Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION JULY 2011

STATUS OF THE GRF

HIGHLIGHTS

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

FY 2011 exhibited encouraging signs of economic recovery. Ohio's unemployment rate dropped from 10.1% in June 2010 to 8.6% in May of this year, and payroll employment in Ohio grew by 71,000 over the same period. Similarly, GRF tax revenues grew by 9.1% for the year. Despite that growth, though, tax revenues have recovered less than half the amount lost from FY 2008 to FY 2010. The effects of the Great Recession linger on, despite its official end nearly two years ago.

FY 2011 GRF sources of $27.76 billion exceeded GRF uses by $333.5 million. The GRF finished the year with an unobligated cash balance of $430.0 million. On July 11, $246.9 million was transferred from the GRF to the Budget Stabilization Fund. The remainder of the balance is used to meet the required ending fund balance and for certain transfers authorized in the recently enacted operating budget.

Simplified GRF Cash Statement, as of June 30, 2011 ($ in millions)	
Beginning Cash Balance	**$510.3**
Plus Revenues and Transfers in	$27,762.6
Less Expenditures and Transfers Out	$27,429.1
Ending Cash Balance	**$843.8**
Less Encumbrances	$413.8
Unobligated Ending Cash Balance	**$430.0**
Plus Budget Stabilization Fund (BSF) Balance	$0.0
Combined GRF and BSF Unobligated Ending Balance	**$430.0**

VOLUME 34, NUMBER 11

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

Next Issue:
September 2011
Have a Great Summer!

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

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$94,638	$82,200	$12,438	15.1%
Nonauto Sales and Use	$552,773	$528,200	$24,573	4.7%
Total Sales and Use Taxes	$647,411	$610,400	$37,011	6.1%
Personal Income	$775,847	$779,000	-$3,153	-0.4%
Corporate Franchise	$5,049	$10,000	-$4,951	-49.5%
Public Utility	$493	$1,000	-$507	-50.7%
Kilowatt Hour Excise	$9,062	$9,900	-$838	-8.5%
Commercial Activity Tax**	$0	$0	$0	---
Foreign Insurance	-$385	-$2,100	$1,715	81.7%
Domestic Insurance	$91,634	$14,866	$76,768	516.4%
Business and Property	$21,944	$2,400	$19,544	814.3%
Cigarette	$76,579	$66,400	$10,179	15.3%
Alcoholic Beverage	$4,839	$5,800	-$961	-16.6%
Liquor Gallonage	$3,232	$3,100	$132	4.3%
Estate	$1,708	$600	$1,108	184.6%
Total Tax Revenue	**$1,637,414**	**$1,501,366**	**$136,048**	**9.1%**
NONTAX REVENUE				
Earnings on Investments	$1,787	$24,000	-$22,213	-92.6%
Licenses and Fees	$394	$1,169	-$775	-66.3%
Other Revenue	$379	$8,130	-$7,751	-95.3%
Total Nontax Revenue	**$2,560**	**$33,299**	**-$30,739**	**-92.3%**
TRANSFERS				
Liquor Transfers***	$15,300	$10,000	$5,300	53.0%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$466,773	$296,634	$170,139	57.4%
Total Transfers In	**$482,073**	**$306,634**	**$175,439**	**57.2%**
TOTAL STATE SOURCES	**$2,122,047**	**$1,841,298**	**$280,749**	**15.2%**
Federal Grants	$485,146	$236,263	$248,883	105.3%
TOTAL GRF SOURCES	**$2,607,193**	**$2,077,561**	**$529,632**	**25.5%**

* 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 June 30, 2011.
Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Preliminary Actual vs. Estimate
FY 2011 as of June 30, 2011
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on July 6, 2011)

	Actual	Estimate*	Variance	Percent	FY 2010	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$976,949	$893,200	$83,749	9.4%	$882,877	10.7%
Nonauto Sales and Use	$6,601,287	$6,374,100	$227,187	3.6%	$6,194,494	6.6%
Total Sales and Use Taxes	$7,578,235	$7,267,300	$310,935	4.3%	$7,077,372	7.1%
Personal Income	$8,120,323	$7,567,600	$552,723	7.3%	$7,247,224	12.0%
Corporate Franchise	$236,633	$132,400	$104,233	78.7%	$141,748	66.9%
Public Utility	$124,836	$180,000	-$55,164	-30.6%	$136,739	-8.7%
Kilowatt Hour Excise	$153,875	$167,200	-$13,326	-8.0%	$156,289	-1.5%
Commercial Activity Tax**	$0	$0	$0	---	$0	---
Foreign Insurance	$256,269	$250,000	$6,269	2.5%	$250,776	2.2%
Domestic Insurance	$189,369	$196,000	-$6,631	-3.4%	$161,676	17.1%
Business and Property	$26,026	$24,000	$2,026	8.4%	$27,250	-4.5%
Cigarette	$855,610	$794,000	$61,610	7.8%	$886,875	-3.5%
Alcoholic Beverage	$55,370	$58,000	-$2,630	-4.5%	$56,092	-1.3%
Liquor Gallonage	$37,615	$36,000	$1,615	4.5%	$36,544	2.9%
Estate	$72,081	$60,500	$11,581	19.1%	$55,024	31.0%
Total Tax Revenue	**$17,706,243**	**$16,733,000**	**$973,243**	**5.8%**	**$16,233,609**	**9.1%**
NONTAX REVENUE						
Earnings on Investments	$7,116	$87,500	-$80,384	-91.9%	$28,804	-75.3%
Licenses and Fees	$58,960	$62,000	-$3,040	-4.9%	$66,211	-11.0%
Other Revenue	$169,200	$208,000	-$38,800	-18.7%	$300,675	-43.7%
Total Nontax Revenue	**$235,275**	**$357,500**	**-$122,224**	**-34.2%**	**$395,691**	**-40.5%**
TRANSFERS						
Liquor Transfers***	$154,762	$136,300	$18,462	13.5%	$167,969	-7.9%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$1,237,378	1,236,540	$838	0.1%	$1,254,200	-1.3%
Total Transfers In	**$1,392,140**	**$1,372,840**	**$19,300**	**1.4%**	**$1,422,169**	**-2.1%**
TOTAL STATE SOURCES	**$19,333,658**	**$18,463,340**	**$870,318**	**4.7%**	**$18,051,469**	**7.1%**
Federal Grants	$8,428,972	$8,370,930	$58,042	0.7%	$6,899,616	22.2%
TOTAL GRF SOURCES	**$27,762,630**	**$26,834,270**	**$928,359**	**3.5%**	**$24,951,084**	**11.3%**

* 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 June 30, 2011.
Detail may not sum to total due to rounding.

REVENUES

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

June GRF sources were $529.6 million above estimate.

Overview

Total GRF sources of $2.61 billion in June 2011 were $529.6 million above projections, primarily due to timing-related positive variances of $175.4 million in transfers into the GRF and $76.8 million in the domestic insurance tax. Both state-source receipts and federal grants were above estimates, respectively, by $280.7 million and $248.9 million. Tables 1 and 2 show GRF sources for the month of June 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.

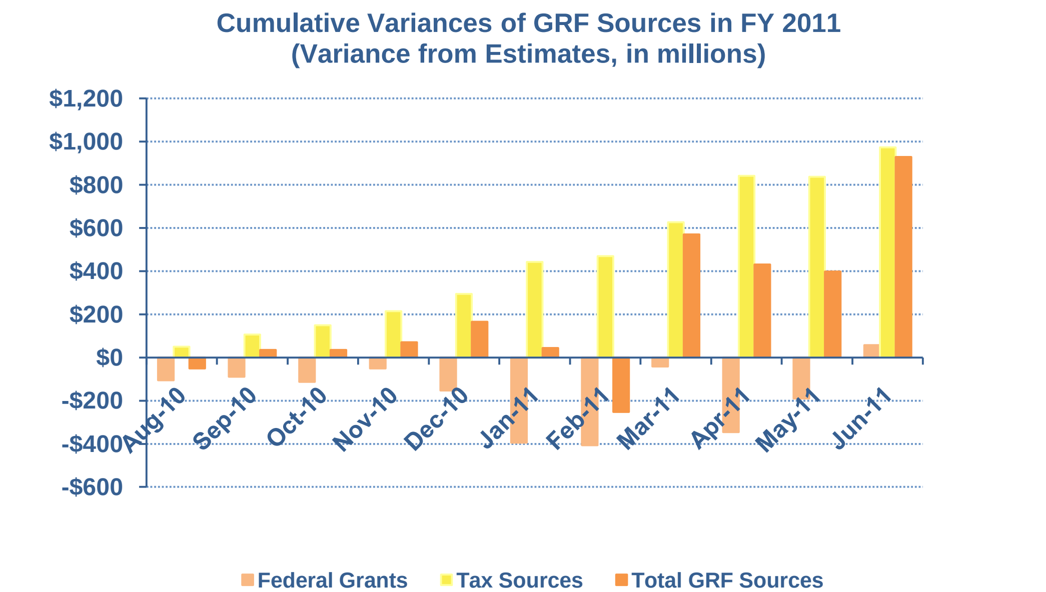
FY 2011 tax receipts were $973.2 million above estimate.

June 2011 tax receipts of $1.64 billion were $136.0 million above estimate due in part to the domestic insurance tax surplus, increasing the year-to-date positive variance to $973.2 million, up from $837.2 million at the end of May 2011. June receipts from the sales and use tax and the cigarette tax were above estimates, respectively, by $37.0 million and $10.2 million. The third major tax source, the personal income tax, was $3.2 million below estimate. The business and property tax (also called dealers in intangibles) reversed the shortfall of the previous month, and was $19.5 million above estimate. The estate tax and the foreign insurance tax were, respectively, $1.1 million and $1.7 million above anticipated receipts. The corporate franchise tax was below estimate by $4.9 million, and the alcoholic beverage tax by $1.0 million. The remaining tax sources varied from their monthly estimates by small amounts. Nontax revenues were $30.7 million below estimate, mostly due to a deficit of $22.2 million in earnings on investments. Other transfers in were $170.1 million above estimate in June, reversing a timing-related shortfall experienced in May.

FY 2011 GRF sources were $928.4 million above estimate.

