525	**-0.5%**	**$8,449,029**	**$8,785,549**	-$336,520	**-3.8%**
Total All Funds	**$1,083,241**	**$1,113,113**	-$29,872	**-2.7%**	**$11,444,408**	**$11,876,294**	-$431,886	**-3.6%**

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

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

EXPENDITURES

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

Overview

Through May, FY 2010 GRF uses of $24.27 billion were $428.8 million below the estimate revised by the Office of Budget and Management (OBM) in June 2010. The revision increased the estimate for Primary, Secondary, and Other Education for the month of May by $213.9 million, reflecting the appropriation changes made in H.B. 318 of the 128th General Assembly. H.B. 318 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. Estimates for all other program categories were unchanged.

For the first 11 months of FY 2010, GRF uses were $428.8 million below estimate.

GRF uses consist primarily of program expenditures but also include transfers out. Year-to-date GRF program expenditures totaled $23.24 billion, which was $487.2 million below estimate. This negative variance was partially offset by a positive variance of $58.4 million in transfers out, which totaled $1.03 billion for the first 11 months of FY 2010. For the month of May, GRF program expenditures of $2.53 billion were $272.2 million above estimate due primarily to timing issues. Tables 3 and 4 show GRF uses for the month of May and for FY 2010 through May, respectively.

Negative Variances

GRF expenditures for the Public Assistance and Medicaid program category were $393.6 million (4.1%) below their year-to-date estimate, of which $336.5 million was attributable specifically to Medicaid. Through May, FY 2010 GRF Medicaid expenditures totaled $8.45 billion, accounting for 91.6% of the $9.23 billion year-to-date expenditures for Public Assistance and Medicaid. Table 5 details Medicaid expenditures by service category. As seen from Table 5, expenditures were below their year-to-date estimates for all Medicaid service categories. Thus far, the actual per person overall costs for providing Medicaid services have been lower than estimated. Also, average monthly Medicaid caseloads have been below estimate for most of the fiscal year. Categories with significant negative year-to-date variances include Prescription Drugs ($128.8 million), Managed Care Plans ($81.5 million), Nursing Facilities ($54.7 million), and Inpatient Hospitals ($49.4 million). Item Medicare Part D (600526) also contributed $47.8 million to Medicaid's year-to-date negative variance due to no payments in March and April, reflecting the

GRF Medicaid spending was $336.5 million below its year-to-date estimate.

mid-year federal action that reduced state payments to the federal government for Medicare prescription drug benefits.[7]

Debt Service, Justice and Public Protection, and Primary, Secondary, and Other Education are the three other program categories with significant negative year-to-date variances. Year-to-date expenditures for Debt Service were $64.9 million (15%) below estimate. These expenditures have been affected by the timing of bond sales, interest rates, and the adjustments made to the debt restructuring plan assumed in H.B. 1. Despite a positive variance of $30.2 million in the month of May, Justice and Public Protection posted a negative variance of $29.0 million (1.6%) in their year-to-date expenditures. This negative variance was largely due to inmate medical and mental health services, which have been below their year-to-date estimates. GRF expenditures for Primary, Secondary, and Other Education were $27.4 million below their year-to-date estimate although this program category had a timing-related positive variance of $108.3 million in the month of May.

Positive Variances

Tax Relief and Other and Community and Economic Development, which are the only two program categories with significant positive year-to-date variances, posted a combined positive variance of $46.1 million through May. As reported in the last issue of *Budget Footnotes*, timing issues contributed to the negative variance in Tax Relief and Other for the month of April. As expected, this program category posted a significant positive variance in the month of May, at $159.5 million. Its year-to-date expenditures were $36.5 million (2.4%) above estimate. Year-to-date expenditures of $104.7 million for Community and Economic Development were $9.6 million (10.1%) above estimate, of which $5.8 million occurred in the month of May.

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

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

ISSUE UPDATES

Seven Regional Partners Awarded $27 Million ARRA Grants Under the State's Health Information Technology Initiative

—Ruhaiza Ridzwan, Economist, 614-387-0476

In April 2010, the Ohio Health Information Partnership (OHIP) awarded $27 million for seven regional partners to implement a statewide regional extension center infrastructure under the state health information technology initiative (see table below). These awards, which are funded by federal stimulus money provided under the American Recovery and Reinvestment Act of 2009 (ARRA), will assist an estimated 6,000 primary care physicians across the state in the adoption and use of electronic health records.

