Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION SEPTEMBER 2009

STATUS OF THE GRF

HIGHLIGHTS

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

The so-called "Great Recession" may have ended, according to some economic forecasters, but not yet officially, and its effects on Ohio's workers and on the state budget linger on. Ohio's unemployment rate reached 11.2% in July, and the national rate is approaching 10%.

GRF tax revenues ended August $7.5 million above estimate, but are nearly $300 million below the figure for the first two months of FY 2009. Revenue from the sales and use tax remains extremely weak, over 10% below last year, and revenue from the personal income tax is still being affected by the final rate reduction provided by H.B. 66 of the 126th General Assembly.

Through August 2009, GRF sources totaled $3.67 billion:

- Revenue from the sales and use tax was below estimate by $14.5 million (1.2%);
- Personal income tax revenue was above estimate by $35.9 million (3.8%).

Through August 2009, GRF uses totaled $5.50 billion:

- Primary, Secondary, and Other Education spending was below estimate by $31.9 million (2.6%);
- Spending for Public Assistance and Medicaid was below estimate by $25.7 million (1.1%).

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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 August 2009
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on September 11, 2009)

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$91,538	$82,530	$9,008	10.9%
Nonauto Sales and Use	$476,781	$495,306	-$18,525	-3.7%
Total Sales and Use Taxes	$568,319	$577,836	-$9,518	-1.6%
Personal Income	$497,119	$472,800	$24,319	5.1%
Corporate Franchise	-$4,130	$500	-$4,630	-926.1%
Public Utility	$33,976	$46,224	-$12,248	-26.5%
Kilowatt Hour Excise	$15,994	$19,511	-$3,517	-18.0%
Commercial Activity Tax**	$0	$0	$0	---
Foreign Insurance	$51	$0	$51	---
Domestic Insurance	$229	$117	$112	95.3%
Business and Property	$40	$286	-$246	-85.9%
Cigarette	$73,464	$76,816	-$3,352	-4.4%
Alcoholic Beverage	$5,377	$5,294	$83	1.6%
Liquor Gallonage	$3,283	$3,206	$77	2.4%
Estate	$8	$957	-$949	-99.1%
Total Tax Revenue	**$1,193,729**	**$1,203,548**	**-$9,819**	**-0.8%**
NONTAX REVENUE				
Earnings on Investments	$8	$0	$8	---
Licenses and Fees	$12,292	$12,292	$0	0.0%
Other Revenue	-$2,101	-$2,093	-$8	0.4%
Total Nontax Revenue	**$10,199**	**$10,199**	**$0**	**0.0%**
TRANSFERS				
Liquor Transfers	$14,000	$13,000	$1,000	7.7%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$814	$0	$814	---
Total Transfers In	**$14,814**	**$13,000**	**$1,814**	**14.0%**
TOTAL STATE SOURCES	**$1,218,742**	**$1,226,747**	**-$8,005**	**-0.7%**
Federal Grants	$557,660	$533,595	$24,065	4.5%
TOTAL GRF SOURCES	**$1,776,402**	**$1,760,342**	**$16,060**	**0.9%**

* Estimates of the Office of Budget and Management released August 2009.

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

Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Preliminary Actual vs. Estimate
FY 2010 as of August 31, 2009
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on September 11, 2009)

	Actual	Estimate*	Variance	Percent	FY 2009	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$169,973	$160,438	$9,535	5.9%	$175,091	-2.9%
Nonauto Sales and Use	$1,015,386	$1,039,446	-$24,060	-2.3%	$1,148,835	-11.6%
Total Sales and Use Taxes	$1,185,359	$1,199,884	-$14,525	-1.2%	$1,323,927	-10.5%
Personal Income	$984,568	$948,700	$35,868	3.8%	$1,087,027	-9.4%
Corporate Franchise	-$13,778	-$9,500	-$4,278	45.0%	$29,753	-146.3%
Public Utility	$34,114	$46,224	-$12,110	-26.2%	$47,387	-28.0%
Kilowatt Hour Excise	$25,560	$30,089	-$4,529	-15.1%	$22,642	12.9%
Commercial Activity Tax**	$0	$0	$0	---	$0	---
Foreign Insurance	-$285	-$100	-$184	183.9%	-$98	191.1%
Domestic Insurance	$53	-$586	$639	-109.1%	-$558	-109.5%
Business and Property	$97	$286	-$189	-66.0%	$246	-60.5%
Cigarette	$99,953	$92,838	$7,115	7.7%	$104,362	-4.2%
Alcoholic Beverage	$10,981	$10,689	$292	2.7%	$10,521	4.4%
Liquor Gallonage	$6,277	$6,112	$165	2.7%	$6,069	3.4%
Estate	$238	$957	-$719	-75.1%	$1,082	-78.0%
Total Tax Revenue	**$2,333,138**	**$2,325,594**	**$7,545**	**0.3%**	**$2,632,360**	**-11.4%**
NONTAX REVENUE						
Earnings on Investments	$15	$0	$15	---	$121	-87.5%
Licenses and Fees	$12,760	$12,760	$0	0.0%	$12,452	2.5%
Other Revenue	$6,439	$6,452	-$13	-0.2%	$10,345	-37.8%
Total Nontax Revenue	**$19,215**	**$19,212**	**$3**	**0.0%**	**$22,918**	**-16.2%**
TRANSFERS						
Liquor Transfers	$27,000	$26,000	$1,000	3.8%	$15,000	80.0%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$978	$164	$814	496.2%	$5,065	-80.7%
Total Transfers In	**$27,978**	**$26,164**	**$1,814**	**6.9%**	**$20,065**	**39.4%**
TOTAL STATE SOURCES	**$2,380,331**	**$2,370,970**	**$9,361**	**0.4%**	**$2,675,343**	**-11.0%**
Federal Grants	$1,286,652	$1,262,586	$24,066	1.9%	$1,374,399	-6.4%
TOTAL GRF SOURCES	**$3,666,982**	**$3,633,556**	**$33,426**	**0.9%**	**$4,049,742**	**-9.5%**

* Estimates of the Office of Budget and Management released August 2009.

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

Detail may not sum to total due to rounding.

REVENUES

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

Overview

Total GRF sources were $16.1 million above estimate in August 2009.

Two months into FY 2010, GRF revenues are slightly above expectations. In July 2009, total GRF sources were $17.4 million above the estimate made by the Office of Budget and Management. In August 2009, total GRF sources of $1.78 billion were $16.1 million above estimate. Tables 1 and 2 show GRF sources for the month of August and for FY 2010, 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 such as Medicaid and Temporary Assistance for Needy Families (TANF) that receive federal funding.

Unlike the previous month, tax sources in August 2009 were $9.8 million below estimate, reducing the positive variance of $17.4 million recorded in July 2009. For August, the personal income tax was $24.3 million above estimate. Receipts from the sales and use tax were $9.5 million below estimate due to poor nonauto sales tax receipts; weak receipts on the nonauto side were partially offset by increased auto sales tax receipts from the "cash for clunkers" federal incentive program. Most remaining tax sources were below estimate for the month, including negative variances of $12.2 million for the public utility tax, $4.6 million for the corporate franchise tax, $3.5 million for the kilowatt hour excise tax, and $3.4 million for the cigarette tax.

Year-to-date GRF tax revenues were $7.5 million above estimate and $300 million below FY 2009 receipts.