Through June, FY 2011 total GRF sources of $27.76 billion were $928.4 million above estimate. State-source receipts of $19.33 billion were above estimate by $870.3 million, and the surplus in federal grants was $58.0 million. The positive variance in tax receipts of $973.2 million was partially offset by a negative variance of $122.2 million in nontax revenues, with the bulk of the deficit from a shortfall of $80.4 million in earnings on investments. The personal income tax was above estimate by $552.7 million, the sales and use tax by $310.9 million, and the cigarette tax by $61.6 million. Through June, FY 2011 corporate franchise tax receipts of $236.6 million were $104.2 million above estimate. The estate tax was above estimate by $11.6 million. The foreign insurance tax posted a positive variance of $6.3 million, the business and property tax was above estimate by $2.0 million, and the liquor gallonage tax exceeded anticipated receipts by $1.6 million. The remaining tax sources were below estimates. The public utility excise tax was below estimate by $55.2 million. The kilowatt hour tax was below projection by $13.3 million, the domestic insurance tax by $6.6 million, and the alcoholic beverage tax by $2.6 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 federal grants were $58.0 million above estimate.



FY 2011 GRF sources increased $2.81 billion compared to receipts in FY 2010, from higher tax receipts ($1.47 billion) and federal grants ($1.53 billion). Those gains were reduced by shortfalls of $160.4 million in nontax sources and $30.0 million in total transfers in. Receipts from the personal income tax and the sales and use tax were above the levels of FY 2010 by $873.1 million and $500.9 million, respectively. Corporate franchise tax receipts were $94.9 million higher than receipts in FY 2010. Other taxes with notable yearly revenue increases included the domestic insurance tax ($27.7 million), the estate tax ($17.1 million), the foreign insurance tax ($5.5 million), and the liquor gallonage tax ($1.1 million). FY 2011 receipts decreased for the cigarette tax ($31.3 million), the public utility excise tax ($11.9 million), the kilowatt hour tax ($2.4 million), the business and property tax ($1.2 million), and the alcoholic beverage tax ($0.7 million).

Personal Income Tax

June GRF receipts from the personal income tax of $775.8 million were $3.2 million (0.4%) below estimate and $31.8 million (4.3%) above receipts in June 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,[1] trust payments, payments associated with annual returns, and miscellaneous payments.

June GRF receipts from the personal income tax were $3.2 million below estimate.

Some of the personal income tax components were above estimate, while others were below estimate in June. Receipts from employer withholding were below estimate by $28.3 million (4.6%). Estimated payments were above estimate by $24.6 million (11.6%). Payments associated with annual returns, and trust payments were above projections by, respectively, $1.2 million (9.1%) and $0.9 million (21.2%). The GRF received $8.12 billion from the personal income tax in FY 2011. This amount was $552.7 million (7.3%) above estimate and $873.1 million (12.0%) above receipts in FY 2010.

The table below summarizes FY 2011 income tax revenue variances from estimates and annual changes by components. All components contributed to the positive variance against estimates and to higher income tax collections this year. Also, through June, refunds were lower than corresponding amounts in FY 2010, and higher tax receipts lead to increased distributions to the Local Government Fund.

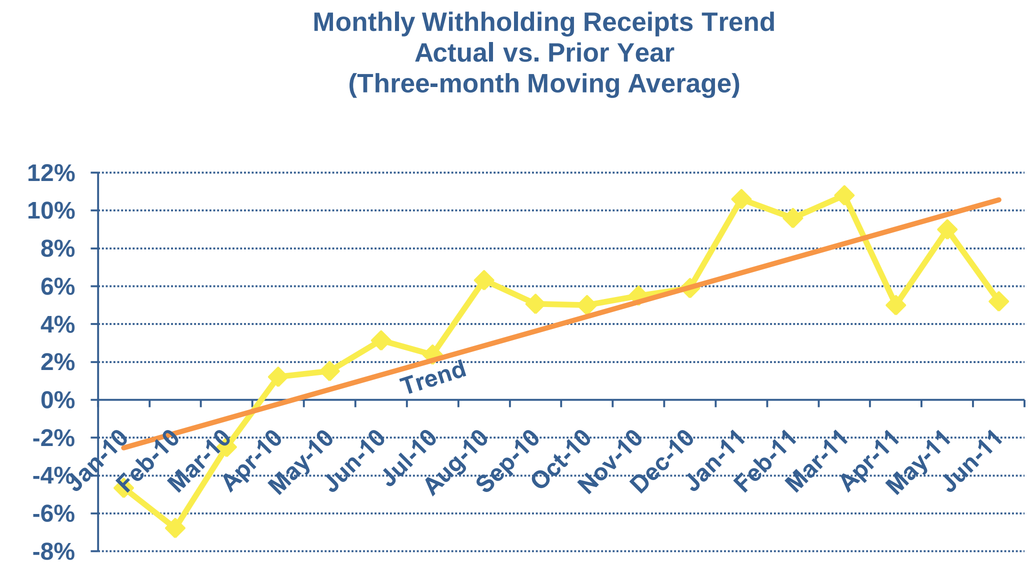
Through June, FY 2011 revenue from withholding was $203.4 million above estimate.

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	$203.4	2.8%	$457.2	6.6%
Quarterly Estimated Payments	$137.4	13.4%	$169.8	17.0%
Trust Payments	$11.6	27.4%	$12.9	31.5%
Annual Return Payments	$187.1	18.5%	$259.8	27.7%
Miscellaneous Payments	$22.1	20.1%	$22.8	20.9%
Gross Collections	$561.5	6.0%	$922.5	10.2%
Less Refunds	-$31.2	-2.7%	-$12.5	-1.1%
Less Local Government Fund Distribution	$40.0	6.0%	$61.8	9.7%
Income Tax Revenue	$552.7	7.3%	$873.1	12.0%

[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.

Employer withholding, the most important component of the tax, was $457.2 million (6.6%) above withholding receipts in FY 2010. The graph below shows the trend in withholding receipts since January 2010. Quarterly estimated payments and payments due with annual returns were higher, respectively, by $169.8 million (17.0%) and $259.8 million (27.7%). Overall, gross collections were up $922.5 million compared to FY 2010.



Sales and Use Tax

GRF sales and use tax receipts of $647.4 million in June were $37.0 million (6.1%) above estimate, and $41.8 million (6.9%) above receipts in June 2010. FY 2011 GRF sales and use tax receipts of $7.58 billion were $310.9 million (4.3%) above estimate and $500.9 million (7.1%) above receipts 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[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. Both components of the sales tax performed above expectations in FY 2011.

FY 2011 sales and use tax receipts were $310.9 million above estimate.

[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.

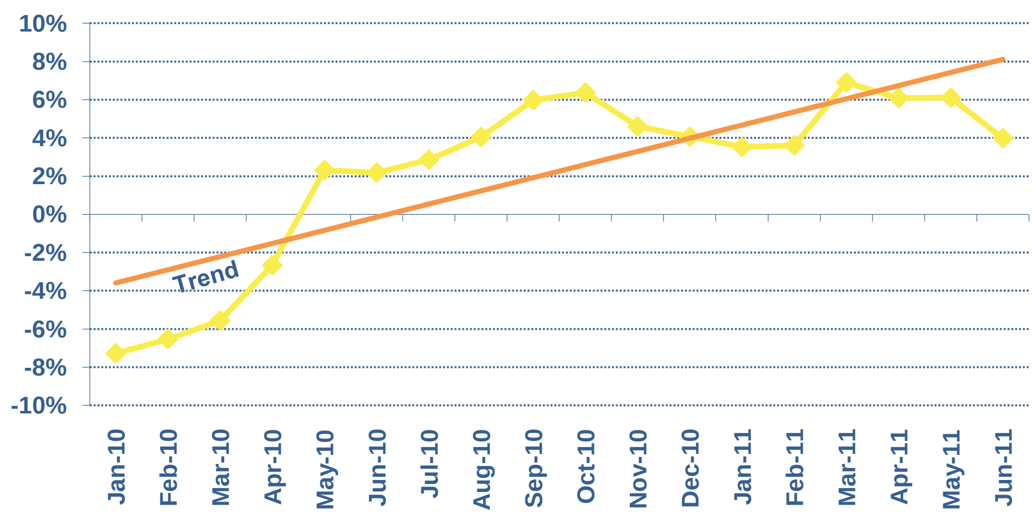
FY 2011 nonauto sales and use tax receipts were $227.2 million above estimate.

Nonauto Sales and Use Tax

GRF nonauto sales and use tax receipts were $552.8 million in June 2011, $24.6 million (4.7%) above estimate and $28.9 million (5.5%) above June 2010 receipts. For FY 2011, GRF nonauto sales and use tax receipts of $6.60 billion were $227.2 million (3.6%) above estimate and $406.8 million (6.6%) above receipts in FY 2010. The year-over-year variance reflects an expansion of the tax base, i.e., it includes payments for health care services provided by Medicaid health insuring corporations.[3] GRF sales tax receipts from those corporations totaled $275.0 million in FY 2011, $101.1 million (58.1%) more than in FY 2010.

Gasoline prices receded somewhat in May, bringing some relief to household budgets. Though concerns about the weakening of the economic recovery continue, taxable purchases are expected to increase in FY 2012, though at a more moderate pace than in FY 2011. Baseline growth is forecast to be about 3.5% in FY 2012.[4]

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



[3] 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 FYs 2010-2011). Those services are taxed under the sales and use tax and the insurance taxes.

[4] H.B. 153 (the operating budget act for the current biennium) decreased the distribution of GRF tax receipts to the Public Library Fund, and half of the amount to the fund is debited from the nonauto sales and use tax. The baseline forecast assumed continuation of previous law, thus, GRF revenue from the nonauto sales and usetax will likely grow somewhat faster than the baseline estimate.

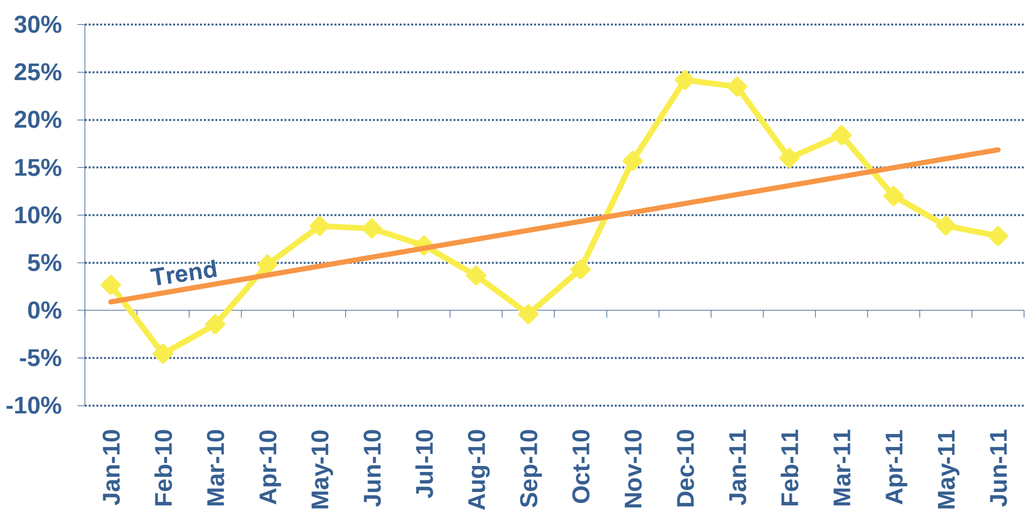
Auto Sales and Use Tax

Auto sales and use tax receipts of $94.6 million in June were $12.4 million (15.1%) above estimate and $12.9 million (15.8%) above receipts in June 2010. FY 2011 GRF receipts from the auto sales tax of $976.9 million were $83.7 million (9.4%) above estimate and $94.1 million (10.7%) above receipts in FY 2010. The graph below compares monthly receipts with year-ago receipts in the corresponding month.

