Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION — JANUARY 2011

STATUS OF THE GRF

HIGHLIGHTS

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

GRF tax revenues have been consistently above estimate through the first half of FY 2011. Through December, they are $294 million, or 3.7%, above the estimate issued in September by the Office of Budget and Management. The favorable experience is also broad-based: all three main tax sources – the personal income, sales, and cigarette taxes – are significantly above estimate.

The unemployment rate in Ohio has fallen steadily, from a high of 11.0% in March to 9.8% in November. Job creation has been weak, though, with just a 0.4% increase in payroll employment since the trough in February. Factoring in wages and hours worked, Ohio's income tax withholding has grown about 5.5% from the first half of FY 2010 to the first half of FY 2011. Hopefully this means that economic momentum is building as we begin the new year.

Through December 2010, GRF sources totaled $13.17 billion:

- Revenue from the personal income tax was $120.8 million above estimate;
- Sales and use tax receipts were $134.9 million above estimate.

Through December 2010, GRF uses totaled $14.65 billion:

- Program expenditures were $149.6 million above estimate, due primarily to Public Assistance and Medicaid (which was $133.3 million above estimate).

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Table 1: General Revenue Fund Sources
Preliminary Actual vs. Estimate
Month of December 2010
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on January 6, 2011)

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$67,244	$54,900	$12,344	22.5%
Nonauto Sales and Use	$640,166	$627,100	$13,066	2.1%
Total Sales and Use Taxes	$707,410	$682,000	$25,410	3.7%
Personal Income	$724,756	$670,500	$54,255	8.1%
Corporate Franchise	-$4,290	$0	-$4,290	---
Public Utility	$1,223	$0	$1,223	---
Kilowatt Hour Excise	$7,565	$11,900	-$4,335	-36.4%
Commercial Activity Tax**	$0	$0	$0	---
Foreign Insurance	$38	$100	-$62	-62.0%
Domestic Insurance	$15	$0	$15	---
Business and Property	-$671	$0	-$671	---
Cigarette	$77,186	$64,000	$13,186	20.6%
Alcoholic Beverage	$4,230	$4,800	-$570	-11.9%
Liquor Gallonage	$3,048	$2,800	$248	8.9%
Estate	$912	$6,200	-$5,288	-85.3%
Total Tax Revenue	**$1,521,421**	**$1,442,301**	**$79,120**	**5.5%**
NONTAX REVENUE				
Earnings on Investments	$2	$0	$2	---
Licenses and Fees	$649	$750	-$101	-13.4%
Other Revenue	$135,579	$139,940	-$4,361	-3.1%
Total Nontax Revenue	**$136,230**	**$140,690**	**-$4,460**	**-3.2%**
TRANSFERS				
Liquor Transfers***	$26,000	$12,000	$14,000	116.7%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$114,900	$6,000	$108,900	1815.0%
Total Transfers In	**$140,900**	**$18,000**	**$122,900**	**682.8%**
TOTAL STATE SOURCES	**$1,798,551**	**$1,600,991**	**$197,561**	**12.3%**
Federal Grants	$483,401	$586,171	-$102,770	-17.5%
TOTAL GRF SOURCES	**$2,281,952**	**$2,187,161**	**$94,791**	**4.3%**

* Tax estimates of the Office of Budget and Management received September 2010.

**Commercial activity tax receipts in FY 2011 are non-GRF.

***Liquor Transfers based on a report run in OAKS as of January 4, 2011.

Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Preliminary Actual vs. Estimate
FY 2011 as of December 31, 2010
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on January 6, 2011)

	Actual	Estimate*	Variance	Percent	FY 2010	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$476,764	$441,100	$35,664	8.1%	$437,338	9.0%
Nonauto Sales and Use	$3,353,125	$3,253,900	$99,225	3.0%	$3,125,899	7.3%
Total Sales and Use Taxes	$3,829,889	$3,695,000	$134,889	3.7%	$3,563,237	7.5%
Personal Income	$3,635,529	$3,514,700	$120,829	3.4%	$3,430,399	6.0%
Corporate Franchise	-$4,043	-$37,600	$33,557	89.2%	-$59,026	93.2%
Public Utility	$56,416	$74,500	-$18,084	-24.3%	$56,906	-0.9%
Kilowatt Hour Excise	$81,278	$84,100	-$2,822	-3.4%	$77,528	4.8%
Commercial Activity Tax**	$0	$0	$0	---	$0	---
Foreign Insurance	$132,230	$132,750	-$520	-0.4%	$132,796	-0.4%
Domestic Insurance	-$1,023	$134	-$1,157	-863.2%	$1,236	-182.7%
Business and Property	-$1,006	$126	-$1,132	-898.5%	$181	-656.5%
Cigarette	$388,100	$358,800	$29,300	8.2%	$404,755	-4.1%
Alcoholic Beverage	$28,473	$29,100	-$627	-2.2%	$28,597	-0.4%
Liquor Gallonage	$18,652	$17,900	$752	4.2%	$18,172	2.6%
Estate	$27,270	$28,400	-$1,130	-4.0%	$25,909	5.3%
Total Tax Revenue	**$8,191,766**	**$7,897,910**	**$293,855**	**3.7%**	**$7,680,688**	**6.7%**
NONTAX REVENUE						
Earnings on Investments	$3,156	$20,500	-$17,344	-84.6%	$11,617	-72.8%
Licenses and Fees	$15,933	$22,761	-$6,828	-30.0%	$20,503	-22.3%
Other Revenue	$150,920	$164,730	-$13,810	-8.4%	$154,880	-2.6%
Total Nontax Revenue	**$170,010**	**$207,991**	**-$37,981**	**-18.3%**	**$187,000**	**-9.1%**
TRANSFERS						
Liquor Transfers***	$77,439	$72,000	$5,439	7.6%	$85,000	-8.9%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$362,961	305,106	$57,855	19.0%	$342,700	5.9%
Total Transfers In	**$440,400**	**$377,106**	**$63,294**	**16.8%**	**$427,700**	**3.0%**
TOTAL STATE SOURCES	**$8,802,176**	**$8,483,008**	**$319,169**	**3.8%**	**$8,295,388**	**6.1%**
Federal Grants	$4,369,280	$4,522,836	-$153,556	-3.4%	$3,888,631	12.4%
TOTAL GRF SOURCES	**$13,171,456**	**$13,005,844**	**$165,612**	**1.3%**	**$12,184,019**	**8.1%**

* Tax estimates of the Office of Budget and Management received September 2010.
**Commercial activity tax receipts in FY 2011 are non-GRF.
***Liquor Transfers based on a report run in OAKS as of January 4, 2011.
Detail may not sum to total due to rounding.

December tax receipts were $79.1 million above estimate.

FY 2011 GRF tax receipts through December were $293.9 million above estimate.

REVENUES

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

Overview

December GRF sources of $2.28 billion were $94.8 million above projections. A positive variance of $197.6 million in state-source receipts was partly offset by a shortfall of $102.8 million in federal grants.[1] Tables 1 and 2 show GRF sources for the month of December and FY 2011, respectively. GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants, which are primarily federal reimbursements for human service programs such as Medicaid and Temporary Assistance for Needy Families (TANF) that receive federal funding.

GRF tax sources continued their strong performance in December, exceeding expectations for the fifth consecutive month in FY 2011. Tax receipts of $1.52 billion in December were above estimates by $79.1 million, increasing the year-to-date positive variance to $293.9 million, up from $214.7 million at the end of November 2010. Each primary tax source surpassed its level of anticipated receipts in December. The personal income tax, the sales and use tax, and the cigarette tax were above estimate, respectively, by $54.3 million, $25.4 million, and $13.2 million. Corporate franchise tax refunds exceeded receipts by $4.3 million, though refunds and receipts were expected to equal in December. The public utility excise tax was above projections by $1.2 million. Most remaining tax sources were below estimates, including shortfalls of $4.3 million for the kilowatt hour tax (due to credits granted to certain taxpayers)[2] and $5.3 million for the estate tax. Reversing timing-related negative variances in the previous month, liquor transfers and transfers related to the commercial activity tax were, respectively, $14.0 million and $108.9 million above estimate.

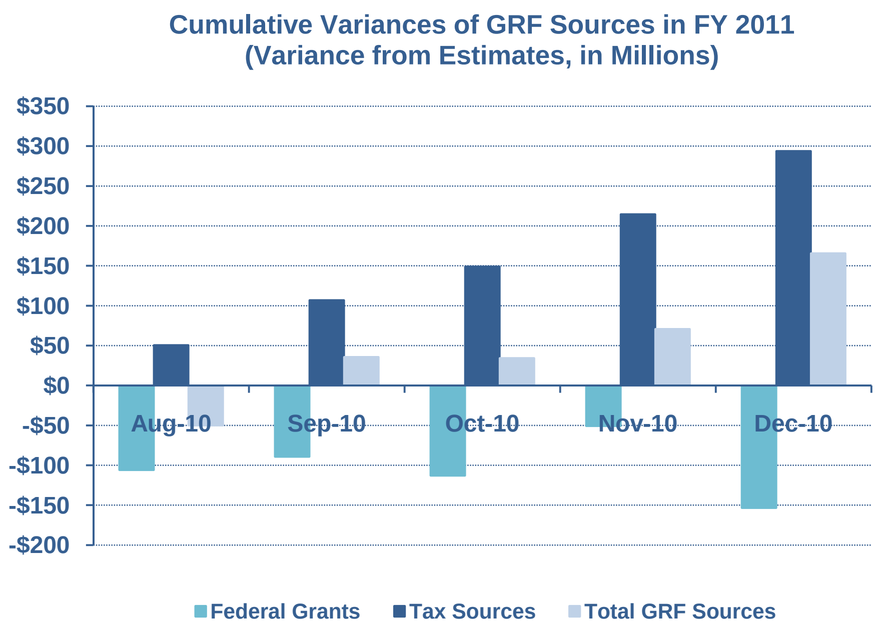
Through December, FY 2011 total GRF sources of $13.17 billion were $165.6 million above estimate. State-source receipts of $8.80 billion were above estimate by $319.2 million. This positive variance was

[1] The shortfall is primarily due to a payment to Medicaid managed care plans, originally scheduled for December, made in November. Federal grants related to that payment were also booked in November, resulting in the shortfall in December. For the two-month period, grants were $41.9 million (3.3%) below estimate.

[2] According to the Tax Department, such credits for overpaid taxes in previous years will also reduce kilowatt hour tax receipts in January.

partially offset by a shortfall of $153.6 million in federal grants. Though year-to-date state-source receipts were 3.8% above estimate from strong tax receipts and better than expected transfers to the GRF, nontax revenues were $38.0 million below projections; shortfalls were recorded for earnings on investments ($17.3 million), other revenue ($13.8 million) and licenses and fees ($6.8 million). The sales and use tax was above estimate by $134.9 million, the personal income tax by $120.8 million, and the cigarette tax by $29.3 million. Corporate franchise tax net refunds in the first half of FY 2011 were $4.0 million, while net refunds of $37.6 million were anticipated, creating a positive variance of $33.6 million. The remaining tax sources were generally below estimates. The public utility excise tax fell short of estimate by $18.1 million, the kilowatt hour tax by $2.8 million, and the domestic insurance tax by $1.2 million. The estate tax and the business and property tax were each below projections by $1.1 million. The graph below shows the cumulative variance against estimate for federal grants, tax sources, and total GRF sources. (Estimates were not available for the month of July.)