H.B. 1 established the health information technology initiative to create a statewide health information exchange to provide access to patient information electronically. It provided $8 million in state non-GRF funds in the Department of Insurance's budget to leverage federal ARRA funding for the initiative. In September 2009, Governor Strickland designated OHIP, a nonprofit organization, to lead the implementation of the initiative. Since then, the Controlling Board has approved two contracts between the Department of Insurance and OHIP for establishing a statewide regional extension center infrastructure and health information exchange network. In February, OHIP was awarded $43.4 million in ARRA funding for Ohio's health information technology initiative.

Regional Extension Center Infrastructure Awards

Regional Partner	Award Amount	Number of Primary Care Physicians Who Will Be Assisted
Akron Regional Hospital Association	$3,928,500	873
Case Western Reserve University	$7,942,500	1,765
Central Ohio Health Information Exchange	$6,084,000	1,352
Greater Dayton Area Health Information	$2,898,000	644
Hospital Council of Northwest Ohio	$2,875,500	639
Northeast Ohio Health Force	$1,453,500	323
Ohio University	$1,818,000	404
Total	**$27,000,000**	**6,000**

Department of Commerce Announces Initial Sites for ARRA-Funded Leaking Underground Storage Tank Program

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

In February 2010, the Ohio Department of Commerce selected contractors to perform environmental assessment and remediation activities at 20 sites (see table below). These environmental clean-up activities, which result from leaking underground storage tanks, are funded with federal stimulus money provided under ARRA. ARRA provides this funding as part of a federal initiative to assess and remediate petroleum releases from leaking underground storage tanks that meet certain criteria. According to federal guidance, eligible sites are those where the responsible party is unknown, unwilling, or unable to pay for the required clean-up, or the clean-up is in response to an emergency. States must also give priority to sites that pose the greatest risk to human health and the environment while taking into account ARRA's goals of job creation and retention. Ohio's ARRA award for leaking underground storage tank clean-up activities is $8.1 million. Additional clean-up sites to be funded with the ARRA award will be announced in the future.

ARRA-Funded Leaking Underground Storage Tank Sites		
County	**City**	**Site Name**
Allen	Spencerville	Former Spencerville Quickstop
Allen	Delphos	Orbitron Products
Auglaize	Waynesfield	Former Pence's Union 76
Butler	Middletown	The Medicine Shoppe
Cuyahoga	Cleveland	Clarence Jackson
Cuyahoga	Cleveland	Former Bauer Auto Radiator
Cuyahoga	East Cleveland	East Cleveland Farmers Market
Delaware	Delaware	Former Madison Landmark
Delaware	Delaware	J. L. Goodman Oil Co.
Lorain	LaGrange	LaGrange Screw Products
Meigs	Langsville	Pick & Shovel
Montgomery	Brookville	Summers Behnken Hardware
Montgomery	Dayton	Abandoned Gas Station
Montgomery	New Lebanon	R. W. Wogaman
Muskingum	Frazeysburg	Former Lawler Gulf
Seneca	Bloomville	Halcomb's IGA
Stark	North Canton	JPS Associates, Inc.
Summit	Barberton	Former Dougherty Sunoco
Trumbull	Girard	Glen Mohn
Union	West Mansfield	Jolliff's Shopping Center

FY 2010 Surface Water Improvement Grants Total $3.5 Million

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

On May 24, 2010, the Controlling Board increased non-GRF appropriations for the Environmental Protection Agency (EPA) to fund 32 surface water improvement grants totaling $3.5 million for FY 2010. The $800,000 appropriation increase from the Surface Water Improvement Fund (Fund 5Y30) brought the total appropriation for FY 2010 to $2.8 million. This funding will be combined with $750,000 in leveraged federal funding to provide the grants. For FY 2010, EPA received 172 applications from local governments, soil and water conservation districts, health departments, and other groups requesting more than $20 million in grants.

The money deposited into Fund 5Y30 is mainly derived from payments made by various entities for supplemental environmental projects to offset unavoidable damage during approved construction activities or as part of the settlement in enforcement cases. The fund also receives contributions and donations for surface water improvement. The grants are used to fund locally administered water quality restoration and protection projects, including stream restoration, storm water demonstration projects, and wetland enhancement. The maximum grant is $300,000 per recipient.