FY 2011 auto sales and use tax receipts were $83.7 million above estimate.

U.S. auto sales remained sluggish for the second straight month. June vehicle sales were 11.4 million units on a seasonally adjusted annualized rate, below the pace of 11.8 million recorded in May. June sales brought quarterly sales to a 12.1 million annualized sales pace, down from an average of 13.0 million unit pace in the first quarter of 2011. Most major manufacturers posted smaller than expected sales gains due to tight inventories and fewer consumer incentives. The setback may be temporary and higher sales may occur in the third quarter to reflect new car arrivals from Japan since the March earthquake. The auto sales tax base is still growing, but is likely to grow at a more moderate pace than the 10.7% surge recorded in FY 2011.

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



Cigarette and Other Tobacco Products Tax

Receipts from the tax on cigarettes and other tobacco products were $76.6 million in June 2011, $10.2 million (15.3%) above estimate and $13.2 million (14.7%) below June 2010 receipts. FY 2011 receipts of $855.6 million were $61.6 million (7.8%) above estimate and $31.3 million (3.5%) below FY 2010 receipts through June. Receipts from cigarette sales were $803.7 million. Sales of products other than cigarettes provided

FY 2011 cigarette tax receipts were $61.6 million above estimate.

$51.9 million. Compared to FY 2010, receipts from the sale of cigarettes declined $34.7 million (4.1%) and those from the sale of other tobacco products increased about $3.4 million (7.0%). 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.

Commercial Activity Tax

FY 2011 CAT receipts were $59.6 million above estimate.

June receipts from the commercial activity tax (CAT) were $16.5 million. Those receipts were $10.8 million (189.5%) above estimate and $11.0 million (200.0%) above receipts in June 2010. Through June, FY 2011 receipts of $1.45 billion were $59.6 million (4.3%) above estimate and $108.5 million (8.1%) above receipts in FY 2010. Through FY 2011, revenues from the tax were not deposited into the GRF as they were 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 were distributed to the School District Tangible Property Tax Replacement Fund (70%) and to the Local Government Tangible Property Tax Replacement Fund (30%). Starting in FY 2012, the distribution of receipts to the GRF will resume,[5] while distributions to schools and other local governments will decrease. H.B. 153 (the operating budget for FY 2012 and FY 2013) prescribes distributions of receipts to the GRF of 25.0% in FY 2012 and 50.0% in FY 2013. Distributions to schools will be 52.5% and 35.0%, respectively. Distributions to local governments other than schools are scheduled to be 22.5% the first year and 15.0% the second year of the biennium. H.B. 153 also reduces the level of required payments to both schools and other local governments. Current law, though, still requires a GRF subsidy to the two funds if CAT receipts are insufficient for the reimbursements.[6]

Corporate Franchise Tax

FY 2011 corporate franchise tax receipts were $104.2 million above estimate.

FY 2011 receipts from the corporate franchise tax (CFT) were $236.6 million, $104.2 million (78.7%) above estimate and $94.9 million (66.9%) above FY 2010 (the first year the tax was paid only by financial corporations). The large increase in receipts over the prior year is believed to be due, in part, to recent higher capital requirements for

[5] A portion of CAT receipts were distributed to the GRF in FY 2006.

[6] Due to the CAT shortfall in making payments, the GRF subsidized the replacement funds by $96 million in FY 2009, and $282 million in FY 2010. FY 2011 subsidies were about $225 million, including education aid spending offsets required in law.

banks (about 81% of CFT liability in tax year 2009, the latest for which data are available) which resulted in a boost to the tax base.

Public Utility Excise Tax

Receipts from the public utility excise tax totaled $124.8 million in FY 2011, $55.2 million (30.6%) less than the estimate and $11.9 million (8.7%) less than in FY 2010. Taxes paid by natural gas companies account for about 97% of total tax receipts from the public utility excise tax. Revenues from this tax are based on utilities' gross receipts. Total revenues from natural gas sales in Ohio were higher on the strength of increased gas volumes delivered to industry than around the low point of the recession, coupled with higher average prices paid for gas by industrial users. The deterioration in public utility excise tax revenues may reflect the continuing growth of the natural gas Choice program, under which customers may select their natural gas suppliers. The gas is delivered by the local natural gas utilities. The value of the gas from the alternate supplier is subject to the sales tax rather than the public utility excise tax. As of March 2011, 69% of commercial and industrial customers of four large natural gas utilities in Ohio participated in the Choice program, up from 52% at the end of 2008, and 61% of residential customers participated, up from 50%.

FY 2011 receipts from the public utility excise tax were $55.2 million below estimate.

Kilowatt Hour Tax

GRF receipts from the kilowatt hour tax in FY 2011 were $153.9 million, which was $13.3 million (8.0%) below estimate. GRF receipts were $2.4 million (1.5%) lower than FY 2010 receipts. The decline was due to higher revenue distribution to the Public Library Fund (PLF). In FY 2011, 0.985% of total GRF tax revenues, half the amount credited to the PLF, were allocated out of kilowatt hour tax revenues. FY 2011 total kilowatt hour tax collections (all funds receipts) were $536.0 million, which was $17.6 million (3.4%) higher than FY 2010 total collections. The increase in FY 2011 was mainly due to increased electricity consumption and improved economic conditions compared with FY 2010. Under previous law, 63% of receipts from the tax were distributed to the GRF, 25.4% to the School District Property Tax Replacement Fund, and 11.6% to the Local Government Property Tax Replacement Fund. Beginning in FY 2012, H.B. 153 increases to 88% the proportion of tax revenue to the GRF, and decreases receipts earmarked for reimbursing school districts to 9%, and that to other local governments to 3%.

FY 2011 GRF receipts from the kilowatt hour tax were $13.3 million below estimate.

Foreign and Domestic Insurance Taxes

The domestic insurance tax yielded $189.4 million for the GRF in FY 2011 (17.1% more than the FY 2010 amount), while the foreign insurance tax raised $256.3 million (2.2% more than FY 2010). The domestic insurance tax is paid by insurance companies whose headquarters are located in Ohio, while the foreign tax is paid by those headquartered in other states. The increase in receipts from the domestic tax was entirely due to an increase in taxes paid by health insuring corporations (HICs); the other significant lines of business, property and casualty insurance and life and health insurance, paid less tax. The increase in receipts from HICs was primarily attributable to the expansion of the tax base to include Medicaid managed care, a provision of H.B. 1 of the 128th General Assembly.

Business and Property Tax

The business and property tax (also called the dealers in intangibles tax) is imposed on businesses (excluding financial institutions and insurance companies) engaged in lending money or buying and selling notes, mortgages, and securities. All taxes paid by "qualified" dealers are credited to the GRF. For "nonqualified" dealers, a share of the tax revenues, three mills, was deposited into the GRF in FY 2011. Revenues from the remaining five mills were distributed to counties and deposited in the county undivided local government funds. GRF receipts from the dealers in intangibles tax were $26.0 million in FY 2011, including $19.0 million from qualified dealers and $7.0 million from nonqualified dealers. FY 2011 receipts were $2.0 million (8.4%) above estimate, but $1.2 million (4.5%) below FY 2010 receipts. Receipts from nonqualified dealers decreased $1.2 million while receipts from qualified dealers were flat. Starting in FY 2012, H.B. 153 provides that the counties no longer receive revenues from the dealers in intangibles tax, and instead allocate all receipts to the GRF.

FY 2011 receipts from the alcoholic beverage tax were $2.6 million below estimate.

Alcoholic Beverage Tax

Receipts from the alcoholic beverage tax were $55.4 million in FY 2011, $2.6 million (4.5%) below estimate, and $0.7 million (1.3%) below FY 2010 receipts. Sales of wine and mixed beverages increased 2.1% this fiscal year, but declines in beer sales continued this fiscal year. After falling 3.1% in FY 2010, beer and malt beverages sales declined another 2.5%, resulting in the shortfall in alcoholic beverage tax receipts. Beer and malt beverages generate about 84% of the total alcoholic beverage tax receipts.

Liquor Gallonage Tax

Liquor gallonage tax receipts of $37.6 million in FY 2011 were $1.6 million (4.5%) above estimate, and $1.1 million (2.9%) higher than FY 2010 receipts. Liquor sales have increased steadily each year, as the market share for spirits grows at the expense of beer sales.

Estate Tax

The state GRF received $72.1 million from the estate tax in FY 2011. This amount was $11.6 million (19.1%) above estimate, and above FY 2010 receipts by $17.1 million (31.0%). Estate tax receipts vary from year to year because they depend on the net taxable value of a decedent's estate at the time of death, which depends on financial market conditions and the time of settlement made by each county with the state. The total estate tax revenue is shared by the state GRF (20%) and the municipality or township in which the decedent resided (80%). H.B. 153 eliminates the estate tax starting with dates of death in FY 2013.

FY 2011 GRF receipts from the estate tax were $11.6 million above estimate.

Earnings on Investments

In FY 2011, GRF earnings on investments of $7.1 million were $80.4 million (91.9%) below estimate and $21.7 million (75.3%) lower than FY 2010 earnings. Earnings on investments fell significantly because of declining state revenue collections, which resulted in lower fund balances to invest, and lower than expected interest rates.