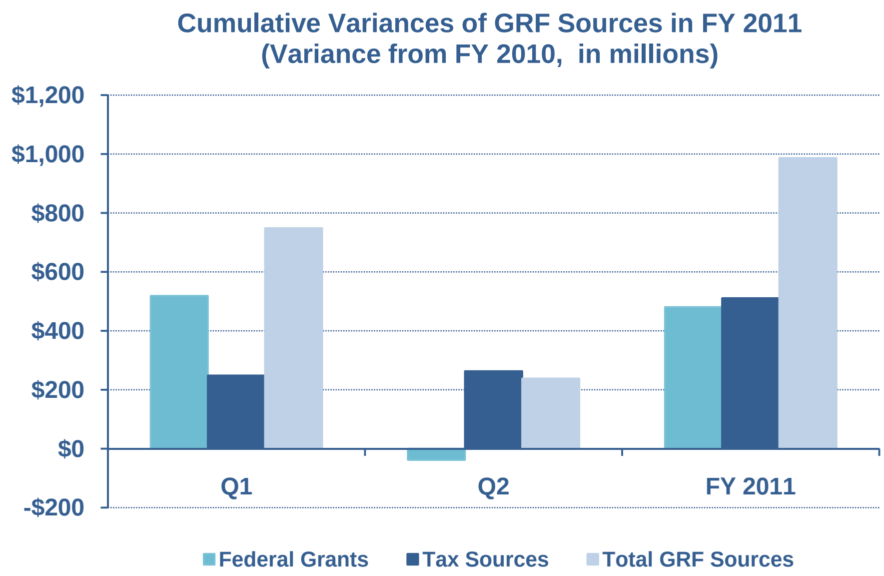
FY 2011 GRF sources through December were $165.6 million above estimate.



Federal grants were $153.6 million below estimate in FY 2011 through December.

FY 2011 year-to-date GRF sources increased $987.4 million compared to receipts in the corresponding period in FY 2010, from both higher tax receipts ($511.1 million) and federal grants ($480.6 million). Those gains were reduced by $4.3 million in lower receipts from nontax sources and transfers in this fiscal year. The graph below shows the quarterly and cumulative variances against FY 2010 for federal grants, tax sources, and total GRF sources.

Through December, FY 2011 GRF income tax receipts were $120.8 million above estimate.



Through December, FY 2011 tax receipts grew $511.1 million compared to receipts in the corresponding period in FY 2010. Receipts from the sales and use tax and the personal income tax were above the levels of FY 2010 by $266.7 million and $205.1 million, respectively. Other taxes with notable year-to-year revenue increases included the kilowatt hour tax ($3.7 million) and the estate tax ($1.4 million). Corporate franchise tax net refunds were $4.0 million, compared to net refunds of $59.0 million through December in FY 2010, thus yielding a positive variance of $55.0 million. Compared to FY 2010, year-to-date receipts in FY 2011 declined noticeably for the cigarette tax ($16.7 million), the domestic insurance tax ($2.3 million), and the business and property tax ($1.2 million).

Through December, FY 2011, revenue from withholding was $108.8 million above estimate.

Personal Income Tax

December GRF receipts from the personal income tax of $724.8 million were $54.3 million (8.1%) above estimate and $57.8 million (8.7%) above receipts in December 2009. Through December, the GRF received $3.64 billion from the personal income tax in FY 2011. This amount was $120.8 million (3.4%) above estimate and $205.1 million (6.0%) above receipts in the corresponding period in FY 2010. 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,[3]

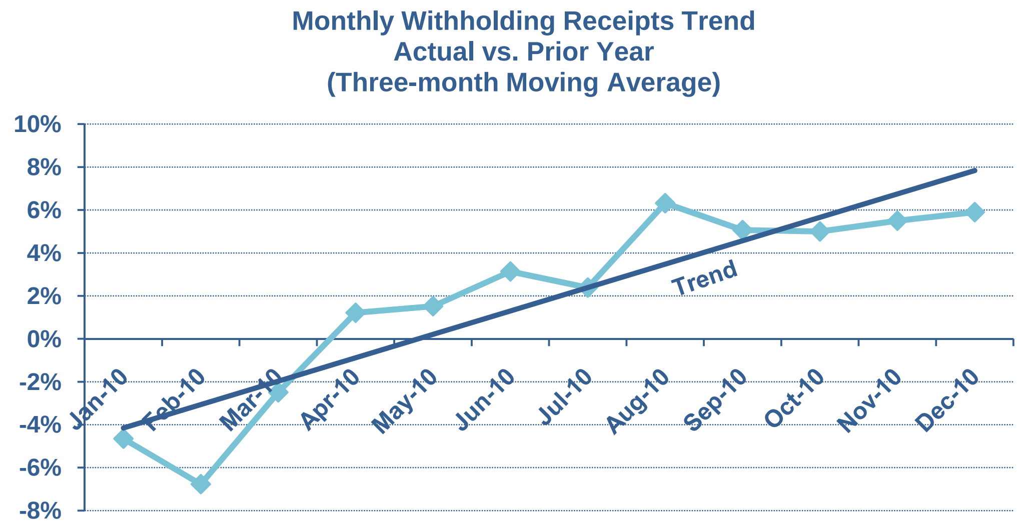
[3] Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than $500. Payments are due on or before April 15, June 15, and September 15 of the tax year and January 15 of the following year.

trust payments, payments associated with annual returns, and miscellaneous payments.

FY 2011 Year-to-Date Income Tax Revenue Variances and Changes by Component				
Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2010	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	$108.8	3.1%	$186.0	5.5%
Quarterly Estimated Payments	$22.9	6.3%	$33.1	9.4%
Trust Payments	-$2.9	-24.8%	-$2.4	-21.6%
Annual Return Payments	-$13.3	-10.6%	-$13.0	-10.4%
Miscellaneous Payments	$7.3	16.9%	$7.9	18.7%
Gross Collections	$122.8	3.3%	$211.7	5.4%
Less Refunds	-$9.2	-4.8%	-$16.4	-8.2%
Less Local Government Fund Distribution	$11.2	3.5%	$22.9	7.5%
Income Tax Revenue	$120.8	3.4%	$205.1	6.0%

The table above summarizes FY 2011 income tax revenue variances from estimates and annual changes by components. All components, except receipts from trusts subject to the personal income tax and annual returns, contributed to the positive variance against estimates and to higher income tax collections this year. Also, through December, refunds were lower, and distributions to local governments higher, than corresponding amounts in FY 2010.

Year to date, employer withholding, the most important component of the tax, was $186.0 million (5.5%) above withholding receipts in the first half of FY 2010, though employment gains remain mediocre and unemployment high. In the second quarter of FY 2011, combined withholdings showed a marginal improvement over the first quarter. Receipts from withholding in the October-December period were 5.9% above receipts in the corresponding period in FY 2010, up from 5.0% in the July-September period. Both the average weekly earnings and aggregate hours for nonfarm employees are higher than a year earlier, and other economic indicators suggest further healing of the labor market in the months ahead.



FY 2011 first-half sales and use tax receipts were $134.9 million above estimate.

On a year-ago basis, quarterly estimated payments, the second most important component of the personal income tax grew $33.1 million (9.4%) in FY 2011 through December. In the corresponding period in FY 2010, quarterly estimated payments fell $142.4 million, and for the full fiscal year, the reduction in such payments totaled $228.2 million. In addition, equity markets posted double digit growth in 2010, for a second straight year. Thus, the outlook for this component of the personal income tax has brightened somewhat for FY 2011's remaining estimated payments (January, April, and June).

Sales and Use Tax

December GRF sales and use tax receipts of $707.4 million were $25.4 million (3.7%) above estimate. Receipts were $20.3 million (3.0%) above receipts in December 2009. Through December, FY 2011 GRF sales and use tax receipts of $3.83 billion were $134.9 million (3.7%) above estimate and $266.7 million (7.5%) above receipts in the corresponding period in 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[4] generally arise from the sale of motor vehicles while nonauto sales and use tax collections arise from other sales. However, auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax, instead of the auto tax. Year to date, both components of the sales tax are performing above expectations.

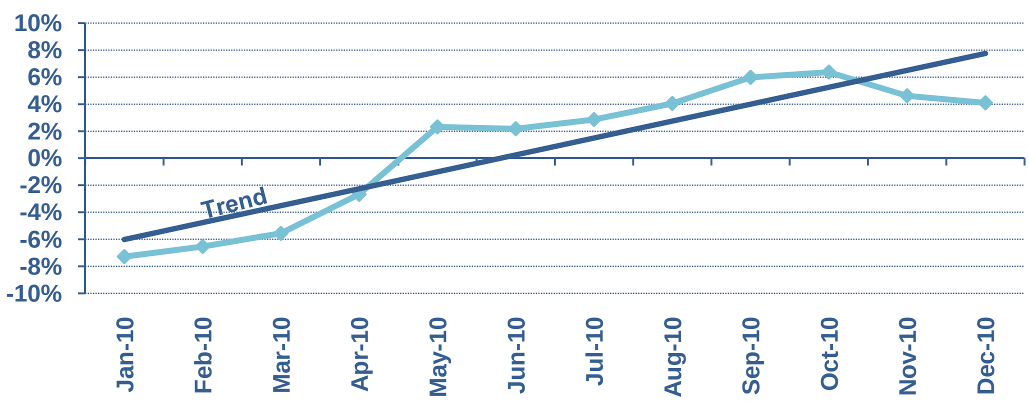
[4] The clerks of court generally make auto sales and use tax payments on Monday for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled. Therefore, auto sales and use tax receipts largely reflect vehicles sold and titled during the month.

Nonauto Sales and Use Tax

GRF nonauto sales and use tax receipts were $640.2 million in December 2010, $13.1 million (2.1%) above estimate and $11.6 million (1.9%) above December 2009 receipts. For the fiscal year, year-to-date GRF nonauto sales and use tax receipts of $3.35 billion were $99.2 million (3.0%) above estimate and $227.2 million (7.3%) above receipts through December in FY 2010. This positive variance reflects an expansion of the tax base, i.e., it includes payments for health care services provided by Medicaid health insuring corporations.[5] Excluding receipts from the base expansion, year-to-date nonauto sales and use tax baseline tax receipts grew about 4.9%. The growth in baseline tax receipts versus receipts a year earlier weakened in the last quarter of 2010, as shown in the graph below. Retailers' reports for the holiday shopping season (November and December) offered more evidence that consumer spending may be gaining momentum despite a stubbornly high unemployment rate. Consumer fundamentals continue to improve. Incomes are growing, unemployment claims and rates are trending lower, and job losses are ebbing. Sales at 30 large multi-store retailers were 3.8% higher in the last two months than the corresponding period a year ago, on a same-store basis, the highest since 2006. However, food and gas prices have increased gradually in the last few months. If those price increases require taxpayers to spend more on these nontaxable items, growth in taxable sales and sales tax receipts in the coming months may be negatively affected.

