Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION APRIL 2012

STATUS OF THE GRF

HIGHLIGHTS

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

Payroll employment in Ohio grew more in February than in any other state, with an increase of 28,300. January growth was also robust, so that the two-month job gain was 53,300, or 1.0% of employment in December. Ohio's labor market is still weak, the number of jobs remains nearly 273,000 below the number in December 2007 (i.e., prior to the Great Recession), but the trajectory over the first two months of the year gives reason for optimism in 2012.

GRF tax revenues were $78 million above estimate in March, but the experience varied across the different taxes. Income tax revenue accounted for most of the gain ($69 million), but the corporate franchise tax was weak ($21 million below estimate) and the nonauto sales tax was $2 million below estimate. Looking ahead, April tax revenues are expected to be the highest of the year, over $2 billion, due to the income tax filing deadline.

Through March 2012, GRF sources totaled $19.57 billion:

- Revenue from the personal income tax was $141.7 million above estimate;
- Sales and use tax receipts were $126.8 million above estimate.

Through March 2012, GRF uses totaled $20.66 billion:

- Program expenditures were $588.9 million below estimate, due primarily to Public Assistance and Medicaid ($366.3 million) and Justice and Public Protection ($74.2 million).

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Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of March 2012
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on April 5, 2012)

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$96,101	$89,000	$7,101	8.0%
Nonauto Sales and Use	$509,167	$511,000	-$1,833	-0.4%
Total Sales and Use Taxes	$605,268	$600,000	$5,268	0.9%
Personal Income	$510,997	$442,268	$68,729	15.5%
Corporate Franchise	$34,905	$55,800	-$20,895	-37.4%
Public Utility	$1,904	$500	$1,404	280.5%
Kilowatt Hour Excise	$30,420	$32,700	-$2,280	-7.0%
Natural Gas Consumption (MCF)	$0	$0	$0	---
Commercial Activity Tax	$3,328	$1,700	$1,628	95.8%
Foreign Insurance	$92,706	$72,000	$20,707	28.8%
Domestic Insurance	$14	$4,900	-$4,886	-99.7%
Business and Property	$175	$0	$175	---
Cigarette	$66,057	$58,700	$7,357	12.5%
Alcoholic Beverage	$4,719	$4,200	$519	12.4%
Liquor Gallonage	$3,027	$2,700	$327	12.1%
Estate	$1,300	$1,100	$200	18.2%
Total Tax Revenue	**$1,354,822**	**$1,276,568**	**$78,254**	**6.1%**
NONTAX REVENUE				
Earnings on Investments	$4	$0	$4	---
Licenses and Fees	$20,181	$16,286	$3,895	23.9%
Other Revenue	$531	$2,442	-$1,911	-78.3%
Total Nontax Revenue	**$20,716**	**$18,728**	**$1,988**	**10.6%**
TRANSFERS				
Liquor Transfers**	$0	$0	$0	---
Budget Stabilization	$0	$0	$0	---
Other Transfers In	-$153,668	$0	-$153,668	---
Total Transfers In	**-$153,668**	**$0**	**-$153,668**	**---**
TOTAL STATE SOURCES	**$1,221,870**	**$1,295,296**	**-$73,425**	**-5.7%**
Federal Grants	$669,367	$676,756	-$7,389	-1.1%
TOTAL GRF SOURCES	**$1,891,237**	**$1,972,052**	**-$80,814**	**-4.1%**

* Tax estimates of the Office of Budget and Management as of September 2011.
**Liquor Transfers based on a report run in OAKS as of March 30, 2012.
Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Actual vs. Estimate
FY 2012 as of March 31, 2012
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on April 5, 2012)

	Actual	Estimate*	Variance	Percent	FY 2011	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$764,349	$701,800	$62,549	8.9%	$701,925	8.9%
Nonauto Sales and Use	$5,211,149	$5,146,900	$64,249	1.2%	$4,943,820	5.4%
Total Sales and Use Taxes	$5,975,498	$5,848,700	$126,798	2.2%	$5,645,745	5.8%
Personal Income	$5,665,140	$5,523,401	$141,739	2.6%	$5,374,227	5.4%
Corporate Franchise	$92,140	$129,501	-$37,360	-28.8%	$140,713	-34.5%
Public Utility	$79,504	$88,500	-$8,996	-10.2%	$82,064	-3.1%
Kilowatt Hour Excise	$237,980	$253,700	-$15,720	-6.2%	$127,685	86.4%
Natural Gas Consumption (MCF)	$31,328	$31,600	-$272	-0.9%	$0	---
Commercial Activity Tax	$301,330	$279,100	$22,230	8.0%	$0	---
Foreign Insurance	$278,835	$262,699	$16,136	6.1%	$266,971	4.4%
Domestic Insurance	$137	$3,800	-$3,662	-96.4%	$3,294	-95.8%
Business and Property	-$1,598	-$1,500	-$98	-6.6%	-$993	-61.0%
Cigarette	$570,436	$556,200	$14,236	2.6%	$581,939	-2.0%
Alcoholic Beverage	$42,537	$42,100	$437	1.0%	$41,137	3.4%
Liquor Gallonage	$29,465	$27,600	$1,865	6.8%	$28,130	4.7%
Estate	$37,383	$29,300	$8,083	27.6%	$28,492	31.2%
Total Tax Revenue	**$13,340,115**	**$13,074,700**	**$265,415**	**2.0%**	**$12,319,403**	**8.3%**
NONTAX REVENUE						
Earnings on Investments	$2,744	$2,900	-$156	-5.4%	$4,685	-41.4%
Licenses and Fees	$53,790	$48,691	$5,098	10.5%	$48,221	11.5%
Other Revenue	$23,652	$580,141	-$556,488	-95.9%	$155,365	-84.8%
Total Nontax Revenue	**$80,186**	**$631,732**	**-$551,546**	**-87.3%**	**$208,271**	**-61.5%**
TRANSFERS						
Liquor Transfers**	$72,632	$69,500	$3,132	4.5%	$98,977	-26.6%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$229,561	$10,598	$218,964	2066.1%	$724,248	-68.3%
Total Transfers In	**$302,193**	**$80,098**	**$222,096**	**277.3%**	**$823,225**	**-63.3%**
TOTAL STATE SOURCES	**$13,722,495**	**$13,786,530**	**-$64,036**	**-0.5%**	**$13,350,899**	**2.8%**
Federal Grants	$5,849,756	$5,980,284	-$130,529	-2.2%	$6,795,787	-13.9%
TOTAL GRF SOURCES	**$19,572,250**	**$19,766,814**	**-$194,565**	**-1.0%**	**$20,146,686**	**-2.9%**

* Tax estimates of the Office of Budget and Management as of September 2011.

