Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION   MARCH 2010

STATUS OF THE GRF

HIGHLIGHTS

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

Many signs are pointing toward economic recovery, with the notable exception of labor market indicators. The unemployment rate in Ohio remained at 10.8% in January, and payroll employment recently fell below five million. Some analysts interpreted national data released for February, in which the unemployment rate remained 9.7% despite severe weather in many regions of the country, as suggestive that employment nationally may have bottomed out. If so, Ohio may not be far behind.

GRF tax revenues were above estimate in February. Tax revenues are essentially on target through the first eight months of the fiscal year, though slightly below estimate. This month's edition of *Budget Footnotes* compares revenues to revised Office of Budget and Management estimates that take into account income tax changes enacted in H.B. 318 of the 128th General Assembly.

Through February 2010, GRF sources totaled $16.27 billion:

- Receipts from the income tax were $72.8 million below estimate;
- Sales and use tax receipts were $28.7 million above estimate.

Through February 2010, GRF uses totaled $18.34 billion:

- Program expenditures were below estimate by $118.5 million, due primarily to the Public Assistance and Medicaid spending category.

VOLUME 33, NUMBER 7

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

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

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$51,728	$46,192	$5,535	12.0%
Nonauto Sales and Use	$444,580	$443,300	$1,280	0.3%
Total Sales and Use Taxes	$496,308	$489,492	$6,816	1.4%
Personal Income	$269,919	$245,000	$24,919	10.2%
Corporate Franchise	$19,430	$36,039	-$16,609	-46.1%
Public Utility	$30,907	$35,710	-$4,803	-13.4%
Kilowatt Hour Excise	$17,155	$14,900	$2,255	15.1%
Commercial Activity Tax**	$0	$0	$0	---
Foreign Insurance	$37,167	$29,094	$8,073	27.7%
Domestic Insurance	$5	-$117	$122	104.6%
Business and Property	$57	$0	$57	---
Cigarette	$57,855	$53,820	$4,035	7.5%
Alcoholic Beverage	$3,938	$4,479	-$541	-12.1%
Liquor Gallonage	$2,621	$2,678	-$58	-2.1%
Estate	$0	$0	$0	---
Total Tax Revenue	**$935,361**	**$911,095**	**$24,266**	**2.7%**
NONTAX REVENUE				
Earnings on Investments	$3	$0	$3	---
Licenses and Fees	$13,381	$10,163	$3,218	31.7%
Other Revenue	$760	$5,850	-$5,090	-87.0%
Total Nontax Revenue	**$14,144**	**$16,013**	**-$1,869**	**-11.7%**
TRANSFERS				
Liquor Transfers	$13,000	$12,000	$1,000	8.3%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$290,673	$327,500	-$36,827	-11.2%
Total Transfers In	**$303,673**	**$339,500**	**-$35,827**	**-10.6%**
TOTAL STATE SOURCES	**$1,253,178**	**$1,266,608**	**-$13,431**	**-1.1%**
Federal Grants	$587,964	$623,266	-$35,302	-5.7%
TOTAL GRF SOURCES	**$1,841,142**	**$1,889,874**	**-$48,732**	**-2.6%**

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

Table 2: General Revenue Fund Sources
Preliminary Actual vs. Estimate
FY 2010 as of February 28, 2010
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on March 5, 2010)

	Actual	Estimate*	Variance	Percent	FY 2009	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$550,406	$514,875	$35,531	6.9%	$563,054	-2.2%
Nonauto Sales and Use	$4,186,745	$4,193,553	-$6,808	-0.2%	$4,322,899	-3.1%
Total Sales and Use Taxes	$4,737,151	$4,708,428	$28,723	0.6%	$4,885,953	-3.0%
Personal Income	$4,454,696	$4,527,499	-$72,803	-1.6%	$5,047,819	-11.8%
Corporate Franchise	$2,885	$34,000	-$31,115	-91.5%	$223,895	-98.7%
Public Utility	$88,069	$118,472	-$30,403	-25.7%	$121,422	-27.5%
Kilowatt Hour Excise	$107,547	$116,102	-$8,555	-7.4%	$92,018	16.9%
Commercial Activity Tax**	$0	$0	$0	---	$0	---
Foreign Insurance	$170,013	$166,204	$3,810	2.3%	$165,660	2.6%
Domestic Insurance	$1,247	-$937	$2,184	233.1%	-$872	243.1%
Business and Property	$283	$430	-$146	-34.1%	$372	-23.8%
Cigarette	$534,995	$497,026	$37,969	7.6%	$561,914	-4.8%
Alcoholic Beverage	$36,586	$38,265	-$1,680	-4.4%	$37,664	-2.9%
Liquor Gallonage	$24,713	$24,539	$174	0.7%	$24,361	1.4%
Estate	$25,909	$29,371	-$3,462	-11.8%	$30,837	-16.0%
Total Tax Revenue	**$10,184,093**	**$10,259,398**	**-$75,305**	**-0.7%**	**$11,191,043**	**-9.0%**
NONTAX REVENUE						
Earnings on Investments	$21,443	$38,000	-$16,557	-43.6%	$97,761	-78.1%
Licenses and Fees	$51,984	$45,154	$6,830	15.1%	$50,034	3.9%
Other Revenue	$160,030	$171,503	-$11,472	-6.7%	$46,000	247.9%
Total Nontax Revenue	**$233,458**	**$254,657**	**-$21,199**	**-8.3%**	**$193,795**	**20.5%**
TRANSFERS						
Liquor Transfers	$107,000	$98,000	$9,000	9.2%	$109,000	-1.8%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$671,566	757,264	-$85,698	-11.3%	$361,391	85.8%
Total Transfers In	**$778,566**	**$855,264**	**-$76,698**	**-9.0%**	**$470,391**	**65.5%**
TOTAL STATE SOURCES	**$11,196,116**	**$11,369,319**	**-$173,203**	**-1.5%**	**$11,855,230**	**-5.6%**
Federal Grants	$5,075,855	$5,326,748	-$250,894	-4.7%	$4,413,938	15.0%
TOTAL GRF SOURCES	**$16,271,971**	**$16,696,068**	**-$424,098**	**-2.5%**	**$16,269,167**	**0.0%**

* 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

February GRF sources were $48.7 million below estimate.

For the month of February 2010, total GRF sources of $1.84 billion were $48.7 million below estimate, but monthly tax receipts were $24.3 million above estimate. The shortfall in GRF sources for the month was due primarily to a shortage of $35.3 million in federal grants. The estimates for tax receipts, state-source receipts, and total GRF sources are revised estimates published this month by the Office of Budget and Management and they reflect additional personal income tax revenue from H.B. 318.[1] The shortfall in February GRF sources increased the year-to-date negative variance, which stood at $375.4 million at the end of January, to $424.1 million. Tables 1 and 2 show GRF sources for the month of February and for FY 2010 through February, respectively. GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants, which are federal reimbursements for human service programs that receive federal funding[2] and grants from the American Recovery and Reinvestment Act of 2009.

Year-to-date GRF tax revenues were $75.3 million below estimate and $1.01 billion below FY 2009 receipts.

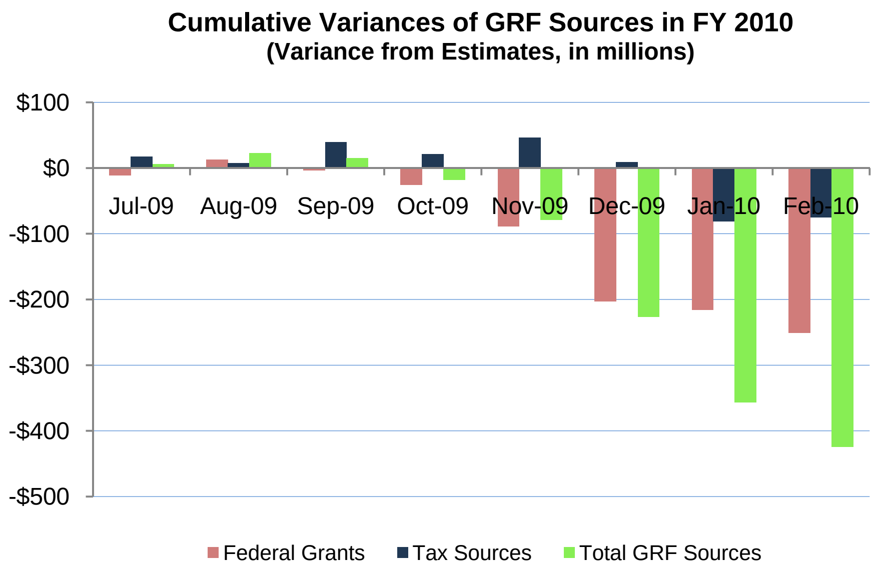
GRF tax sources of $935.4 million in February were 2.7% above estimate, with all three tax primary sources above expectations. The personal income tax, the sales and use tax, and the cigarette tax were above estimate, respectively, by $24.9 million, $6.8 million, and $4.0 million. The foreign insurance tax and the kilowatt hour tax were also above expectation, respectively, by $8.1 million and $2.3 million. The corporate franchise tax was $16.6 million below estimate, while the public utility excise tax's shortfall was $4.8 million. Although tax sources were above estimate, state-source receipts fell $13.4 million below estimate from a deficit of $37.7 million in nontax revenues and transfers in.