FY 2011 year-to-date nonauto sales and use tax receipts were $99.2 million above estimate.

Nonauto Sales and Use Tax Baseline Receipts Trend
Actual vs. Prior Year
(Three-month Moving Average)

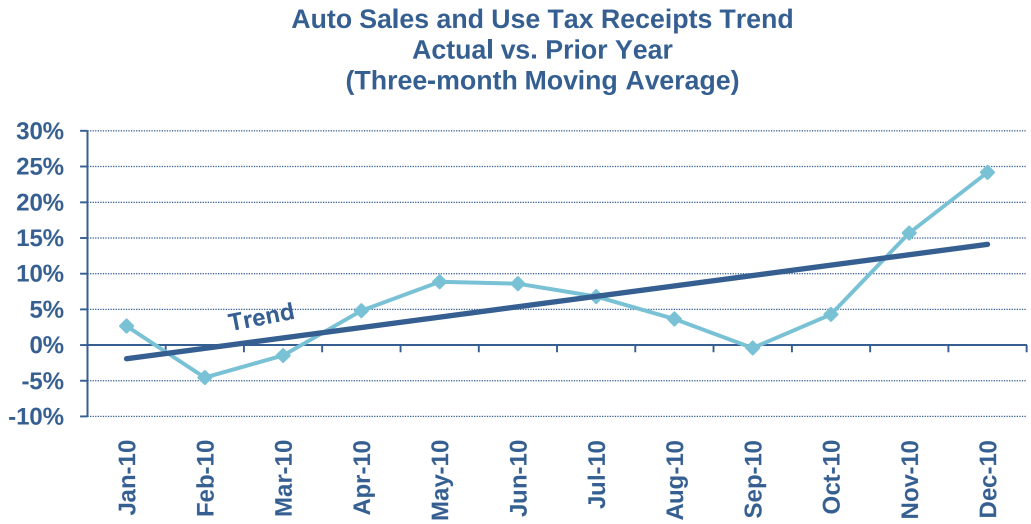


[5] New taxes were imposed on health care services provided by Medicaid health insuring corporations starting on October 1, 2009 (H.B. 1, the operating budget act for the current biennium). Those services are newly taxed under the sales and use tax and the insurance taxes.

FY 2011 year-to-date auto sales tax receipts were $35.7 million above estimate.

Auto Sales and Use Tax

Auto sales and use tax receipts of $67.2 million in December were $12.3 million (22.5%) above estimate and $8.7 million (14.8%) above receipts in December 2009. Year to date, FY 2011 GRF receipts from the auto sales tax of $476.8 million were $35.7 million (8.1%) above estimate and $39.4 million (9.0%) above receipts in FY 2010 through December 2009. Remarkably, second-quarter receipts were $32.7 million (17.8%) above estimate and $41.7 million (23.9%) above receipts in the corresponding period in FY 2010. The graph below compares monthly receipts with year-ago receipts in the corresponding month.



FY 2011 year-to-date cigarette tax receipts were $29.3 million above estimate.

The auto industry ended the year on a strong note, with December nationwide light vehicle sales of 12.5 million units (at an annualized rate), up from 12.2 million units in the previous two months, and up from 10.8 million in January 2010. For 2010, 11.55 million light vehicles were sold, about 11% above the 2009 pace, but below the 15 million to 16 million units of a few years ago. Through December, FY 2011 nationwide unit sales were up 6% from the corresponding period in FY 2010. Though light vehicle sales have turned around, more pent-up demand built during the recession is expected to be released in 2011 with the expected continued improvements in labor markets and credit availability. However, auto sales are not expected to return to the pre-recession level of 16 million units for a few years. Most national forecasting firms peg unit sales at between 12.5 million and 13.5 million in 2011.

Cigarette and Other Tobacco Products Tax

Receipts from the tax on cigarettes and other tobacco products were $77.2 million in December 2010, $13.2 million (20.6%) above estimate and $2.5 million (3.4%) above December 2009 receipts. Through December, FY 2011 receipts of $388.1 million were $29.3 million (8.2%) above estimate and $16.7 million (4.1%) below FY 2010 receipts through December 2009. Receipts from cigarette sales were $362.2 million. Sales of products other than cigarettes provided $25.9 million. Compared to FY 2010 through December, receipts from the sale of cigarettes declined $17.8 million (4.7%) and those from the sale of other tobacco products increased about $1.1 million (4.7%). Receipts from the cigarette and other tobacco products tax are the third-largest tax revenue source in FY 2011, after the personal income tax and the sales and use tax.

FY 2011 year-to-date public utility excise tax receipts were $18.1 million below estimate.

Public Utility Excise Tax

GRF receipts from the public utility excise tax totaled $56.4 million in FY 2011 through December, $18.1 million (24.3%) less than the estimate and $0.5 million (0.9%) less than in FY 2010. Taxes paid by natural gas companies account for more than 97% of total tax receipts from the public utility excise tax. Revenues from this tax are based on utilities' gross receipts. The lackluster performance of the tax mainly reflected lower natural gas prices than expected, as well as the lags between customer billing and payment, and between receipt of customer payments by utilities and remission of taxes due. Although market prices for natural gas have risen somewhat in the last few months, the tax is expected to continue to underperform the remainder of the fiscal year.

FY 2011 year-to-date CAT receipts were $36.2 million above estimate.

Commercial Activity Tax

In December, commercial activity tax (CAT) receipts were $5.6 million, $0.4 million (6.7%) below estimate, and about the same as December 2009 receipts. Through December, FY 2011 receipts of $715.8 million were $36.2 million (5.3%) above estimate and $66.8 million (10.3%) above receipts through December in FY 2010. After declining in FY 2010, CAT payments through December suggest a relatively strong recovery. Through FY 2011, revenues from the tax are not deposited into the GRF as they are earmarked for reimbursing school districts and other local governments for the reductions and phase-out of local taxes on most tangible personal property (TPP). CAT receipts are distributed to the School District Tangible Property Tax Replacement Fund (70%) and to the Local Government Tangible Property Tax Replacement Fund (30%). If CAT receipts are insufficient for the reimbursements, current law requires a GRF subsidy to the two funds. In FY 2010, the subsidy totaled $281.9 million.

Table 3: General Revenue Fund Uses
Preliminary Actual vs. Estimate
Month of December 2010
($ in thousands)
(Actual based on OAKS reports run January 5, 2011)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary, Secondary, and Other Education	$311,670	$283,418	$28,252	10.0%
Higher Education	$188,740	$197,280	-$8,540	-4.3%
Total Education	$500,410	$480,698	$19,713	4.1%
Public Assistance and Medicaid	$197,199	$655,306	-$458,106	-69.9%
Health and Human Services	$55,636	$63,604	-$7,968	-12.5%
Total Welfare and Human Services	$252,836	$718,910	-$466,074	-64.8%
Justice and Public Protection	$123,204	$125,167	-$1,963	-1.6%
Environment and Natural Resources	$1,602	$4,071	-$2,469	-60.6%
Transportation	$764	$457	$308	67.4%
General Government	$19,430	$21,508	-$2,078	-9.7%
Community and Economic Development	$7,331	$8,421	-$1,090	-12.9%
Capital	$0	$43	-$43	-100.0%
Total Government Operations	$152,331	$159,666	-$7,334	-4.6%
Tax Relief and Other	$169	$880	-$711	-80.8%
Debt Service	$15,031	$16,290	-$1,259	-7.7%
Total Other Expenditures	$15,200	$17,171	-$1,970	-11.5%
Total Program Expenditures	**$920,778**	**$1,376,444**	**-$455,666**	**-33.1%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$2,185	$0	$2,185	---
Total Transfers Out	$2,185	$0	$2,185	---
TOTAL GRF USES	**$922,963**	**$1,376,444**	**-$453,481**	**-32.9%**

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

Table 4: General Revenue Fund Uses
Preliminary Actual vs. Estimate
FY 2011 as of December 31, 2010
($ in thousands)
(Actual based on OAKS reports run January 5, 2011)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2010**	**Percent Change**
Primary, Secondary, and Other Education	$3,448,817	$3,422,639	$26,178	0.8%	$3,611,773	-4.5%
Higher Education	$1,255,749	$1,244,243	$11,506	0.9%	$1,249,969	0.5%
Total Education	$4,704,566	$4,666,882	$37,684	0.8%	$4,861,741	-3.2%
Public Assistance and Medicaid	$5,993,559	$5,860,256	$133,303	2.3%	$5,632,277	6.4%
Health and Human Services	$574,008	$592,201	-$18,193	-3.1%	$539,956	6.3%
Total Welfare and Human Services	$6,567,567	$6,452,457	$115,110	1.8%	$6,172,233	6.4%
Justice and Public Protection	$999,480	$1,022,754	-$23,274	-2.3%	$1,027,913	-2.8%
Environment and Natural Resources	$42,598	$43,057	-$460	-1.1%	$52,924	-19.5%
Transportation	$8,911	$8,442	$470	5.6%	$9,643	-7.6%
General Government	$154,212	$166,586	-$12,374	-7.4%	$159,293	-3.2%
Community and Economic Developmen	$55,835	$64,258	-$8,423	-13.1%	$58,451	-4.5%
Capital	$24	$170	-$146	-86.0%	$255	-90.6%
Total Government Operations	$1,261,059	$1,305,267	-$44,208	-3.4%	$1,308,478	-3.6%
Tax Relief and Other	$841,655	$796,269	$45,385	5.7%	$886,302	-5.0%
Debt Service	$282,549	$286,939	-$4,390	-1.5%	$206,520	36.8%
Total Other Expenditures	$1,124,203	$1,083,209	$40,995	3.8%	$1,092,822	2.9%
Total Program Expenditures	**$13,657,396**	**$13,507,815**	**$149,581**	**1.1%**	**$13,435,274**	**1.7%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers Out	$987,697	$903,300	$84,397	9.3%	$1,021,326	-3.3%
Total Transfers Out	$987,697	$903,300	$84,397	9.3%	$1,021,326	-3.3%
TOTAL GRF USES	**$14,645,093**	**$14,411,115**	**$233,978**	**1.6%**	**$14,456,600**	**1.3%**

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

Table 5: FY 2011 Medicaid Expenditures
($ in thousands)
(Actuals based on OAKS report run on January 7, 2011)