**Liquor Transfers based on a report run in OAKS as of March 30, 2012.

Detail may not sum to total due to rounding.

REVENUES

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

March GRF sources were $80.8 million below estimates.

Through March, FY 2012 tax receipts were $265.4 million above estimates.

Overview

Through March, FY 2012 total GRF sources of $19.57 billion were $194.6 million below the estimates released by the Office of Budget and Management (OBM) in September 2011. March total GRF sources of $1.89 billion were $80.8 million below the estimate, largely due to a negative $153.7 million in transfers in. The transaction reflected an accounting reversal of the $153.7 million GRF cash transfer made in February. As noted in the March issue of *Budget Footnotes*, in February $153.7 million cash was inadvertently transferred from the Permissive Tax Distribution Fund (Fund 7063) and Local Sales Tax Administrative Fund (Fund 4350) to the GRF. Before that month ended, however, the same amount of cash was transferred from the GRF to funds 7063 and 4350. In March, both the transactions were reversed, which reduced the year-to-date GRF transfers in from $445.9 million at the end of February to $302.2 million at the close of March.

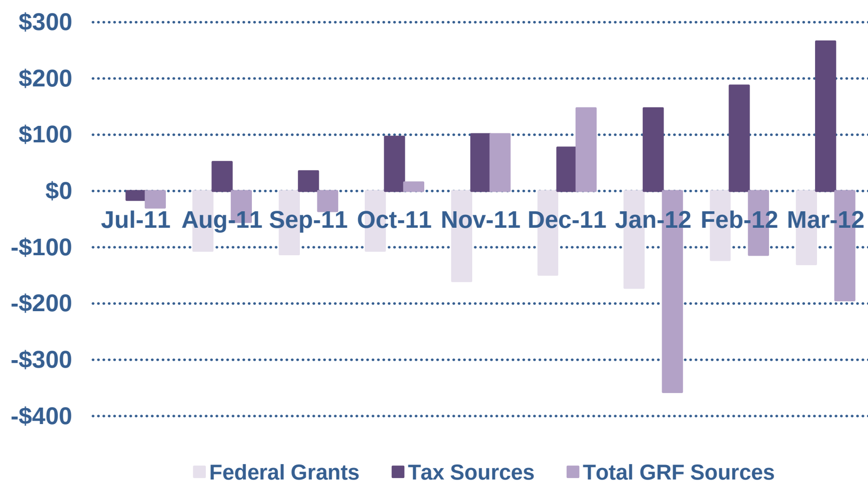
Tables 1 and 2 show GRF sources for the month of March and for FY 2012 through March, respectively. GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants, which are federal reimbursements for human service programs such as Medicaid that receive federal funding.

GRF tax sources had another good month. A surplus of $68.7 million in personal income tax receipts helped tax sources post a positive variance of $78.3 million, though the second estimated corporate franchise tax payment of the fiscal year, payable in March, was $20.9 million short of estimate. March tax receipts raised FY 2012 GRF tax revenues to $13.34 billion, increasing the year-to-date positive variance to $265.4 million, up from $187.2 million through February 2012. As in previous months, receipts from the most important tax sources, the sales and use tax, the personal income tax, the commercial activity tax (CAT), and the cigarette tax, were all above their year-to-date estimates. The year-to-date deficit in corporate franchise tax revenues increased to $37.4 million, up from $16.5 million at the end of the previous month. Though the last estimated payment is due May 31, corporate franchise tax receipts may fall short of estimates for the full fiscal year.

The year-to-date large negative variance in nontax revenues, experienced in January 2012 and related to the transfer of the state liquor franchise, continued in this month's year-to-date figures (see the February issue of *Budget Footnotes* for more details). This negative variance, which more than offset positive variances in tax receipts and transfers in, resulted in a shortfall of $64.0 million in FY 2012 state-source receipts through March. Federal grants of $5.85 billion were also below estimates by $130.5 million. As in previous months, this negative variance was due largely to lower than expected expenditures in the Medicaid Program. Chart 1 below shows the cumulative variances against estimate for federal grants, tax sources, and total GRF sources.

Through March, FY 2012 tax receipts were $1.02 billion greater than such receipts in FY 2011.

Chart 1: Cumulative Variances of GRF Sources in FY 2012 (Variance from Estimates, $ in Millions)



Through March, H.B. 153 changes increased GRF tax receipts by about $0.5 billion.

FY 2012 year-to-date GRF sources decreased $574.4 million compared to receipts in the corresponding period in FY 2011. (Timing-related surpluses in temporary transfers in and a large hike in federal grants resulted in oversized receipts in March 2011, boosting GRF receipts in FY 2011 through March.) An increase of $1.02 billion in GRF tax receipts was offset by decreases of $128.1 million in nontax revenues, $521.0 million in transfers in, and $946.0 million in federal grants.[1] The large year-over-year increase in tax receipts was due to the ongoing economic recovery and to changes in H.B. 153 to the allocation of tax receipts. Collectively, H.B. 153 changes increased GRF tax receipts by about $513.3 million, about half of the FY 2012 increase in tax revenue.

H.B. 153 modified the calculation of distributions of state tax money to the Public Library Fund (PLF) and the Local Government Fund (LGF), generally reducing amounts distributed to local governments.

[1] The American Recovery and Reinvestment Act of 2009 (ARRA) boosted FY 2011 federal grants, a portion of which was deposited in the GRF. ARRA revenues are no longer available, so that federal grants in FY 2012 are expected to be below the level of FY 2011.