Through February, FY 2010 total GRF sources of $16.27 billion were 2.5% below estimate. All categories of GRF sources were below projections. Federal grants were below estimate by $250.9 million, due primarily to a negative spending variance in Medicaid. State-source receipts of $11.20 billion were below estimate by $173.2 million, driven

[1] H.B. 318, signed into law in December 2009, delayed the last of the income tax rate reductions enacted in H.B. 66 of the 126th General Assembly, and held tax rates unchanged in tax year (TY) 2009 and TY 2010 at TY 2008 levels.

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

by lower than expected revenues from both nontax sources and transfers in ($97.9 million) and tax receipts ($75.3 million). The chart below shows the cumulative variances against estimate for federal grants, tax sources, and total GRF sources.



For FY 2010 year to date, tax sources above estimate were the cigarette tax ($38.0 million), sales and use tax ($28.7 million), foreign insurance tax ($3.8 million), and domestic insurance tax ($2.2 million). Tax sources below estimate included the personal income tax ($72.8 million), corporate franchise tax ($31.1 million), public utility excise tax ($30.4 million), kilowatt hour tax ($8.6 million), and estate tax ($3.5 million).

Compared to FY 2009, FY 2010 year-to-date GRF sources increased $2.8 million. Increases of $661.9 million in federal grants and $308.2 million in transfers in this year[3] offset a decrease of $1.01 billion in tax receipts. Receipts from the personal income tax and the sales and use tax were below their year-to-date levels of 2009, respectively, by $593.1 million and $148.8 million. Other taxes with notable year-to-year revenue variances included decreases of $221.0 million in corporate franchise tax receipts, $33.4 million in public utility excise tax receipts, $26.9 million in cigarette tax receipts, $4.9 million in estate tax receipts, and increases of $15.5 million in kilowatt hour tax receipts, $4.4 million in foreign insurance tax receipts, and $2.1 million in domestic insurance tax

[3] The comparison for transfers in is so large primarily due to transfers in of $300.0 million that were estimated for February 2009 having been booked in March 2009. So this large positive year-ago variance will be significantly reduced next month.

February income tax receipts were $24.9 million above estimate and $62.5 million above last year's levels.

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

Personal Income Tax

February GRF receipts from the personal income tax of $269.9 million were $24.9 million (10.2%) above the revised OBM estimate and $62.5 million (30.1%) above receipts in February 2009. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the local government fund. Gross collections are the sum of withholding, quarterly estimated payments,[4] trust payments, payments associated with annual returns, and miscellaneous payments. The increase compared to receipts in February 2009 was due to lower refunds to taxpayers and distributions to the local government fund. Payrolls continue to shrink as they have through FY 2010, with employer withholding in February 2010 $20.4 million (3.6%) below withholding in February 2009.[5] February

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	-$7.0	-0.2%	-$475.8	-9.4%
Quarterly Estimated Payments	-$104.4	-14.3%	-$239.1	-27.7%
Trust Payments	-$8.9	-36.0%	-$10.9	-40.7%
Annual Return Payments	-$4.6	-2.8%	-$30.1	-15.8%
Miscellaneous Payments	$16.9	40.9%	$16.8	40.9%
Gross Collections	-$108.0	-2.1%	-$739.1	-12.0%
Less Refunds	-$36.5	-6.2%	-$89.9	-14.1%
Less Local Government Fund Distribution	$1.3	0.3%	-$56.0	-11.7%
Income Tax Revenue	-$72.8	-1.6%	-$593.1	-11.8%

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

[5] For the remainder of this fiscal year, the comparison of monthly withholding receipts to year-ago receipts in the same period will provide a better indication of the health of the Ohio labor market because such comparisons will be unaffected by H.B. 66 income tax rate reductions.

revenues reduced the FY 2010 year-to-date personal income tax negative variance to $72.8 million, down from $97.7 million through January 2010. GRF receipts of $4.45 billion through February were $593.1 million (11.8%) below receipts during the corresponding months of FY 2009.

The table above summarizes FY 2010 income tax revenue variances from estimate and annual changes by component. For the first time this fiscal year, year-to-date employer withholding fell below estimate. Employer withholding (which accounted for about 75% of gross collections in FY 2009) was $7.0 million (0.2%) below estimate through February in FY 2010, down from $3.5 million above estimate in the previous month. Year-to-date withholdings were $475.8 million (9.4%) below FY 2009 receipts through February from both increasing unemployment and the final 4.2% reduction in tax rates enacted by H.B. 66 of the 126th General Assembly through December 2009. Quarterly estimated payments were $104.4 million (14.3%) below estimate and $239.1 million (27.7%) below FY 2009 estimated payments through February 2009.

Year-to-date sales tax receipts were $28.7 million above estimate.

Sales and Use Tax

February 2010 GRF sales and use tax receipts of $496.3 million were $6.8 million (1.4%) above estimate and $4.4 million (0.9%) above receipts in February 2009. Through February, FY 2010 GRF receipts of $4.74 billion were $28.7 million (0.6%) above estimate and $148.8 million (3.0%) 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[6] generally arise from the sale of motor vehicles while nonauto sales and use tax collections arise from other sales. However, auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax, instead of the auto tax.

Nonauto Sales and Use Tax

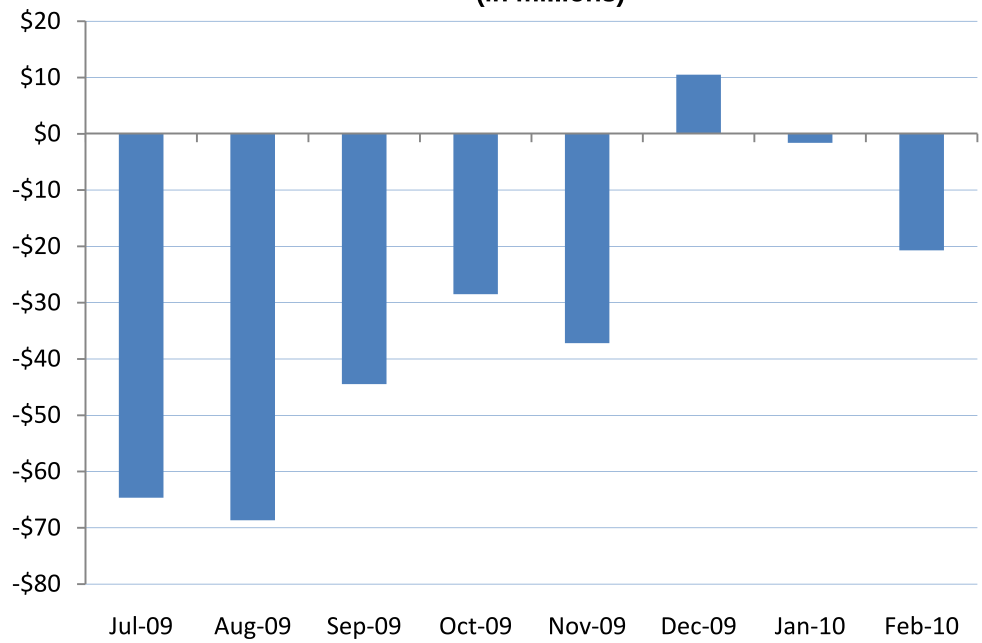
Nonauto sales and use tax receipts were $444.6 million in February, $1.3 million (0.3%) above estimate and $4.7 million (1.1%) above February 2009 receipts. For the fiscal year, year-to-date nonauto sales and use tax receipts of $4.19 billion were $6.8 million (0.2%) below estimate and $136.2 million (3.1%) below receipts through February in FY 2009.