Medicaid (600525) Payments by Service Category	December Actual	December Estimate	December Variance	December Percent Variance	Year to Date Actual thru Dec	Year to Date Estimate thru Dec	Year to Date Variance	Year to Date Percent Variance
Managed Care Plans	$18,676	$405,122	-$386,446	-95.4%	$2,492,613	$2,423,961	$68,652	2.8%
Nursing Facilities	$221,198	$224,922	-$3,724	-1.7%	$1,350,546	$1,373,226	-$22,680	-1.7%
Prescription Drugs	$122,099	$151,554	-$29,455	-19.4%	$825,995	$934,473	-$108,478	-11.6%
Hospitals	$94,480	$117,139	-$22,659	-19.3%	$739,518	$777,576	-$38,058	-4.9%
ICFs/MR	$45,805	$44,709	$1,096	2.5%	$278,697	$273,042	$5,655	2.1%
ODJFS Waivers	$23,270	$28,761	-$5,491	-19.1%	$163,514	$189,635	-$26,121	-13.8%
Physicians	$22,278	$26,545	-$4,267	-16.1%	$162,040	$173,861	-$11,821	-6.8%
All Other	$115,467	$121,947	-$6,480	-5.3%	$761,698	$780,548	-$18,850	-2.4%
Total Payments	$663,273	$1,120,699	-$457,426	-40.8%	$6,774,621	$6,926,322	-$151,701	-2.2%
Total Offsets (non-GRF)	-$579,441	-$565,078	-$14,363	2.5%	-$1,269,136	-$1,565,806	$296,670	-18.9%
Total 600525 (net of offsets)	$83,832	$555,621	-$471,789	-84.9%	$5,505,485	$5,360,516	$144,969	2.7%
Medicare Part D (600526)	$16,418	$20,249	-$3,831	-18.9%	$77,664	$80,812	-$3,148	-3.9%
Total GRF	**$100,250**	**$575,870**	**-$475,620**	**-82.6%**	**$5,583,149**	**$5,441,328**	**$141,821**	**2.6%**
Total All Funds	**$679,691**	**$1,140,948**	**-$461,257**	**-40.4%**	**$6,852,285**	**$7,007,134**	**-$154,849**	**-2.2%**

Estimates from the Ohio Department of Job and Family Services (ODJFS)

ICFs/MR - Intermediate Care Facilities for the Mentally Retarded

EXPENDITURES

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

Overview

For the first six months of FY 2011, GRF program expenditures totaled $13.66 billion, $149.6 million above the estimate released by the Office of Budget and Management (OBM) in September 2010. Year-to-date GRF transfers out amounted to $987.7 million, $84.4 million above estimate. GRF uses as a whole were $14.65 billion, $234.0 million above estimate. Tables 3 and 4 show GRF uses for the month of December and for FY 2011 through December, respectively.

For the first half of FY 2011, total GRF uses were above estimate by $234.0 million.

Year-to-date variances differ substantially from one category to another. Public Assistance and Medicaid expenditures had the largest positive variance at $133.3 million, followed by Transfers Out ($84.4 million), Tax Relief and Other ($45.4 million), Primary, Secondary, and Other Education ($26.2 million), and Higher Education ($11.5 million). Together, these five categories had a combined positive year-to-date variance of $300.8 million. This positive variance was partially offset by negative variances in several other program categories. Program categories that had significant negative year-to-date variances include Justice and Public Protection ($23.3 million), Health and Human Services ($18.2 million), and General Government ($12.4 million). The variances in these eight categories are briefly discussed below.

Positive Year-to-date Variances

Public Assistance and Medicaid

GRF expenditures for the Public Assistance and Medicaid program category totaled $5.99 billion for the first six months of FY 2011, $133.3 million (2.3%) above estimate. Medicaid, including both state and federal shares, accounts for 95.3% of year-to-date GRF expenditures in this program category. Table 5 details Medicaid GRF expenditures by service category. Medicaid GRF expenditures for the month of December were $475.6 million (82.6%) below estimate, largely due to a timing issue related to managed care plan payments. As reported in the last issue of *Budget Footnotes*, the Ohio Department of Job and Family Services (ODJFS) moved the December managed care plan payment to November to ensure that the payment was made before the transition from the existing Medicaid Management Information System to the new Medicaid Information Technology System. As a result, GRF expenditures for the Managed Care Plans category were $409.2 million (101.0%) above estimate in November

Year-to-date Medicaid GRF spending was $141.8 million above estimate; Medicaid all-fund spending, however, was below estimate by $154.8 million.

and $386.4 million (95.4%) below estimate in December with an overall year-to-date positive variance of $68.7 million (2.8%).

Medicaid GRF expenditures totaled $5.58 billion for the first half of FY 2011, $141.8 million (2.6%) above estimate. This positive variance was almost entirely due to non-GRF Medicaid expenditures (shown as offsets in Table 5), which were $296.7 million (18.9%) below estimate for the year to date. Of this amount, $225.1 million was attributable to litigation that had resulted in the unavailability of funds from the tobacco settlement that were authorized for Medicaid in H.B. 1. Medicaid estimates assumed that the state would expend the tobacco funds each month in FY 2011 starting in August. On December 22, 2010, the Supreme Court of Ohio ruled that these tobacco funds could be used to pay for nontobacco related expenditures. Presumably, the positive variance in non-GRF offsets should be reduced once ODJFS starts using the authorized tobacco funds for Medicaid.

Somewhat offsetting the positive year-to-date variance in Medicaid GRF expenditures, Prescription Drug expenditures were $108.5 million (11.6%) below their year-to-date estimate, mainly due to lower than estimated drug costs and utilization. Other categories that had relatively large year-to-date negative variances include Hospitals ($38.1 million, 4.9%), ODJFS Waivers ($26.1 million, 13.8%), and Nursing Facilities ($22.7 million, 1.7%).

Medicaid is mainly funded with the GRF but is also supported by various non-GRF funds. For the first half of the fiscal year, Medicaid expenditures totaled $6.85 billion across all funds, $154.8 million (2.2%) below estimate in contrast to a $141.8 million (2.6%) positive variance in Medicaid GRF expenditures.

GRF transfers out will finish the fiscal year above estimate.

Transfers Out

Through the first six months of FY 2011, GRF transfers out totaled $987.7 million, $84.4 million (9.3%) above OBM's estimate for transfers out for the entire fiscal year. This indicates that the Transfers Out category will finish the year with a relatively large positive variance. The year-to-date positive variance in this category was largely related to temporary GRF cash transfers made in October in order to reimburse school districts and local governments for tangible personal property (TPP) tax losses. The GRF is to be reimbursed by the commercial activity tax (CAT) receipts, which are the funding source of TPP reimbursement payments and are deposited into non-GRF funds. However, those temporary transfers may become permanent transfers out in the event that CAT receipts are not sufficient to fully reimburse the GRF for the transfers occurring earlier in the fiscal year. Current law requires the GRF to be used to make up any CAT shortfalls. In FY 2010, CAT shortfalls necessitated using about $282 million from the GRF to fully fund TPP reimbursements for schools and local governments.

Tax Relief and Other

GRF expenditures for the Tax Relief and Other program category totaled $841.7 million for the first six months of FY 2011, $45.4 million (5.7%) above estimate. The vast majority of funds in this category are used to make property tax relief reimbursement payments through two GRF appropriation items: item 200901, Property Tax Allocation, in the Ohio Department of Education (ODE) budget for making payments to schools and item 110901, Property Tax Allocation, in the Ohio Department of Taxation budget for making payments to local governments. Reimbursements based on the August (2010) property tax settlement, which is the first of two settlements occurring during a fiscal year, were completed in December. Expenditures for these two GRF appropriation items were $831.0 million, $45.5 million (5.8%) higher than the OBM estimates for these two items for the first six months of FY 2011 and represented 52.0% of the OBM estimates for the whole fiscal year.

Year-to-date tax relief spending was above estimate by $45.4 million.

Primary, Secondary, and Other Education

GRF expenditures for the Primary, Secondary, and Other Education program category totaled $311.7 million in the month of December, $28.3 million (10.0%) above estimate, turning this program category from having a $2.1 million negative year-to-date variance at the end of November to a $26.2 million (0.8%) positive year-to-date variance at the end of December. This program category's expenditures totaled $3.45 billion for the first six months of FY 2011. Foundation payments for schools, which account for the majority of expenditures in this program category, are mainly supported by two GRF appropriation items in the ODE budget: item 200550, Foundation Funding, and item 200551, Foundation Funding – Federal Stimulus. These two items registered a combined positive year-to-date variance of $49.8 million (1.7%). In December, the current year average daily membership (ADM) was used for the first time for FY 2011 school foundation payment calculations. According to ODE's latest calculations, school foundation payments will total $6.76 billion for FY 2011, which is largely on par with the funds appropriated for the fiscal year for this purpose.

The positive variances in the two foundation items were partially offset by negative variances in several other items within the ODE budget, including item 200502, Pupil Transportation ($9.1 million, 4.2%); item

200437, Student Assessment ($4.9 million, 17.7%); and item 200540, Special Education Enhancements ($3.2 million, 4.7%).

Higher Education

GRF expenditures for the Higher Education program category amounted to $1.26 billion for the first half of FY 2011, $11.5 million (0.9%) above estimate. This positive variance was mainly attributable to the Ohio College Opportunity Grant (OCOG), a need-based student financial aid program. OCOG expenditures remained $15.7 million (67.8%) above their year-to-date estimate for FY 2011 although they were $12.4 million below estimate for the month of December. Expenditures for the Choose Ohio First Scholarship Program, on the other hand, were $3.5 million (36.4%) below its year-to-date estimate. This negative variance partially offset the positive variance in higher education spending. Both OCOG and Choose Ohio First Scholarship programs are subject to an application process. Spending for these two programs varies from one month to another.

Negative Year-to-date Variances

Year-to-date spending for inmate mental health and medical services was below estimate by $13.3 million.

Justice and Public Protection

Year-to-date GRF expenditures for the Justice and Public Protection program category totaled $999.5 million, $23.3 million (2.3%) below estimate. The Department of Rehabilitation and Corrections (DRC) and the Department of Youth Services (DYS), the two largest agencies within this program category, had year-to-date negative variances of $13.8 million (1.8%) and $5.8 million (4.5%), respectively. The Mental Health Services (item 502321) and Institution Medical Services (item 505321) appropriation items accounted for $13.3 million of the $13.8 million negative year-to-date variance for DRC. Expenditures for these two items were below estimate partially due to a lower than expected incidence of inmate illnesses. Moreover, much of the work in these program areas was previously done on a contract basis whereas now these services are provided by DRC personnel. Expenditures for RECLAIM Ohio (item 470401), the largest line item within the DYS budget, were $6.1 million below the item's year-to-date estimate. RECLAIM Ohio provides funding for institutional placement and community program services to youth who have been convicted of a felony offense and to other delinquent children.

Health and Human Services

Year-to-date GRF expenditures for the Health and Human Services program category were below estimate by $18.2 million (3.1%). Of this amount, $6.3 million was attributable to the Department of Mental Health (DMH), $5.4 million to the Department of Health (DOH), and $4.6 million to the Department of Developmental Disabilities (DODD).

Year-to-date spending for Health and Human Services was below estimate by $18.2 million.

GRF appropriation item 334408, Community and Hospital Mental Health Services, largely accounted for the negative variance in the DMH budget. This item's expenditures were $6.4 million (3.2%) below its year-to-date estimate. Funds from this item are used to support state mental health hospitals and services purchased by community mental health boards from local providers. Spending for this item may vary depending on services purchased by local boards.

DOH's year-to-date negative variance was a result of the build-up of relatively small variances in various appropriation items over the first six months of the fiscal year, including $1.6 million (35.4%) in AIDS Prevention and Treatment (item 440444) and $1.3 million (65.7%) in Federally Qualified Health Centers (item 440465). Item 440444 funds activities to prevent and treat HIV and AIDS, as well as to provide education, training, and HIV screening. Item 440465 helps support safety net health services through the provision of uncompensated care by federally qualified health centers.