Through August, FY 2010 year-to-date total GRF sources of $3.67 billion were $33.4 million above estimate. State-source receipts and federal grants were above estimate by $9.4 million and $24.1 million, respectively. Total tax revenues of $2.33 billion were $7.5 million above estimate. The sales and use tax trailed estimates by $14.5 million. The other two major tax sources, the personal income tax and the cigarette tax, were above estimate by $35.9 million and $7.1 million, respectively. In the first two months of FY 2010, notable negative variances were recorded for the public utility excise tax ($12.1 million), the kilowatt hour tax ($4.5 million), and the corporate franchise tax ($4.3 million). Lower receipts from the public utility excise tax were primarily due to lower than expected natural gas prices and milder weather conditions during last year's winter heating season. For the remaining taxes, receipts varied from estimates by small amounts.

Compared to the corresponding period of FY 2009, FY 2010 year-to-date GRF sources declined $382.8 million, mostly from a $299.2 million drop in tax receipts. Receipts from all three primary GRF tax sources were below the levels of 2009, including decreases of $102.5 million in personal income tax receipts, $138.6 million in sales and use tax receipts, and $4.4 million in cigarette tax receipts. Other taxes with notable year-over-year revenue variances included decreases of $43.5 million in corporate franchise tax receipts and $13.3 million in public utility excise tax receipts, and an increase of $2.9 million in kilowatt hour tax receipts. Through August, FY 2010 federal grants fell $87.7 million compared to grants through August 2008 last year.

Personal Income Tax

August GRF receipts from the personal income tax of $497.1 million were $24.3 million (5.1%) above estimate and $46.7 million (8.6%) below receipts in August 2008. Through August, the GRF received $984.6 million from the personal income tax in FY 2010. This amount was $35.9 million (3.8%) above estimate, but $102.5 million (9.4%) below receipts in FY 2009. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the local government funds. Gross collections are the sum of withholding, quarterly estimated payments,[1] trust payments, payments associated with annual returns, and miscellaneous payments.

Year-to-date Income tax receipts were $35.9 million above estimate and $102.5 million below last year's levels.

The table below summarizes FY 2010 income tax revenue variances from estimate and annual changes by component. Employer withholding (which accounted for about 75% of gross collections in FY 2009) is above estimate in the first two months of FY 2010. However, it is below the previous year's level due to both increasing unemployment from the recession, as well as the final reduction in tax rates enacted by H.B. 66 of the 126th General Assembly. All major components of the personal income tax, except lower distributions to the Local Government Fund, have contributed to the shrinkage of collections from the tax.

[1] 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	$38.2	3.6%	-$114.0	-9.4%
Quarterly Estimated Payments	-$1.0	-4.7%	-$10.5	-33.6%
Trust Payments	-$0.1	-9.3%	-$0.1	-11.4%
Annual Return Payments	-$7.1	-30.1%	-$7.1	-30.1%
Miscellaneous Payments	$0.8	6.3%	$0.9	6.5%
Gross Collections	$30.7	3.0%	-$131.0	-10.2%
Less Refunds	-$5.6	-8.3%	-$5.6	-8.4%
Less Local Government Fund Distribution	$0.4	0.4%	-$22.9	-18.3%
Income Tax Revenue	$35.9	3.8%	-$102.5	-9.4%

Sales and Use Tax

Year-to-date sales tax receipts were $14.5 million below estimate and $138.6 million below FY 2009 level.

August 2009 sales and use tax receipts of $568.3 million were $9.5 million (1.6%) below estimate and $64.5 million (10.2%) below receipts in August 2008. Large taxable spending declines have persisted for the entire year. Reduced employment, income, and wealth have pressured sales and use tax receipts.

Through August, FY 2010 GRF receipts of $1.19 billion were $14.5 million (1.2%) below estimate and $138.6 million (10.5%) below FY 2009 receipts in the same period. Most economic indicators have improved in recent months, signaling a possible end to the current recession. However, unemployment in Ohio is expected to continue to rise for several more months and the forecasted weak job market will continue to hinder sales and use tax receipts through FY 2010.

For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[2] 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.

[2] 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.

Nonauto Sales and Use Tax

Nonauto sales and use tax receipts were $476.8 million in August 2009, $18.5 million (3.7%) below estimate and $68.7 million (12.6%) below August 2008 receipts. For the fiscal year, year-to-date nonauto sales and use tax receipts of $1.02 billion were $24.1 million (2.3%) below estimate and $133.4 million (11.6%) below receipts through August in the previous year. Consumers are still concentrating their spending on essentials and nontaxable items such as food, gasoline, and healthcare. Also, they have reduced their debt levels and increased their savings, further limiting any rebound from this tax source. Back-to-school sales were poor, which may be a harbinger of reduced sales during the holiday season in the months ahead. The longest economic recession in the modern era, deepening job losses, and associated declines in consumer spending will continue to affect nonauto sales and use tax receipts throughout FY 2010.

Auto Sales and Use Tax

Auto sales and use tax receipts of $91.5 million in August 2009 were $9.0 million (10.9%) above estimate and $4.2 million (4.8%) above receipts in August 2008. Receipts were boosted by the "cash for clunkers" federal program which provided buyers a credit of up to $4,500 toward the purchase of a new vehicle as an incentive to turn in older, less fuel-efficient vehicles. The incentive resulted in about 690,000 new vehicle sales nationwide, raising the annual sales rate to 14.0 million in August 2009. In comparison, in the first seven months of 2009, the average annual sales rate was about 9.7 million. Thus, a significant number of sales would not have occurred without the incentive program. This also implies the level of future sales of new vehicles is likely to be muted, and tax receipts may fall below estimates in the next few months.

Through August, FY 2010 auto sales and use tax receipts of $170.0 million were $9.5 million (5.9%) above estimate, but $5.1 million (2.9%) below receipts in FY 2009.

Cigarette and Other Tobacco Products Tax

Receipts from the tax on cigarettes and other tobacco products were $73.5 million, $3.4 million (4.3%) below estimate and $12.9 million (14.9%) below August 2009 receipts. Through August, FY 2010 receipts of $100.0 million were $7.1 million (7.7%) above estimate and $4.4 million (4.2%) below FY 2009 receipts through August 2008. Receipts from cigarette sales were $92.1 million. Sales of products other than cigarettes provided $7.9 million. Compared to FY 2009 through August, receipts from the sale of cigarettes declined $5.4 million and those from the sale of other tobacco products increased about $1.0 million. Receipts from the

Year-to-date cigarette tax receipts were $7.1 million above estimate through August 2009.

cigarette and other tobacco products tax are the third-largest tax revenue source in FY 2010, after the personal income tax and the sales and use tax.

Corporate Franchise Tax

As part of the five-year phase-out of the corporate franchise tax (CFT) that was enacted by H.B. 66 of the 126th General Assembly, the CFT for nonfinancial corporations has been eliminated, and the tax has become a tax on the net worth of financial institutions. Except for filing amended returns and other reconciliations of tax accounts in FY 2010, the CFT report for 2009 was generally the last one for nonfinancial corporations. In the first two months of FY 2010, CFT refunds to taxpayers were larger than estimated refunds by $4.3 million. Comparisons with monthly receipts in the previous fiscal year are not meaningful.[3]

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, the tax is fully phased in this fiscal year. Taxpayers with taxable gross receipts above $1.0 million pay the full rate of 0.26%.

Estimated quarterly CAT taxable gross receipts in August 2009 were about 20% below gross receipts last year in the same period.

Monthly CAT receipts have generally been below expectations since October 2009 as the recession intensified. In July 2009, receipts were $18.6 million, $14.0 million below receipts in July 2008. In August 2009, receipts were $280.7 million, $4.0 million above estimate and about the same as receipts in August 2008. For calendar quarter taxpayers, the estimated tax base in the April to June period this year (calculated based on August receipts) appears to have declined by about 20% compared to the same period last year. The recession had a negative impact on the CAT in FY 2009 and in the first two months of FY 2010. Year-to-date CAT receipts were $15.0 million (4.8%) below estimate.