[6] 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.

Year-to-date nonauto sales tax receipts were about $6.8 million below estimate.

FY 2010 receipts reflect the expansion of the tax base this year to include payments for health care services provided by Medicaid health insuring corporations.[7] Excluding the revenue effects of that expansion, taxable spending this fiscal year would be below last year's spending by about 5.9%. The chart below shows the variance in monthly receipts against prior-year receipts in the same month in FY 2009, excluding receipts from the base expansion.

Monthly Change in Nonauto Sales Tax Receipts Compared to FY 2009, excluding receipts from the base expansion (in millions)



Auto Sales and Use Tax

Auto sales and use tax receipts of $51.7 million in February 2010 were $5.5 million (12.0%) above estimate and $0.3 million (0.6%) below receipts in February 2009. Through February, FY 2010 auto sales and use tax receipts of $550.4 million were $35.5 million (6.9%) above estimate, but they were $12.6 million (2.2%) below receipts through February in FY 2009. The relatively good performance of the auto sales and use tax is almost entirely due to receipts from the federal "cash for clunkers" incentive in the first quarter of FY 2010. Strong receipts from the auto sales and use tax have more than offset weaker receipts from the nonauto sales and use tax, a general trend that has held up throughout the fiscal year.

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[7] 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.

Cigarette and Other Tobacco Products Tax

Receipts from the tax on cigarettes and other tobacco products were $57.9 million, $4.0 million (7.5%) above estimate and $2.6 million (4.3%) below February 2009 receipts. Through February, FY 2010 receipts of $535.0 million were $38.0 million (7.6%) above estimate and $26.9 million (4.8%) below FY 2009 receipts through February 2009. Receipts from cigarette sales were $502.8 million. Sales of products other than cigarettes provided $32.2 million. Compared to FY 2009, receipts from the sale of cigarettes declined $32.9 million (6.1%) and those from the sale of other tobacco products increased $6.0 million (22.8%). Receipts from the cigarette and other tobacco products tax are the third-largest tax revenue source in FY 2010, after the personal income tax and the sales and use tax.

Year-to-date cigarette tax receipts were about $38.0 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 CFT for nonfinancial corporations has been eliminated, and the tax is now a tax on the net worth of financial institutions. The first major tax payment by financial institutions, due January 31, 2010, yielded CFT receipts of $19.4 million in February 2010. Those receipts were $16.6 million (46.1%) below estimate. Combined receipts for January and February of $61.9 million were $7.9 million (14.7%) above estimate for the two-month period.

Through February, however, FY 2010 CFT net receipts were $2.9 million, $31.1 million (91.5%) below estimate due to $39.0 million in higher than expected net refunds through December 2009. Comparisons with monthly receipts in the previous fiscal year are not meaningful.[8] The next two major CFT tax payments are due March 31 and May 31.

Year-to-date CFT receipts were about $31.1 million below estimate.

Commercial Activity Tax

As part of the five-year phase-in of the commercial activity tax (CAT) that was enacted by H.B. 66 of the 126th General Assembly, FY 2010 is the first year in which CAT taxpayers pay 100% of their tax liability. According to OAKS, February receipts of $302.3 million were $24.9 million (7.6%) below estimate and $45.6 million (17.8%) above receipts in February 2009. FY 2010 year-to-date receipts of $999.5 million were $86.9 million (8.0%) below estimate and $55.4 million (5.9%) above

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

CAT receipts were below estimate by $86.9 million through February in FY 2010.

FY 2009 receipts through February. The last major tax payment is due May 2010, but it is likely this tax will finish the year below expectations.

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

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

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary, Secondary, and Other Education	$509,825	$629,271	-$119,446	-19.0%
Higher Education	$218,639	$202,123	$16,517	8.2%
Total Education	$728,465	$831,394	-$102,929	-12.4%
Public Assistance and Medicaid	$796,523	$812,389	-$15,866	-2.0%
Health and Human Services	$50,490	$33,635	$16,855	50.1%
Total Welfare and Human Services	$847,012	$846,024	$988	0.1%
Justice and Public Protection	$126,678	$130,513	-$3,835	-2.9%
Environment and Natural Resources	$4,608	$4,263	$345	8.1%
Transportation	$1,604	$894	$711	79.5%
General Government	$14,195	$19,955	-$5,760	-28.9%
Community and Economic Development	$6,880	$5,694	$1,186	20.8%
Capital	$0	$0	$0	---
Total Government Operations	$153,965	$161,319	-$7,354	-4.6%
Tax Relief and Other	$641	$58,470	-$57,829	-98.9%
Debt Service	$24,377	$32,302	-$7,925	-24.5%
Total Other Expenditures	$25,018	$90,772	-$65,754	-72.4%
Total Program Expenditures	**$1,754,460**	**$1,929,509**	**-$175,049**	**-9.1%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$100	$0	$100	---
Total Transfers Out	$100	$0	$100	---
TOTAL GRF USES	**$1,754,560**	**$1,929,509**	**-$174,949**	**-9.1%**

* 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 February 28, 2010
($ in thousands)
(Actual based on OAKS reports run March 3, 2010)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2009**	**Percent Change**
Primary, Secondary, and Other Education	$4,890,893	$4,817,968	$72,924	1.5%	$5,010,266	-2.4%
Higher Education	$1,666,757	$1,654,782	$11,975	0.7%	$1,808,487	-7.8%
Total Education	$6,557,650	$6,472,751	$84,899	1.3%	$6,818,753	-3.8%
Public Assistance and Medicaid	$7,166,790	$7,479,341	-$312,550	-4.2%	$7,847,944	-8.7%
Health and Human Services	$733,097	$730,215	$2,881	0.4%	$870,323	-15.8%
Total Welfare and Human Services	$7,899,887	$8,209,556	-$309,669	-3.8%	$8,718,267	-9.4%
Justice and Public Protection	$1,340,904	$1,385,350	-$44,446	-3.2%	$1,461,358	-8.2%
Environment and Natural Resources	$63,917	$61,491	$2,426	3.9%	$74,244	-13.9%
Transportation	$12,782	$11,671	$1,111	9.5%	$15,086	-15.3%
General Government	$196,351	$203,615	-$7,264	-3.6%	$248,111	-20.9%
Community and Economic Developmen	$69,765	$65,686	$4,080	6.2%	$99,123	-29.6%
Capital	$330	$0	$330	---	$187	76.5%
Total Government Operations	$1,684,049	$1,727,813	-$43,764	-2.5%	$1,898,109	-11.3%
Tax Relief and Other	$892,516	$731,184	$161,332	22.1%	$797,667	11.9%
Debt Service	$277,347	$288,616	-$11,268	-3.9%	$434,729	-36.2%
Total Other Expenditures	$1,169,863	$1,019,800	$150,064	14.7%	$1,232,396	-5.1%
Total Program Expenditures	**$17,311,449**	**$17,429,919**	**-$118,470**	**-0.7%**	**$18,667,525**	**-7.3%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers Out	$1,025,127	$969,343	$55,784	5.8%	$844,607	21.4%
Total Transfers Out	$1,025,127	$969,343	$55,784	5.8%	$844,607	21.4%
TOTAL GRF USES	**$18,336,577**	**$18,399,262**	**-$62,686**	**-0.3%**	**$19,512,132**	**-6.0%**