Through March, these provisions increased FY 2012 GRF tax receipts by about $177.6 million compared to previous law.[2] H.B. 153 also increased the shares of receipts distributed to the GRF from the CAT, the kilowatt hour tax, and the natural gas consumption tax, with corresponding decreases to local government funds that share revenues from those tax sources. (Those local government funds are used to reimburse local governments for lost revenues for the phase-out and reductions in tangible personal property taxes.) The GRF share of CAT receipts increased from 5.3% to 25%, that of the kilowatt hour tax from 63% to 88%, and that of the natural gas consumption tax from 0% to 100%. These changes increased GRF receipts, respectively, by $236.8 million, $67.6 million, and $31.3 million.

Personal Income Tax

March GRF receipts from the personal income tax of $511.0 million were $68.7 million (15.5%) above estimate. Similarly to last month, this positive variance was mostly due to less than anticipated refunds. For the second consecutive month, personal income tax receipts were below receipts in the corresponding period a year ago. GRF tax receipts this month were $31.3 million below receipts in March 2011, following a decline of $21.2 million in February 2012, when compared to year-ago receipts. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the Local Government Fund (LGF). Gross collections are the sum of employer withholding, quarterly estimated payments,[3] trust payments, payments associated with annual returns, and miscellaneous payments.

Through March, FY 2012 GRF income tax receipts were $141.7 million above estimates.

In March, refunds and monthly employer withholding were below estimate by, respectively, $102.6 million (27.9%) and $32.1 million (4.5%). For the year through March, the GRF received $5.67 billion from the personal income tax, $141.7 million (2.6%) above estimates. Fewer refunds to taxpayers were mostly responsible for that positive variance. Except for October, monthly actual refunds have been less than projected this fiscal year. Continuing a trend of underperformance, employer

[2] LGF distributions are debited from personal income tax receipts; PLF distributions are debited from the kilowatt hour tax (50%) and the nonauto sales and use tax (50%). Thus, H.B. 153 enhanced GRF receipts from all three tax sources this fiscal year.

[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. Most estimated payments are made by high-income taxpayers.

withholding has been below estimates seven of the first nine months of the fiscal year, for a total shortfall of $87.7 million through March 2012. The table below summarizes FY 2012 income tax revenue variances from estimates and annual changes by component.

Through March, FY 2012 withholding receipts were $87.7 million below estimates.

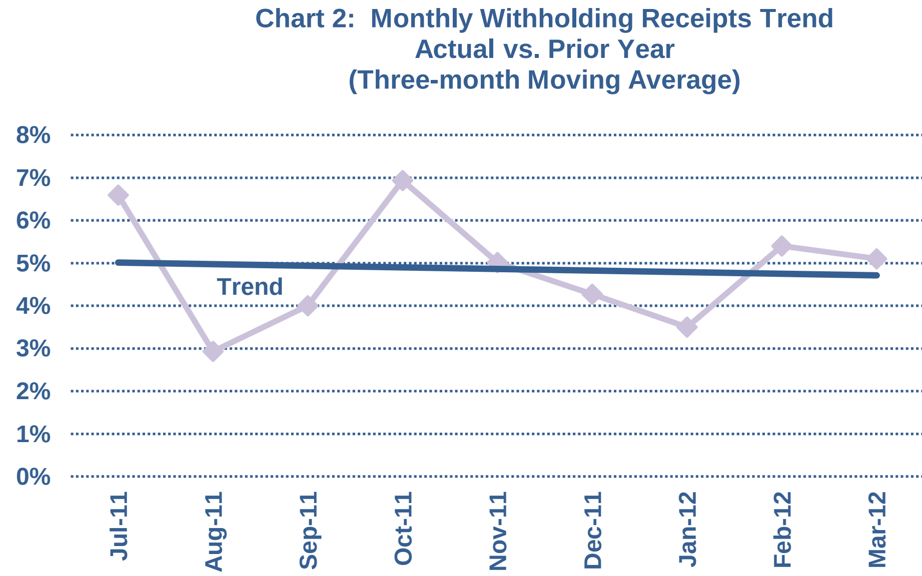
FY 2012 Year-to-Date Income Tax Revenue Variances and Changes by Component

Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2011	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	-$87.7	-1.5%	$242.7	4.4%
Quarterly Estimated Payments	$30.5	3.9%	$76.0	10.2%
Trust Payments	$1.9	9.0%	$4.1	22.3%
Annual Return Payments	$11.1	4.7%	-$1.4	-0.5%
Miscellaneous Payments	$3.1	3.5%	$4.4	5.0%
Gross Collections	-$41.2	-0.6%	$325.8	4.9%
Less Refunds	-$186.7	-17.3%	$101.2	12.8%
Less Local Government Fund Distribution	$3.8	0.9%	-$66.3	-13.3%
Income Tax Revenue	$141.7	2.6%	$290.9	5.4%

Through March, FY 2012 GRF receipts were $290.9 million above receipts during the corresponding period in FY 2011. Revenues from employer withholding were $242.7 million above receipts in this category last year. Chart 2 below shows monthly changes, on a year-ago basis, in withholding receipts in FY 2012. Quarterly estimated payments, the second most important income tax component, increased $76.0 million (10.2%). Distributions to the Local Government Fund were $66.3 million below amounts in that category through March in FY 2011.

Through March, FY 2012 employer withholding was $242.7 million above similar receipts in FY 2011.

Results of the individual tax filing season in April, and receipts from the first and second quarterly estimated payments (due in April and June) will determine the extent of the fiscal year's increase in GRF personal income tax receipts. Generally, fourth-quarter personal income tax receipts may be as high as a third of total fiscal year receipts.



Sales and Use Tax

Through March, FY 2012 GRF sales and use tax receipts were $126.8 million above estimates.

March GRF receipts from the sales and use tax of $605.3 million were $5.3 million (0.9%) above estimate and $19.8 million (3.4%) above receipts in March 2011. Through March, FY 2012 GRF sales and use tax receipts totaled $5.98 billion, $126.8 million (2.2%) above estimate and $329.8 million (5.8%) above receipts in the corresponding period last year.