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

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary, Secondary, and Other Education	$273,178	$297,945	-$24,767	-8.3%
Higher Education	$180,193	$51,536	$128,656	249.6%
Total Education	$453,371	$349,481	$103,890	29.7%
Public Assistance and Medicaid	$677,789	$174,632	$503,157	288.1%
Health and Human Services	$46,693	$41,523	$5,170	12.5%
Total Welfare and Human Services	$724,482	$216,155	$508,327	235.2%
Justice and Public Protection	$133,013	$130,054	$2,959	2.3%
Environment and Natural Resources	$2,430	$3,291	-$862	-26.2%
Transportation	$623	$1,914	-$1,291	-67.4%
General Government	$17,244	$15,130	$2,114	14.0%
Community and Economic Development	$6,911	$6,341	$570	9.0%
Capital	$0	$43	-$43	-100.0%
Total Government Operations	$160,221	$156,773	$3,448	2.2%
Tax Relief and Other	$99,938	$209,483	-$109,545	-52.3%
Debt Service	$25,524	$32,560	-$7,036	-21.6%
Total Other Expenditures	$125,463	$242,044	-$116,581	-48.2%
Total Program Expenditures	**$1,463,537**	**$964,453**	**$499,084**	**51.7%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$3,461	$11,200	-$7,739	-69.1%
Total Transfers Out	$3,461	$11,200	-$7,739	-69.1%
TOTAL GRF USES	**$1,466,998**	**$975,653**	**$491,345**	**50.4%**

* 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 June 30, 2011
($ in thousands)
(Actual based on OAKS reports run July 5, 2011)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2010**	**Percent Change**
Primary, Secondary, and Other Education	$6,740,044	$6,816,370	-$76,325	-1.1%	$6,743,373	0.0%
Higher Education	$2,410,989	$2,275,853	$135,136	5.9%	$2,424,091	-0.5%
Total Education	$9,151,033	$9,092,223	$58,811	0.6%	$9,167,464	-0.2%
Public Assistance and Medicaid	$11,425,794	$11,215,451	$210,343	1.9%	$9,421,903	21.3%
Health and Human Services	$1,099,120	$1,104,683	-$5,563	-0.5%	$1,016,960	8.1%
Total Welfare and Human Services	$12,524,915	$12,320,134	$204,780	1.7%	$10,438,863	20.0%
Justice and Public Protection	$1,940,199	$1,984,307	-$44,108	-2.2%	$1,933,600	0.3%
Environment and Natural Resources	$72,410	$73,450	-$1,040	-1.4%	$80,284	-9.8%
Transportation	$13,367	$14,513	-$1,146	-7.9%	$17,473	-23.5%
General Government	$275,479	$295,219	-$19,740	-6.7%	$283,228	-2.7%
Community and Economic Development	$103,244	$115,057	-$11,812	-10.3%	$108,320	-4.7%
Capital	$24	$426	-$402	-94.4%	$380	-93.7%
Total Government Operations	$2,404,723	$2,482,972	-$78,249	-3.2%	$2,423,286	-0.8%
Tax Relief and Other	$1,691,043	$1,659,998	$31,045	1.9%	$1,711,360	-1.2%
Debt Service	$475,892	$494,399	-$18,507	-3.7%	$400,453	18.8%
Total Other Expenditures	$2,166,935	$2,154,397	$12,538	0.6%	$2,111,812	2.6%
Total Program Expenditures	**$26,247,606**	**$26,049,726**	**$197,880**	**0.8%**	**$24,141,425**	**8.7%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers Out	$1,181,472	$914,800	$266,672	29.2%	$1,032,992	14.4%
Total Transfers Out	$1,181,472	$914,800	$266,672	29.2%	$1,032,992	14.4%
TOTAL GRF USES	**$27,429,078**	**$26,964,526**	**$464,552**	**1.7%**	**$25,174,417**	**9.0%**

* 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 July 07, 2011)

Medicaid (600525) Payments by Service Category	June: Actual	June: Estimate	June: Variance	June: Percent Variance	Year to Date: Actual thru June	Year to Date: Estimate thru June	Year to Date: Variance	Year to Date: Percent Variance
Managed Care Plans	$438,711	$0	$438,711	N/A	$5,111,552	$4,577,943	$533,609	11.7%
Nursing Facilities	$226,329	$234,632	-$8,303	-3.5%	$2,676,478	$2,731,918	-$55,440	-2.0%
Prescription Drugs	$166,909	$152,741	$14,168	9.3%	$1,717,027	$1,962,627	-$245,600	-12.5%
Hospitals	$142,265	$125,215	$17,050	13.6%	$1,499,556	$1,575,392	-$75,836	-4.8%
ICFs/MR	$44,682	$0	$44,682	N/A	$549,422	$498,025	$51,397	10.3%
ODJFS Waivers	$31,033	$30,569	$464	1.5%	$329,676	$382,969	-$53,293	-13.9%
Physicians	$31,651	$29,053	$2,598	8.9%	$337,745	$362,818	-$25,073	-6.9%
All Other	$144,428	$127,631	$16,797	13.2%	$1,553,144	$1,576,849	-$23,705	-1.5%
Total Payments	$1,226,008	$699,841	$526,167	75.2%	$13,774,600	$13,668,541	$106,059	0.8%
Total Offsets (non-GRF)	-$601,058	-$582,932	-$18,126	3.1%	-$3,321,448	-$3,496,767	$175,319	-5.0%
Total 600525 (net of offsets)	$624,950	$116,909	$508,041	434.6%	$10,453,152	$10,171,774	$281,378	2.8%
Medicare Part D (600526)	$19,636	$20,414	-$778	-3.8%	$187,771	$203,664	-$15,893	-7.8%
Total GRF	**$644,586**	**$137,323**	**$507,263**	**369.4%**	**$10,640,923**	**$10,375,438**	**$265,485**	**2.6%**
Total All Funds	**$1,245,644**	**$720,255**	**$525,389**	**72.9%**	**$13,962,371**	**$13,872,205**	**$90,166**	**0.6%**

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 month of June, GRF uses totaled $1.47 billion, $491.3 million (50.4%) above the estimate released by the Office of Budget and Management (OBM) in September 2010. This positive variance was mainly due to certain payments made in June for Medicaid services and for college and university subsidies that were not originally scheduled to be made in that month. For the whole fiscal year, GRF uses totaled $27.43 billion in FY 2011, $464.6 million (1.7%) above estimate. Tables 3 and 4 show GRF uses for the month of June and for FY 2011, respectively.

FY 2011 GRF uses were above estimate by $464.6 million. This amount is made up of positive variances of $197.9 million in program spending and $266.7 million in transfers out.

GRF uses consist primarily of program expenditures but also include transfers out. GRF program expenditures totaled $26.25 billion in FY 2011, $197.9 million (0.8%) above estimate. For reporting purposes, GRF program expenditures are grouped into 12 categories. Of the $26.25 billion in total program expenditures for FY 2011, $22.52 billion (85.7%) was spent in the following four areas: $11.43 billion (43.5%) in Public Assistance and Medicaid, $6.74 billion (25.7%) in Primary, Secondary, and Other Education, $2.41 billion (9.2%) in Higher Education, and $1.94 billion (7.4%) in Justice and Public Protection. Three program categories' expenditures were above their FY 2011 estimates, by a combined $376.5 million. These three categories are Public Assistance and Medicaid ($210.3 million), Higher Education ($135.1 million), and Tax Relief and Other ($31.0 million). The other nine program categories' expenditures were all below their FY 2011 estimates, by a total of $178.6 million. Primary, Secondary, and Other Education and Justice and Public Protection had the largest negative variances at $76.3 million (1.1%) and $44.1 million (2.2%), respectively. The section that follows this overview provides more information on program categories with significant variances in FY 2011.

GRF uses also include transfers out. For FY 2011, GRF transfers out totaled $1.18 billion, $266.7 million (29.2%) above estimate. These transfers are mainly related to reimbursement payments to school districts and local governments for tangible personal property tax revenue losses. Reimbursement payments are supported by commercial activity tax (CAT) receipts, which are deposited into two non-GRF accounts. Transfers from the GRF are meant to address cash flow issues only. The GRF is to be reimbursed by CAT receipts. However, current law requires the GRF to make up any shortfalls in CAT receipts. In FY 2011, GRF subsidy for these reimbursement payments totaled about $111 million.

The GRF also subsidized these reimbursement payments in FY 2009 and FY 2010, by $96 million and $282 million, respectively.

In addition to expenditures, OBM also estimated year-end GRF encumbrances at $278.5 million for FY 2011. The actual encumbrances for FY 2011 were $413.8 million, $135.3 million above estimate. See the **Encumbrances** section of this report for additional information on year-end GRF encumbrances.

GRF Medicaid spending was above its FY 2011 estimate by $265.5 million, largely due to the timing of the last managed care payment and the last ICFs/MR payment.

Program Categories with Significant Variances in FY 2011

Public Assistance and Medicaid

GRF expenditures for Public Assistance and Medicaid totaled $11.43 billion in FY 2011, $210.3 million (1.9%) above estimate. This positive variance was mainly due to certain Medicaid payments made in June that had originally been scheduled to be made in July. Including state and federal shares, Medicaid accounts for about 93% of expenditures in the Public Assistance and Medicaid category. Table 5 details Medicaid GRF expenditures by service category.

As seen from Table 5, GRF Medicaid expenditures in FY 2011 totaled $10.64 billion, $265.5 million (2.6%) above estimate. For the month of June, GRF Medicaid expenditures totaled $644.6 million, which was above estimate by $507.3 million (369.4%). This large monthly positive variance was mainly due to the timing of the last managed care payment and the last ICFs/MR payment. The Ohio Department of Job and Family Services (ODJFS) originally planned to make these two payments in July, the first month of FY 2012. However, as expenditures for other service categories remained below estimate throughout FY 2011, appropriations were sufficient to disburse both payments in June. The last managed care payment was $438.7 million and the last ICFs/MR payment was $44.7 million. These two unanticipated June payments were also the main contributors to the fiscal year positive variances in the Managed Care Plans ($533.6 million, 11.7%) and ICFs/MR ($51.4 million, 10.3%) service categories.

Categories with significant negative variances for FY 2011 include Prescription Drugs ($245.6 million, 12.5%), Hospitals ($75.8 million, 4.8%), Nursing Facilities ($55.4 million, 2.0%), and ODJFS Waivers ($53.3 million, 13.9%). These negative variances were mainly due to overall lower than estimated per person costs and lower than estimated utilization of services.

FY 2011 variances were also affected by caseloads. For most of the fiscal year, caseloads in managed care have been higher than estimated, and caseloads under the fee-for-service payment system (which includes most of the other categories) have been lower than estimated. These caseload variances contributed to the positive variance in Managed Care Plans and the negative variances in the other categories.

Medicaid is mainly funded with the GRF but is also supported by various non-GRF funds. In addition to detailing GRF Medicaid expenditures by category, Table 5 also summarizes Medicaid expenditures across all funds. As seen from the table, FY 2011 non-GRF Medicaid expenditures were $3.32 billion, $175.3 million (5.0%) below estimate. Across all funds, year-to-date Medicaid expenditures totaled $13.96 billion, $90.2 million (0.6%) above estimate.