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

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

Medicaid (600525) Payments by Service Category	February Actual	February Estimate	February Variance	February Percent Variance	Year to Date Actual thru Feb	Year to Date Estimate thru Feb	Year to Date Variance	Year to Date Percent Variance
Nursing Facilities	$225,193	$233,699	-$8,506	-3.6%	$1,790,993	$1,838,153	-$47,160	-2.6%
ICFs/MR	$46,266	$46,345	-$79	-0.2%	$362,941	$365,044	-$2,103	-0.6%
Inpatient Hospitals	$81,609	$81,944	-$335	-0.4%	$687,880	$737,529	-$49,649	-6.7%
Outpatient Hospitals	$33,244	$31,412	$1,832	5.8%	$270,930	$277,452	-$6,522	-2.4%
Physicians	$28,767	$27,813	$954	3.4%	$217,952	$237,605	-$19,653	-8.3%
Prescription Drugs	$49,953	$66,049	-$16,096	-24.4%	$324,097	$384,793	-$60,696	-15.8%
ODJFS Waivers	$24,814	$26,778	-$1,964	-7.3%	$217,418	$236,449	-$19,031	-8.0%
MCP	$401,855	$415,324	-$13,469	-3.2%	$3,537,981	$3,589,447	-$51,466	-1.4%
All Other	$124,475	$112,866	$11,609	10.3%	$929,633	$949,927	-$20,294	-2.1%
DA Medical	$12	$408	-$396	-97.1%	$3,434	$5,085	-$1,651	-32.5%
Total Payments	$1,016,188	$1,042,638	-$26,450	-2.5%	$8,343,259	$8,621,484	-$278,225	-3.2%
Non-GRF Offsets	-$295,077	-$310,206	$15,129	-4.9%	-$1,918,955	-$1,949,393	$30,438	-1.6%
Total 600525 (net of offsets)	$721,111	$732,432	-$11,321	-1.5%	$6,424,304	$6,672,091	-$247,787	-3.7%
Medicare Part D (600526)	$21,755	$22,447	-$692	-3.1%	$173,855	$177,131	-$3,276	-1.8%
Total GRF	**$742,866**	**$754,879**	-$12,013	**-1.6%**	**$6,598,159**	**$6,849,222**	-$251,063	**-3.7%**
Total All Funds	**$1,037,943**	**$1,065,085**	-$27,142	**-2.5%**	**$8,517,114**	**$8,798,615**	-$281,501	**-3.2%**

Sources: Actuals based on OAKS reports run on March 5, 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

Tables 3 and 4 show GRF uses for the month of February and for FY 2010 through February, respectively. For February, GRF uses of $1.75 billion were $174.9 million (9.1%) below the estimate released by the Office of Budget and Management (OBM) in September 2009. For the first eight months of FY 2010, GRF uses of $18.34 billion were $62.7 million (0.3%) below estimate. GRF uses consist primarily of program expenditures and also include transfers out. Through February, GRF program expenditures totaled $17.31 billion, which was $118.5 million (0.7%) below estimate, and transfers out totaled $1.03 billion, which was $55.8 million (5.8%) above estimate.

For the first eight months of FY 2010, GRF uses of $18.34 billion were $62.7 million (0.3%) below estimate.

The overall fiscal year-to-date variance in GRF uses turned negative in February from a positive variance of $112.3 million in January. This was largely due to negative variances posted in February in Primary, Secondary, and Other Education ($119.4 million) and Tax Relief and Other ($57.8 million). As reported in prior issues of *Budget Footnotes*, for the most part these two program categories have posted significant positive year-to-date variances due largely to timing. The Primary, Secondary, and Other Education program category's year-to-date positive variance was reduced from $192.4 million (4.6%) in January to $72.9 million (1.5%) in February. The year-to-date positive variance for the Tax Relief and Other program category was also narrowed from $219.2 million (32.6%) in January to $161.3 million (22.1%) in February. Timing issues should continue to resolve themselves for the remaining months of the fiscal year in these two program categories, further reducing the positive year-to-date variances. Another program category that has a significant year-to-date positive variance is Higher Education at $12.0 million (0.7%). The state's need-based student financial aid program, Ohio College Opportunity Grant (OCOG), had a positive variance of $14.6 million in February. The time needed to implement changes made to OCOG in H.B. 1 was the main reason why Higher Education had negative variances for most months of the fiscal year. The catch-up payments in OCOG turned Higher Education's year-to-date variance from a negative $4.5 million (0.3%) in January to a positive $12.0 million in February.

The positive year-to-date variances in Tax Relief and Other, Primary, Secondary, and Other Education, and Higher Education were completely offset by continuing negative variances in Public Assistance and Medicaid ($312.6 million or 4.2%) and Justice and Public Protection ($44.4 million or 3.2%). The Department of Rehabilitation and Correction (DRC) medical services line item (505321) and mental health services line item (502321) continued to be the main reasons behind this program category's negative variance. Actual expenditures for items 505321 and 502321 were $14.5 million and $12.1 million, respectively, below their year-to-date estimates. Spending for the medical services line item varies depending on the incidence of inmate illnesses. The negative variance in the mental health services line item likely reflects a recent decision made by DRC to hire psychiatrists who were on contracts as state employees, a move which DRC expects to lower expenditures. The year-to-date negative variance in Public Assistance and Medicaid is discussed below.

Medicaid

The Public Assistance and Medicaid program category was below estimate by $312.6 million (4.2%) for the year to date; for February, expenditures for this category were below estimate by $15.9 million (2.0%). Medicaid accounts for approximately 92% of year-to-date expenditures in this category. Table 5 details Medicaid expenditures by service category.

GRF Medicaid expenditures were below estimate by $251.1 million for the year to date.

In February, GRF Medicaid expenditures totaled $742.9 million, $12.0 million (1.6%) below estimate. Through February, year-to-date GRF Medicaid expenditures were $6.60 billion, $251.1 million (3.7%) below estimate. Expenditures for all Medicaid categories were below estimate for the year to date. This is primarily due to overall lower costs per person than estimated and no enrollment in the Children's Health Insurance Program expansion (assumed in the budget to begin July 1, 2009). Categories with significant negative variances include Prescription Drugs ($60.7 million), Managed Care Plans ($51.5 million), Inpatient Hospitals ($49.6 million), and Nursing Facilities ($47.2 million).

On February 18, 2010, the Secretary of Health and Human Services (HHS) announced that the enhanced federal Medicaid match rate under the American Recovery and Reinvestment Act of 2009 will be applied to Medicare Part D "clawback" payments. Ohio's clawback payments are expected to be reduced by $151.5 million over the period of October 1, 2008 through December 31, 2010. The so-called clawback payments are the states' share of the cost of Medicare prescription drug coverage for individuals eligible for both Medicare and Medicaid (dual eligibles). See the Issue Updates section of this publication for details.

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

ISSUE UPDATES

Medicare Part D Clawback Payments Reduced by $151.5 Million

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

On February 18, 2010, the Secretary of Health and Human Services (HHS) announced that the enhanced federal Medicaid match rate under the American Recovery and Reinvestment Act of 2009 will be applied to Medicare Part D clawback payments. HHS reports that, as a result, Ohio's clawback payments will be reduced by $151.5 million. This adjustment in the clawback payments will be applied to the period of October 1, 2008 through December 31, 2010. States will have the flexibility of applying the savings immediately (to offset the March 8 bill or prior bills that have not yet been paid) or waiting until a subsequent period or fiscal year. The table below shows Ohio's original payment, adjusted payment, and total savings.

Medicare Part D Clawback Payments (October 1, 2008 through December 31, 2010)		
Original Payment	Adjusted Payment	Savings
$581,726,147	$430,246,974	$151,479,172

The Medicare Prescription Drug Improvement and Modernization Act of 2003 (MMA) requires states to share the cost of Medicare prescription drug coverage for individuals eligible for both Medicare and Medicaid (dual eligibles). Prior to MMA, state Medicaid programs covered these costs. The states' share of the costs that must be paid to the federal government is known as "clawback." The amount of each state's clawback payment roughly reflects the expenditures of its own funds that the state would have made if it continued to pay for prescription drugs for dual eligibles through Medicaid.

H.B. 1 appropriates $221.7 million for FY 2010 and $228.4 million for FY 2011 in GRF line item 600526, Medicare Part D, to fund the clawback payments. The bill also permits the Director of Budget and Management, with notification to the Controlling Board, to transfer appropriations between GRF line items 600526 and 600525, Health Care/Medicaid. Thus, any balance in appropriations as a result of the reduction in the clawback payments could be transferred and made available for expenditure on the Medicaid Program.

State Carves Out Pharmacy Benefit from Medicaid Managed Care Plans

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

Effective February 1, 2010, the Ohio Department of Job and Family Services (ODJFS) carved out the pharmacy benefit for 1.5 million Medicaid recipients who are enrolled in managed care plans in order to maximize rebates from drug manufacturers. By carving out the pharmacy benefit, Ohio is able to benefit from pharmacy rebate arrangements that are only available to state Medicaid programs. ODJFS expects this change will increase drug rebates by $2.6 million in FY 2010 and $241.0 million in FY 2011. This policy change was assumed in the FY 2010-FY 2011 budget.

Under the carve out, certain Medicaid managed care enrollees are required to pay a copayment of $3 for prescriptions and refills that require prior authorization and $2 for most brand name drugs. There are no copayments for generic drugs. Some Medicaid enrollees are exempt under federal law from copayments, such as children under the age of 21, pregnant women, individuals who are in the hospital or in a long-term care facility, and individuals receiving hospice or family planning services. According to ODJFS, about 400,000 Medicaid managed care enrollees in the state are now required to pay drug copayments.