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%).

[3] A large portion of the CFT tax base has been eliminated by the phase-out. In tax year 2008, the tax liability of financial institutions was less than 10% of total CFT tax liability.

Table 3: General Revenue Fund Uses
Preliminary Actual vs. Estimate
Month of August 2009
($ in thousands)
(Actual based on OAKS reports run September 9, 2009)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary, Secondary, and Other Education	$306,552	$338,402	-$31,850	-9.4%
Higher Education	$203,632	$202,952	$680	0.3%
Total Education	$510,184	$541,354	-$31,170	-5.8%
Public Assistance and Medicaid	$1,168,180	$1,193,867	-$25,687	-2.2%
Health and Human Services	$129,870	$138,855	-$8,985	-6.5%
Total Welfare and Human Services	$1,298,050	$1,332,722	-$34,672	-2.6%
Justice and Public Protection	$137,839	$132,862	$4,977	3.7%
Environment and Natural Resources	$8,166	$8,429	-$263	-3.1%
Transportation	$561	$566	-$5	-0.9%
General Government	$25,201	$27,277	-$2,076	-7.6%
Community and Economic Development	$5,948	$5,647	$301	5.3%
Capital	$100	$0	$100	---
Total Government Operations	$177,814	$174,781	$3,033	1.7%
Tax Relief and Other	$59,180	$72,360	-$13,180	-18.2%
Debt Service	$90,830	$92,121	-$1,291	-1.4%
Total Other Expenditures	$150,010	$164,481	-$14,471	-8.8%
Total Program Expenditures	**$2,136,058**	**$2,213,338**	**-$77,280**	**-3.5%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$566,668	$548,500	$18,168	3.3%
Total Transfers Out	$566,668	$548,500	$18,168	3.3%
TOTAL GRF USES	**$2,702,727**	**$2,761,838**	**-$59,111**	**-2.1%**

* 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 August 31, 2009
($ in thousands)
(Actual based on OAKS reports run September 9, 2009)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2009**	**Percent Change**
Primary, Secondary, and Other Education	$1,195,960	$1,227,810	-$31,850	-2.6%	$1,287,837	-7.1%
Higher Education	$405,560	$404,879	$681	0.2%	$423,303	-4.2%
Total Education	$1,601,519	$1,632,689	-$31,170	-1.9%	$1,711,140	-6.4%
Public Assistance and Medicaid	$2,334,348	$2,360,035	-$25,687	-1.1%	$2,398,893	-2.7%
Health and Human Services	$225,015	$234,001	-$8,986	-3.8%	$266,801	-15.7%
Total Welfare and Human Services	$2,559,363	$2,594,036	-$34,673	-1.3%	$2,665,694	-4.0%
Justice and Public Protection	$389,303	$384,326	$4,977	1.3%	$412,853	-5.7%
Environment and Natural Resources	$16,782	$17,045	-$263	-1.5%	$19,101	-12.1%
Transportation	$1,978	$1,984	-$6	-0.3%	$2,135	-7.3%
General Government	$58,901	$60,976	-$2,075	-3.4%	$61,925	-4.9%
Community and Economic Developmen	$14,615	$14,314	$301	2.1%	$16,635	-12.1%
Capital	$100	$0	$100	---	$0	---
Total Government Operations	$481,679	$478,645	$3,034	0.6%	$512,649	-6.0%
Tax Relief and Other	$128,449	$141,629	-$13,180	-9.3%	$150,086	-14.4%
Debt Service	$149,603	$150,895	-$1,292	-0.9%	$158,851	-5.8%
Total Other Expenditures	$278,052	$292,524	-$14,472	-4.9%	$308,937	-10.0%
Total Program Expenditures	**$4,920,614**	**$4,997,894**	**-$77,280**	**-1.5%**	**$5,198,420**	**-5.3%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers Out	$579,357	$563,536	$15,821	2.8%	$388,959	49.0%
Total Transfers Out	$579,357	$563,536	$15,821	2.8%	$388,959	49.0%
TOTAL GRF USES	**$5,499,971**	**$5,561,430**	**-$61,459**	**-1.1%**	**$5,587,379**	**-1.6%**

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

EXPENDITURES

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

Tables 3 and 4 show GRF uses for the month of August and for FY 2010 through August, respectively. For August, GRF uses of $2.70 billion were $59.1 million below the estimate published by the Office of Budget and Management (OBM) in September 2009. Through August, FY 2010 GRF uses of $5.50 billion were $61.5 million below estimate. This month's expenditure report provides limited summary information on GRF uses as the OBM expenditure estimate by line item has not yet been made available to LSC. Future reports will include more detailed information on expenditure variances once the OBM estimate becomes available.

GRF program expenditures for FY 2010 were $77.3 million below estimate at the close of August.

GRF uses consist primarily of program expenditures but also include transfers out. For the first two months of FY 2010, GRF program expenditures amounted to $4.92 billion, representing 89.5% of the total year-to-date GRF uses. For reporting purposes, GRF program expenditures are grouped into 12 categories. Of the $4.92 billion in total year-to-date program expenditures for FY 2010, $4.33 billion (87.9%) occurred in the following four categories: $2.33 billion (47.4%) in Public Assistance and Medicaid, $1.20 billion (24.3%) in Primary, Secondary, and Other Education, $405.6 million (8.2%) in Higher Education, and $389.3 million (7.9%) in Justice and Public Protection.

Year-to-date GRF program expenditures were $77.3 million (1.5%) below estimate. The major negative variance contributors were Primary, Secondary, and Other Education ($31.9 million), Public Assistance and Medicaid ($25.7 million), Tax Relief and Other ($13.2 million), and Health and Human Services ($9.0 million). Medicaid accounted for over 95% of GRF expenditures in the Public Assistance and Medicaid program category. Through August, FY 2010 GRF expenditures for Medicaid totaled $2.21 billion, $25.3 million (1.1%) below estimate.

Year-to-date GRF transfers out totaled $579.4 million, of which $566.7 million occurred in August. The vast majority of these transfers were temporary in nature, which means the GRF will be repaid in full later this fiscal year. For the most part, the August temporary GRF transfers were made into the funds used to make replacement payments to school districts and other local governments for the tangible personal property tax. The Commercial Activity Tax (CAT), which is the dedicated revenue source for these replacement payments, is collected on a quarterly basis. However, a substantial share of replacement payments to the school districts and local governments is paid in August.

Medicaid will rely more on non-GRF funds in FY 2010 than in FY 2009.

In FY 2010, GRF uses will be partially supported by the federal stimulus funds that are deposited into the GRF. The state fiscal stabilization funds made available under the American Recovery and Reinvestment Act (ARRA) of 2009 are deposited into and appropriated from the GRF. These funds total $808.7 million for FY 2010. They are appropriated to help support K-12 foundation payments ($387.6 million), higher education subsidies ($309.9 million), and institutional operations of the Department of Rehabilitation and Correction ($111.2 million).