Expenditures related to the Martin Settlement accounted for $4.0 million of the $4.6 million negative year-to-date variance in DODD. This March 2007 settlement ended a federal class action lawsuit filed by the Ohio Legal Rights Service in 1989 that sought to allow individuals with developmental disabilities to receive community or home-based rather than institution-based services. As a result of the settlement, the state has created 1,500 additional Individual Option waiver slots to enable certain individuals to receive services in their homes or community-based settings. Year-to-date expenditures for the waiver were 24.9% lower than expected as providers may bill up to one year after service is rendered.

General Government

Year-to-date GRF expenditures for the General Government program category totaled $154.2 million, $12.4 million (7.4%) below estimate. Of this total, $4.9 million was attributable to the Department of Taxation, $3.4 million to the five legislative agencies (the House of Representatives, the Senate, the Legislative Service Commission, the Joint Committee on Agency Rule Review, and the Joint Legislative Ethics

Committee), and $0.6 million to four of the five[6] elected statewide offices included in this category: Governor, Treasurer of State, Auditor of State, and Secretary of State.

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

[6] The Office of the Attorney General, the other elected statewide office, is included in the Justice and Public Protection program category.

ISSUE UPDATES

GI Promise Attracts 1,340 Out-of-state Students

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

The Ohio GI Promise Program, as established in 2008, allows out-of-state military veterans to attend Ohio's public colleges and universities with resident status for tuition purposes. The GI Bill generally pays 100% of in-state tuition for veterans and an average of $1,100 as a monthly housing stipend, meaning the GI Promise allows out-of-state veterans to attend Ohio's public colleges and universities for free. In FY 2010, the GI Promise Program attracted 1,340 out-of-state students to Ohio's public colleges and universities, in addition to over 10,800 Ohio resident veterans returning to the state for a degree. GI Promise students brought over $21 million in federal GI Bill dollars to the state in FY 2010. Including GI Bill funds for returning Ohio resident veterans, the Board of Regents anticipates that Ohio will receive as much as $500 million in federal payments by FY 2012. Ohio's public colleges and universities have initiated several other programs to attract and support veterans, including programs facilitating the award of college credit for military training and experience. Likewise, nearly all of Ohio's public colleges and universities have a campus veteran's affairs office or a designated veteran's affairs official at an administrative office.

Regents Develops System to Evaluate Ohio's Teacher Preparation Programs

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

In December, the Board of Regents (BOR) announced the development of a system of quantitative and qualitative metrics for the evaluation of Ohio's teacher preparation programs. H.B. 1 moved the authorization to approve teacher preparation programs from the Ohio Department of Education (ODE) to BOR, and mandated the development of evaluation metrics.

The system of metrics includes three categories: minimum standards, excellence in innovation, and continuous improvement. Programs will be required to meet the minimum standards in order to retain program approval. The minimum standards are based on the performance of each program's graduates on three measures:

(1) State licensure exam;

(2) Teacher Performance Assessment; and

(3) Value-added growth metric.

Of these three, currently data is only collected on the state licensure exam. This exam is administered and minimum scores are set by ODE. The Teacher Performance Assessment was developed by Stanford University to assess a teacher's attainment of skills critical to teaching. The value-added growth metric will measure the academic progress made by the students in a teacher's class.

The other two categories of metrics will not have the same high stakes attached to them as the minimum standards. Excellence in innovation will be recognized in areas such as the placement of graduates in hard-to-staff schools, partnerships with preschools and primary and secondary schools, especially low-performing schools, opportunities for international experiences for program participants, the use of innovative technologies, and other initiatives. Continuous improvement will be measured by program reports on such things as the quality of candidates entering the teacher preparation program, the quality of field experiences, the satisfaction of graduates with the program, performance surveys of graduates by their mentors and employers, and the percentage of graduates completing the new Teacher Residency Program. The first comprehensive evaluation will be available by December 2012.

Healthy, Hunger-Free Kids Act of 2010 Reauthorizes, and Expands Access to, School Meal and Child Nutrition Programs

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

In December, President Obama signed into law the Healthy, Hunger-Free Kids Act of 2010 (Act), which authorizes funding for federal school meal and child nutrition programs and increases access to healthy food for low-income children. Specifically, the Act reauthorizes child nutrition programs for five years and includes $4.5 billion in new funding for these programs over ten years. Highlights of the Act include:

- Expanding the Afterschool Meal Program (through the Child and Adult Care Food Program) from 13 states to all 50 states;
- Giving the U.S. Department of Agriculture the authority to set nutritional standards for all foods regularly sold in schools during the day, including foods sold in vending machines, "a la carte" lunch lines, and school stores;
- Ensuring that water is available free of charge during meal service;
- Adding a six cent per meal performance-based increase in the federal reimbursement rate for school lunches for schools that meet forthcoming updated nutritional standards for breakfast and lunch;[7]

[7] The reimbursement rate for free lunches for the current school year is $2.72.

- Creating a new option that will allow schools in high-poverty areas to offer free meals to all students without collecting paper applications, which is expected to increase access to more children and reduce administrative burdens on schools;
- Establishing grants, subject to available appropriations, that could be used to establish or expand school breakfast programs, with priority going to schools with 75% free and reduced-price eligible students;
- Setting basic standards for local school wellness policies, including goals for nutrition promotion and education and physical activity;
- Establishing a demonstration project to test and implement the use of Medicaid for direct certification of children for free school meals;
- Authorizing state Women, Infants, and Children (WIC) agencies to certify children for free or reduced-price meals for up to one year. The current time limit is six months;
- Requiring WIC electronic benefit transfer implementation nationwide by October 1, 2020.

For a complete summary of provisions, or to view the Act in its entirety, please see: http://www.govtrack.us/congress/bill.xpd?bill=s111-3307.

School Funding Advisory Council Releases Recommendations for Improving School Funding System

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

On December 1, 2011, the School Funding Advisory Council (SFAC) released its initial report outlining recommended revisions to the state's school funding system. Established by H.B. 1, the council was required to review and analyze Ohio's Evidence-Based Model (EBM) of school funding and to make recommendations for improving the model's components. In addition, the 2010 report was specifically required to include an analysis of financing for special education, gifted education, career-technical education, arts education, services for limited English proficient students, and early college high schools. The report's recommendations center on several key themes which apply across the council's areas of focus including:

- ➢ Improved data collection and reporting;
- ➢ Local accountability;
- ➢ EBM's role as a funding model rather than a spending model;
- ➢ Accuracy and alignment of EBM's components; and
- ➢ Ongoing evaluation of the model's impacts.

Also included as an addendum to the SFAC report is a copy of the August 31, 2010, report of the Traditional Public/Community School Collaboration Subcommittee of the council. This report, also required by H.B. 1, contains recommendations for fostering collaboration between school districts and community schools. Beginning July 1, 2012, the council is required to present biennial reports including updated analysis and recommendations. The complete 2010 report can be accessed on the Ohio Department of Education's web site, www.ode.state.oh.us, by searching for "SFAC."

Department of Insurance Awarded $1 million Federal Grant to Plan for a Health Exchange

—Ruhaiza Ridzwan, Economist, 614-387-0476

On October 15, 2010, the U.S. Department of Health and Human Services (HHS) awarded the Ohio Department of Insurance a $1.0 million grant to plan for a health exchange. The funding was provided by the federal Affordable Care Act of 2010 (ACA), popularly known as the health insurance reform bill; the state does not need to match funding for this grant. The grant would help the state to pay for initial planning activities related to the implementation of a health exchange in Ohio and evaluate how an exchange will be operated and governed. At its November 18 meeting, the Controlling Board approved a new Health Exchange Planning Fund (Fund 3EW0) and appropriated $1 million in FY 2011 to a new appropriation line item 820611, Health Exchange Planning, in the Department's budget to permit the use of these federal funds.

The funds will be used by the Department of Insurance to hire three additional staff to help with the implementation of a health exchange, to pay for an actuarial analysis of the health insurance market in the state, and to provide related supplies and equipment. In working toward implementation, the Department will be working with the Department of Job and Family Services (to obtain Medicaid-related analysis) and the Health Benefits Exchange Task Force, which is a new subcommittee created by the Health Care Coverage and Quality Council in October 2010.

Under the ACA, all states are expected to begin state-based health exchanges by January 1, 2014.[8] As described by HHS, an exchange is a mechanism for organizing the health insurance marketplace to help individuals and small businesses shop for coverage in a way that permits easy comparison of available plan options, including price and benefits covered.

[8] The Act would expand health care coverage to millions of Americans and require many changes to health insurance products and regulations.

Waiting List for Community-Based, Long-Term Care Services Programs Eliminated in FY 2011

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

On December 13, 2010, the Controlling Board approved the Ohio Department of Aging's (ODA) request to increase appropriations by $95 million to allow for open enrollment into community-based, long-term care services programs, which include PASSPORT, Assisted Living, and the Program of All-Inclusive Care for the Elderly (PACE). Without these increases, a waiting list would have been implemented for the programs in FY 2011. The appropriation to ODA's non-GRF line item 490610, PASSPORT/Residential State Supplement, was increased by $15 million, which was supported by a $15 million cash transfer from the Nursing Facility Stabilization Fund (Fund 5R20) used by the Department of Job and Family Services. In addition, the appropriation to ODA's federal line item 490623, Long Term Care Budget, was increased by $80 million to account for the additional federal Medicaid reimbursement that will be generated from the services to be provided.

The PASSPORT Program helps Medicaid-eligible individuals age 60 or older to stay in their homes by providing them needed long-term care services and supports, including personal care, home-delivered meals, adult day care, and medical transportation. Similarly, Assisted Living provides services to Medicaid-eligible individuals age 21 or older who live in residential care facilities. PACE is a managed care program that provides individuals age 55 or older with all of their needed health care, medical care, and ancillary services. There are currently two PACE sites in Ohio – Tri-Health Senior Link in Cincinnati and McGregor PACE in Cleveland.

The December 13 action is the second request approved by the Controlling Board this biennium involving providing additional funds to support long-term care services. In April 2010, ODA received a cash transfer of $4.8 million from Fund 5R20 to support an appropriation increase in line item 490610 and an appropriation increase of $39 million in line item 490623. That transfer and those increases in appropriations eliminated the waiting list for community-based, long-term care services in FY 2010.

Department of Development Releases $21.6 million in Latest Round of Clean Ohio Revitalization Grants

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

On December 13, 2010, the Controlling Board approved the release of $21.6 million for 14 Clean Ohio Revitalization grants to fund remediation and clean-up activities in support of redeveloping urban brownfield sites. This is the ninth round of awards under the Department of Development's Clean Ohio Revitalization Program since it began in FY 2003. The municipalities receiving awards during this round and their award amounts are listed in the following table.