Ohio Works First Cash Benefits Remain Level in 2010

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

Ohio Works First (OWF) cash assistance benefits in 2010 will remain at the 2009 level due to a recent period of deflation. State law requires the Ohio Department of Job and Family Services to increase OWF benefit payments in January of each year by the cost-of-living adjustment (COLA) made by the federal Social Security Administration for Social Security benefits. Social Security benefits increase each year if there is an increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) from the third quarter of one year to the third quarter of the next. There was no increase in the CPI-W from the third quarter of 2008 to the third quarter of 2009; the index actually decreased 2.1% during that period. Therefore, there is no COLA for 2010 (the executive had estimated a 1.0% COLA for 2010 at a cost of $2.0 million). The last annual COLA increases for OWF went into effect beginning January 2009. Benefits increased 5.8% in that year, which for a family of three increased the monthly benefit from $410 to $434.

OWF benefits are funded through the federal TANF Block Grant and the state maintenance of effort dollars. To be eligible for OWF an assistance group must have at least one child and family income must be less than 50% of the federal poverty guidelines (about $9,155 annually for a family of three). Benefits are limited to 36 months but, in some cases, may be extended up to 60 months due to hardship.

Workload Increases at Board of Tax Appeals

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

In the first seven months of FY 2010, the Board of Tax Appeals (BTA) received 3,823 appeals, up from 2,727 in all of FY 2009. The rising inflow of new appeals has been accompanied by an increase in the backlog of appeals pending before BTA. At the end of January, 6,328 appeals were pending before BTA, up from 3,604 at the end of FY 2009. As seen in the table below, BTA's workload has climbed consistently in recent years. This uptrend has accelerated in FY 2010. The recent rise in appeals likely reflects, in large part, the downturn in the economy and in the market values of many properties, and disputes over appropriate property valuations for tax purposes.

Appeals to the Board of Tax Appeals				
Fiscal Year	**Appeals Filed**	**Change**	**Appeals Pending**	**Change**
2005	1,608	--	1,439	--
2006	1,892	17.7%	1,851	28.6%
2007	2,031	7.3%	2,320	25.3%
2008	2,285	12.5%	2,745	18.3%
2009	2,727	19.3%	3,604	31.3%
2010 (as of January 2010)	3,823	40.2%	6,328	75.6%

BTA hears appeals of real property valuation decisions made by county boards of revision. These appeals account for more than 90% of all appeals to BTA. Appeals of final determinations by the Tax Commissioner on various tax issues, as well as appeals of other types of tax cases, are also heard by BTA. H.B. 1 appropriated approximately $1.15 million for BTA in each of FY 2010 and FY 2011, 42% less than actual expenditures in FY 2009. BTA implemented this budget reduction in August 2009 by laying off nine staff members. Including three Board members, BTA currently has ten employees. Working through the current backlog may take BTA more than three years, based on the rate at which appeals were resolved by BTA in the past.

Ohio Leads the Nation in Meeting SORNA Compliance Requirements

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

In September 2009, the U.S. Department of Justice announced that Ohio had met the compliance requirements contained in the Title I Sex Offender Registration and Notification Act (SORNA) provisions of the federal Adam Walsh Child Protection and Safety Act of 2006. This determination reversed a previous decision made by the Department in January 2009, which originally found Ohio not in compliance with the Act.[9] With the reversal, Ohio became the first state in the nation to have "substantially" implemented SORNA. To date, only Ohio and the Confederated Tribes of the Umatilla Indian Reservation are considered to be in "substantial compliance."

The final, federal SORNA guidelines were released in July 2008. SORNA requires states to "substantially" implement the minimum criteria required for sex offender registration and notification. A state may be eligible for a monetary bonus if the state is found to be in compliance with the guidelines by a specific date. The bonus award is to be 10% of each jurisdiction's award under the Sex Offender Management Assistance (SOMA) Grant Program for the preceding fiscal year if the implementation was not later than July 27, 2007, or 5% if the implementation was not later than July 27, 2008.

The Ohio Office of the Attorney General intends to work with Justice's Office of Sex Offender Sentencing, Monitoring, Apprehending, Registering, and Tracking (SMART) about the possibility of receiving the monetary bonus. Since Ohio was initially found to not be in "substantial compliance," there may be some question as to whether Ohio qualifies, despite the later reversal of the decision. Moreover, even if Ohio is determined to be eligible for the bonus, the actual implication of a bonus is unclear at this time. Congress has not yet explicitly appropriated moneys for the SOMA Grant Program.

Department of Development Awards $11.9 Million in Federal Stimulus Funds for Energy-Efficient Manufacturing

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

On February 9, 2010, the Ohio Department of Development awarded approximately $11.9 million in "Targeting Industry Efficiency" grants to 18 companies for energy efficiency projects under the State Energy Program. The following table lists the companies receiving grants by location and amount awarded in this round of

[9] The article on the January 2009 decision can be found in the May 2009 issue of *Budget Footnotes*.

awards. Qualifying projects include the installation of high efficiency manufacturing equipment as well as efficiency planning and assessments. Each award recipient must (1) complete the project within 12 months, (2) invest matching funds totaling at least 50% of the grant amount, and (3) demonstrate economic impact through job creation and retention.

Projects Receiving Targeting Industry Efficiency Grants (Total: $11.86 million)					
Recipient	**Location (County)**	**Award Amount**	**Recipient**	**Location (County)**	**Award Amount**
American Trim	Lima (Allen)	$994,000	New Horizons Baking Company	Norwalk (Huron)	$1,000,000
Clow Water Systems	Coshocton (Coshocton)	$515,844	Orlando Baking Company	Cleveland (Cuyahoga)	$486,807
Delphi Automotive Systems, LLC	Warren (Trumbull)	$979,000	Republic Storage Systems, LLC	Canton (Stark)	$550,000
Edge Plastics, Inc.	Mansfield (Richland)	$651,540	Shearer's Foods, Inc.	Brewster (Stark)	$291,879
Empire Die Casting Company, Inc.	Macedonia (Summit)	$835,000	SMART Papers Holdings, LLC	Hamilton (Butler)	$439,600
General Motors	Defiance (Defiance)	$518,232	Thaler Machine Company	Springboro (Warren)	$348,756
Green Bay Packaging, Inc.	Cincinnati (Hamilton)	$911,936	Timken Company	Canton (Stark)	$1,175,000
Kovatch Castings, Inc.	Uniontown (Summit)	$1,000,000	WEK Industries, Inc.	Jefferson (Ashtabula)	$250,000
Mansfield Plumbing Products, LLC	Perrysville (Ashland)	$732,589	Wyandot, Inc.	Marion (Marion)	$175,000

Ohio's State Energy Program has been allocated a total of $96.1 million in federal stimulus funds provided under the American Recovery and Reinvestment Act of 2009 (ARRA). Of this amount, $38 million has been made available for the state to use. In addition to the $11.9 million in Targeting Industry Efficiency grants awarded in February 2010, the state issued $13.4 million in "Deploying Renewable Energy: Wind and Solar" grants in November 2009. The Deploying Renewable Energy: Wind and Solar initiative, another component of the State Energy Program, provides grants for businesses to install wind and solar power systems. The remaining $12.7 million will be used to provide investment capital for the advanced energy sector as part of the recently created Ohio Energy Gateway Fund. Once the initial $38 million allocation has been awarded, the remainder of the federal funding will be distributed to Ohio for additional awards.

Public Safety Awards Over $4.3 million in Federal Stimulus Grant Funding for Violence Against Women Act Projects

—Sara D. Anderson, Senior Budget Analyst, 614-728-4812

For FY 2010, the Department of Public Safety has awarded a total of $4.34 million in federal stimulus funding allocated from the STOP Violence Against Women (VAWA) Formula Grant Program to support 72 projects located in 46 counties. The table below summarizes the total amount of VAWA funding awarded by county, including the number of project grants. The purpose of these funds is to support personnel, training, technical assistance, evaluation, data collection, and equipment costs to enhance the apprehension, prosecution, and adjudication of persons committing violent crimes against women, and to enhance services that meet the needs of women victimized by violence. The recipients of these project grants are units of local government (including county sheriffs, police departments, prosecutors, and county commissioners) and nonprofit, nongovernmental victim services program providers.