While the GRF funds the majority of Medicaid expenditures, in FY 2010 Medicaid will rely more on non-GRF sources than in FY 2009. This is due to enhanced federal reimbursement under ARRA and an increase in revenue from provider assessments and drug rebates. For FY 2010, the enhanced Federal Medical Assistance Percentage (FMAP) is estimated to be 73.19% compared to 68.15% for FY 2009. H.B. 1 includes a new assessment of 1.52% on a hospital's total facility costs, an increase in the nursing facility franchise fee from $6.25 to about $11.95 per bed per day, and an increase in the Intermediate Care Facilities for the Mentally Retarded (ICFs/MR) franchise fee from $11.98 to $14.75 per bed per day (beginning August 1st). Finally, ODJFS plans to draw down more drug rebate revenue by "carving" out prescription drugs from managed care plans. All of these additional non-GRF sources will help reduce Medicaid's reliance on GRF funding in FY 2010.

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ISSUE UPDATES

Ohio's School District Report Card Ratings Show Improvement in FY 2009

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

Ohio's most recent school district report cards, released by the Ohio Department of Education (ODE) on August 25, 2009, show a slight increase in the number of school districts receiving the state's highest ratings. The latest results indicate that 521 of Ohio's school districts (85.3%) were rated effective or higher in FY 2009, compared to 518 districts (84.9%) in FY 2008. The FY 2009 total includes 116 districts that received the highest rating, Excellent with Distinction, up from 74 districts in FY 2008. One district was designated as Academic Emergency in FY 2009, the first time since FY 2005 that a district has received the state's lowest designation. A district's report card rating depends on four basic measurements: (1) the number of state academic standards met, (2) the performance index score, (3) whether adequate yearly progress (AYP) has been met, and (4) the value-added designation. A summary of report card ratings from FY 2005 through FY 2009 is included in the table below.

Number of Districts by Report Card Rating, FY 2005-FY 2009

Rating	2005	2006	2007	2008	2009
Excellent with Distinction	-	-	-	74	116
Excellent	111	192	139	152	154
Effective	197	299	347	292	251
Continuous Improvement	175	112	113	83	79
Academic Watch	21	7	11	9	9
Academic Emergency	5	0	0	0	1

Source: Local Report Card Data, Ohio Department of Education

In FY 2009, the state as a whole met 19 of a possible 30 academic standards, which includes minimum proficiency rates on all 28 achievement tests as well as minimum graduation and attendance rates. This is up from 18 indicators met in FY 2008. The performance index, ranging from 0 to 120, is a composite measure of achievement of all students on all achievement tests. The index for the state as a whole improved for the second straight year, from 92.3 to 92.9 from FY 2008 to FY 2009.

AYP, a rating established by the federal No Child Left Behind Act, requires districts to meet annual performance goals for student subgroups. In FY 2009, 293 school districts (48.0%) met AYP, compared to 389 districts (64.0%) in FY 2008. The value-added measure, included as part of the report card for the first time in FY 2008, rates districts on how their students' academic growth compares to the expected growth standard set by the state. In FY 2009, 314 districts (51.5%) were above, 139 districts (22.8%) had met, and 157 districts (25.7%) were below the expected growth standard. Individual district and school report cards can be found on ODE's web site at http://www.ode.state.oh.us/gd/templates/pages/ode/odedetail.aspx?page=279.

Department of Education Awards $2.9 Million in ARRA Cafeteria Equipment Assistance Grants

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

The Department of Education (ODE) has awarded more than $2.9 million in American Recovery and Reinvestment Act (ARRA) of 2009 federal stimulus funds to local school food authorities (SFAs) in the form of cafeteria equipment assistance grants. Under the competitive grant program, SFAs purchased eligible cafeteria equipment and applied to ODE for reimbursement. The focus of the program was to encourage the purchase of equipment that would improve the quality and safety of the food served, increase the energy efficiency of food services, and increase the participation rate of school meal programs. A summary of the award amounts grouped by building type is included in the following table.

Cafeteria Equipment Assistance Grant Award Summary by Building Type		
Building Type	**Number of Buildings**	**Total Amount Awarded**
Traditional Public School	223	$2,432,176
Community School	42	$280,452
Residential Child Care Institution	19	$180,790
Non-Public School	9	$58,160
Educational Service Center	2	$5,693
Total	**295**	**$2,957,271**

H.B. 2 of the 128th General Assembly, the transportation budget bill, created the Federal Stimulus Cafeteria Equipment Fund (Fund 3DC0) to receive federal stimulus payments made to the state for the national school lunch program (NSLP) and appropriated $3.1 million in FY 2009 to appropriation item 200625, Federal Stimulus – School Lunch Cafeteria Equipment. However, ODE received only $2.9 million from ARRA to fund the program. All local SFAs participating in the NSLP were eligible to submit an application for the equipment assistance program with priority given to those in which at least 50% of students are eligible for free and reduced-price meals. Additional criteria considered for the award process included: number of students who benefit, enhancement of the quality of meal service, availability of existing state and local funding, expected increase in participation, the SFA's current budget and operating balance, and geographic location as related to frequency of food deliveries.

Enrollment in the Medicaid Schools Program, the Schools' Replacement for CAFS, Reaches 70% of School Districts

—Emily Gephart, Budget Analyst, 614-644-7762

As of the beginning of July 2009, 428 school districts (70%) have enrolled as providers in the Medicaid Schools Program (MSP). In addition, 53 community schools, the Ohio State School for the Blind, and the Ohio School for the Deaf have signed up. Under MSP, schools can receive federal reimbursement for services provided to Medicaid-eligible children with Individualized Education Programs. MSP replaces the schools' participation in the Community Alternative Funding System (CAFS) which was terminated at the end of June 2005.

CAFS served a similar purpose as MSP, but was operated under the Ohio Department of Developmental Disabilities and included county boards of developmental disabilities, educational service centers, and private agencies, as well as schools, as participants. CAFS was terminated primarily because the federal Centers for Medicare and Medicaid Services (CMS) found the program to be out of compliance with federal Medicaid requirements pertaining to comparability of services, free choice of provider, and overall service eligibility.

The Medicaid State Plan Amendment was approved by CMS in August 2008, retroactive to July 2005, setting up the creation of the new MSP. The Ohio Department of Job and Family Services (ODJFS) serves as the "Single State Medicaid Agency." The Ohio Department of Education works in conjunction with ODJFS, and provides specific assistance for MSP. Services eligible for federal Medicaid reimbursement include occupational therapy, physical therapy, speech-language pathology services, audiology services, nursing services, mental health services, and assessments and evaluations. The program is still in the beginning stages of implementation and payments to MSP providers have only started within the past several months.

Eligibility and Provider Rates Reduced for Publicly Funded Child Care

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

ODJFS reduced eligibility for new enrollees and provider reimbursement rates for publicly funded child care. Children in families with incomes up to 150% of the federal poverty guidelines (FPG), which is about $27,465 for a family of three, are eligible to receive assistance paying for child care; the previous income ceiling for new enrollees was 200% FPG ($36,620 for a family of three). Families currently enrolled to receive child care subsidies with incomes from 151% to 200% FPG are held harmless from this change. And, newly enrolled families remain eligible for assistance as long as their incomes do not rise above 200% FPG. ODJFS estimates that this change will reduce state expenditures for this program by $13.1 million in FY 2010 and $36.7 million in FY 2011.

ODJFS also reduced subsidy payments to providers. In the previous biennium, reimbursement rates were set for each county at the 65th percentile of the 2006 child care market rate survey. In the FY 2010-FY 2011 biennium, rates will be set at the 35th percentile of the 2008 market rate survey. This represents a 7.5% average decrease to provider rates across the state, though the effect on each individual provider will vary depending upon the market rates in each county. The market rate surveys are conducted every two years by the Ohio State University in conjunction with ODJFS. Providers in all counties provide information on their standard full-time, part-time, and hourly rates for children of all age groups. ODJFS expects this measure to reduce expenditures for this program by $50.2 million in FY 2010 and by $52.5 million in FY 2011.