The Clean Ohio Revitalization Program received a total appropriation of $80 million for the FY 2011-FY 2012 biennium in S.B. 181 of the 128th General Assembly. These most recent FY 2011 awards are in addition to $23.7 million in funds released in July of 2010, leaving $34.8 million in funds to be released through FY 2012. The S.B. 181 appropriation is supported by the proceeds of Clean Ohio bonds deposited into the Clean Ohio Revitalization Fund (Fund 7003). These bonds were authorized by Issue 2, which was passed by voters in November of 2008. Fund 7003 also supports the Clean Ohio Assistance Program, which awards grants on a continuing basis for environmental assessments and other activities at brownfield sites in certain eligible distressed areas.

Round 9 Clean Ohio Revitalization Awards

Recipient	County	Amount
City of Chardon	Geauga	$1,439,027
City of Cincinnati	Hamilton	$1,087,500
City of Cleveland	Cuyahoga	$1,950,909
City of Columbus	Franklin	$3,000,000
City of Dayton	Montgomery	$1,184,169
City of Hamilton	Butler	$1,932,527
City of Kenton	Hardin	$969,826
City of Lancaster	Fairfield	$1,477,238
Village of Lockland	Hamilton	$1,808,202
City of Lorain	Lorain	$1,030,111
City of Norwood	Hamilton	$730,600
City of Toledo	Lucas	$3,000,000
City of Wellston	Jackson	$749,541
City of Youngstown	Mahoning	$1,234,590
	Total	**$21,594,240**

Environmental Protection Agency Awards Environmental Education General Grants

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

The Ohio Environmental Protection Agency's (EPA) Office of Environmental Education recently made 11 General Grant Program awards totaling $400,000 (see table below). Under this program, up to $1 million is available annually to fund grants of up to $50,000. The Ohio EPA expects to award another $400,000 in General Grants in the spring of 2011. The grants are paid from the Environmental Education Fund (Fund 6A10), which receives one-half of all civil penalties collected by Ohio EPA air and water pollution control programs. By statute, these funds are to be used to enhance public awareness and understanding of issues affecting environmental quality.

In addition to the General Grant Program, Fund 6A10 also supports the Mini-Grant Program. Under this program, up to $100,000 is available annually to fund grants between $500 and $5,000. Earlier in the year, 14 Mini-Grant Program awards totaling $50,256 were made and the Ohio EPA expects to award another $50,000 in the spring of 2011. These two programs target three groups (the regulated community, the general public, and kindergarten through university students and faculty) and six priority areas: compliance assistance, community issues, environmental public health, standards-based education, career development, and environmental sustainability.

Fall 2010 Ohio Environmental Education General Grant Program Awards

Grant Recipient	Counties Impacted	Program	Grant Award
City of Columbus	Franklin	Greenspot: Sustainable Lifestyles	$40,304
City of Geneva	Ashtabula	Recycle Fluorescent Lightbulbs	$15,832
Antioch College Corporation	Greene	Glen Helen Residential Environmental Education Program	$49,918
Ohio Division of Geological Survey	Statewide	Ohio's Geology in Core and Outcrop	$49,982
Mohican School in the Out-of-Doors	Richland	Natural Cache	$23,086
Civic Garden Center of Greater Cincinnati	Butler, Hamilton, Clermont, and Warren	Green Learning Station: Inquiry into Sustainability	$50,000
Youngstown Neighborhood Development Corporation	Mahoning	Lots of Green Market Gardener Training	$38,022
Ohio Wildlife Center	Delaware, Franklin, Madison, and Union	Wild Academy-Teen Career Development SOARS	$47,902
Clean Fuels Ohio	Statewide	Ohio Electric Drive Initiative	$24,419
Stratford Ecological Center	Delaware and Franklin	The Sunship Earth Program	$34,733
Entrepreneurs for Sustainability	Cuyahoga, Geauga, Lake, Lorain, Medina, and Summit	Zero Waste Catalyst	$25,802
		Total	**$400,000**

Lake Erie Commission Awards Federal Funds for Great Lakes Restoration Initiatives

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

On December 13, 2010, the Controlling Board approved the Lake Erie Commission's request to create the LEC Federal Grants Fund (Fund 3EP0) and allocate $412,375 to the fund in FY 2011 for the purpose of disbursing most of recently awarded federal grants totaling $450,000.[9] These grants will be used to undertake the two Great Lakes Restoration Initiative (GLRI) projects summarized in the table below. The GLRI is a U.S. EPA-led effort that targets the most significant problems in the Great Lakes

[9] The remainder of that federal funding will be disbursed in subsequent fiscal years.

region, including invasive aquatic species, nonpoint source pollution, and contaminated sediment.

Great Lakes Restoration Initiative (GLRI) Projects			
Project Title	Total Project Cost	GLRI Grant Amount	LEC State Funds
Toledo Harbor Sediment Management and Reuse	$275,000	$250,000	$25,000
Lake Erie Synthesis and Coordination Team	$219,500	$200,000	$19,500

The purpose of the Toledo Harbor Sediment Management and Reuse project is to develop a sediment management plan for the Toledo Harbor. As can be seen from the table, this project's funding includes a $250,000 GLRI grant and $25,000 in state funds appropriated for use by the Commission. The plan, which is to be developed by the multi-jurisdictional Toledo Harbor Dredging Task Force, will take around 24 months to complete and will recommend short and long-term options to eliminate near shore disposal of dredged sediment, restore aquatic and upland habitat, provide alternatives for the reuse of dredged sediments, incorporate sediment reductions, and assure environmentally responsible dredging. The Maumee River, which empties into Lake Erie at Toledo, is the largest contributor of sediment to the Great Lakes.

The purpose of the Lake Erie Synthesis and Coordination Team project is to focus on linking management and research projects to enhance the value and impact of research, improve management decisions, and clearly and concisely synthesize and summarize the results of both for managers, decisions makers, elected officials, and the public. The funding mix for this project includes a $200,000 GLRI grant and $19,500 in state funds appropriated for use by the Commission. The project is a three-year effort involving collaboration between the Commission, the Lake Erie Millennium Network, and the Ohio Sea Grant College Program

Centralized Diagnostic Equipment Saves DRC $1.1 million in Medical Expenditures Over 18-Month Period

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

According to the Department of Rehabilitation and Correction (DRC), as a result of centralizing the performance of MRI (magnetic resonance imaging) tests and CT (computed tomography) scans at the Corrections Medical Center (CMC) in March 2009, it has saved $1.1 million in medical expenditures through August 2010. As noted in the table below, the costs to perform over 2,800 tests and scans at CMC, including the equipment leasing cost, totaled just over $864,000. The projected costs of performing the MRI tests and CT scans at the Ohio State University Medical Center or a hospital close to the inmates' assigned institutions were $2.0 million. If the one-time $71,688 costs to prepare the CMC site for the placement of the medical equipment are factored in, the net savings was $1.1 million.

These MRI tests and CT scans are performed in-house at CMC on mobile medical equipment that DRC leases from Illinois-based Shared Imaging. DRC contracts with Mid Ohio Radiology of Powell, Ohio, to interpret and read the tests and scans performed at the CMC. The CMC is a secure state correctional health care facility that provides both acute and long-term care services, inpatient skilled care, end-of-life care, and specialty outpatient services to inmates.

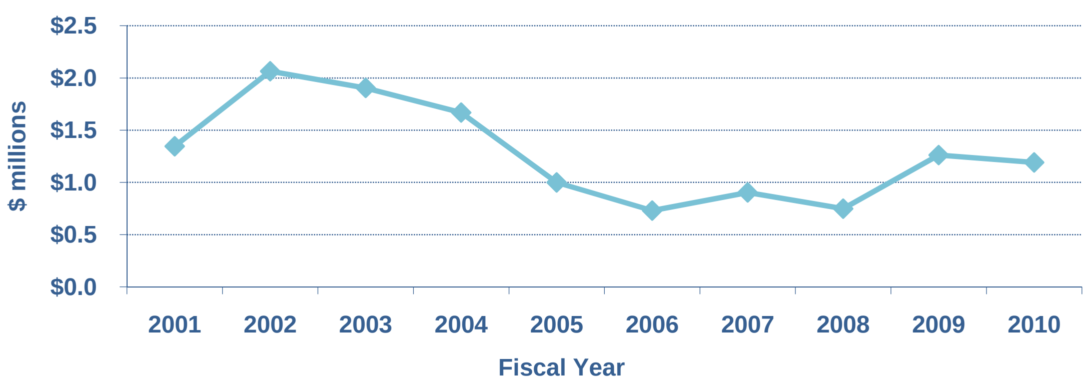
MRI/CT Cost Comparison, March 2009 through August 2010				
Number of MRIs/CTs	Projected Hospital MRI/CT Cost	Actual DRC Medical Costs		Net Savings
		In-House MRI/CT	Site Preparation	
2,802	$2,006,794	$864,198	$71,688	$1,070,908

Fines Paid by Liquor Permit Holders Totaled $1.2 million in FY 2010

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

In FY 2010, liquor permit holders paid $1.2 million in fines to the Liquor Control Commission for violating the state's liquor laws. This amount is $70,700, or 5.6%, less than the $1.3 million paid during FY 2009. In general, the Commission may offer permit holders the option of paying fines, also called forfeitures, in lieu of permit suspension or revocation, depending on the circumstances of the case and the permit holder's prior citation record. The state's liquor laws provide the Commission flexibility in determining forfeiture amounts, especially for repeat offenders. As a result, the amount of forfeitures collected vary from year to year based on the number and type of cases heard as well as the Commission's judgment concerning the frequency and severity of the offenses involved. This variability is illustrated in the chart below, which shows forfeiture revenue from FY 2001 to FY 2010. Over the last decade, forfeiture revenue ranged from a high of $2.1 million in FY 2002 to a low of $0.7 million in FY 2006. All the revenue the Commission receives from the fines is deposited into the GRF. The Commission's operating expenses, however, are not paid from the GRF, but rather from the Liquor Control Fund (Fund 7043), the primary revenue source for which is retail and wholesale liquor sales.

Forfeitures Collected, FY 2001-FY 2010



TRACKING THE ECONOMY

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

National economic expansion has picked up somewhat. Ohio's economy also continues to recover.

Overview

National economic expansion, underway since the June 2009 recession trough, is continuing and has picked up somewhat. Ohio's economy also continues to recover. Total nonfarm payroll employment nationwide rose by 103,000 in December, and the unemployment rate fell to 9.4%, lowest since May 2009. Inflation-adjusted gross domestic product (real GDP) rose at a 2.6% annual rate in the third quarter. Industrial production increased through November, and probably rose again in December based on purchasing managers' reports. Consumer spending improved through the holiday season. Light motor vehicle sales in the fourth quarter were the strongest in any quarter since 2008. Construction spending rose in the latest three months but remains weak for both residential and nonresidential building. Inflation at the finished goods and services level is low but upward pressures continue on commodity prices.

Following the December meeting of the central bank's Federal Open Market Committee, monetary policy was held unchanged, reflecting meeting participants' perception of only limited improvement in near-term prospects for the economy. Short-term interest rates were kept at extremely low levels, with the target federal funds rate held at zero to 0.25%, and the expectation reiterated that exceptionally low levels for this rate were likely to be warranted "for an extended period." Programs were continued to reinvest principal payments from securities in the central bank's portfolio, rather than allow the portfolio to shrink, and to purchase an additional $600 billion of longer term Treasury securities by the end of the second quarter. Despite this large current and prospective injection of funds into the U.S. Treasury securities market, interest rates on Treasury notes and bonds have risen during the past two to four months.