FY 2010 ARRA Violence Against Women Act Grants by County (Total: $4.34 million)			
County (# Grants)	Amount	County (# Grants)	Amount
Allen (3)	$131,989	Lorain (1)	$25,190
Ashland (1)	$9,447	Lucas (2)	$261,771
Ashtabula (2)	$28,855	Madison (1)	$12,936
Athens (2)	$47,550	Mahoning (4)	$158,150
Belmont (2)	$105,173	Marion (3)	$202,932
Butler (2)	$140,902	Montgomery (1)	$49,933
Clermont (1)	$22,136	Morgan (1)	$44,352
Cuyahoga (2)	$549,167	Morrow (1)	$50,198
Delaware (3)	$79,387	Muskingum (2)	$111,874
Fairfield (2)	$120,416	Pickaway (2)	$59,397
Franklin (4)	$861,232	Pike (1)	$23,372
Geauga (1)	$22,497	Portage (3)	$61,813
Greene (1)	$49,188	Richland (2)	$172,307
Guernsey (1)	$21,667	Ross (1)	$36,265
Hamilton (1)	$76,053	Seneca (1)	$78,598
Hancock (1)	$33,033	Shelby (1)	$70,065
Harrison (1)	$30,445	Stark (1)	$53,424
Henry (2)	$88,060	Summit (2)	$141,822
Highland (1)	$24,415	Trumbull (1)	$28,661
Holmes (1)	$47,256	Tuscarawas (1)	$13,463
Knox (1)	$40,500	Van Wert (1)	$24,497
Lawrence (1)	$35,032	Washington (1)	$43,866
Licking (1)	$21,392	Wood (1)	$25,625

The state was required to allocate the funds as follows: at least 25% to prosecution programs, at least 25% to law enforcement programs, at least 30% to victim services, at least 5% for court programs, and the remainder (up to 15%) to be spent at the discretion of the state within the statutory purpose areas.

Job Preservation Federal Stimulus Grant Awards are Used to Preserve Jobs in Ohio's Arts Community

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

The Job Preservation Federal Stimulus grants awarded last summer to 21 arts organizations are being used to support jobs that are critical to each organization's mission. According to the Ohio Arts Council (OAC), the grants are supporting a total of 25 positions. These positions include organization manager, production manager, assistant curator, school residency program supervisor, specialty ticketing marketing coordinator, and outreach coordinator.

OAC awarded $395,000 to the organizations[10] in grants of $10,000, $15,000, or $25,000. The competitive grants were awarded through the Ohio Arts Jobs Preservation Grant Program. They were funded with support from the National Endowment of the Arts through the American Recovery and Reinvestment Act of 2009. At a September 2009 meeting, the Controlling Board increased appropriation in Fund 3140 approriation item 370601, Federal Programs, by $353,400 to support the grant awards; $48,400 of the increase in appropriation was used for OAC program administrative costs. Arts Midwest, Ohio's regional arts organization, contributed the remaining $90,000 in grant awards.

Early Childhood Cabinet Releases Implementation Plan for Center for Early Childhood Development

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

On December 30, 2009, the Governor's Early Childhood Cabinet released an implementation plan for the Center for Early Childhood Development (CECD) within the Ohio Department of Education (ODE). The plan, which was prepared to meet a requirement of H.B. 1, includes recommendations on: the programs, services, and funding sources to be transferred to the CECD; a new administrative structure within ODE to accommodate the CECD; statutory changes necessary for implementation; and a timeline for the transition.

[10] A list of grant recipients is available on OAC's web site: www.oac.state.oh.us; search for "Ohio Arts Job Preservation Grants."

The table below lists the programs and services recommended for transfer and their current funding sources and FY 2010 funding as detailed on page 9 of the plan. The complete plan is available on ODE's web site – www.ode.state.oh.us – search for "Center for Early Childhood Development."

Program Funding to be Transferred from State Agencies to CECD, FY 2010				
Fund	**ALI**	**State Agency**	**Program or Service**	**Funding FY 2010**
3H70	600617	Job and Family Services	Child Care Federal (CCDF)	$241,862,780
3V60	600689	Job and Family Services	Child Care/TANF Block Grant	$240,792,348
GRF	600535	Job and Family Services	Child Care (Early Care and Education)	$137,367,699
GRF	600413	Job and Family Services	Child Care (Match)	$79,401,065
GRF	200540	Education	Preschool Special Education Units	$83,371,505
3C50	200661	Education	Preschool Special Education (Federal)	$12,321,454
GRF	200408	Education	Early Childhood Education	$23,268,341
3C50	200661	Education	Even Start	$2,291,976
GRF	200442	Education	Child Care Licensing	$865,590
3H90	200605	Education	Head Start Collaboration Project	$225,000
GRF	440459	Health	Help Me Grow	$36,500,000
3920	440618	Health	Help Me Grow (Federal)	$14,497,916
3920	440618	Health	Early Childhood Comprehensive Systems Grant	$149,701
GRF	335505	Mental Health	Early Childhood Mental Health	$200,000
			Total	**$873,115,375**

ODE Releases 2008-2009 Annual Report on Community Schools

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

In December 2009, the Ohio Department of Education (ODE) released its seventh Annual Report on Community Schools. The report is required by R.C. 3314.015. According to the report, during the 2008-2009 school year, more than 89,000 Ohio students were enrolled in community schools, an increase of 8% over the prior year. These students attended one of a total of 332 community schools. About 66.6% (221) of these schools were located in five urban counties: Franklin (63), Cuyahoga (58), Lucas (39), Montgomery (33), and Hamilton (28).

The report highlights recent legislation that strengthens community school accountability. For example, H.B. 1 made the criteria for closing a community school due to poor academic performance more stringent. As of October 2009, two schools have been permanently closed for poor academic performance and an additional 11 schools have been notified that they must permanently close by June 30, 2010. H.B. 1 also explicitly required that the report address the performance of community school sponsors. According to the report, ODE has established the Sponsor Performance Review, which is designed to measure each sponsor's capacity to provide oversight, monitoring, and technical assistance to schools, and its compliance with this obligation.

The complete report is available on ODE's web site, www.ode.state.oh.us, search for "Annual Reports on Ohio Community Schools."

BOR Continues Adult Workforce Education Grants

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

In February, the Board of Regents (BOR) announced a new adult workforce education grant for FY 2011 following two similar grants offered in FY 2010. In FY 2010, BOR administered the ABLE (adult basic and literacy education) Instructional Grant Program and the English Language Civics Education Grant Program to promote the development of various adult workforce education strategies. The ABLE Instructional Grant Program awarded $12.6 million in federal funding and $6.9 million in state funding to 68 adult basic and literacy education programs assisting adults in developing the literacy and educational skills necessary to complete a high school degree or its equivalent. The companion English Language Civics Education Grant Program awarded 22 federal grants of up to $50,000 totaling nearly $793,000. These grants went to adult education providers offering English literacy and civics education that incorporated information about American government, public education systems, and workplaces.

In FY 2011, BOR will administer the ABLE Innovation Grant, which is focused on the integration of basic educational services into academic career training programs. As many as five awards of up to $163,000 will be distributed for FY 2011. Award recipients must collaborate with institutions of higher education or adult training programs in the state to increase participation and completion of certificate-earning programs and GED testing. Only 15% of grant awards can be used for administrative expenses. The remaining 85% must be used directly for educational and instructional services.

Treasurer of State Begins Application Process for Farmers to Obtain Reduced Interest Loans Under Ag-LINK Program

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

In February 2010, the Treasurer of State began accepting applications for reduced-interest loans to farmers through the Ag-LINK Program. Up to $132.2 million has been allocated for the program in FY 2010. For each approved loan under the linked deposit program, the state buys a certificate of deposit from a financial institution at a reduced rate of interest so that the financial institution can in turn offer a lower interest loan to a farmer. The maximum loan amount is $100,000. In order to be eligible for an Ag-LINK loan, the farm operator must be a for-profit entity with headquarters and 51% of operations maintained in Ohio. Priority is given to farmers that use the loans for feed, fertilizer, and fuel. Once approved by the lender, the loan applications must be submitted to the Treasurer of State by March 12 for final approval. FY 2010 loan funding will begin on April 14. In FY 2009, the Treasurer invested $123.1 million under the Ag-LINK program, allowing for 1,561 loans to be issued. Since its creation in 1985, the program has helped over 28,000 farmers receive over $1.9 billion in reduced-interest loans.

TRACKING THE ECONOMY

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

The national economy continues to recover from recession.