48 Additional Schools Receive 21st Century Learning Environments Technology Grants

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

On May 11, 2010, the eTech Ohio Commission and the Ohio Department of Education (ODE) announced 48 recipients of nearly $11.9 million from the second round of the 21st Century Learning Environments Technology Grant Program. ODE received just under $24 million in Title II-D Competitive Grant funds under ARRA to fund the program. The new recipients join the 48 schools that were awarded funding during the first round in August 2009.[8] As in the initial round, each of the 48 schools was awarded grants of $246,793.

The grants will be distributed to the schools in two phases over a period of two years. The first phase provides intensive state-sponsored professional development to a team from each school. Each team consists of four teachers, a technology integration coach, and a building administrator. At the conclusion of phase one, the teams develop action plans and identify appropriate technology tools for their schools. The second

[8] Lists of round 1 and round 2 grant recipients are available on eTech's web site: www.etech.ohio.gov; search for "ARRA."

phase, which is expected to last through the 2010-2011 school year, involves additional professional development and implementation of new technology-enabled strategies at the school with guidance from the integration coach and the building administrator.

STEM Initiatives Grant Recipients Announced

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

In May, the STEM (Science, Technology, Engineering, and Mathematics) Committee announced the recipients of the STEM Initiatives grants for FY 2010. The recipients – Educational Council, University of Cincinnati, Dayton Regional STEM School Board, Metropolitan Cleveland Consortium for STEM, Ohio STEM Learning Network-Akron Hub, and the Foundation for Appalachian Ohio – will share $4.9 million appropriated in H.B. 1.

STEM Initiatives grants are intended to expand on Ohio's STEM education initiatives that have been funded over the past two years, including eight STEM schools and 26 K-8 Programs of Excellence. STEM Initiatives grants will be used to encourage the start-up of new partnerships and STEM schools, or the development of regional STEM collaboration between school districts, higher education institutions, and community and business organizations, specifically in Northwest or Southeast Ohio.

Regents Continues Choose Ohio First Scholarships with New Focus

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

In April 2010, the Board of Regents (BOR) awarded funds for the continuation of the Choose Ohio First Scholarship (COFS) Program with a new focus on teacher preparation. This is the fourth round of awards under COFS and includes $9.0 million of state funding and $2.5 million of funding from several private Ohio foundations. The funds were awarded for graduate level teacher preparation programs at four Ohio universities (Akron, Cincinnati, John Carroll, and Ohio State). The awards will fund scholarships for a total of 160 students over the course of five years. In order to be eligible, an applicant will have earned an undergraduate degree in a STEM discipline before enrolling in a graduate level teacher preparation program at one of the four universities awarded funding. Applicants also must commit to teaching for three years, after completing their graduate programs, at a hard-to-staff Ohio school as defined by the Department of Education.

COFS was created in FY 2008 as part of the Ohio Innovation Incentive effort to increase college participation and graduate retention. COFS provides awards to Ohio's colleges and universities based on their plans to improve STEM enrollment and success. Eligible plans must encourage and enable the highest quality students to study STEM subjects at Ohio institutions. Including this fourth round, awards have totaled $71.7 million in state funding.

Ohio Implements Initiatives to Increase Enrollment of Children in Medicaid

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

On April 1, 2010, the Ohio Department of Job and Family Services (ODJFS) implemented three Medicaid initiatives intended to increase the enrollment and retention of children in the program. The initiatives are 12-month continuous eligibility, presumptive eligibility, and express-lane eligibility. ODJFS estimates that these initiatives will increase Medicaid enrollment by 77,000 children at a cost of $86 million in FY 2011 ($28 million state share).

Under 12-month continuous eligibility, an Ohio child who is eligible for Medicaid will generally remain so for one year regardless of changes in family income, household size, or household composition. Presumptive eligibility allows medical providers such as hospitals or community clinics to screen a child for Medicaid eligibility. If presumed eligible, a child can receive immediate access to care. Providers are guaranteed payment should eligibility later be denied. Express-lane eligibility eliminates much of the Medicaid paperwork if families are already determined to be eligible for food stamps and other government programs.

The Children's Health Insurance Program Reauthorization Act of 2009 makes available a performance bonus to encourage states to implement initiatives like the three recently implemented in Ohio. According to the Director of the federal Center for Medicaid and State Operations, Ohio could receive a federal performance bonus of about $5 million if the initiatives succeed.