The National Economy

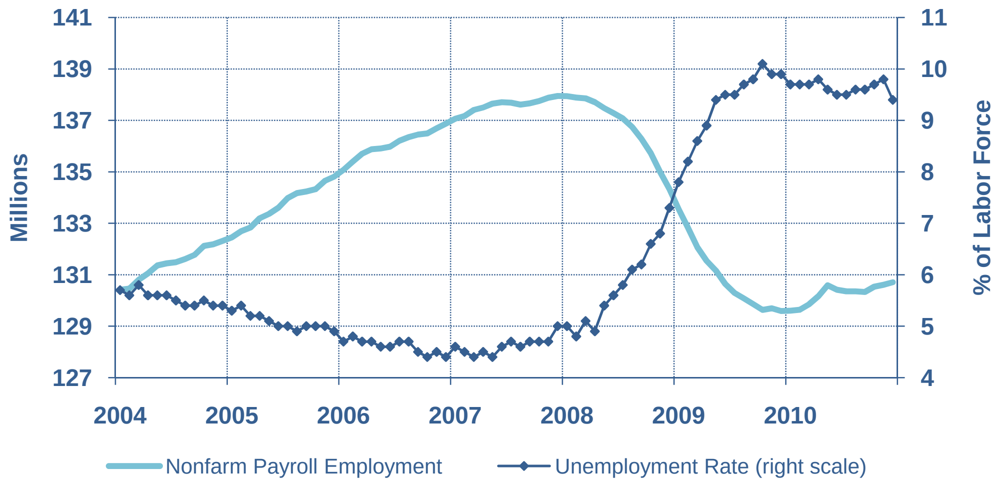
Employment and Unemployment

U.S. nonfarm payroll employment rose by 103,000 (0.1%) in December, and employment in November was revised upward by 70,000. Total nonfarm payroll employment has risen about 1.1 million from the low point for this business cycle in December 2009.

Unemployment fell in December to 14.5 million, reducing the national average unemployment rate to 9.4%. These trends are shown in Chart 1.

U.S. nonfarm payroll employment rose by 103,000 (0.1%) in December, and about 1.1 million from the low point in December 2009.

Chart 1: U.S. Employment and Unemployment



Employment gains in December were mainly in leisure and hospitality, health care, and temporary help services. Month-to-month changes in employment in other sectors were relatively small. Compared with a year ago, employment gains were sizable in temporary help services, which rose 308,000 (16%); health care, up 266,000 (1.9%); food services and drinking places, up 188,000 (2.0%); durable goods manufacturing, up 158,000 (2.2%); and mining, up 91,000 (14%). Local governments reduced employment by 256,000 (1.8%) in the latest year, and by 378,000 (2.6%) since the peak in September 2008.

In December, the unemployed included 6.4 million who had been out of work for more than 6 months. Employed persons included 8.9 million working part time who would have preferred full-time jobs. Persons not in the labor force (neither employed nor actively looking for work) because they believed no work was available for them totaled 1.3 million.

Production, Shipments, and Inventories

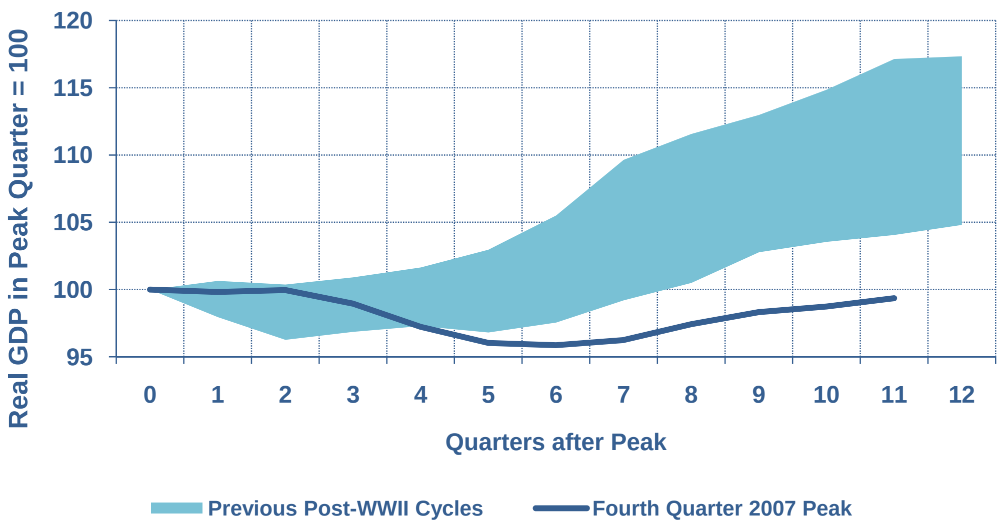
Real GDP rose at a 2.6% annual rate in the third quarter of 2010, revised upward slightly from 2.5% reported previously. The third quarter increase was the fifth consecutive gain, but increases since the recession low point averaged only 2.9%, at an annual rate. During this period, businesses shifted from inventory liquidation to rebuilding. Rising exports and consumer spending accounted for most of the expansion in final demand, augmented by increased business investment in equipment and software, and by higher federal spending. Investment in residential

Real GDP rose at a 2.6% annual rate in the third quarter of 2010, the fifth consecutive gain.

and nonresidential structures, and state and local government outlays, contracted on balance. Part of the rise in total demand for goods and services was met by rapid growth of imports.

Recovery from the long and deep recession of 2007-2009 has been slow compared with typical business cycle recoveries since World War II. Real GDP in the third quarter of 2010 was still below its level at the pre-recession peak in the fourth quarter of 2007. At comparable points in each of the previous ten business cycles, the economy's total production was well above the previous peak. This is illustrated in Chart 2, in which the previous ten cycles are represented as a range, from minimum to maximum. In this chart, for each recession and subsequent recovery and expansion, the peak quarter at the start of the recession is that designated by the National Bureau of Economic Research.

Chart 2: Real GDP After Business Cycle Peaks



Industrial production rose 0.4% from October to November, and was 5.4% higher than a year earlier. Manufacturing output increased 0.3% in November, with gains in durable and nondurable goods production. Utility output climbed, following declines in the previous three months, on a return to more seasonable weather, with resulting increased heating demand. Total industrial production has recovered about 55% of the output decline from the peak in September 2007 to the low point in June 2009.

Expansion of manufacturing activity continued in December, as indicated by the survey of purchasing managers conducted by the Institute for Supply Management (ISM). Production, new orders, employment, inventories, and exports rose, accompanied by faster increases in prices paid. Order backlogs contracted, however. An overall index of manufacturing sector activity showed expansion to be the most widespread since last May. A comparable ISM report on nonmanufacturing sector activity showed faster growth in December of business activity, new orders, inventories, and prices. Order backlogs contracted, however, for those nonmanufacturing organizations reporting the change in their unfilled orders.

Manufacturers' new orders rose 0.7% in November, seasonally adjusted, and have increased 20% since the recession low in March 2009. Factory shipments rose 0.8% in November, to 15% higher than in May 2009. Unfilled orders of manufacturers rose 0.6% in November, to 4% higher than in December 2009. None of these broad measures of factory activity has recovered to its previous peak.

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Consumer Spending

Personal income rose 0.3% in November after increasing 0.4% in October. Consumption expenditures rose 0.4% in November, and 0.3% adjusted for inflation, continuing an uptrend underway since April 2009. Inflation-adjusted consumer spending in October and November exceeded the pre-recession peak at the end of 2007.

Retail and food service sales rose 0.8% from October to November, after increasing 1.7% in the previous month. Sales of motor vehicle dealers fell in November after a large increase the month before. Other durable goods retailers – furniture and home furnishings stores, appliance dealers, and sellers of building materials and garden supplies – also experienced sales declines in November, though this followed a large increase the month before at building material and garden supply stores. Sales rose at most other types of stores in November.

Sales of light motor vehicles rose in December to a 12.5 million unit seasonally adjusted annual rate, up from a 12.2 million unit rate in October and November. The December sales pace was the strongest since 2008, except for August 2009 when car and light truck sales were boosted by the federal stimulus program commonly known as "Cash for Clunkers." Fourth quarter light motor vehicle sales were up from the third quarter at a 29% seasonally adjusted annual rate, a strong performance that will be reflected in GDP growth to be reported later this month.

Sales of large retailers in December were 2.8% higher than a year earlier, on a same-store basis as compiled and reported by Bank of Tokyo-Mitsubishi UFJ.[10] This follows a robust 5.2% year-over-year gain in

[10] Same-store sales include only sales at store locations open in both the current and year-earlier months. The figures cited above exclude Wal-Mart, the

November. December's increase was the strongest for the month since 2006, and was likely held down somewhat by severe winter weather along the East Coast after Christmas that disrupted travel.

Construction and Real Estate

Housing starts nationwide in November rose 4% from October but remained at a low level.

Although mortgage interest rates remain at very affordable levels, by historical standards, rates have risen sharply in recent weeks, along with bond market yields. Contract interest rates on commitments for 30-year fixed-rate first mortgages, as reported in a weekly survey from Freddie Mac, rose from a low of 4.17% for the week ended November 11 to 4.86% at the end of December before dropping to 4.77% in the first week of January.

Housing prices are also at more affordable levels, both absolutely and relative to home buyers' incomes, than at their peaks four to five years ago. Concerns that prices may decline further are likely deterring some prospective buyers, however. An index of housing prices nationwide, reported by the Federal Housing Finance Agency, rose 0.7% in October, seasonally adjusted, after declining 1.2% in September to the lowest level since 2004. The housing price index in October was 3.4% lower than a year earlier, and 14.5% below the April 2007 peak. This index is calculated using purchase prices of houses backing mortgages sold to or guaranteed by Fannie Mae or Freddie Mac. Another index of housing prices, Standard & Poor's Case-Shiller index for 20 large cities, fell 1.0% from September to October, seasonally adjusted, and was 0.8% lower than a year earlier, and 29.6% below its peak in 2006. The 20-city index was back to its level in 2003, but above its recent trough in April 2009.

Housing starts nationwide in November rose 4% from October, seasonally adjusted, but remained at a low level, only about one-fourth of the pace of starts five years ago. Year-to-date housing starts through November were 7% higher than a year earlier, mainly reflecting building activity in the first half of this year, likely in part a result of federal tax incentives. In all of 2009, housing starts fell 39%. Housing units authorized by permits but not yet started fell in November to the lowest level since 1961. The number of housing units under construction at the end of November was at the lowest level on records maintained since the end of 1969. Housing units under construction in the Midwest were also at the lowest level on record.

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largest retailer, and other stores that publish results quarterly rather than monthly.

New homes sold in the U.S. rose 5%, seasonally adjusted, from October to November. Year-to-date sales were 15% lower than a year earlier. The new home sales rate in November remained less than one-fourth of sales in 2005. Homes continue to take longer to sell than was typical in the past. The median number of months that homes had been for sale since completion was 8.2 at the end of November, down from 14.4 months in March but well above the median time of 5 months during 1975 to 2010.