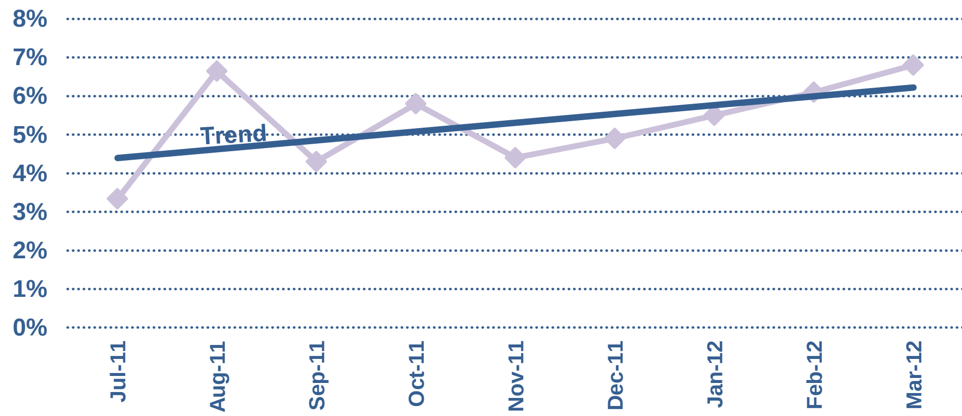
For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[4] generally arise from the sale of motor vehicles while nonauto sales and use tax collections arise from other sales. However, auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax, instead of the auto tax.

Nonauto Sales and Use Tax

Monthly receipts from the nonauto sales and use tax were $509.2 million, $1.8 million (0.4%) below estimate, and $16.8 million (3.4%) above March 2011 receipts. Through March, FY 2012 GRF nonauto sales and use tax receipts were $5.21 billion. Those receipts were $64.2 million (1.2%) above estimate, and $267.3 million (5.4%) above receipts in the corresponding period in FY 2011. Year-to-date receipts include $261.2 million in tax payments by Medicaid health insuring

[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.

Chart 3: Nonauto Sales and Use Tax Receipts Trend
Actual vs. Prior Year
(Three-month Moving Average)



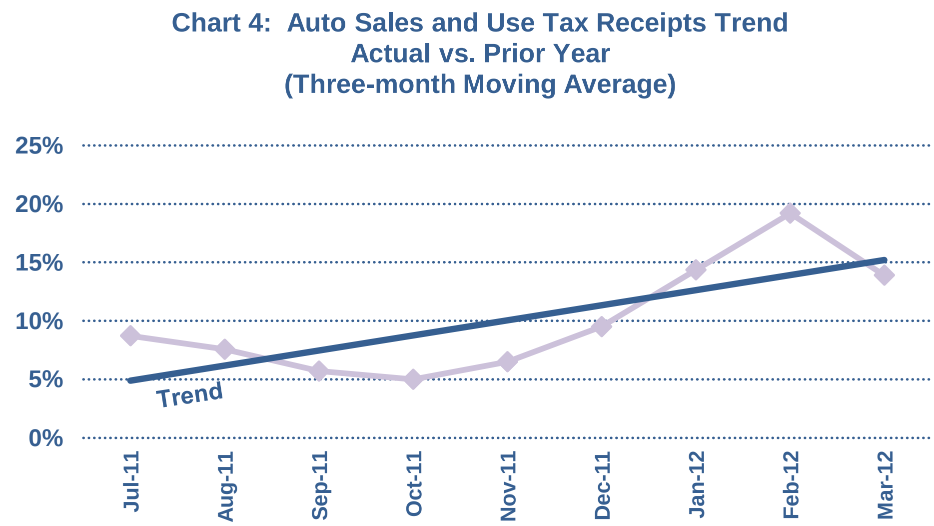
Through March, GRF receipts from the nonauto sales and use tax were $64.2 million above estimates.

corporations, up $51.8 million (24.7%) in this category through March in FY 2011. The nonauto sales and use tax has performed relatively well this fiscal year. Chart 3 above shows a steady increase in FY 2012 nonauto sales tax monthly receipts against prior-year receipts in the same month.

Auto Sales and Use Tax

The auto sales and use tax continued its stellar performance in March. GRF receipts of $96.1 million were $7.1 million (8.0%) above estimate and $3.1 million (3.3%) above March 2011 receipts. For the fiscal year, auto sales and use tax receipts totaled $764.3 million, $62.6 million (8.9%) above estimate and $62.4 million (8.9%) above receipts through March in FY 2011. Chart 4 below compares FY 2012 monthly auto sales and use tax receipts with year-ago receipts in the same period. Light vehicle sales (autos and light trucks) grew strongly in the first quarter of 2012. Nationwide, they averaged about 14.5 million units on a seasonally adjusted annualized basis, the best quarter since the beginning of 2008. So far, consumers are reacting to higher gasoline prices by not reducing total purchases, but by changing the mix of vehicles purchased; sales of cars were 53% of light vehicles sold in the January-March period. In the first half of FY 2012, that share was 46%.

Through March, FY 2012 auto sales and use tax receipts were $62.6 million above estimates.



Through March, FY 2012 GRF CAT receipts were $22.2 million above estimates.

Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax of $66.1 million in March 2012 were $7.4 million (12.5%) above estimate and $0.6 million (0.9%) above receipts in the corresponding period in FY 2011.

Through March, FY 2012 receipts of $570.4 million were $14.2 million (2.6%) above estimates. Receipts from cigarette sales were $530.0 million, and sales of products other than cigarettes provided $40.4 million. Compared to FY 2011, total receipts were $11.5 million (2.0%) below receipts in the corresponding period. Receipts from the sale of cigarettes decreased $13.2 million and those from the sale of other tobacco products increased $1.7 million. Generally, cigarette tax receipts experience a sustained downward trend on a year-ago basis.

Commercial Activity Tax

March GRF receipts from the commercial activity tax (CAT) of $3.3 million were $1.6 million (95.8%) above estimate. CAT receipts to the GRF in FY 2012 totaled $301.3 million, $22.2 million (8.0%) above estimate. Overall, FY 2012 total (all funds) CAT receipts of $1.22 billion were $129.9 million (12.0%) above receipts through March in FY 2011.