Enrollment for BCMH Treatment Services Increases in FY 2010

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

As of May 1, 2010, enrollment in the Treatment Services Program of the Bureau for Children with Medical Handicaps (BCMH) totaled 26,000, a 5.3% increase over the 24,700 enrolled at the end of FY 2009. On May 10, 2010, the Controlling Board approved the Department of Health's request to increase appropriation to non-GRF line item 440607, Medically Handicapped Children – County Assessment, by $2.5 million in FY 2010 to pay for costs associated with the growth in enrollment. The appropriation increase is supported by funds generated from county property tax assessments. State law requires counties to provide up to one-tenth of a mill of the county's property tax revenue to the Department to pay for BCMH treatment services.

BCMH is a health care program that links families of children with special health care needs to a network of providers and helps families pay for necessary services. BCMH treatment services are mainly paid for with the GRF, county tax assessments, and federal grants. To be eligible, the child's medical condition must be chronic, physically handicapping, and amenable to treatment. In addition, the family's income may not exceed 185% of the federal poverty guidelines ($33,874 annually for a family of three). However, for eligibility purposes, a family's income may be reduced by the amount of out-of-pocket medical expenses incurred by the family. Other factors such as child care, insurance premium payments, and the severity of the child's condition are also considered.

2010 Ohio State Fair Budget Finalized

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

In early May 2010, the Ohio Expositions Commission announced a budget of $7.37 million for the 2010 Ohio State Fair. Of this amount, $5.93 million (80.5%) will be supported by receipts from admissions, rentals, sponsorships, attractions, entertainment, and rides, and the remaining $1.44 million (19.5%) will come from parking and camp lot fees, competition entry fees, auction income, and other miscellaneous sources.

Part of the budget for the 2010 Ohio State Fair will be supported by a $2 increase in the price of Midway sky ride wristband passes, which is expected to yield $50,000 in additional revenue. Approximately $15,000 of the increased revenue will pay for an economic impact study of the annual fair. The remainder will be used to help offset an approximately $100,000 decrease in the GRF subsidy for the Junior Fair component of the annual event. Also offsetting the decline in GRF funding is a planned reduction in payroll costs brought about by hiring a slightly smaller number of seasonal workers.

The 2009 Ohio State Fair brought in revenues of approximately $7.93 million against actual expenditures of approximately $7.35 million, for a profit of just over $580,000, which was deposited in the Ohio State Fair Fund (Fund 5060).

Controlling Board Approves $4.0 Million for New School for the Creative and Performing Arts Facility in Cincinnati

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

In May 2010, the Controlling Board approved the release of $4.0 million to be given to the Cincinnati Public School District in Hamilton County by the School Facilities Commission (SFC) to support the construction of a new School for the Creative and Performing Arts. As specified in H.B. 1, these funds are in addition to the approximately $160.1 million Cincinnati will receive from SFC for the district-wide project.

The School for the Creative and Performing Arts, scheduled to open in fall 2010, is the first public K-12 arts school in the country and is financed jointly by public and private contributions. The total facility will encompass over 250,000 square feet and serve approximately 1,350 students. The new building will take the place of the former School for Creative and Performing Arts, which served students in grades 4-12, and the Schiel Primary School for Arts Enrichment, which served students in grades K-3.

Ohio Cultural Facilities Commission Relocates

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

The Ohio Cultural Facilities Commission recently relocated to the Chase Building in downtown Columbus (100 E. Broad St., Suite 300), which will considerably decrease its annual rent expenditures. Although the Commission will pay the same rent per square foot as it did previously, the new space is smaller resulting in a decrease in the annual lease from $98,000 to just under $76,000, a savings of 22.7%. The new lease also includes several incentives, including four months' free rent to cover moving expenditures. In addition, the Commission's previous landlord agreed to pay $22,500 for the Commission to vacate prior to the end of the lease term.

Fund Balance is Sufficient to Require One Hour of Continuing Professional Training for Law Enforcement Officers for Calendar Year 2010

—Jamie L. Doskocil, Senior Budget Analyst, 614-387-0477

The balance in the Law Enforcement Assistance Fund (Fund 5L50) is sufficient to require Ohio's peace officers and State Highway Patrol troopers[9] to complete one hour of continued professional training (CPT) in calendar year (CY) 2010. S.B. 281 of the

[9] County sheriffs are exempt from the CPT training hours as they are required to complete different training annually.