Overview

The national economy continues to recover from recession. Growth of gross domestic product, adjusted for inflation (real GDP), was revised upward for the fourth quarter. Industrial production and factory shipments and new orders rose further in January. Manufacturing activity as well as other parts of the economy expanded further in February, according to purchasing managers' reports. Consumer spending rose in January, and sales of large general merchandise retailers were surprisingly strong in February in view of weather disruptions. However, in February total nonfarm payroll employment nationwide registered another decline. Motor vehicle sales slowed. Sales of new and previously occupied homes fell in January, and construction activity continued to decline. Inflation remains subdued. In Ohio, total nonfarm payroll employment fell 12,800 (0.3%) in January, and statewide unemployment of 641,000 persons was 10.8% of the labor force, the same unemployment rate as in December.

In the Federal Reserve Bank's semiannual report to Congress on monetary policy, Chairman Bernanke said that members of the policy-setting Federal Open Market Committee (FOMC) projected moderate growth in the economy through 2012, with only slow declines in unemployment, and subdued inflation. He reiterated the FOMC's expectation that exceptionally low levels for the target federal funds rate (the interest rate on overnight loans between commercial banks) will be warranted "for an extended period." The Federal Reserve is phasing down the special arrangements for injecting liquidity into financial markets created during the crisis, and raised a lending rate to banks (the discount rate) by 0.25 percentage point, in response to improved functioning of most financial markets. The testimony noted, however, that bank lending continues to contract, attributed to both tighter lending standards and weak credit demand.

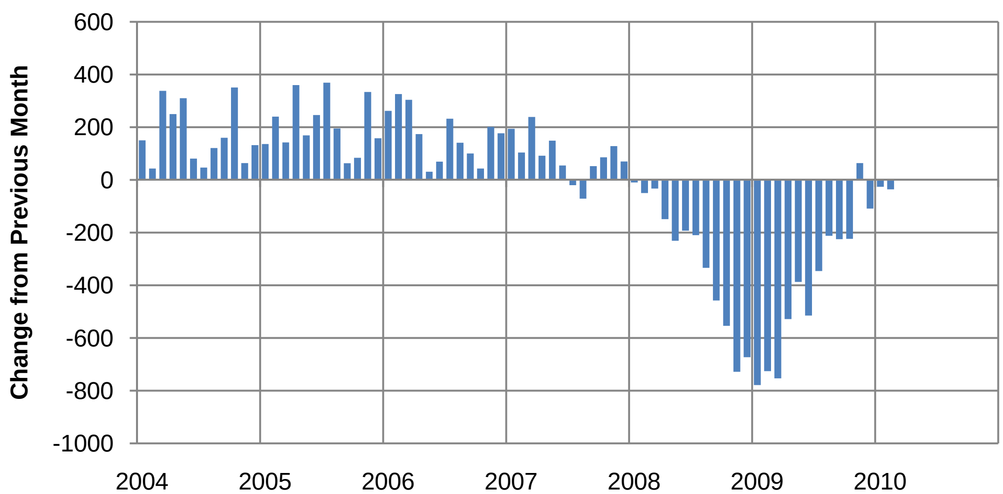
The National Economy

Employment and Unemployment

In February, total nonfarm payroll employment nationwide was little changed, declining by 36,000 (0.03%), seasonally adjusted. Declines in total employment in the U.S. since the peak in December 2007 are shown in Chart 1. Unemployment in the U.S. was about unchanged at 14.9 million persons, 9.7% of the labor force. Persons jobless for more than six months were 40.9% of the unemployed, little different from January's 41.2%, highest on records kept since 1948. Payroll employment fell last month in construction, particularly in nonresidential construction, and in information industries including publishing, motion pictures, and telecommunications. The number of jobs at temporary help services rose 48,000 in February and has increased by 284,000 since last September. Health care services also added jobs. Average weekly hours fell, notably in manufacturing and construction, which the U.S. Bureau of Labor Statistics (BLS) deemed a likely result of severe weather. The number employed but not at work because of bad weather during the survey week jumped to more than one million. However, BLS indicated that the overall impact of the weather on the employment statistics appears indeterminate, noting that while some employees missed time at work, others may have been added to payrolls to do repairs or cleanup, and that both hiring and separations from jobs may have been disrupted.

Real GDP rose in the fourth quarter of 2009 at a 5.9% annual rate.

Chart 1: U.S. Nonfarm Payroll Employment
Thousands, Seasonally Adjusted



Production, Shipments, and Inventories

Real GDP rose in the fourth quarter of 2009 at a 5.9% annual rate, revised upward from 5.7% previously reported. Economic growth in the third quarter was at a 2.2% annual rate, following declines in each of the previous four quarters totaling 3.8%, the steepest decline in the post-World War II era. Inventory liquidation slowed sharply in the fourth quarter. Real consumer spending grew in the fourth quarter at a 1.7% annual rate. Residential fixed investment expanded, as did

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nonresidential fixed investment in equipment and software. Private nonresidential investment in structures continued to decline sharply. Exports grew strongly, and imports rose. Government spending fell during the quarter despite strong growth of federal nondefense spending.

Industrial production rose in January for the seventh consecutive month, increasing 0.9%. The index was 5.5% higher in January than at its recession low in June 2009, but remained 10% below its December 2007 peak. Factory production, which accounts for about 80% of the overall index, rose 1.0% in January, with increases in most industries. Output of mining and utilities – 8% and 12% of the total index, respectively – each rose 0.7% in January.

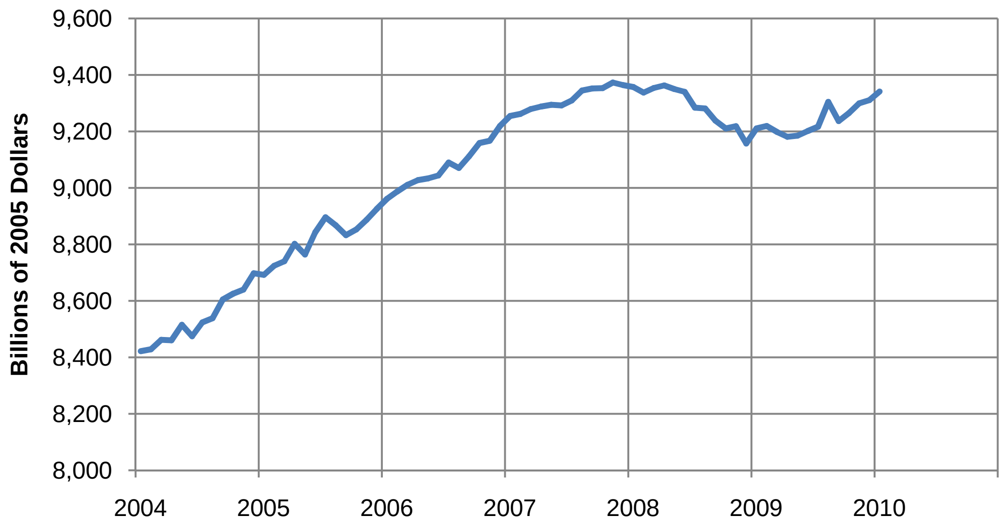
The dollar value of manufacturers' shipments in January increased 0.3%, and rose in seven of the most recent eight months. Factory new orders rose 1.7% in January, and rose in nine of the last ten months. The backlog of manufacturers' unfilled orders was about unchanged in January, rising 0.01% after declining for 15 consecutive months. Total factory inventories rose 0.2% and increased in three of the last four months.

Manufacturing activity continued to expand in February, according to purchasing managers surveyed by the Institute for Supply Management (ISM). More survey respondents reported increases in production, new orders, and order backlogs than reported decreases. The survey respondents also said employment rose at their firms, for the third consecutive month. Those paying higher prices for manufacturing inputs substantially outnumbered those paying less. A comparable ISM survey of nonmanufacturing organizations in February showed growth of business activity and new orders, but contraction of order backlogs. Employment fell for the 26th consecutive month, though reports of declines in employment were less frequent than at any time since the first half of 2008.

Consumer Spending

Consumer spending grew 0.3% in January, adjusted for inflation, and has trended higher since its recession low in December 2008, as shown in Chart 2. Total consumer spending in January, net of price changes, was still below the prerecession peak in late 2007. The chart shows a jump in outlays by consumers in August 2009, when the federal "cash for clunkers" subsidy program stimulated new car sales. Sales fell back in September after the program ended. Income figures were revised to show inflation-adjusted personal income excluding transfer payments at a recession low in September, not June as previously reported, and up only slightly since then.