Through FY 2011, revenues from the tax were not deposited into the GRF as they were fully earmarked for reimbursing school districts and other local governments for the reductions and phase-out of local taxes on most tangible personal property.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of March 2012
($ in thousands)
(Actual based on OAKS reports run April 2, 2012)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary, Secondary, and Other Education	$557,850	$602,750	-$44,900	-7.4%
Higher Education	$162,488	$167,731	-$5,242	-3.1%
Total Education	$720,338	$770,481	-$50,143	-6.5%
Public Assistance and Medicaid	$988,259	$1,032,034	-$43,775	-4.2%
Health and Human Services	$64,396	$60,108	$4,288	7.1%
Total Welfare and Human Services	$1,052,655	$1,092,142	-$39,486	-3.6%
Justice and Public Protection	$165,599	$168,618	-$3,019	-1.8%
Environment and Natural Resources	$3,110	$3,107	$3	0.1%
Transportation	$869	$1,386	-$517	-37.3%
General Government	$29,195	$36,831	-$7,636	-20.7%
Community and Economic Development	$16,865	$17,778	-$913	-5.1%
Capital	$0	$0	$0	---
Total Government Operations	$215,638	$227,720	-$12,082	-5.3%
Tax Relief and Other	$15,417	$77,949	-$62,532	-80.2%
Debt Service	$41,833	$70,236	-$28,402	-40.4%
Total Other Expenditures	$57,250	$148,185	-$90,935	-61.4%
Total Program Expenditures	**$2,045,882**	**$2,238,527**	**-$192,646**	**-8.6%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	-$153,668	$2,097	-$155,765	-7426.9%
Total Transfers Out	-$153,668	$2,097	-$155,765	-7426.9%
TOTAL GRF USES	**$1,892,214**	**$2,240,625**	**-$348,411**	**-15.5%**

* September 2011 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

Table 4: General Revenue Fund Uses
Actual vs. Estimate
FY 2012 as of March 31, 2012
($ in thousands)
(Actual based on OAKS reports run April 2, 2012)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2011**	**Percent Change**
Primary, Secondary, and Other Education	$4,950,579	$4,969,049	-$18,470	-0.4%	$5,403,079	-8.4%
Higher Education	$1,603,186	$1,623,448	-$20,262	-1.2%	$1,844,780	-13.1%
Total Education	$6,553,766	$6,592,498	-$38,732	-0.6%	$7,247,859	-9.6%
Public Assistance and Medicaid	$9,799,190	$10,165,490	-$366,301	-3.6%	$9,357,326	4.7%
Health and Human Services	$773,419	$768,717	$4,702	0.6%	$825,947	-6.4%
Total Welfare and Human Services	$10,572,609	$10,934,208	-$361,599	-3.3%	$10,183,273	3.8%
Justice and Public Protection	$1,408,306	$1,482,491	-$74,185	-5.0%	$1,468,123	-4.1%
Environment and Natural Resources	$54,252	$53,860	$392	0.7%	$55,332	-2.0%
Transportation	$7,497	$9,822	-$2,325	-23.7%	$11,200	-33.1%
General Government	$221,600	$245,293	-$23,693	-9.7%	$224,230	-1.2%
Community and Economic Development	$80,621	$86,875	-$6,255	-7.2%	$82,934	-2.8%
Capital	$120	$0	$120	---	$24	402.1%
Total Government Operations	$1,772,396	$1,878,342	-$105,945	-5.6%	$1,841,842	-3.8%
Tax Relief and Other	$885,462	$925,406	-$39,943	-4.3%	$955,786	-7.4%
Debt Service	$306,063	$348,723	-$42,660	-12.2%	$414,191	-26.1%
Total Other Expenditures	$1,191,525	$1,274,128	-$82,603	-6.5%	$1,369,977	-13.0%
Total Program Expenditures	**$20,090,295**	**$20,679,175**	**-$588,880**	**-2.8%**	**$20,642,951**	**-2.7%**
TRANSFERS						
Budget Stabilization	$246,899	$246,899	$0	0.0%	$0	---
Other Transfers Out	$327,504	$109,623	$217,881	198.8%	$1,016,758	-67.8%
Total Transfers Out	$574,402	$356,522	$217,881	61.1%	$1,016,758	-43.5%
TOTAL GRF USES	**$20,664,698**	**$21,035,697**	**-$371,000**	**-1.8%**	**$21,659,710**	**-4.6%**

* September 2011 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

Table 5: FY 2012 Medicaid Expenditures
($ in thousands)
(Actuals based on OAKS report run on April 3, 2012)

Medicaid (600525) Payments by Service Category	March Actual	March Estimate	March Variance	March Percent Variance	Year to Date Actual thru Mar	Year to Date Estimate thru Mar	Year to Date Variance	Year to Date Percent Variance
Managed Care Plans	$567,265	$592,562	-$25,297	-4.3%	$4,736,237	$4,861,987	-$125,750	-2.6%
Nursing Facilities	$190,054	$194,042	-$3,988	-2.1%	$1,832,145	$1,873,301	-$41,156	-2.2%
Hospitals	$123,902	$110,004	$13,898	12.6%	$966,133	$1,081,152	-$115,019	-10.6%
Prescription Drugs	$40,457	$40,698	-$241	-0.6%	$768,065	$795,949	-$27,884	-3.5%
Aging Waivers	$46,471	$51,953	-$5,482	-10.6%	$461,680	$461,252	$428	0.1%
ICFs/MR	$43,315	$44,440	-$1,125	-2.5%	$416,203	$420,589	-$4,386	-1.0%
ODJFS Waivers	$23,639	$25,815	-$2,176	-8.4%	$235,515	$259,843	-$24,328	-9.4%
Physicians	$25,676	$30,712	-$5,036	-16.4%	$213,641	$263,964	-$50,323	-19.1%
All Other	$128,577	$136,401	-$7,824	-5.7%	$1,202,194	$1,251,879	-$49,685	-4.0%
Total Payments	$1,189,356	$1,226,627	-$37,271	-3.0%	$10,831,813	$11,269,916	-$438,103	-3.9%
Total Offsets (non-GRF)	-$287,096	-$290,516	$3,420	-1.2%	-$1,817,072	-$1,942,078	$125,006	-6.4%
Total 600525 (net of offsets)	$902,260	$936,111	-$33,851	-3.6%	$9,014,741	$9,327,838	-$313,097	-3.4%
Medicare Part D (600526)	$24,379	$23,671	$708	3.0%	$190,647	$206,481	-$15,834	-7.7%
Total GRF	**$926,639**	**$959,782**	**-$33,143**	**-3.5%**	**$9,205,388**	**$9,534,319**	**-$328,931**	**-3.4%**
Total All Funds	**$1,213,735**	**$1,250,298**	**-$36,563**	**-2.9%**	**$11,022,460**	**$11,476,397**	**-$453,937**	**-4.0%**

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

ICFs/MR - Intermediate Care Facilities for the Mentally Retarded

For the nine months of FY 2012, total GRF uses were below estimate by $371.0 million.