In FY 2008, there was an average monthly caseload of 95,600 children receiving child care subsidies with a total cost of $545 million (FY 2009 data is not yet available). These subsidies are funded from the federal TANF Block Grant, the Child Care and Development Fund Block Grant, and state GRF money. Participating families are required to pay copayments on a sliding scale based on income.

Department of Aging Announces Plans for Establishing Waiting List for Long-Term Care Services

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

The Ohio Department of Aging (ODA) recently announced plans to establish a waiting list for long-term care services that it funds. ODA estimates that over 1,000 individuals will seek services through its system each month but that only 680 new enrollments can be funded. Individuals on the waiting list will be enrolled onto the program of their choice on a "first come first served basis." However, individuals currently in nursing facilities will bypass the waiting list and be immediately enrolled onto the program.

Long-term care services funded by ODA are provided through the following programs: PASSPORT, Choices, Assisted Living, and the Program of All-inclusive Care for the Elderly (PACE). Generally, these programs provide home and community-based services to individuals to divert them from nursing facility care. Assisted Living combines a home-like setting with personal support services to provide more intensive care than is available through home care, but cheaper than nursing facility care. At the end of FY 2009, the census was 28,760 for PASSPORT, 458 for Choices, 1,423 for Assisted Living, and 691 for PACE. Total expenditures for these programs in FY 2009 were $147.4 million in GRF, $290.9 million in federal funds, and $33.0 million in other state sources.

In FY 2009, each of the programs listed had funding provided through a program-specific GRF line item as well as a federal line item. H.B. 1 combined the funding for these programs into one GRF ($97.9 million) and one federal line item, which provides ODA with flexibility in administering enrollment in these programs. Spending of the GRF moneys will allow the state to draw down $350.2 million in federal Medicaid reimbursement, which will then be used to fund more services. Other state funding sources will provide $34.8 million for PASSPORT specifically.

15 Lakes Tested as Part of Ohio EPA's Inland Lakes Monitoring Program

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

This summer, the Ohio EPA's Division of Surface Water began testing of 15 inland lakes as part of the expanded Inland Lakes Monitoring Program, launched in calendar year 2008. The purpose of the program is to determine if these lakes meet standards for drinking water, recreation, fish consumption, and aquatic life. The lakes will be tested five times in CY 2009 and an additional five times in CY 2010 at an estimated cost of $250,000 over the FY 2010-FY 2011 biennium. The bulk of this cost, approximately $210,000, will be paid from EPA's primary operating fund, the Environmental Protection Fund (Fund 5BC0). The remaining amount, approximately $40,000, will be paid from federal grant moneys in the Water Quality Protection Fund (Fund 3BU0). The lakes selected for testing are identified in the table below.

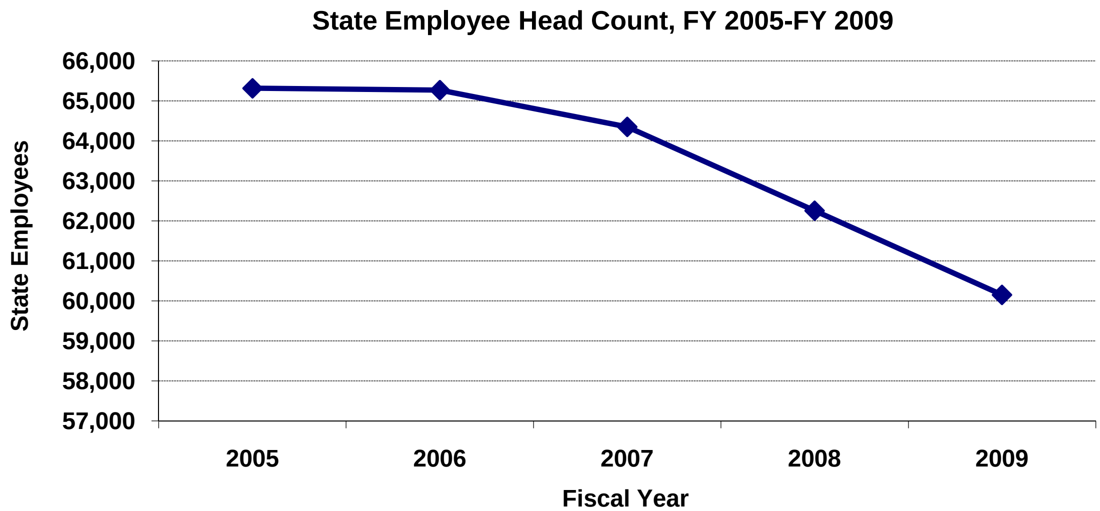
Inland Lakes Tested in 2009	
Lake	**County**
Vets Memorial Reservoir	Hancock
Beaver Creek Reservoir	Seneca
East Branch Reservoir	Summit
LaDue Reservoir	Summit
Lake Rockwell	Summit
Frazier Quarry	Union
Cutler Lake	Muskingum
Barnsville Reservoirs (3)	Belmont
Woodsfield Lake	Monroe
Griggs Reservoir	Franklin
O'Shaugnessey Reservoir	Delaware
Kiser Lake	Champaign
Lake Loramie	Shelby

If any of the tested lakes are found to have unsafe levels of microcystin, a neurotoxin created by a blue-green algae that can cause skin irritation and sickness in people and kill small animals, or other toxins, the EPA will attempt to identify the source of the contamination and collaborate with local water safety officials on plans for remediation.

The Number of State Employees Decreased in FY 2009, Continuing a Five-Year Trend

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

As of June 15, 2009, the total number of full-time and part-time state employees was 60,150, or 2,612 (4.3%) lower than the 62,762 employees on the state payroll at the close of FY 2008. As the chart below shows, this continues a trend of declining state employee headcount since FY 2005. Between FY 2008 and FY 2009, the largest decrease occurred among staff of Governor-appointed boards and commissions (1,017 employees), followed by employees of the corrections agencies (906 employees). Decreases among other cabinet agencies (640 employees) and offices of elected officials (49 employees) accounted for the remainder of the reductions. Total state payroll for FY 2009, including employee wages and benefits, was $4.5 billion, or 8.1% of total FY 2009 operating expenditures of $55.9 billion.



Cash Transfers from Non-GRF Funds to the GRF Total $120 Million in FY 2009

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

In FY 2009, a total of $120 million[4] cash was transferred from various non-GRF funds (commonly called rotary funds) into the GRF to help balance the operating budget, including transfers of $40.4 million made in November 2008 and transfers of $79.6 million made in June 2009. H.B. 119, as amended by H.B. 562, authorized such transfers not to exceed $120 million during the FY 2008-FY 2009 biennium. This full authority was exercised in FY 2009. The table below lists the transfers by fund, including each fund's number, name, and user, and the total amount transferred from that fund in FY 2009.