Higher Education

GRF expenditures for Higher Education totaled $2.41 billion in FY 2011, $135.1 million (5.9%) above estimate. This positive variance was mainly due to a $127.8 million positive variance in state share of instruction (SSI) subsidy payments in the month of June. About $130 million in FY 2011 SSI appropriation was not originally planned to be disbursed in FY 2011. However, since GRF tax revenues performed better than expected in FY 2011, the SSI appropriation for FY 2011 was fully disbursed in that year. The SSI appropriation totaled almost $2.00 billion for FY 2011, which was mainly funded by the state-source GRF ($1.71 billion) but was also supplemented by the federal stimulus money deposited into the GRF ($287.8 million). In addition to SSI, the Ohio College Opportunity Grant, a need-based student financial aid program, contributed another $6.3 million to this program category's positive variance in FY 2011.

The timing of certain SSI payments in June was the main contributor to the $135.1 million positive fiscal year variance in Higher Education.

Tax Relief and Other

In the month of June, GRF expenditures for Tax Relief and Other were $109.5 million below estimate, which narrowed this program category's fiscal year positive variance to $31.0 million (1.9%). The property tax relief payments, which totaled $1.67 billion in FY 2011, were funded by two GRF appropriation items: 200901, Property Tax Allocation – Education and 110901, Property Tax Allocation – Taxation. These two items' appropriations were increased by $27.4 million and $44.8 million, respectively, in FY 2011. H.B. 1 of the 128th General Assembly appropriated any additional amount needed to fully fund property tax relief payments.

Primary, Secondary, and Other Education

GRF expenditures for Primary, Secondary, and Other Education totaled $6.74 billion in FY 2011, $76.3 million (1.1%) below estimate. Of this variance, $74.5 million was attributable to the Ohio Department of

School foundation payments totaled $6.78 billion for FY 2011.

Education (ODE). Expenditures for ODE's two school foundation payment items, 200550, Foundation Funding and 200502, Pupil Transportation, were below their FY 2011 estimates by $40.0 million and $39.7 million, respectively. School foundation payments total $6.78 billion for FY 2011. These payments depend on a variety of factors used in the formula, including a district's average daily student membership, property wealth, school bus ridership, and the total foundation payment received by the district in the prior year. School foundation payments for a given fiscal year are generally not finalized until the first part of the following fiscal year. Funds are encumbered for those final adjustments. The **Encumbrances** section of this report provides additional information on the encumbered funds in items 200550 and 200502. In addition to these two items, FY 2011 school foundation payments were also funded by lottery profits ($711 million) and the federal stimulus money deposited into the GRF ($515.5 million).

Justice and Public Protection

GRF expenditures for Justice and Public Protection totaled $1.94 billion in FY 2011, $44.1 million (2.2%) below estimate. The Department of Rehabilitation and Correction (DRC) accounted for $39.5 million of the total variance. Expenditures for DRC's appropriation items 502321, Mental Health Services and 505321, Institution Medical Services, were below their FY 2011 estimates by $15.9 million and $9.1 million, respectively. These two items had negative variances for several months in FY 2011 as spending for medical and mental health services depends on the incidence of inmate illnesses. These negative variances also reflected an early 2010 decision made by DRC to reduce costs by hiring psychiatrists as state employees instead of using outside contractors. DRC's main operating appropriation items 501321, Institutional Operations and 501620, Institutional Operations – Federal Stimulus registered a combined negative variance of $7.1 million.

The Department of Youth Services contributed $4.1 million to the Justice and Public Protection category's negative variance in FY 2011. Of this variance, $3.9 million was attributable to item 470401, RECLAIM Ohio. This item funds institutional placement and community program services to youth who have been convicted of a felony offense and to other delinquent children.

Encumbrances

As indicated earlier, as of June 30, 2011, state agencies encumbered a total of $413.8 million in GRF funds for expenditures in FY 2012. An agency generally has five months to spend prior-year encumbrances for operating expenses. Any unspent operating expense encumbrances generally will lapse at the end of the five-month period and will become part of the GRF cash balance. Subject to the approval of the Director of Budget and Management, an agency may carry funds encumbered for purposes other than operating expenses beyond the five-month period. Encumbrances for some grant and aid payments may be carried for several months or even years.

The table below summarizes the encumbrances by the fiscal year for which funds were originally appropriated. As seen from the table, the majority of the encumbrances were originally appropriated in FY 2011, but smaller amounts were first appropriated for earlier years back to FY 2003.

As of June 30, 2011, GRF encumbrances totaled $413.8 million.

FY 2011 Year-End Encumbrances by Fiscal Year for Which Appropriations Were Originally Made

Fiscal Year	Amount (in thousands)	Percentage of Total
2003	$96	0.0%
2004	$124	0.0%
2005	$435	0.1%
2006	$410	0.1%
2007	$959	0.2%
2008	$11,131	2.7%
2009	$37,284	9.0%
2010	$52,698	12.7%
2011	$310,621	75.1%
Total	**$413,758**	**100.0%**

The encumbrance amounts vary greatly from agency to agency. As show in the table below, ODJFS has the largest encumbrance amount at $133.8 million, 32.3% of the total, followed by ODE, a close second, at $125.8 million, 30.4% of the total. Four other agencies with significant encumbrance amounts are DRC at $40.6 million (9.8% of the total), the Department of Development at $39.6 million (9.5%), the Board of Regents at $17.8 million (4.3%), and the Department of Developmental Disabilities at $15.5 million (3.7%). Together, these six agencies account for $372.8 million (90.1%) of the total encumbrances. These six agencies' encumbrances are briefly discussed below. Thirty-nine other agencies encumbered the remaining $40.9 million, 9.9% of the total.

FY 2011 Year-End Encumbrances by Agency		
Agency	**Amount (in thousands)**	**Percentage of Total**
Job and Family Services	$133,800	32.3%
Education	$125,756	30.4%
Rehabilitation and Correction	$40,562	9.8%
Development	$39,455	9.5%
Regents	$17,756	4.3%
Developmental Disabilities	$15,459	3.7%
All Other Agencies	$40,969.82	9.9%
Total	**$413,757.69**	**100.0%**

Of the total year-end encumbrances, 62.7% is attributable to the departments of Job and Family Services and Education.

Ohio Department of Job and Family Services

ODJFS encumbered a total of $133.8 million for expenditures in FY 2012. The encumbrances in three appropriation items account for $102.4 million of the total. These three items are: item 600525, Health Care/Medicaid ($73.3 million); item 600416, Computer Projects ($18.5 million); and item 600521, Entitlement Administration – Local ($10.5 million).

The $73.3 million of encumbrances in item 600525, Health Care/Medicaid, will mainly be used to make payments to nursing facilities whose payments were withheld due to changes in facility ownership, as well as for targeted case management services and service-based contracts. Of the total encumbered in this line item, $34.6 million (46.8%) is from FY 2011 appropriations and the remaining $38.8 million is from previous fiscal years.

The $18.5 million of encumbrances in item 600416, Computer Projects, will be used to make payments on contracts for the electronic benefit payment system for public assistance programs, the child support payment system, and computer equipment. A portion will also be used for a payment to the Office of Information Technology within the Department of Administrative Services for use of state computer systems.

Finally, the $10.5 million of encumbrances in item 600521, Entitlement Administration – Local, will mainly be used by ODJFS to advance counties the state's share of county administration for public assistance programs including the Food Assistance Program, Medicaid, and Disability Assistance programs.

Ohio Department of Education

ODE encumbered $125.8 million for expenditures in FY 2012. Four appropriation items with significant encumbrances are: (1) item 200502, Pupil Transportation, at $45.0 million, (2) item 200550, Foundation Funding, at $39.3 million, (3) item 200437, Student Assessment, at $13.3 million, and (4) item 200540, Special Education Enhancements, at $8.5 million. These four items' encumbrances account for $106.1 million of the total. The remaining $19.7 million was encumbered in various other items for outstanding obligations, including payments for providers of preschool programs for low-income children, career technical education enhancement grants, and school improvement initiative grants.

Funds encumbered in GRF appropriation items 200502 and 200550 will be used mainly to meet year-end school foundation payment adjustments. Foundation payments are allocated to districts based on a variety of data. Some of these data are not finalized until the following fiscal year. Funds are generally encumbered each year in order to make adjusted payments based on these updated data.

Funds encumbered in item 200437 will be used to pay contractors for scoring tests this summer that were administered in the spring and other bills not yet received from vendors. Funds encumbered in item 200540 will mainly be used for outstanding subsidy payments to county boards of developmental disabilities that provide preschool special education services.

Department of Rehabilitation and Correction

DRC encumbered $40.6 million for expenditure in FY 2012, of which $38.3 million occurred in items 501321, Institutional Operations ($28.5 million), and 505321, Institution Medical Services ($9.8 million). Funds were encumbered from item 501321 for a mix of purchased personal services, supplies, maintenance, repairs, materials, and other minor expenditures at DRC and institutions. Funds were encumbered from item 505321 to pay various outstanding bills for providing medical services to inmates.

Department of Development

The Department of Development (DOD) encumbered $39.5 million for expenditure in FY 2012. These encumbrances are largely attributable to various economic development incentive grants that have been awarded but not yet disbursed. Many of DOD's grant programs are operated on a reimbursement basis, whereby grant recipients do not receive money from the state until a project has been completed or certain conditions have been met. For example, a grantee may be awarded grants in FY 2011 but not receive them until FY 2012 or later.

Appropriation item 195412, Rapid Outreach Grants, had the largest encumbrance at $12.4 million. These funds will be used to fund awards to companies that undertake projects to expand in or relocate to Ohio and that intend to create or retain jobs in doing so. Item 195434, Industrial Training Grants, is second with an encumbrance of $8.8 million. These encumbered funds support a portion of the training costs of eligible companies that are expanding or undertaking new capital projects that will result in the creation or retention of jobs in targeted industries. Item 195422, Technology Action, which is mainly for use under the Third Frontier Program, ended the year with an encumbrance of $6.3 million. Other items with large encumbrances include item 195416, Governor's Office of Appalachia ($5.8 million) and item 195401, Thomas Edison Program ($3.6 million).

Board of Regents

The Board of Regents encumbered $17.8 million for expenditure in FY 2012. The majority ($10.8 million) of the total was encumbered in item 235438, Choose Ohio First Scholarship, to pay the state's obligations to scholarship receipts. Item 235563, Ohio College Opportunity Grant, ended FY 2011 with $4.2 million in encumbrances, which will be used for need-based financial aid for public school students. Another $1.7 million was encumbered in item 235444, Adult Career-Technical Education, to make outstanding payments to adult workforce education service providers.