EXPENDITURES

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

Overview

Through March, FY 2012 GRF program expenditures totaled $20.09 billion. These expenditures were $588.9 million below the estimate released by the Office of Budget and Management (OBM) in September 2011. GRF transfers out totaled $574.4 million, which was $217.9 million above estimate. GRF uses as a whole amounted to $20.66 billion, which was $371.0 million below estimate. Tables 3 and 4 show GRF uses for the month of March, and for FY 2012 through March, respectively. For the month of March, GRF program expenditures were $2.05 billion, $192.6 million below estimate. GRF transfers out were negative $153.7 million, reflecting an accounting reversal of the $153.7 million GRF cash transfer out made in February. As noted in the March issue of *Budget Footnotes*, in February, $153.7 million cash was inadvertently transferred from the GRF to the Permissive Tax Distribution Fund (Fund 7063) and Local Sales Tax Administrative Fund (Fund 4350). Before that month ended, however, the same amount of cash was transferred into the GRF from funds 7063 and 4350. In March, both the transactions were reversed, which reduced the year-to-date GRF transfers out from $728.1 million at the end of February to $574.4 million at the close of March and the year-to-date GRF transfers in from $455.9 million to $302.2 million. The latter is recorded in Table 2 of the Revenues section of this report.

For the 12 program expenditure categories, three posted relatively small positive year-to-date variances while the other nine had negative year-to-date variances. Categories with expenditures significantly lower than their estimates include Public Assistance and Medicaid ($366.3 million), Justice and Public Protection ($74.2 million), Debt Service ($42.7 million), Tax Relief and Other ($39.9 million), General Government ($23.7 million), and Higher Education ($20.3 million). The negative variances in these six categories are briefly discussed below.

Public Assistance and Medicaid

Year-to-date GRF expenditures for Public Assistance and Medicaid totaled $9.80 billion, $366.3 million (3.6%) below estimate. Medicaid, including both state and federal shares, accounts for 94% of expenditures in this program category. Medicaid is mainly funded with the GRF but is also supported by various non-GRF funds. Table 5 details Medicaid GRF expenditures by service category and also summarizes

Medicaid expenditures across all funds. Through March, FY 2012 Medicaid GRF expenditures totaled $9.21 billion, which was $328.9 million (3.4%) below estimate. Across all funds, year-to-date Medicaid expenditures amounted to $11.02 billion, which was $453.9 million (4.0%) below estimate.

Year-to-date GRF Medicaid spending was below estimate by $328.9 million, due partially to MITS and partially to lower than expected capitated rates for managed care plans and caseloads.

As seen from Table 5, GRF expenditures were below their year-to-date estimates for all but one service category. Categories with significant negative year-to-date variances include Managed Care Plans ($125.8 million, 2.6%), Hospitals ($115.0 million, 10.6%), Physicians ($50.3 million, 19.1%), and All Other ($49.7 million, 4.0%). According to OBM, the negative variance in Managed Care Plans was mainly due to lower than projected managed care capitated rates for 2012. For the other categories, the main reason for the negative variances was the implementation of the new Medicaid Information Technology System (MITS); MITS was implemented in August 2011.

According to the Ohio Department of Job and Family Services (ODJFS), MITS is likely causing the negative variances in two ways. First, MITS has been rejecting some claims that it should be paying. This is because, in some cases, MITS identifies the recipient of the service as ineligible for Medicaid. For example, approximately 16,000 to 18,000 Aged, Blind, and Disabled (ABD) enrollees have been consistently not recognized as eligible by MITS. Many of these are individuals receiving long-term care who are determined eligible for Medicaid on a monthly basis based on their income level after they have contributed to their own cost of care. Currently, ODJFS staff must manually override the MITS system each time in order to pay claims for these individuals. ODJFS expects to fix this issue in April. Once corrected, the negative variances in many of the service categories are expected to narrow substantially, as claims that have been rejected would be paid. Secondly, the negative Medicaid variance is partially due to MITS properly rejecting more claims. Compared with the prior payment system, MITS has a more comprehensive mechanism to properly reject certain claims.

Some of the negative variance could also be due to lower than estimated Medicaid caseloads. However, according to ODJFS, accurate Medicaid caseload data is not available at this time. The source of caseload data is MITS, which is, as stated above, experiencing programming issues related to eligibility. The programming issues have made actual caseload data somewhat unreliable, which complicates the caseload and expenditure variance analysis. In December 2011, the latest month for which data is available, caseloads totaled 2,116,783 individuals, which were 91,288 (about 4.1%) below estimate.

Year-to-date GRF spending for Justice and Public Protection was below estimate by $74.2 million.

Justice and Public Protection

Year-to-date GRF expenditures for Justice and Public Protection were $1.41 billion, $74.2 million (5.0%) below estimate. The Department of Rehabilitation and Correction (DRC) contributed $65.9 million to this year-to-date negative variance. The Department of Youth Services and the Supreme Court accounted for another $4.6 million and $4.0 million, respectively. As reported in prior issues of *Budget Footnotes*, the organizational restructuring in DRC resulted in a higher than expected personnel vacancy rate, which was the main reason behind the negative year-to-date variance in DRC's GRF expenditures. Expenditures for DRC's two main appropriation items 501321, Institutional Operations, and 505321, Institution Medical Services, were $37.3 million and $14.1 million, respectively, below their year-to-date estimates. In FY 2011, payroll costs represent 61.3% ($912.2 million) of DRC's total GRF expenditures of $1.49 billion.

Debt Service

This program category funds general obligation bond debt service payments incurred by several state agencies for various capital improvement projects at the state and local levels. GRF debt service expenditures were $28.4 million (40.4%) below their March estimate, which increased this category's negative year-to-date variance to $42.7 million. Of this amount, $28.2 million was attributable to debt service paid by the School Facilities Commission, and $7.9 million was attributable to the Department of Development. Through March, FY 2012 GRF debt service expenditures totaled $306.1 million.