Transfers to the General Revenue Fund by Fund, FY 2009			
Fund No.	Fund Name	Fund User	Transferred Amount
5E80	TANF Transfer Mentoring	Alcohol and Drug Addiction Services	$34,604
4U90	PASSPORT	Aging	$15,381
4R00	Ohio Proud Marketing	Agriculture	$100,000
5U10	Auction Recovery	Agriculture	$300,000
4P40	Physician Loan Repayment	Regents	$400,000
2170	Operations Support	Civil Rights Commission	$10,000
5460	State Fire Marshall	Commerce	$750,000
5530	Consumer Finance	Commerce	$200,000
5560	Industrial Compliance Operating	Commerce	$500,000
5K70	Penalty Enforcement	Commerce	$200,000
5AB0	Non-Federal Information Technology Grants	Administrative Services	$6,004
5D70	Workforce Development	Administrative Services	$1,500,000
1350	Supportive Services	Development	$64,000
4440	Water and Sewer Commission Loan	Development	$1,124,276
4500	Minority Contractor Bonding Program Administration	Development	$300,000
4F20	State Special Projects	Development	$125,000
4W10	Minority Business Enterprise Loan	Development	$7,420,145
5AD0	Job Development Initiatives	Development	$8,433,379
5AR0	Industrial Sites Improvements	Development	$3,133,000
5CG0	Alternative Fuel Transportation	Development	$246,927
5CV0	Defense Conversion Assistance	Development	$300,000
5H10	Family Farm Loan	Development	$1,969,177
5M50	Advanced Energy	Development	$5,325,273
5Y60	Economic Development Contingency	Development	$746,973

[4] In August 2009, $4.1 million of the $120 million cash transfers were reversed, including $1.4 million each to the Save Our Sight and Second Chance Trust funds, $800,000 to the Tobacco Use Prevention Fund, and $500,000 to the Motorcycle Safety Fund.

Transfers to the General Revenue Fund by Fund, FY 2009			
Fund No.	Fund Name	Fund User	Transferred Amount
4P90	Mental Health Trust Fund	Mental Health	$825,295
4U40	Community Trust Fund	Developmental Disabilities	$1,800,000
5H00	Medicaid Repayment	Developmental Disabilities	$4,098
1420	Agency Health Services	Health	$800,000
2110	Central Support Indirect Costs	Health	$1,532,922
4700	Fee Supported Programs	Health	$2,900,000
3W50	Healthcare Services	Health	$16,723
4G00	Heirloom Birth Certificate	Health	$30,000
4V60	Save Our Sight	Health	$1,400,000
5BL0	Healthy Ohioans Initiatives	Health	$68,445
5BX0	Tobacco Use Prevention	Health	$750,000
5C10	TANF Family Planning	Health	$32,102
5D60	Second Chance Trust Fund	Health	$1,400,000
5G40	Adoption Services	Health	$10,000
L087	Ohio Public Health Priorities Trust Fund	Health	$120,000
6220	Investigative, Contraband, & Forfeiture	Public Safety	$500,000
8350	Financial Responsibility Compliance	Public Safety	$2,223,333
8460	Motorcycle Safety	Public Safety	$800,000
5Y10	Continuing Professional Training Fund	Public Safety	$136,307
83C0	Contraband, Forfeiture, and Other	Public Safety	$500,000
5980	Auxiliary Services Mobile Units	Education	$3,000,000
4M40	Emergency Service Telecommunicator Training	Education	$79,519
5AK0	Federal Relations	Governor	$190,638
5540	Insurance Operating Fund	Insurance	$15,000,000
6130	Training Activities	Job and Family Services	$50,000
3G90	Ford Foundation Reimbursement	Job and Family Services	$77,446
3W30	TANF/Title XX Transfer	Job and Family Services	$700,000
4A80	Child Support Collections	Job and Family Services	$13,183,735
4A90	Special Administrative Fund	Job and Family Services	$2,000,000
5AA0	Ohio's Best Rx Administration	Job and Family Services	$800,000
5S30	JFS Administration and Oversight	Job and Family Services	$6,000,000
5U60	Children and Family Support	Job and Family Services	$3,574,110
R012	Refunds and Audit Settlement	Job and Family Services	$10,000,000
R013	Forgery Collections	Job and Family Services	$400,000
5S60	Community School Loan Guarantee Fund	School Facilities Commission	$7,708,453
7065	Library Local Government Assistance Fund	Taxation	$9,740
5AP0	Discovery Project	Taxation	$700,000
4E90	Securities Lending Income	Treasurer	$7,500,000
		Total	**$120,027,004**

TRACKING THE ECONOMY

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

Overview

The recession's effects continue to afflict the economy, with the U.S. unemployment rate reaching 9.7% in August, and Ohio's rate reaching 11.2% in July. The U.S. Bureau of Economic Analysis (BEA) issued revisions of historical data on gross domestic product (GDP) that showed the current downturn is the deepest since World War II, as well as the longest. Many have labeled this the "Great Recession," recognizing that, while not even close to the Great Depression in severity, it has still been very severe by historical standards.

"Great Recession" is deepest and longest since WWII.

Despite the severe contraction, many economic forecasters believe that recovery will begin soon, or may have begun already. The minutes of the August 11 and 12 meeting of the Federal Open Market Committee indicate that Federal Reserve staff are projecting a resumption of growth in GDP in the second half of the year. That view is shared by many private sector forecasters, including Moody's Economy.com and Global Insight. Seemingly, no one expects production to begin growing rapidly, however, as it has after many past recessions. One implication is that the unemployment rate is expected to continue rising into 2010 for both the U.S. and Ohio.

The expectation that growth will be weak is largely due to the perception that consumers are unlikely to begin spending freely again. Consumers are spending cautiously due to job loss (actual or feared), high debt levels, and the lingering effects of a substantial reduction in household wealth due to falling stock and housing prices in 2008 and early 2009. In combination, these are powerful headwinds. Consumer debt is indeed high by historical standards. The Federal Reserve reports that the debt service ratio, the percentage of disposable personal income needed to make payments on outstanding mortgage and consumer debt, fell to 13.48% in the first quarter of 2009 from record levels in late 2006 that were nearly a full percentage point higher. Nevertheless the most recent figure is high – higher than any such figures from 1980, the earliest year for which the Fed publishes the data, through 2001.

The other factors listed as holding back growth are also daunting, but may be viewed as less daunting than feared a few months ago. While still well below its peak, the stock market has staged a partial recovery since its low in March. While job loss has been severe, it has slowed in recent months. Some analysts interpret the increase in car sales associated with the federal "cash for clunkers" program as evidence that consumers are willing and able to spend when they see a good deal.

Forecasters generally expect businesses to help pick up the slack in the near term. Businesses have reduced inventories very sharply for months, and forecasters expect that they will have to replenish those inventories, thereby boosting growth, quite soon. An additional and more long-lasting boost is expected from fiscal stimulus yet to be dispensed as authorized by the federal American Recovery and Reinvestment Act (ARRA) of 2009. Federal officials estimate the fiscal boost from ARRA will eventually total $787 billion, but much of the money has not yet been spent. The temporary nature of both sources of support for growth is reflected in the detailed quarter-by-quarter growth forecasts of Economy.com and Global Insight. Both companies project a similar pattern: fairly healthy GDP growth in the current quarter, followed by slower expansion until mid-2010, when growth rates begin to rise.

ARRA funding is not the only source of federal stimulus, and between stimulus spending and the effects of the recession the federal budget will without doubt reach a record deficit in the current federal fiscal year (FFY). Global Insight projects a deficit over $1.5 trillion in FFY 2009. Many analysts are concerned about the impact that may have on long-term interest rates. To date, however, there has been little indication that those rates are increasing due to the deficits. Market interest rates on ten-year U.S. Treasury Notes are currently below 3.5%, down from early August. Other long-term interest rates also remain moderate: recent Fed data on Baa-rated corporate bonds show rates below 6.5% (down from 8.5% as recently as April) and the Mortgage Bankers' Association reports recent average rates for fixed 30-year mortgages hovering just above 5.0%.