126th General Assembly requires these law enforcement officers to complete up to 24 hours of CPT each calendar year, so long as state funding for the training is available. The Office of the Attorney General provides funding, at $20 per hour per officer, for this requirement from Fund 5L50. State funding is provided on a reimbursement basis, so the majority of reimbursement payments for CY 2010 will occur in FY 2011. Approximately 35,000 officers across the state are eligible for reimbursement. One hour of training, therefore, costs approximately $700,000. As of June 1, 2010, Fund 5L50 had a cash balance of approximately $1 million. The money in Fund 5L50 comes from two one-time cash transfers that occurred in FY 2007 and totaled $8.0 million. Since S.B. 281 was enacted, one to five hours of CPT have been required each year. The requirement is established by the Ohio Peace Officer Training Commission based on the amount of funding available.

TRACKING THE ECONOMY

—Phil Cummins, Economist, 614-387-1687

Overview

U.S. economic indicators in the past month were generally positive, but the glaring exception was the report on nonfarm payroll employment in May which showed only a small net addition to employment after factoring out temporary federal hiring for the decennial census. However, a separate report from the U.S. Bureau of Labor Statistics showed the nationwide job openings rate in April was the highest since late 2008. A hiring plans survey, by Manpower Inc., indicated that employers expect net additions to staffing levels through the third quarter. In Ohio, employment rose sharply in April, and unemployment declined but remained very high at 10.9% of the labor force.

U.S. economic indicators in the past month were generally positive.

Various indicators of manufacturing sector activity nationwide continued to expand through April, and surveys of purchasing managers indicate further growth in May in manufacturing and elsewhere in the economy. Consumer spending was flat in April, but this followed gains in February and March consistent with inflation-adjusted growth entering the second quarter at about a 3% annual rate. Sales of light motor vehicles rose in May. Residential construction and sales figures were generally positive, but were distorted by a federal tax credit for home purchases. Construction spending rose sharply in April with increases in the private and public sectors, and in residential and nonresidential construction. Inflation at the finished goods and services level remains low.

Monetary policy remains on hold with the Federal Reserve's target for the rate on overnight loans between banks, the federal funds rate, unchanged at zero to 0.25%. The last of the Fed's facilities for injecting liquidity during the financial markets crisis is scheduled to close at the end of June, though temporary arrangements to provide dollars to other central banks were reestablished recently in response to instability in European financial markets. The Fed's balance sheet remains bloated by the exceptional volume of asset purchases starting in September 2008. The ongoing sovereign debt crisis in Europe and the absence of inflationary pressures at the finished goods and services level in the U.S. appear to push further into the future any prospect of monetary tightening by the Fed.

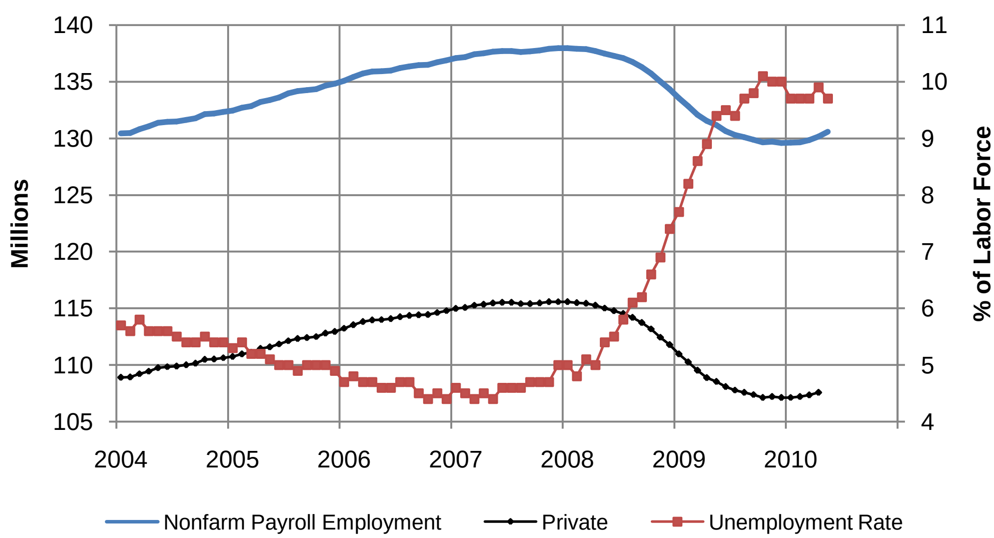
Employment on nonfarm payrolls nationwide rose only 20,000 excluding temporary federal government employees last month to work on the decennial census.