Tax Relief and Other

GRF expenditures for Tax Relief and Other were $62.5 million below estimate in March, which led to a year-to-date negative variance of $39.9 million (4.3%) for this program category. The negative variance for the month of March was likely due to timing. The property tax relief reimbursements are made twice per year, one based on the February property tax settlement and the other one based on the August property tax settlement. The reimbursements based on the February 2012 settlement started in March and will continue through the remainder of the fiscal year. The reimbursements based on the August 2011 settlement were completed in December, and were $23.0 million higher than estimate.

General Government

Year-to-date GRF expenditures for General Government totaled $221.6 million, $23.7 million (9.7%) below estimate. Of the total negative variance, $11.8 million was attributable to the Department of Administrative Services, and $5.1 million to the Department of Taxation. Another $2.8 million of the negative variance was attributable to four of the five elected statewide offices included in this category: Governor, Treasurer of State, Auditor of State, and Secretary of State, and still another $2.6 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).

Higher Education

GRF expenditures for Higher Education totaled $1.60 billion through March, which was $20.3 million (1.2%) below estimate. The negative variance in this program category was mainly due to three scholarship-related appropriation items. Expenditures for item 235563, Ohio College Opportunity Grant, which is a need-based financial aid program, were $7.4 million below their year-to-date estimate. Item 235438, Choose Ohio First Scholarship, had a negative year-to-date variance of $8.6 million. This item provides scholarships for the recruitment of Ohio residents attending selected public and private institutions of higher education to study in the fields of science, technology, engineering, mathematics, and medicine. Expenditures for item 235599, National Guard Scholarship Program, which provides tuition assistance to Ohio National Guard members attending public and private colleges or universities, were $1.9 million below the year-to-date estimate. The scholarships funded by these three appropriation items are generally disbursed on a reimbursement basis. These expenditures may therefore vary from estimates from time to time.

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

ISSUE UPDATES

ODOT Winter Road Maintenance Costs Decrease Sharply in FY 2012

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

The Ohio Department of Transportation (ODOT) saw major decreases in its road maintenance costs between the winter driving seasons of FY 2011 and FY 2012. Owing to the overall mild winter experienced in Ohio, ODOT's total spending on salt, fuel, and overtime pay, the three largest drivers of winter road maintenance costs, was down by nearly 38% for the period of November 2011 through March 19, 2012 as compared to the period of November 2010 through March 2011. The largest reduction was in spending on salt, which fell by 41.3% from $26.9 million in the FY 2011 winter season to $15.8 million in the FY 2012 winter season. Fuel costs decreased by 31.3%, from $11.8 million to $8.1 million, and overtime pay fell by 36.3%, from $7.2 million to $4.6 million, largely due to the fact that fewer snowplows and salt trucks were needed to clear the highways this winter. The following table compares the amounts spent on each of these categories in the winters of FY 2011 and FY 2012.

Comparison of ODOT Winter Spending, FY 2011-FY 2012			
Spending Category	**November 2010 through March 2011**	**November 2011 through March 19, 2012**	**% Change**
Salt	$26,884,406	$15,794,313	-41.3%
Fuel	$11,789,275	$8,102,504	-31.3%
Overtime Pay	$7,156,373	$4,560,780	-36.3%
Total	**$45,830,054**	**$28,457,597**	**-37.9%**

U.S. District Court Approves $725 Million Settlement in AIG Case

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

On February 3, 2012, the U.S. District Court for the Southern District of New York approved a $725 million settlement between plaintiffs, represented by Ohio's Attorney General, and American International Group (AIG).[5] The settlement resolved charges of accounting fraud, collusion (bid rigging), and stock price manipulation. The case was initially filed in 2005 by then Ohio Attorney General Jim Petro. The Ohio Public Employees Retirement System, the State Teachers Retirement System of Ohio, and the Ohio Police & Fire Pension Fund served as the lead plaintiffs. The complaint

[5] AIG is an international insurance organization, which operates worldwide property and casualty insurance networks, life insurance, and retirement services.

alleged that the three pension systems lost a combined $95.8 million on their holdings because of the firm's accounting fraud. AIG voluntarily disclosed this fraud in 2005 and restated its earnings spanning more than four years, from October 1999 to April 2005. In addition to this settlement, Ohio participates in three other related cases. The settlements reached on those three cases are currently awaiting approval by the U.S. District Court. Once approved, the total settlement will reach $1 billion. From this combined settlement, the three Ohio pension systems are expected to receive $9 million. The remainder will be distributed amongst other investors who submit valid claims.

Ohio Institutions Receive Federal Grants to Help Ohioans Fill Jobs in High-Growth Fields

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

In February, Ohio University and Northwest State Community College (NSCC) were awarded approximately $5.0 million each from the second round of grants made under the federal H-1B Technical Skills Training Grant Competition. The grants are to provide education, training, and job placement assistance related to high-growth fields in which employers are currently using H-1B nonimmigrant visas to hire foreign workers. Ohio University's winning program, the Nursing Education and Retraining for Success (NEARS) Project, is an accelerated career pathway for individuals to become nurses through a seamless academic progression. NEARS will serve about 200 individuals with 75% being long-term unemployed. The project will support participants in obtaining advanced nursing degrees and licenses, and will include employment assistance following the academic component. The project at NSCC will train long-term unemployed individuals in technology and food industry skills. NSCC will work in cooperation with several private organizations to identify the long-term unemployed individuals in 17 northwest counties, provide training, and place workers in appropriate jobs in the technology and food industries.

The H-1B Technical Skills Training Grant Program is funded from fees paid by employers for foreign workers entering the U.S. on H-1B visas. In this second round of awards, 43 projects in 28 states were awarded grants totaling more than $183 million. The first round of awards was made in October 2011. In that round, approximately $160 million in grants were awarded to 36 projects in 20 states. The Cuyahoga Community College District was awarded $4.1 million for a job training project that focuses on the information technology and health care fields and the Ohio Department of Job and Family Services was awarded $5.0 million for a project that focuses on the information technology field.

Ohio Received $50 Million for Trade Adjustment Assistance Programs

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

In February 2012, the U.S. Department of Labor released final funding and program statistics for Trade Adjustment Assistance (TAA) programs for federal fiscal year (FFY) 2011. In that year, Ohio received $50 million in federal TAA. TAA programs provide services for individuals who have lost employment due to increased imports from, or shifts in production to, foreign countries. Benefits include training, re-employment services, alternative trade adjustment assistance, and allowances or credits for job search, relocation, and health coverage. TAA programs are funded completely by federal dollars, which are disbursed to various local entities across the state by the Department of Job and Family Services.