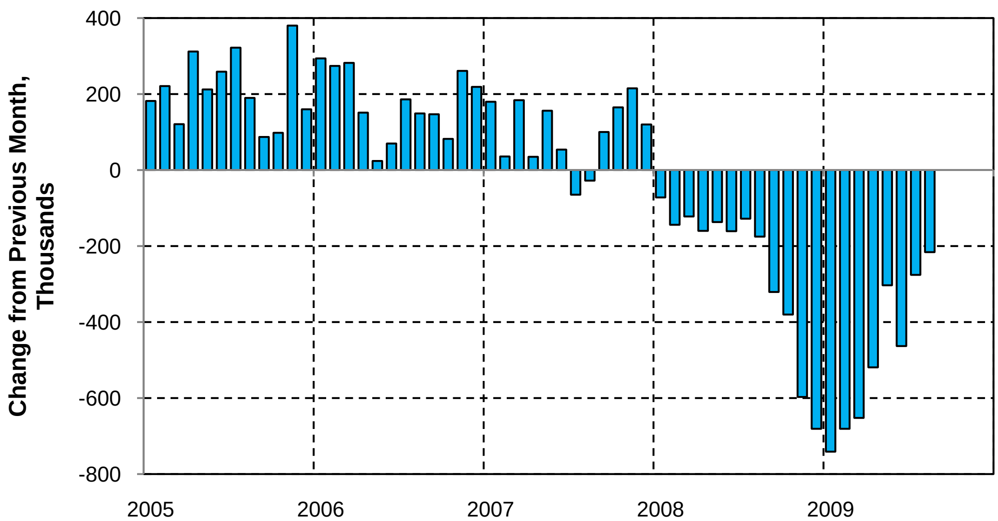
U.S. payroll employment declined by 216,000 in August.

The National Economy

Employment and Unemployment

The economy has continued to lose jobs, with payroll employment declining by 276,000 from June to July and by 216,000 from July to August. This is a significant slowdown in job loss, however, as the employment decline averaged over 557,000 per month from September 2008 to June 2009. The industries most affected by job loss continued to be construction, with a decline of 65,000 in employment in August, manufacturing (63,000), and financial activities (28,000). Employment in health care grew, in contrast, by 28,000. Chart 1 below shows monthly changes in payroll employment since 2005.

Chart 1: U.S. Total Nonfarm Payroll Employment



The U.S. unemployment rate rose to 9.7% in August, the highest rate since 1983. The rate was 9.5% in June, and fell unexpectedly in July to 9.4%. The unemployment rate has risen 4.8 percentage points since the beginning of the recession in December 2007, and the number of unemployed increased during that time by 7.4 million. The number unemployed for long periods has also increased; workers unemployed for six months or longer increased to five million in August, one third of the total number unemployed.

U.S. unemployment rate reached 9.7% in August.

Production

U.S. real GDP decreased at a 1.0% annual rate in the second quarter.[5] This was the fourth consecutive quarter of falling GDP, and the fifth quarter in the last six. More optimistically, the percentage decrease was significantly smaller than the preceding two quarters – it was 6.4% in the first quarter, and over 5% in the fourth quarter of 2008. Consumer spending decreased by 1.0%, after having increased in the first quarter. Gross private investment decreased by 24.4%, though that was better than the 50% decline in the first quarter. Among the components of GDP, the primary source of growth was from government spending, which grew by 11.0% at the federal level and by 3.6% at the state and local level. Many economic forecasters, including both Moody's Economy.com and

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[5] Economists use the term "real" to indicate that a variable, in this case GDP, has been adjusted for inflation. GDP growth rates are reported at seasonally adjusted annual rates.

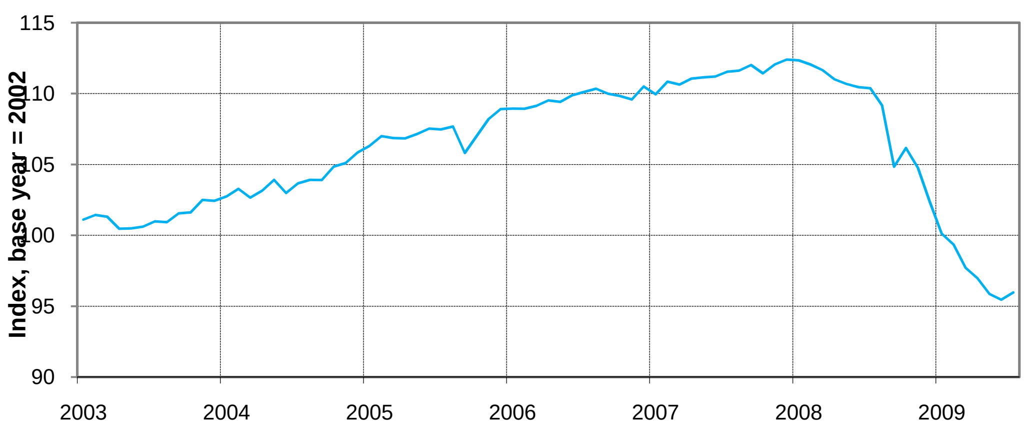
Industrial production increased in July.

Global Insight, are projecting GDP to resume growing in the third quarter, albeit modestly.

BEA issued annual benchmark revisions of historical GDP data since the last issue of *Budget Footnotes* was published. The revised figures confirm the view that the current recession is the most severe since World War II, with a 3.9% decline from the second quarter of 2008 through the second quarter of this year.[6] Another notable result of the revisions was that real GDP growth from calendar year 2007 to 2008 is now put at 0.4% instead of the 1.1% previously reported.

Industrial production increased in July, just the second month that has happened since the recession began.[7] The overall index increased 0.5%, while the manufacturing index rose 1.0%, with the latter due primarily to increasing production at motor vehicle assembly plants. Industrial production is one of the primary data series upon which the National Bureau of Economic Research (NBER) relies in determining the month that a recession begins or ends. As shown in Chart 2 below, the peak of industrial production occurred at December 2007, the date that NBER chose as the beginning of the recession. NBER would not officially determine that the recession has ended based on a single month's increase in industrial production,[8] but the July increase is a hopeful sign.

Chart 2: Industrial Production



The U.S. Census Bureau reported that manufacturers' shipments decreased in July. The decrease was slight though (less than 0.1%), and

[6] Real GDP grew from the first quarter of 2008 to the second in spite of the fact that the business cycle peak is dated December 2007.

[7] The other month was October 2008, when production rebounded from a low level the previous month that was due in part to the effects of a hurricane.

[8] NBER typically does not declare that a recession is over until several months after it ends.

shipments of durable goods rose by 2.0%. New orders for manufactured goods increased 1.3% in July, though that was due to a sharp increase in orders for nondefense-related aircraft and parts. Excluding transportation goods, new orders fell 0.7%.

Consumer Spending

U.S. personal income increased by $3.8 billion,[9] or less than 0.1%, in July. These figures were skewed somewhat due to transfer payments attributable to the American Recovery and Reinvestment Act of 2009 (which increased incomes in May more than in June); excluding such transfer payments, personal income rose by $9.4 billion (0.1%) for the month. Wage and salary income rose for the month, both in the private sector generally, and in the goods-producing sector in particular.

Personal consumption expenditures increased by $25.0 billion (0.2%) in July. This was the third consecutive monthly increase. Though it was smaller than the 0.6% increase in June, the June result was fueled by higher prices – in real terms the increases were 0.1% in June and 0.2% in July.

The value of retail and food services sales decreased by 0.1% from June to July, with the resulting level 8.3% below that of July 2008.[10] For the first seven months of the year, sales were 9.0% below the corresponding period of 2008. The sectors with the largest July decreases in percentage terms were gasoline stations (2.1%), building material and garden equipment and supply dealers (2.1%), sporting goods, hobby, book, and music stores (1.9%), department stores (1.6%), and electronics and appliance stores (1.4%). Sales at motor vehicle and parts dealers increased 2.4% for the month, but that still left them 7.3% below the previous July.