The National Economy

Employment and Unemployment

Employment on nonfarm payrolls nationwide rose 431,000 in May, but increased only 20,000 excluding the addition of temporary federal government employees last month to work on the decennial census. Slower private sector hiring in May followed larger gains in March and April. Unemployment fell to 9.7% of the labor force from 9.9% in April, equaling the lowest level for the unemployment rate since last July. Of the 15.0 million people counted as unemployed in May, 6.8 million had been out of work for more than six months. Employment changes by industry from April to May include a 34,000 increase in durable goods manufacturing employment, a 31,000 increase in employment with temporary help services, and a 10,000 increase in mining employment. Construction industry employment fell 35,000. Nationwide employment and the unemployment rate are shown in Chart 1.

Chart 1: U.S. Employment and Unemployment



In April, the job openings rate rose to 2.3%, seasonally adjusted, its highest level since November 2008. The number of job openings rose to 3.1 million in April, up from a low of 2.3 million in July 2009. The job openings rate is the number of job openings divided by the sum of employment plus the number of job openings.

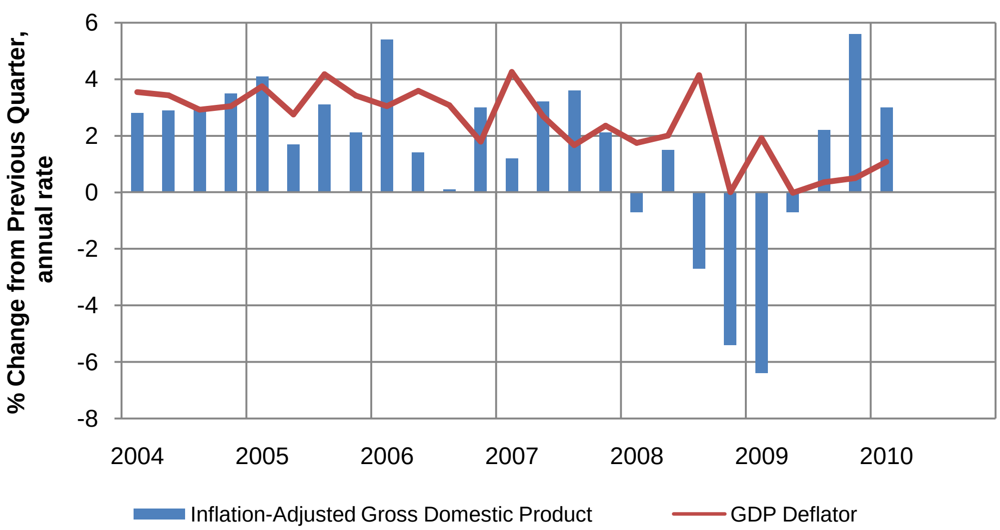
A quarterly survey by Manpower Inc. of U.S. employers' hiring intentions shows a favorable trend for the third consecutive quarter. More employers expect to increase staff than anticipate decreases. Net additions to employment were anticipated in all four major regions of the country, including the Midwest.

Production, Shipments, and Inventories

U.S. gross domestic product, adjusted for inflation, rose at a 3.0% annual rate in this year's first quarter (revised from 3.2%). The continued rise follows growth in last year's second half, after declines in the previous four quarters during the recession. Expansion in the first quarter reflected growth of consumer spending, of business investment in equipment and software, and of exports. Business added to inventories, after cutting them in earlier quarters. Sectors contracting included investment in residential and nonresidential structures and outlays by state and local governments. Broad price measures showed low inflation. Renewed economic growth in the latest three quarters with little inflation is evident in Chart 2.

U.S. gross domestic product, adjusted for inflation, rose at a 3.0% annual rate in this year's first quarter.

Chart 2: Inflation-Adjusted Gross Domestic Product and Prices



Industrial production rose 0.8% in April and has increased 6.8%, seasonally adjusted, since its recession low in June of last year. During the recession, total industrial production fell nearly 15% from its December 2007 peak. Factory output climbed 1.0% in April, with increases continuing to be broadly based across most industries. Motor vehicle and parts production contracted in April, after increasing in March. Output of motor vehicles and parts in April was 21% higher than a year earlier. Output of primary metals was 46% higher than in April 2009.