Department of Developmental Disabilities

The Department of Developmental Disabilities encumbered almost $15.5 million at the end of FY 2011. Of this total, $14.7 million will be used to cover the costs of community-based services provided to Individual Options (I/O) waiver recipients in compliance with the Martin Settlement. The Settlement, which was accepted by the court in March 2007, ended a class-action lawsuit that sought to allow individuals with developmental disabilities to receive community-based rather than institutional-based services. It requires the state, within two years, to make community-based services available for 1,500 individuals who have developmental disabilities. Service providers have up to one year to bill for services rendered.

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

ISSUE UPDATES

Board of Regents Announces Inaugural Class of Woodrow Wilson Teaching Fellows

—Mary Turocy, Budget Analyst, 614-806-9197

In May, the Board of Regents announced the inaugural class of 65 Woodrow Wilson Ohio Teaching Fellows. Each fellow receives a $30,000 stipend to complete a master's program in math and science education at one of four participating Ohio universities. Fellows commit to teaching for three years in a high-need urban or rural secondary school. They are provided with support and mentoring throughout their master's programs and three-year teaching commitments, as well as guidance in obtaining an Ohio teaching license. Current undergraduates, college graduates, and professionals who have majored in, or had careers in, STEM fields are eligible to apply for a Woodrow Wilson Fellowship. Participating universities agree to redesign their teacher education program and partner with a high-need school district. Institutions prepare and recruit for the program the year prior to hosting their first class of fellows. The first round of fellows will be hosted by The Ohio State University, The University of Akron, the University of Cincinnati, and John Carroll University. These institutions will partner with the Columbus City School District, Akron Public School District, Cincinnati Public School District, and Cleveland Metropolitan School District, respectively. Three additional universities, Ohio University, the University of Dayton, and the University of Toledo will enter the preparation phase this year and begin hosting Woodrow Wilson Fellows in the spring of 2012.

In FY 2010, $9.0 million from GRF appropriation item 235438, Choose Ohio First Scholarship, was released by the Controlling Board to be used for the Woodrow Wilson Ohio Teaching Fellowship program between FY 2010 and FY 2015. In addition to matching funds provided by the universities, $2.5 million is provided by six Ohio foundations. Continuation of the program will also be supported by federal Race to the Top funds.

Development Awards $2.25 million in Latest Round of Funding for Third Frontier Internships

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

On June 13, 2011, the Controlling Board approved the latest round of awards by the Department of Development under the Third Frontier Internship Program. The seven grants to regional business and workforce development organizations totaled

$2,246,000 and will support 702 paid internships for eligible students in high-tech fields of study. Under the Third Frontier Internship Program, funds are used by the grantee organizations to partner with businesses to offer paid internships in the fields of (1) advanced and alternative energy, (2) advanced manufacturing, (3) advanced materials, (4) biomedical research and engineering, (5) information technology, (6) instruments, controls, and electronics, or (7) advanced propulsion. State funds reimburse up to 50% of an intern's wages, with a cap of $3,000 over a 12-month period.

The seven organizations receiving awards under the latest funding round are: the Community Action Organization of Scioto County, the Dayton Area Chamber of Commerce, the Hamilton County Development Corporation, TechColumbus, the Toledo Regional Chamber of Commerce, the Workforce Initiative Association (located in Canton), and the Workforce Institute of Lorain County. Each organization will receive an award of approximately $320,000 for the creation of about 100 internships under their respective programs.

State Library Awards Federal Grant to Purchase Electronic Resources

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

On June 1, 2011, the State Library of Ohio awarded a $2.8 million grant from the federal Institute of Museum and Library Services to Libraries Connect Ohio to purchase the Ohio Web Library core set of electronic databases for FY 2012. In addition to the current databases offered by Libraries Connect Ohio, three new resources will be added in FY 2012:

- **Mango Languages.** This resource is an online foreign language learning system that teaches practical conversation and cultural awareness for 34 world languages. In addition, there are 15 English-as-a-Second Language (ESL) packages to help foreign language speakers learn English.
- **Proquest Ancestry Library Edition.** This resource includes billions of records in census data, vital records, directories, photos, and more contained in over 7,000 databases.
- **World Book's Early World of Learning.** This resource is a new feature of the World Book Online. It offers a variety of resources to help preschoolers and children in early grades grasp critical early childhood themes while developing reading and oral language skills.

Libraries Connect Ohio was formed in 2003 by the State Library, OhioLINK (Ohio Library and Information Network), OPLIN (Ohio Public Library Information Network), and INFOhio (Information Network for Ohio Schools). OhioLINK is a consortium of 90 Ohio college and university libraries and the State Library. It receives state funding through the Board of Regents' budget. OPLIN provides broadband Internet connections and information services to Ohio public libraries. It receives state funding through the State Library's budget. INFOhio is a virtual statewide cooperative school library and information network that provides free access to quality resources for pre-kindergarten through grade 12 students and their teachers and parents. It receives state funding through the Department of Education's budget. In addition to the new resources offered in FY 2012, Libraries Connect Ohio continues to provide free access for all Ohioans to several databases containing information on various subjects, and to other resources including biographical references, digital video content, and Ohio's daily newspapers.

Auditor of State Performance Audit Contract Renewed for FY 2012

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

On June 13, the Controlling Board approved the Auditor of State's request to renew an $117,500 contract with Plante and Moran, PLLC, in FY 2012 for an ongoing performance audit of the Auditor of State's Office by that accounting firm. This contract is in addition to the initial $232,500 contract with Plante and Moran approved in April of this year. Together, these two contracts total $350,000 and provide for 1,400 hours of work on the performance audit. Overall, $265,000 (75.7%) of the total cost will be paid from three non-GRF sources, including: the Audit Expense – Intrastate Fund (Fund 1090), the Public Audit Expense – Local Government Fund (Fund 4220), and the Uniform Accounting Network Fund (Fund 6750). The allocation of costs to each of the funds is based on the scope of the performance audit, and is illustrated in the table below. The performance audit will be completed by August 31, 2011.

Allocation of Performance Audit Costs			
Fund	**FY 2011**	**FY 2012**	**Fund Totals**
GRF	$80,000	$5,000	$85,000
1090	$71,250	$53,750	$125,000
4220	$71,250	$53,750	$125,000
6750	$10,000	$5,000	$15,000
Total	**$232,500**	**$117,500**	**$350,000**

The Auditor of State voluntarily opted to conduct a performance audit of his office in conjunction with S.B. 4, enacted earlier this year. That act required the Auditor of State to conduct performance audits of at least four state agencies each biennium. The first agencies to undergo performance audits include the Department of Education, the Department of Transportation, the Department of Job and Family Services, and by selection of the Governor, the Ohio Housing Finance Agency.

$750,000 in Disaster Assistance Grants Provided for Southern Ohioans Hurt by May Flash Flooding

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

In June, the Controlling Board transferred $750,000 cash from the Disaster Services Fund (Fund 5E20) to the State Disaster Relief Fund (Fund 5330), which is used by the Department of Public Safety. These funds will be used to award grants under the State Individual Assistance (State IA) Program to residents of southern Ohio that incurred damages or losses caused by early May's severe storms and flash flooding. The residents eligible for these grants include homeowners and renters that reside within the seven counties that were declared a disaster area by the Governor and the U.S. Small Business Administration (SBA). These seven counties are: Gallia, Jackson, Lawrence, Pike, Ross, Scioto, and Vinton.

The maximum State IA Program grant amount is $18,000 and covers certain damages or losses to real property and personal property and funeral expenses. Preliminary damage assessment reports suggest that about 170 families will be eligible for a State IA Program grant. In order to apply for a State IA Program grant, an applicant first has to have applied for, and been denied or determined ineligible for, a home/personal property disaster loan from the SBA. The SBA then refers that applicant to the Ohio Emergency Management Agency Disaster Recovery Branch to apply for assistance from the State IA Program.

Additional disaster assistance has been provided to area residents by the Red Cross, the Salvation Army, and the Ohio VOAD (Volunteer Organizations Active in Disasters). The Ohio Treasurer of State has also allocated $25 million to the Renew Ohio and Rebuild Ohio programs to provide statewide emergency financing, in the form of reduced-interest loans, for businesses, farms, and homes damaged by severe storms and flooding.

Differential Response Expanded to Eight Counties

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

In April, the Differential Response method of handling reports of suspected child abuse and neglect was expanded to eight additional counties, bringing the total number of counties practicing Differential Response to 33. The 33 counties are shown in the table below, with the eight new counties in italics.

Counties Practicing Differential Response		
Ashtabula	Greene	Montgomery
Athens	Guernsey	*Putnam*
Butler	Hamilton	Richland
Carroll	Hocking	Ross
Champaign	Huron	*Sandusky*
Clark	Licking	*Scioto*
Coshocton	Lucas	*Seneca*
Delaware	Madison	Summit
Erie	Mahoning	Trumbull
Fairfield	Medina	Tuscarawas
Franklin	*Miami*	Washington

Under Differential Response (also referred to as Alternative Response), if a child's safety is not in question, case workers at public children services agencies may use early intervention and prevention strategies with families to address issues pertaining to child welfare and safety and to improve access to other supportive services. This method allows case workers to initially conduct nonadversarial family assessments, instead of immediately conducting investigations as under current practice. More counties are expected to adopt Differential Response until the method is implemented statewide.

Statewide implementation of Differential Response was recommended by the Supreme Court of Ohio's Subcommittee on Responding to Child Abuse, Neglect, and Dependency in May 2010. The Subcommittee's recommendation was based in part on an evaluation of an 18-month pilot project that began in 2007. The evaluation found that Differential Response had slightly higher initial costs, but yielded savings over time and resulted in greater satisfaction among parents, caseworkers, and children.

Department of Youth Services Decentralizes Reception Process

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

On June 6, 2011, the Department of Youth Services began implementation of a decentralized reception process for youth sentenced to the Department's custody. Under this new reception process, once fully implemented, it is anticipated that youth will spend less than one week at the reception unit, after which they would be moved to one of the Department's juvenile correctional facilities. Previously, when a youth had been sentenced to serve time in one of the Department's facilities, they first spent a period ranging from 30 to 60 days in the reception unit at the Scioto Juvenile Correctional Facility for assessment and orientation.

According to the Department, the new process reduces redundancies in the assessment of youth, streamlines the intake and reception process, and moves youth more quickly into targeted treatment. The new process was made possible by changes the Department implemented with respect to communication and cooperation with juvenile courts, including a restructured assessment schedule and usage of the Ohio Youth Assessment System, a web-based system designed to determine appropriate dispositions, treatments, and levels of supervision.