Chart 2: Personal Consumption Expenditures



Retail sales rose 0.5% in January, seasonally adjusted but not adjusted for inflation. Nonstore retailers (catalog and Internet), general merchandise stores other than department stores, and electronics and appliance stores registered above-average sales gains in January. Sales were weak at furniture and home furnishings stores and at building materials and garden equipment and supplies dealers.

Retail sales rose in January, but sales of light motor vehicles fell back.

In February, sales of light motor vehicles fell back to a 10.3 million unit seasonally adjusted annual rate from 10.8 million units in January and 11.2 million units in December. Severe weather in parts of the country and product recalls, notably by Toyota, likely weakened sales in February. The sales pace has remained far short of healthier levels in the past. From calendar year 1996 through 2007, industry sales of light vehicles exceeded 15 million units per year.

Sales in February at large retail stores that report results monthly were 3.1% above the year-earlier amount, surprisingly strong in view of the severe weather that affected substantial portions of the country last month.[11] These sales are on a same-store basis, including only store locations open in both the latest and year-earlier months. The latest comparison is with a weak year-ago month. Chain store sales fell 3.5% from February 2008 to February 2009, in the depths of the recession.

Consumer credit outstanding, excluding credit secured by real estate, increased in January for the first time in a year, seasonally adjusted. Revolving credit, which includes credit cards, contracted more

[11] Figures cited are from Bank of Tokyo-Mitsubishi UFJ, "Monthly Chain Store Sales Report."

slowly than in recent months. Nonrevolving credit, including automobile loans and other loans for consumer durables as well as education and vacations, rose for the second consecutive month.

Construction and Real Estate

Starts on new housing construction rose in January but nevertheless remained at depressed levels. Housing starts rose 3% from December to January, seasonally adjusted, to a 591,000 unit annual rate, above the cyclical low point of 479,000 units last April but far below starts in excess of 2 million units in 2005, the recent peak year. The housing starts statistics are subject to large seasonal swings in the winter months, particularly in northern parts of the country.

New home sales fell 11% in January.

New home sales fell 11% in January, seasonally adjusted, to the lowest level on records kept since 1963. The pace of sales was less than one-fourth of that in peak year 2005. Availability of federal tax credits of up to $8,000 for buyers who have not owned homes in the last three years, and of up to $6,500 for buyers who have owned their primary residences for at least five years, does not appear to have stimulated much buying in January. The deadline to qualify for the $8,000 tax credit was extended late last year, to April 30 to sign a purchase contract, and to June 30 to close on the purchase, and the program was broadened to include some current homeowners. The new home sales statistics measure the number of contracts entered into for purchase of homes.

Sales of homes reported by the National Association of Realtors (NAR), generally homes previously occupied, fell 7% in January, seasonally adjusted, following a 16% drop in December, but remained higher than in any month in last year's first half. Sales rose ahead of the previous expiration (since extended as noted above) of the tax credit at the end of November. NAR reports that inventories of homes for sale are 10% lower than a year ago, and lowest since March 2006. The median home price nationwide in January was unchanged from a year earlier, and the average price was 2.6% higher.

The total value of construction put in place in January fell 0.6% from December, seasonally adjusted, continuing a downtrend underway since the peak for construction activity in 2006. Private residential construction activity has trended upward since June, but was more than offset by declines in private nonresidential construction activity, which has fallen since late 2008. Public construction spending has slowed for the last six months, with reduced outlays for schools and other education-related construction accounting for nearly half of the slowdown.

Inflation

The consumer price index (CPI) rose 0.2% in January, seasonally adjusted, mainly because of higher energy prices, particularly for gasoline. Excluding energy, the CPI in January fell by 0.1%. In comparison with a year earlier, the CPI for all items was 2.6% higher in January, but excluding energy prices was only 1.2% higher. Energy prices in the CPI collapsed in the second half of 2008, after a sharp rise in the first half of the year, but have since recovered to levels of late 2007. The CPI for energy commodities was 47% higher in January than a year earlier. Gasoline prices were 51% higher. Not all energy prices have risen; the CPI for energy services was lower than in January 2009.

The upturn in energy prices is also reflected in pricing patterns at the factory and wholesale level. The producer price index (PPI) for finished goods rose 1.4% in January, and was 4.6% higher than a year earlier. Excluding energy prices, however, the PPI for finished goods was only 1.1% higher than in January 2009. At the crude materials level, price increases were more widespread. The PPI for crude materials for further processing in January was 25% higher than a year earlier, and 14% higher excluding energy. An index of prices for crude nonfood materials less energy was 35% higher than in January 2009.

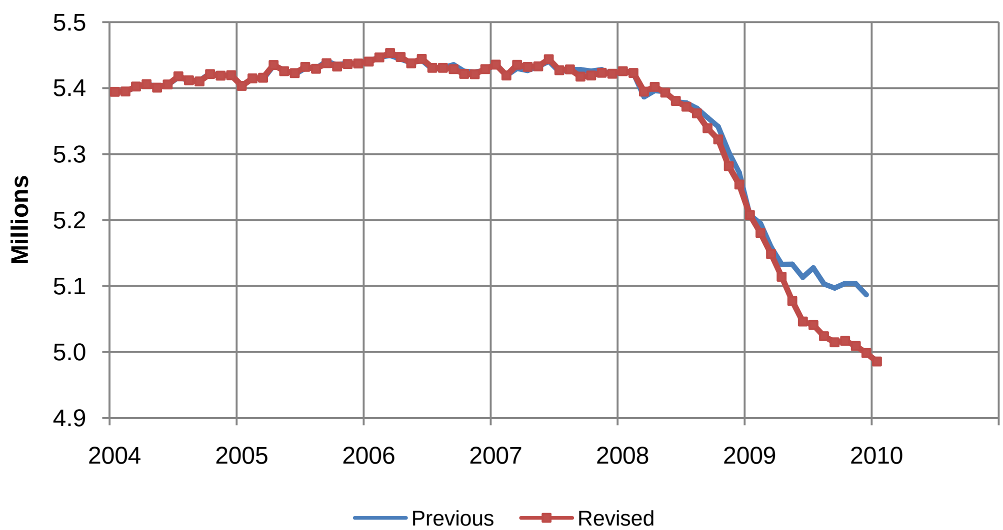
Businesses are not under pressure to raise product prices because of labor costs. Upward revision of estimated labor productivity (output per hour) in nonfarm business and downward revision of hourly compensation cost imply a record decline last year in unit labor costs, the wages and benefits paid for the labor to produce an average unit of output. Unit labor costs fell 4.7% in the year ending in last year's fourth quarter, the largest four-quarter decline in this series which starts in 1948. On a calendar year basis, from 2008 to 2009 unit labor costs of nonfarm business fell 1.7%, the largest annual decline on record.

The Ohio Economy

Total nonfarm payroll employment in Ohio declined by 12,800 (0.3%) from December to January.

Total nonfarm payroll employment in Ohio of about 5.0 million workers declined by 12,800 (0.3%) from December to January, and was 222,000 (4.3%) lower than in January 2009. Ohio payroll employment in 2009 was revised sharply lower, in the annual benchmark revision of the data, as shown in Chart 3. The number of Ohioans counted as unemployed, at 641,000, was 10.8% of the labor force. The statewide unemployment rate was unchanged from December but up from 8.6% in January 2009. Compared with a year earlier, nonfarm payroll employment losses were widespread among industries, with particularly large declines in construction, lower by 30,400 (15.4%); durable goods manufacturing, down 51,200 (11.2%); transportation, warehousing, and utilities, down 20,000 (10.1%); and real estate and rental and leasing, down 6,700 (10.8%). Increases were reported in only a few industry groups, notably health care and social assistance, higher by 7,600 (1.1%); and arts, entertainment, and recreation, up 2,600 (4.1%).

Chart 3: Ohio Total Nonfarm Payroll Employment



The latest Beige Book section from the Federal Reserve Bank of Cleveland, a summary of views of business contacts in the district, again said the region's economy shows signs of improvement.[12] Activity in the region remains well below levels prior to the recession. Contacts with manufacturers noted stable or higher production, and higher orders. New home sales rose "slightly" but nonresidential construction remained soft. Retail sales in January were characterized as mixed. Freight transport volume has increased slightly. Some businesses are recalling limited numbers of workers or working longer hours. The number of job openings has increased, in health care and manufacturing.

[12] The region served by the Federal Reserve Bank of Cleveland includes Ohio and adjacent parts of Kentucky, Pennsylvania, and West Virginia. The latest Beige Book is based on reports received on or prior to February 22.