Manufacturers' new orders rose 1.2% in April, the twelfth monthly increase in the last 13 months. The value of factory shipments rose 0.6%, their tenth rise in the most recent 11 months. Inventories rose 0.5%, the sixth gain in seven months. Unfilled orders rose 0.4%, the third gain in four months.

Consumer spending was about unchanged in April, after inflation-adjusted increases of 0.5% in February and March.

The economy continued to expand in May, as indicated by surveys of purchasing managers by the Institute for Supply Management. Manufacturing production and new orders rose in May, extending an uptrend under way for a year for production, and for 11 months for new orders. Order backlogs rose last month for the fifth consecutive month. In other industries, business activity, new orders, and order backlogs also rose. Prices paid by purchasing managers, in both manufacturing and other industries, continued to increase.

Consumer Spending

Personal income nationwide rose 0.4% in April and has been growing in 2010, in current dollars and adjusted for the low rate of inflation. Higher transfer payments – Social Security, Medicare, unemployment compensation, etc. – continue to support income growth. Employee compensation has been increasing in 2010, after declining through the end of 2009 measured in inflation-adjusted dollars. Consumer spending was about unchanged in April, after inflation-adjusted increases of 0.5% in February and March.

Retail and food service sales rose 0.4% in April, after increasing 2.1% in March. Sales growth at building material and garden equipment and supplies stores was strong in both months. The dollar value of sales at motor vehicle and parts dealers increased sharply in March.

In May, unit sales of light motor vehicles rose to an 11.6 million unit seasonally adjusted annual rate from 11.2 million in April, according to figures reported by the U.S. Bureau of Economic Analysis. The pace of light vehicle sales is up from 10.4 million units sold in calendar year 2009, but still well below sales in excess of 16 million units in 2007 and before.

Also in May, sales at 28 large retail chain stores were 2.5% higher than a year earlier, on a same-store basis, in a compilation by Thomson Reuters as reported by Reuters News Service. Same-store sales comparisons include only sales at store locations open in both the current and year-earlier months. In April, same-store sales were only 0.5% higher than in the year-earlier month, following a large increase in March. These figures exclude the largest general merchandise retailer, WalMart, which no longer reports monthly.

Consumer credit outstanding rose slightly in April, by 0.5% at an annual rate, but revolving credit (principally credit cards) continued to shrink rapidly. Consumers added to outstanding nonrevolving obligations, which include auto loans and other types of debt. Total consumer credit fell in most months since July 2008. This series does not include loans secured by real estate.

Construction and Real Estate

Housing starts nationwide rose 6% in April following a 5% increase in March. The number of housing units started in this year's first four months was 24% higher than a year ago, but was still well below the construction pace of a few years ago.

New home sales rose 15% in April to the highest rate in nearly two years. The new home sales statistics measure new contractual commitments to buy homes. Sales were boosted by the federal stimulus program offering income tax credits for home purchases by qualified buyers who entered into contracts by the end of April and close on the purchases by the end of June. Median and average prices dipped in April, and inventories of new homes for sale fell, likely reflecting efforts of builders to pare inventories before expiration of the federal tax break.

Housing starts nationwide rose 6% in April following a 5% increase in March.

Home sales reported by the National Association of Realtors (NAR), generally previously occupied homes, rose 8% in April to the strongest pace since last November, when sales were also stimulated by the opportunity to qualify for federal tax credits. Unlike the new home sales numbers, which measure numbers of contractual commitments, these NAR figures measure the number of closings on home purchases. Distressed sales, including foreclosures plus transactions in which the sale amount is insufficient to cover all of the sale-related obligations of the seller, continue to account for about one-third of all transactions. The number of home listings in April was 12% lower than at the 2008 peak. The median home price was 4% higher than in April 2009.

The value of new construction put in place in April rose 2.7% from March as private residential construction spending rose 4.4%, private nonresidential building rose 1.7%, and public construction rose 2.4%, all measured in dollars not adjusted for inflation. Residential construction activity bottomed in June 2009 and has fluctuated from month to month since then, rising 11% on balance. Nonresidential construction spending fell to a low this March, before rising in the latest month. In contrast, public construction activity rose to a peak in July 2009 then fell through February, before rising in the latest two months.