Ohio's Workforce Investment Act Allocation Decreases $22 million in FY 2012

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

Ohio's federal Workforce Investment Act (WIA) allocation will decrease from $127.6 million in FY 2011 to $105.6 million in FY 2012, a decrease of approximately $22 million (17%). This decrease is due to a reduction in the national WIA allocation, which is set by Congress each year, and a decrease in the state's proportion of economically disadvantaged individuals as compared to other states. The decrease in Ohio's allocation for FY 2012 will impact both the WIA dollars allocated to local workforce investment boards and the dollars retained by the Ohio Department of Job and Family Services (ODJFS) for administration and statewide activities. According to ODJFS, the allocation of WIA dollars to the state's 20 workforce investment boards could decrease by $6.2 million to $12.5 million. The WIA funds are used by local boards to administer locally based employment and training services. The amount retained by ODJFS could decrease by $9.4 million to $15.7 million in FY 2012. Statewide activities administered by ODJFS include employment services to areas experiencing mass layoffs and customized training to incumbent workers to help prevent layoffs.

TRACKING THE ECONOMY

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

Overview

Recent economic reports show slower growth in this year's first half than last year. This slower pace of expansion appears to be related in part to temporary factors, and growth may pick up in the second half of the year. Ongoing negotiations over raising the federal debt limit are an additional source of uncertainty. In June, nonfarm payroll employment nationwide rose only 18,000, and the unemployment rate rose to 9.2%. In Ohio, employment through May continued a gradual recovery, and the statewide average unemployment rate was down to its lowest level in more than two years. The nation's inflation-adjusted gross domestic product (real GDP) rose 1.9% at an annual rate in the first quarter. Industrial production edged up slightly in May, after no change in April. Purchasing managers reports indicate further expansion in June, in both manufacturing and other parts of the economy. Inflation-adjusted consumer spending fell slightly in April and May. In June, light vehicle sales slipped further, but healthy sales gains were reported at large retail chains. Housing construction and sales remain at low levels. Business investment in equipment continues to grow but investment in structures is weak. Inflation has picked up this year reflecting higher energy and food prices, but consumer energy prices fell in the latest month, and food prices fell at the wholesale level.

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As expected, the Federal Reserve kept its short-term interest rate target for federal funds unchanged at 0% to 0.25% at the June meeting of its policy-setting Federal Open Market Committee. The post-meeting announcement said a program of purchases of $600 billion of longer-term Treasury securities would be completed in June. The committee would continue the policy of reinvesting principal payments from its securities holdings. Committee members' projections for the economy, published with the announcement, show economic growth continuing through 2013 but at a slower pace than previously projected, and more gradual declines in the national average unemployment rate.

The National Economy

Employment and Unemployment

Total nonfarm payroll rose by only 18,000 (0.01%) in June, essentially unchanged. Unemployment rose to 9.2% of the labor force, up from 9.1% in May and from a recent low of 8.8% in March.

Total nonfarm payroll rose by only 18,000 in June. Unemployment rose to 9.2% of the labor force.

Growth of total nonfarm payroll employment averaged only 22,000 in the latest two months, after gains averaging 215,000 per month during February through April 2011. Industries in which employment grew in June include mining, professional and technical services, and leisure and hospitality. Government employment fell.

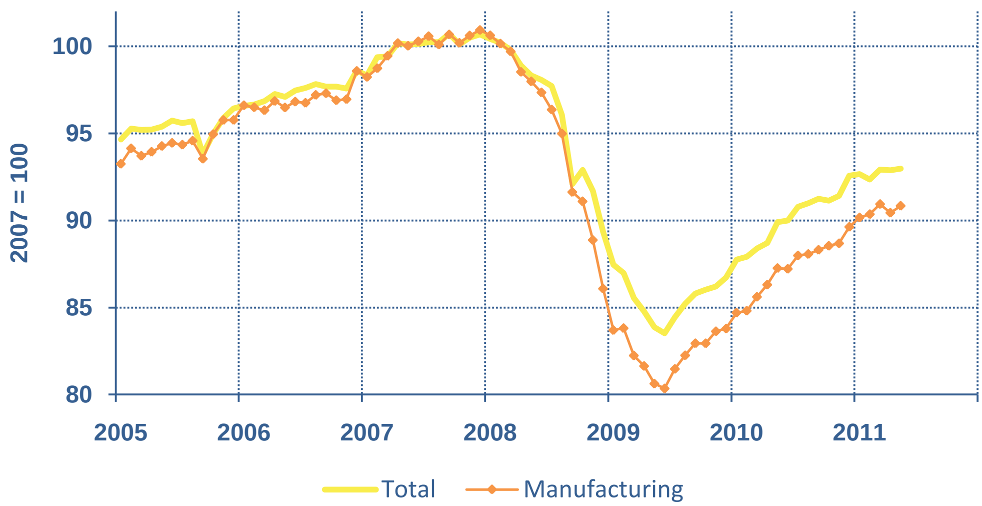
In June, 14.1 million people were counted as unemployed. Since March, the number of unemployed persons has risen by more than 0.5 million.

Production, Shipments, and Inventories

Real GDP rose in the 2011 first quarter at a 1.9% annual rate, in the U.S. Bureau of Economic Analysis' latest estimate. During the first six quarters of recovery from the mid-2009 recession trough, through the end of 2010, growth was as strong as 5.0% at an annual rate (in the 2009 fourth quarter) and averaged 2.9%. In this year's first quarter, consumer spending, business fixed investment in equipment and software, and exports rose, while declines were reported in investment in nonresidential and residential structures, and in government spending at both the federal and the state and local levels. Businesses added to inventories. Part of the growth in demand was met by higher imports.

Industrial production edged up 0.1% in May after being unchanged the month before. Total industrial production has grown at only a 1% annual rate in the first five months of this year, after rising 8% in the year following the recession trough in June 2009, and at a 6% annual rate in the second half of last year. Manufacturing output, which accounts for most of total industrial production, rose 9% in the first year of recovery, at a 6% annual rate in last year's second half, and at a 3% annual rate this year through May. The Federal Reserve, which issues these statistics, attributed recent weakness in part to supply chain problems in April and May in the wake of the earthquake and tsunami in Japan, and in part to production losses caused by tornadoes late in April. Trends in industrial production are shown in Chart 1.

Chart 1: Industrial Production



Manufacturing activity rose further in June, as indicated by the report from the Institute for Supply Management (ISM). More of the purchasing managers said their companies' production rose than reported declines, for the 25th consecutive month. New orders also rose, but order backlogs fell. Employment and inventories increased. Prices paid rose. A comparable report from ISM for other segments of the economy also showed growing activity and further increases in prices. In both reports, gains in most measures were less widespread than earlier in the year.

The dollar value of manufacturers' shipments rose 0.1% in May, after falling 0.4% in April. New orders increased 0.8% in May after declining 0.9% in April. Unfilled orders rose 0.9%, the 13th monthly increase in the last 14 months. Inventories increased 0.8% and rose in 19 of the latest 20 months.

Consumer Spending

Personal income rose 0.3% in May, following equal or larger monthly increases earlier this year, but on an after-tax basis and adjusted for inflation, incomes were little changed on balance in this year's first five months. Last year (December to December), personal income rose 2.0% net of taxes and of the effects of inflation. Consumer spending in May fell 0.1%, adjusted for inflation, after a similar decline in April, mainly reflecting weakness in durable goods sales. On a quarterly average basis, inflation-adjusted consumer spending appears to have grown much more slowly in the second quarter than the 2.2% annual rate of increase registered in the first quarter.

Consumer spending in May fell 0.1%, adjusted for inflation, after a similar decline in April, mainly reflecting weakness in durable goods sales.

In June, light vehicle sales fell back to an 11.4 million unit seasonally adjusted annual rate, from an 11.8 million unit rate in May and higher sales rates in earlier months back through last October. The slowdown may be a result of the disruptions of supply following the natural disaster in Japan, and sales may pick up in the second half of the year as supply chain conditions improve. But slow sales are consistent with the flattening of income growth so far this year.

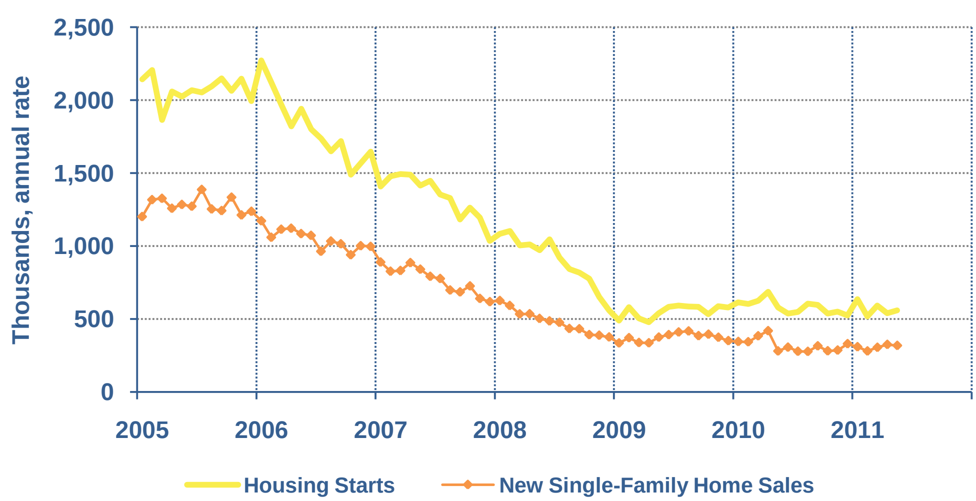
Sales in June at 28 large retailers that report results monthly were 6.9% higher than a year earlier, on a same-store basis, in a compilation by the International Council of Shopping Centers (ICSC). Same-store sales include only store locations open in both the current and year-earlier months. ICSC attributed the large gain in part to higher fuel prices, and in part to employment growth, improved weather, and clearance sales.

Housing starts remain at a low level, about one-quarter of the rate at which housing units were started in peak year 2005.

Construction and Real Estate

Housing starts remain at a low level, about one-quarter of the rate at which housing units were started in peak year 2005, though starts are marginally up from the low point about two years ago, as shown in Chart 2. In May, starts rose 4% from April but were 3% below the rate in May 2010. Housing starts in the first five months of 2011 were 9% lower than a year earlier, with starts on single-family homes down 20% and starts on units in multi-unit structures up by 48%. Starts on homes were boosted in late 2009 and early 2010 by the federal program of tax credits for home purchases but have since been soft. The upturn in apartment construction is from the weakest levels on records kept since 1959. Gains in apartment construction were strongest in the West, followed by the South and then the Northeast.