Home sales reported by the National Association of Realtors (NAR), which consist mostly of units that were previously occupied, rose 6% from October to November, but were 28% lower than in November 2009, ahead of the deadline, subsequently extended, to qualify for a federal tax credit. NAR indicated that about one-third of sales continue to be distressed sales (including foreclosures and other sales that generate too little cash to repay the lender in full as well as cover all other charges due at closing). At the end of November, the number of units listed for sale amounted to a relatively high 9.5 months of sales.

NAR's statistics on home sales represent closings on transactions. Another series from NAR, pending home sales, is an index of contract signings for the sale and purchase of residential property. The pending home sales index tends to lead closings by one to two months. The nationwide pending home sales index rose 3% in November, to a level 22% above the low point in June. Pending home sales fell sharply after last April, the end of the period when home buyers could enter into contracts and, if other requirements were met, qualify for income tax credits.

Construction spending rose 0.4% in November, the third consecutive monthly increase.

Construction spending rose 0.4% in November, the third consecutive monthly increase in the dollar value of construction put in place. Private residential building and public construction were higher in November, partially offset by a small decrease in private nonresidential construction. Year-to-date total construction activity was 11% lower than a year earlier, as private residential construction spending was 1% lower, private nonresidential construction was 24% lower, and public construction was 3% lower.

Inflation

Inflation as measured by the consumer price index (CPI) remains low. The CPI for all items rose 0.1% in November, and was 1.1% higher than a year earlier. The CPI excluding food and energy was 0.8% higher than a year ago. Some components showed larger increases. Food prices on average were 1.5% higher than a year earlier, and energy prices were

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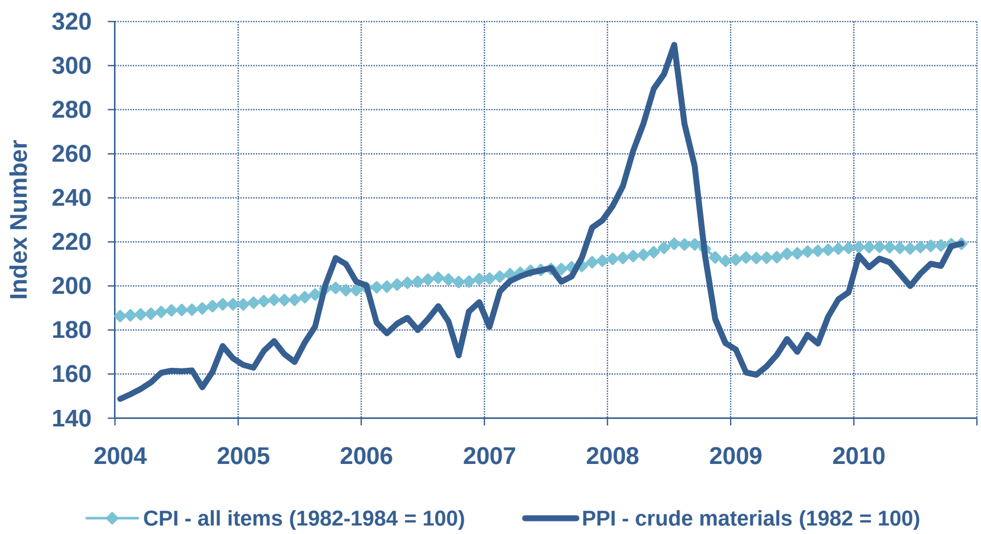
3.9% higher. Gasoline prices averaged 7.3% above a year ago, used car and truck prices were 6% higher, and medical services averaged 3.4% higher. On the other hand, the index for utility (piped) gas service was 4.8% lower than a year earlier, and fell 5.7% in the latest month. Apparel prices on average were 0.8% less than a year ago.

Gasoline prices in the U.S., including those in Ohio, rose above $3 per gallon in late December and into early January for the first time since October 2008, based on the Energy Information Administration's weekly survey. These prices have been pushed higher by a rise in the primary raw material for gasoline production, crude oil. Prices for crude oil have also risen to their highest levels since October 2008.

Producer price indexes (PPI) show larger increases, overall, than the CPI, though some components within the PPI are lower. The PPI for finished goods rose 0.8% from October to November, rising to 3.5% higher than a year earlier. For intermediate (or semifinished) goods, the PPI rose 1.1% in November, to 6.3% higher than a year earlier. The PPI for crude materials (such as grain, livestock, coal, metal scrap) rose 0.6% in November to 12.8% higher than a year earlier.

Recent trends in consumer and producer prices are shown in Chart 3. The nearly flat line for the CPI in 2010 reflects the low rate of overall inflation at the finished goods and services level. However, commodity prices are up more sharply. One measure of this, the PPI for crude materials, has jumped 37% since hitting a low point early in the first half of 2009.

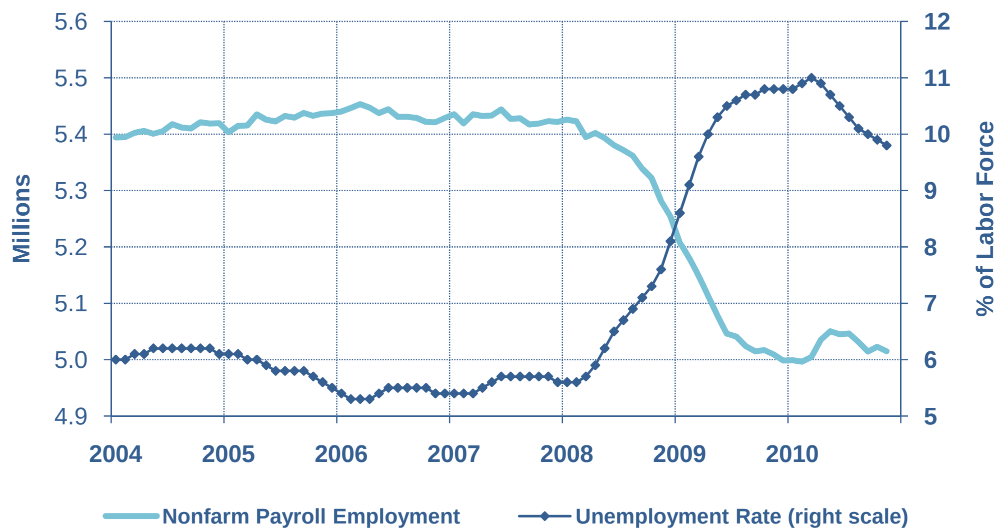
Chart 3: Consumer and Producer Prices



The Ohio Economy

Total nonfarm payroll employment in Ohio declined 7,800 (0.2%) in November, following an increase of 8,300 in October. Statewide unemployment fell to 9.8% of the labor force in November, the lowest unemployment rate in Ohio since March 2009. Ohio employment and unemployment are shown in Chart 4.

Chart 4: Ohio Employment and Unemployment



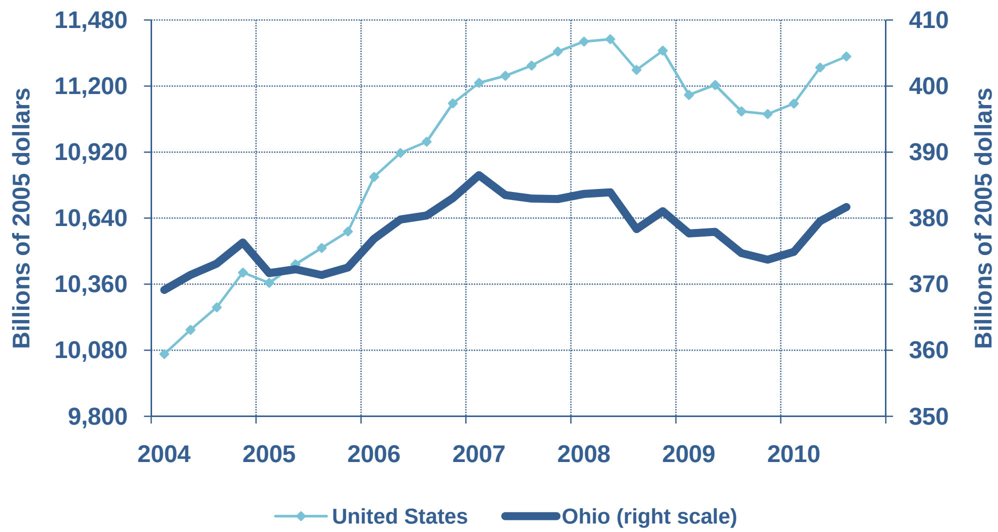
Ohio's statewide unemployment rate fell to 9.8% in November, lowest since March 2009.

Nonfarm payroll employment in the state rose, seasonally adjusted, in March, April, and May, by a total of 1.1% from its cyclical low point in February, but has since fallen back to only 0.4% above the February trough. This compares with an increase in nonfarm payroll employment nationwide of 0.7% from February to November. The net increase in Ohio employment since February is more than accounted for by increased employment in durable goods manufacturing, construction, and various service industries including health care, partly offset by reduced employment in government, particularly local government, and in other private service industries including finance and insurance. Average weekly hours and hourly earnings of Ohioans employed in the private sector continue to track ahead of year-earlier levels.

State personal income growth slowed in the third quarter. The U.S. Bureau of Economic Analysis estimates that Ohio personal income rose 0.8% from the second to the third quarter, less than the 1.2% growth estimated for the previous quarter. Growth in most other states and nationwide also slowed. Personal income has risen since reaching a low point at the end of 2009, adjusted for inflation, in both the nation and Ohio, as shown in Chart 5. Growth in 2010 has averaged 3.0% at an annual rate for the U.S. and 2.9% for Ohio.

Ohio personal income rose 0.8% from the second to the third quarter.

Chart 5: Personal Income



Ohio's resident population measured by the 2010 census was 11,536,504, equal to 3.7% of the U.S. total. Ohio was seventh largest among the states on this basis. The population of the state on April 1, 2010, was 6,141 (0.1%) lower than the estimate from the U.S. Bureau of the Census of Ohio's population as of July 1, 2009. Compared with the 2000 census, Ohio's population was 183,364 (1.6%) higher.

The Ohio Association of Realtors (OAR) reported that home sales in November were 28% lower than a year earlier. OAR noted that year-ago sales surged as first-time buyers sought to qualify for a tax credit ahead of a month-end deadline, which was later extended into 2010. Year-to-date unit sales of homes were 5% lower than in the comparable period of 2009. The average sales price in Ohio during January through November, about $133,000, was 3% higher than in the same months of 2009.

Ohio was one of nine states classified by United Van Lines as having a high percentage of outbound moves (55% or more) in 2010, in an annual summary of household moves handled by that company. Ranked by the net number of outbound moves, Ohio was in the top five states, along with New Jersey, Illinois, Michigan, and Missouri. Top destination states, based on the net number of inbound moves in 2010, were Florida, Texas, and North Carolina. Interstate household moves handled by the company, among the 48 contiguous states and the District of Columbia, were 3% higher last year than in 2009 but were 35% below the number of moves in 2006.