Inflation

The consumer price index declined 0.1%, seasonally adjusted, in April after a 0.1% increase in March. Compared with a year earlier, the index in April was 2.2% higher. On average, energy prices paid by consumers fell in April. Consumer prices excluding food and energy were unchanged in April, and about unchanged on balance so far this year.

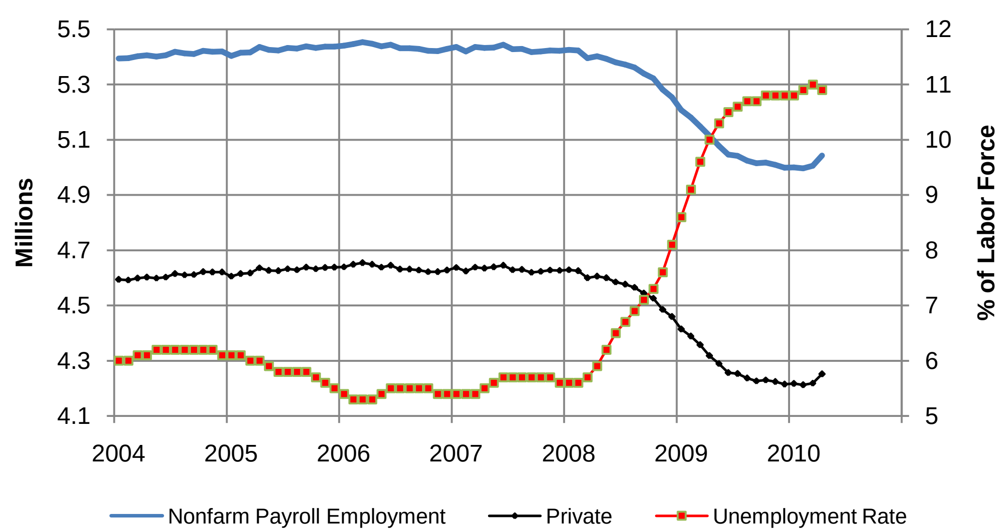
Nonfarm payroll employment rose by 37,300 (0.7%) in Ohio in April, and statewide unemployment declined to 10.9% of the labor force.

The producer price index for finished goods declined 0.1% in April, as food and energy prices fell. Excluding food and energy, finished goods prices rose 0.2% in April, and increased at a 2.1% seasonally adjusted annual rate in the first four months of this year. At earlier stages in the production process, an index of intermediate goods prices rose at a 10% annual rate, seasonally adjusted, in the first four months of the year, and crude materials prices rose at a 22% annual rate.

The Ohio Economy

Nonfarm payroll employment rose by 37,300 (0.7%) in Ohio in April, and statewide unemployment declined to 10.9% of the labor force from 11.0%, the peak to date for this cycle, in March. Employment increased in most states in April, but Ohio's month-to-month rise was the largest among the states. Ohio employment was 1.4% lower in April than a year earlier. Statewide unemployment rates in April ranged from 3.8% in North Dakota to 14% in Michigan. Nine states had higher unemployment rates in April than Ohio, and 40 had lower unemployment rates. The upturn in the latest month in employment in Ohio reflected increases in both goods-producing and service-providing industries. Most of the increase was in private-sector jobs. Government employment rose 4,400, mainly with the federal government. Employment and unemployment in Ohio through April are shown in Chart 3.

Chart 3: Ohio Employment and Unemployment



The economy in the Federal Reserve district that includes all of Ohio and parts of three nearby states continued to improve in recent weeks, according to the latest Beige Book.[10] Manufacturing production continued to expand. Capital spending remained at low levels, but outlays planned for the second half of this year increased in comparison with expectations earlier this year. New home sales improved slightly. Inquiries from potential customers regarding nonresidential construction projects have increased. However, most nonresidential construction projects currently being built are industrial projects or government-funded infrastructure. There is a glut of retail space. Consumer spending continues to emphasize purchases of necessities, but retailers noted an upturn in discretionary spending on items for the home. Contacts said motor vehicle buyers are finding that obtaining financing is easier. Credit delinquencies at banks were said to be improving, except for real estate.

[10] These comments are based on the Federal Reserve Bank of Cleveland's section of the Beige Book, a summary of comments from business and other contacts outside the Federal Reserve. Information for the latest report was collected on or before May 28.