Chart 2: Housing Starts and New Single-Family Homes Sold
Seasonally Adjusted



New home sales also continued through May to be very weak, down by about 75% from the 2005 peak, as shown in Chart 2. The weakness was widespread by region of the country. Builders' inventories of homes are low, compared with levels in past years, but remain elevated relative to current sales. Home prices have fallen, and home ownership appears affordable relative to average income, but concerns about further price declines discourage prospective buyers, financing remains harder to obtain, and current homeowners who need to sell their houses in order to buy other houses have difficulty doing so.

Home sales reported by the National Association of Realtors (NAR), which are closings generally on previously occupied homes, fell 4% from April to May, seasonally adjusted, and were 15% lower than a year earlier when buyers were trying to beat the deadline to qualify for the federal tax credits. The sales pace for used homes is lower than in peak year 2005 by about one-third. NAR cited temporary factors including the jump in gasoline prices and weather disruptions as contributing to the softness in sales in May, along with restrictive loan standards. Distressed home sales – foreclosures and short sales (in which the sale proceeds are insufficient to cover all payments due at closing) – were 31% of transactions in May, continuing to account for a relatively high share of sales. Another indicator from NAR, the pending home sales index, which measures contract signings rather than closings, rose 8% in May and was higher than a year earlier for the first time in more than a year.

Home prices rose on average in April according to two widely watched reports. The Federal Housing Finance Agency's house price index for the nation rose 0.8% in April, its first monthly increase since May 2010. This index is about 19% lower than at its April 2007 peak and around levels of January 2004. The S&P/Case-Shiller 10-city and 20-city composite indexes also rose in April, by 0.8% and 0.7% respectively, the first increases in eight months. Both of these indexes are about 33% below peak levels in 2006, and are around levels of mid-2003.

The dollar value of new construction put in place was 6% lower in the first five months of 2011 than a year earlier.

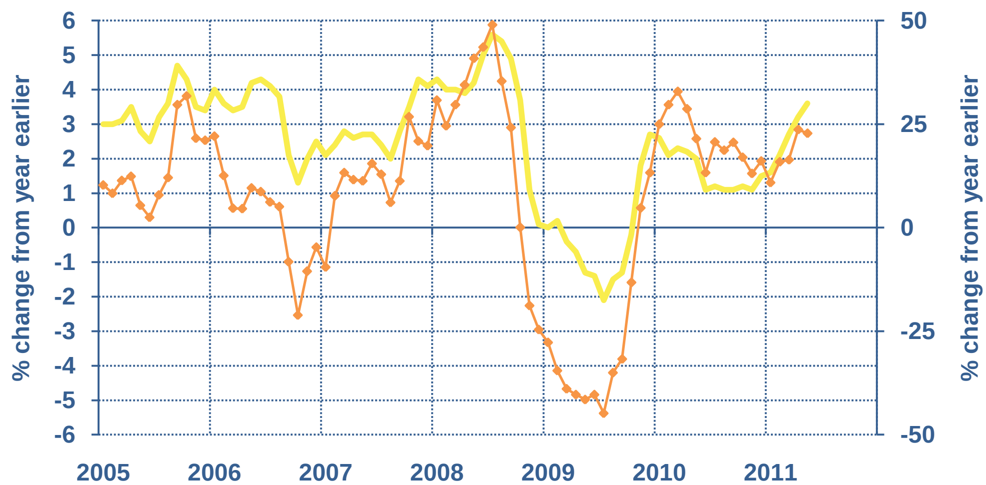
The dollar value of new construction put in place fell 0.6% from April to May, seasonally adjusted, continuing to trend lower. This measure of construction activity was 6% lower in the first five months of 2011 than a year earlier. Declines were widespread among various types of projects, including residential, nonresidential, and public construction.

Inflation

The consumer price index (CPI) increased 0.2% from April to May, and was 3.6% higher in May than a year earlier, its largest year-to-year increase since 2008. This uptrend in the CPI for all items is shown in

Chart 3. Food prices rose 3.5% in the past 12 months. Energy prices rose 21% in the latest year, but declined from April to May as the gasoline index fell for the first time in nearly a year. Gasoline prices in May nevertheless were 37% higher than a year earlier. Prices for all items less food and energy rose 1.5% from May 2010 to May 2011, the largest year-to-year increase since January 2010, and rose more rapidly in the latest six months than in the previous six months.

Chart 3: Inflation Measures



Regular gasoline, in the U.S. Energy Information Administration's weekly survey, rose to a peak of $3.97 per gallon (nationwide average) in early May and was $3.58 per gallon on July 4.

Regular gasoline, in the U.S. Energy Information Administration's weekly survey, rose to a peak of $3.97 per gallon (nationwide average) in early May, fell to $3.57 per gallon in late June, and was $3.58 per gallon on July 4. In Ohio, the average price rose to a high of $4.11 per gallon in early May, fell to $3.32 per gallon in late June, and was $3.60 per gallon on July 4, according to the survey. These prices reflect, with a lag, the price of crude oil. The benchmark U.S. crude oil grade, West Texas Intermediate, rose to a peak above $113 per barrel in late April, fell to near $90 per barrel in late June, and then rose from that level. Announcement by the International Energy Agency that it would release 60 million barrels of oil from reserves, half of which would come from American reserves, over a one-month period to counter the disruption of Libyan oil supplies by the fighting there appears to have had only a transitory effect on markets.

The producer price index (PPI) for finished goods rose 0.2% in May, its smallest increase since July 2010, as food prices fell and energy prices rose less than in any month since last September. Compared with a year earlier, however, the finished goods index was 7.3% higher, its largest rise since 2008. At earlier stages in the production process, the

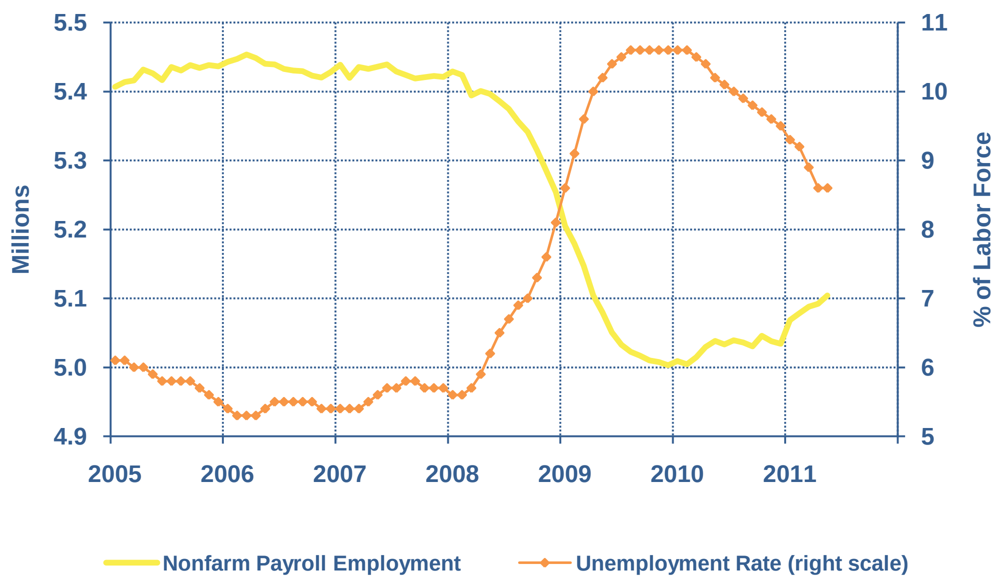
PPI for intermediate materials, supplies, and components rose 0.9% from April to May, less than increases earlier this year, but was 10% higher than a year earlier, the largest year-over-year increase in this index since 2008. The PPI for crude materials was 23% higher than a year earlier but fell from April to May. The PPI for crude materials is shown in Chart 3. Higher prices for energy and other commodities have fed through to increased consumer price inflation.

Employment on Ohio nonfarm payrolls rose by 12,000 (0.2%) from April to May, and the statewide unemployment rate was unchanged at 8.6%.

The Ohio Economy

Employment on Ohio nonfarm payrolls rose by 12,000 (0.2%) from April to May, and the statewide unemployment rate was unchanged at 8.6%, 0.5 percentage point lower than the rate nationwide. Trends in Ohio employment and unemployment are shown in Chart 4.

Chart 4: Ohio Employment and Unemployment



Total nonfarm payroll employment statewide rose 65,900 (1.3%) from May 2010 to May 2011, and 101,000 (2.0%) from the cyclical low point at the end of 2009. Increases in employment during the latest year were reported in goods producing industries including durable goods manufacturing, construction, and mining and logging, as well as in various service industries including healthcare and social assistance; accommodation and food service; professional and technical services; administrative, support, and waste services; and others. Government employment is lower than a year ago mainly reflecting the addition of temporary federal workers last year to conduct the decennial census.

Ohio personal income in the first quarter of this calendar year rose 1.9% from last year's fourth quarter.

The number of Ohioans statewide counted as unemployed in May, 508,000, was lower than a year earlier by 95,000 mainly reflecting increased employment but also due to a lower rate of labor force participation. The number of Ohioans who were either employed or actively seeking work declined by 8,000 during the past 12 months, while Ohio's population age 16 and over is estimated to have risen by 29,000 during this period.

Ohio personal income in the first quarter of this calendar year rose 1.9% from last year's fourth quarter, seasonally adjusted. The sum of personal income in all 50 states plus the District of Columbia rose 1.8%, and Ohio ranked twentieth among the states in terms of growth in the latest quarter. Net earnings from work rose 2.5% for Ohio residents, and 2.2% nationwide. Personal income from mining and durable goods manufacturing had the highest growth rates among major industry groups nationwide. In Ohio, these same industries along with farm income had particularly strong percentage growth. In all states, personal income as reported in the national income and product accounts was boosted at the start of this year by the two percentage point reduction in the Social Security tax on employees, which is a subtraction in figuring personal income. This Social Security tax reduction is currently scheduled to expire at the end of 2011.

The Federal Reserve Bank of Cleveland's section of the latest Beige Book, summarizing reports from contacts outside the Federal Reserve System, indicated that business activity in this region continued to expand at a modest pace.[7] Manufacturers' comments were summarized as indicating that production was stable to up slightly in the latest six weeks, though some said that market conditions had started to soften. Auto production in this region fell sharply in April, however, mainly as a result of supply disruptions resulting from the earthquake and tsunami in Japan. Retailers said their sales were higher by low- to mid-single digit percentages, in part due to higher gasoline and food prices. New home construction remains very slow. Reports on nonresidential construction were mixed. Freight transport volumes rose for a broad assortment of factory products.

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[7] The Federal Reserve Bank of Cleveland's report covers developments in Ohio and in nearby parts of Kentucky, Pennsylvania, and West Virginia. The latest report was published June 8, based on information collected through May 27.