August auto sales up sharply.

Sales of light motor vehicles reached a seasonally adjusted annual rate of 14.1 million units in August. This was up sharply from fewer than 10 million units every month in the first half of the year. Sales of light trucks reached a rate of 6.1 million units, the highest since September 2008, while car sales reached 8.0 million units, the highest rate since November 2007. Ford, Honda, and Toyota all reported higher sales in August than a year earlier, by 17%, 10%, and 6%, respectively. General Motors and Chrysler experienced slower sales than a year ago.

[9] Personal income figures are reported at seasonally adjusted annual rates.

[10] Retail sales figures are adjusted for seasonal factors and holidays, but not for inflation.

Both the number and the mix of vehicles sold were influenced by the federal "cash for clunkers" program, which provided subsidies worth up to $4,500 for buyers of vehicles that were more fuel efficient than their trade-in models. Global Insight reports that the program helped to finance 690,000 car sales in July and August. To some degree, this spike in sales was simply pulled forward from future months (and perhaps years). The question is whether sales will slump sharply in coming months, or whether demand has begun to recover, thereby supplementing recent sales. In the view of Global Insight economists, the data indicate that there was an increase in sales over and above that due to the program, such that they have reduced by half their assumed future "payback" from sales pulled forward, and raised slightly their forecast of sales for 2010.

Construction and Real Estate

The residential construction industry remains mired in historically weak conditions, but may have reached the bottom. Housing starts decreased by 1% in July nationally, to a level 38% below the preceding July. The decline was due to multi-family unit construction, however, as construction of single family homes increased 2% for the month. Even for single family homes, construction was 22% below the rate in the preceding year. The changes from June to July were reversed for the Midwest region, as overall starts increased 13%, but single family home starts decreased 3%. The national figure for housing starts was 21% higher than the record low from April of this year (records are kept back to 1959). Similarly, the Midwest regional figure for July was 97% above the record low from January of this year (but just 50% above the second-lowest figure, which was reached in December 2008).

Figures for building permits issued, which are more forward-looking, revealed similar patterns. There was a 2% decline from June to July nationally in the overall numbers, but a 6% increase in permits issued to construct single family homes. In the Midwest region, there was a 14% increase overall, and a 5% increase for single family homes. The effect of the recession on the industry is apparent, as the number of building permits issued nationally in July was just 13% above record lows set in April of this year, on records kept since 1960. The comparable figure for the Midwest was 36% above the record (set in 1982).

New construction spending in July was $958.0 billion on a seasonally adjusted annualized basis, according to U.S. Census Bureau estimates. This was 0.2% lower than June's spending rate, and 10.5% below spending in July of 2008. Through the first seven months of 2009, construction spending was 11.4% below spending during the comparable period of 2008. The decrease was attributable to private construction spending, down 17.4% year to date. That decrease was partially offset by a 4.9% increase in public construction spending.

Inflation

The consumer price index for all urban consumers (CPI-U) was unchanged in July, after seasonal adjustment. CPI-U has fallen by 2.1% over the last year, due to a large (28.1%) decline in energy prices. The index excluding food and energy, often referred to as measuring "core inflation," increased 0.1% in July, and 1.5% over the last year.

Gasoline prices have remained fairly stable this summer, and well below the records of last year. The average retail price for regular gasoline nationwide was $2.59 per gallon on September 7th, according to the U.S. Energy Information Administration (EIA). EIA reports that the average price in Ohio that day was $2.41 per gallon, having stayed within a range of $2.31 to $2.81 per gallon since mid-May.

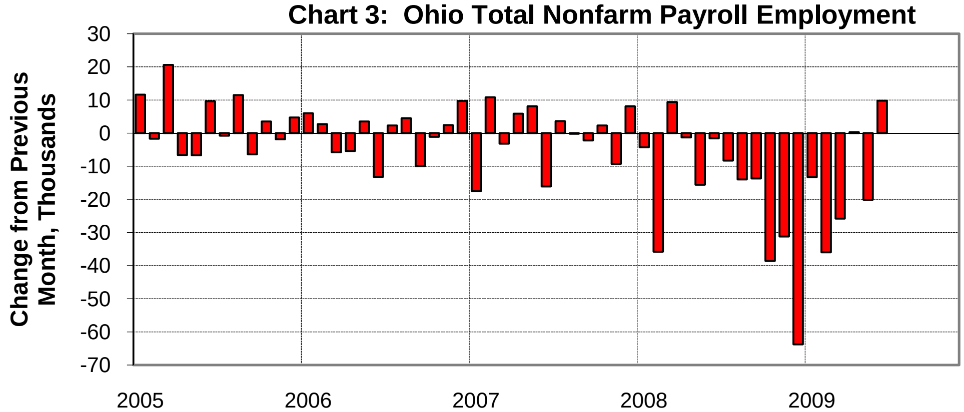
The Ohio Economy

Ohio unemployment rate reached 11.2% in July.

Payroll employment in Ohio increased in July by 9,800 (0.2%), seasonally adjusted. An increase of 12,200 in service sector employment, primarily in the leisure and hospitality, educational and health services, and financial activities sectors, was partially offset by a continued decline (of 2,400) in employment producing goods. The increase from June to July did not make up for a larger decline from May to June, however, and payroll employment has declined by nearly 255,000 jobs (4.7%) since July 2008. Job losses in manufacturing accounted for 128,300 (i.e., over half) of the employment decline for the year, and construction jobs accounted for another 31,000.

The unemployment rate in Ohio reached 11.1% in June and continued rising to 11.2% in July. The number of Ohio workers classified as unemployed reached 664,000 in July, 265,000 more than in July 2008.

Chart 3: Ohio Total Nonfarm Payroll Employment



The Federal Reserve's Beige Book, published September 9, reported that economic conditions in the Cleveland District[11] had improved slightly since the preceding edition (published in late July). Nevertheless, it reported that "activity remains sluggish." Reports from manufacturers indicated that production was flat to up slightly, with increases generally attributed to an increase in orders. Steel shipments were up slightly, while July automobile production was down. Declines in auto production were explained by the effects of the General Motors and Chrysler bankruptcies, as well as by retooling for model changeovers.

Outside of manufacturing, most sectors reported no change or declines. The lone significant exception was new car sales, which benefited from the cash for clunkers program. Other retailers reported sales that were steady or declining; used car sellers experienced a sales decline attributed in part to the cash for clunkers program. Freight transport volumes were stable or decreasing, residential construction showed little sign of a turnaround, and coal production declined. Reports from contacts in nonresidential construction depended in part on whether projects were in the private or public sector: contractors working on public projects reported some improvement in conditions, while those working on private projects reported that conditions were slow.

Contacts in several sectors reported that access to finance was problematic. The sectors reporting some degree of difficulty included residential construction, nonresidential construction (for private sector projects), automobile dealers, and freight transportation. Contacts in the banking industry acknowledge that they have tightened lending standards and they do not expect to loosen standards in the near future. They also report that demand for commercial and industrial loans is stable or declining.

Home sales in Ohio, reported by the Ohio Association of Realtors, fell by 0.4% from June to July. The announcement noted, though, that sales typically peak in June, with a significantly larger percentage drop from June to July. Through July, unit sales during 2009 were 15.3% below those for the comparable period of 2008. The average sales price statewide during that period was $126,523, about 10% below the average for the corresponding months of 2008.

[11] The Cleveland District includes all of Ohio, plus parts of Pennsylvania, West Virginia, and Kentucky.