In FFY 2011, Ohio's TAA programs had 22,086 total participants, second only to Michigan (with 27,664). When combined, participants in Ohio and Michigan accounted for 25% of participants in the country (196,030). Ohio was also second to Michigan in *new* TAA participants with 3,048, accounting for 8.2% of the national total (37,266).

Depending on individual circumstances, applicants may receive one or more TAA benefits. To receive benefits, union officials, company officials, groups of three or more workers, or state workforce agencies must file a petition with the U.S. Department of Labor. The Department of Labor generally determines eligibility within 40 days.

The Community Pathways Model is Expanding to Southeast Ohio

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

On February 2, 2012, the Ohio Office of Health Transformation announced that $350,000 had been allocated to expand the Community Pathways Model to southeast Ohio to improve maternal and child health. The funding for this expansion is being provided through the Department of Job and Family Services. The model in southeast Ohio will be coordinated by Integrating Professionals for Appalachian Children and Nationwide Children's Hospital's Partners for Kids and is expected to be in full operation by July 2012.

The Pathways Model uses community health workers, nurses, and social workers, to connect at-risk individuals to evidence-based care. Initially, community health workers identify at-risk populations and then contact individuals to assess their health condition and to determine other information such as the individual's employment status and access to housing. Based on this assessment, community healthcare workers and other care coordinators develop a care plan, coordinate the provision of necessary services, and document the individual's progress. Under the model, health agencies, hospitals, social service providers, and others involved in providing these services work together to track at-risk individuals to ensure that their biological, psychological, and social needs are met.[6] The model utilizes a pay-for-performance methodology that provides financial incentives to providers that are tied to improving outcomes. For instance, providers receive payments when individuals make scheduled prenatal visits or are enrolled into eligible programs. An incentive payment may be received for a positive outcome, such as the delivery of a normal-birth weight baby.

The model was first implemented in Richland County in 2001 by the Community Health Access Project (CHAP) and later expanded to Toledo and Cincinnati. CHAP initially identified two areas in Richland County that had a high rate of low-birth weight babies and employed the model. The model has helped reduce the rate of low-birth weight babies from 23% to 5%.[7] According to the Office of Health Transformation, the model saved $6 for every $1 invested after the first year of implementation. In addition, one in ten births paid for through the Medicaid Program are low-weight births. However, costs resulting from these births represent about half of all Medicaid birth-related expenditures.

ODE Assumes Sponsorship of Start-up and Existing Community Schools

—Michele Perch, Budget Analyst, 614-644-1262

In February, the Ohio Department of Education (ODE) assumed sponsorship of two start-up community schools and two existing community schools. The start-up schools, operated by White Hat Management, are Signal Tree Academy East, a K-8 school located in Akron, and Signal Tree Academy Northeast, a dropout recovery high school in Warrensville Heights. The existing schools are Polly Fox Academy, a grades 7-12 school for pregnant and parenting students, and Phoenix Academy high school; both schools are located in Toledo.

ODE has not sponsored community schools since FY 2005, except for schools where the sponsor's authority to sponsor was revoked. ODE has resumed sponsorship authority pursuant to H.B. 153, which permits ODE to authorize and sponsor up to five start-up community schools and 15 existing community schools. Contracts for sponsorship may be renewed after five years.

ODE reviewed four other applications for start-up community schools from White Hat Management. However, the applications were not approved because White Hat's plan did not comply with state law requiring community school governing boards to consist of at least five members. As of April 13, there were three other start-up schools and four existing community schools still under consideration for sponsorship by ODE.

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[6] Agency for Healthcare Research and Quality, U.S. Department of Health and Human Services.

[7] *Ibid.*

Youth Services to Save More Than $400,000 in Rent from Central Office Relocation

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

In March, the Department of Youth Services completed the relocation of its central office to the state-owned William Green Building operated by the Bureau of Workers' Compensation. This move will save the Department more than $400,000 in rent annually. Previously, the Department had leased multiple floors of commercial office and storage space located in downtown Columbus at a cost of more than $743,000 annually. Rent at the William Green Building, which is located three blocks north of the former central office headquarters, will cost the Department around $296,000 annually. The Department incurred one-time costs of around $85,000 to purchase and install reconditioned modular office furniture and approximately $50,000 in moving expenses. These one-time costs reduce the first year's rent savings to just over $300,000.

The move to the William Green Building was driven by a need to reduce annual operating expenses, and to consolidate and restructure a downsized central office operation, including 129 employees, from seven floors to one floor. This consolidation will enable the Department to improve internal communications and increase efficiency by placing operating units that work together in close proximity.

Division of Industrial Compliance and Labor to Oversee Construction of Natural Gas Processing and Fractionation Plants

—Tom Middleton, Budget Analyst, 614-728-4813

On March 12, Governor Kasich signed an executive order giving sole oversight of the construction of both natural gas processing and fractionation facilities[8] to the Board of Building Standards, a unit of the Division of Industrial Compliance and Labor within the Department of Commerce. Currently, there are no processing plants of either type operating in Ohio. However, at least four natural gas processing or fractionation plants are slated for construction within the next year due to a large increase in natural gas production anticipated from the Utica shale formation underlying much of the eastern half of the state. MarkWest Energy Partners, L.P. announced plans for facilities in Harrison and Monroe counties, while Chesapeake Energy Corporation announced plans for facilities in Harrison and Columbiana counties. Chesapeake's plants are expected to begin operations as early as 2013.

[8] A natural gas processing plant is a facility that separates impurities from the gas to prepare natural gas and natural gas liquids for transmission and distribution. Fractionation facilities separate individual compounds, such as ethane, propane, normal butane, isobutane, or pentanes, from natural gas liquids for supply to downstream facilities.

The Board of Building Standards is funded by fees charged for building and construction plan review, and the testing, certification, and licensure of major mechanical systems in buildings. These fees are deposited into the Labor Operating Fund (Fund 5560) and are used to pay for the operating expenses throughout the Division of Industrial Compliance and Labor. H.B. 153 provided appropriations of approximately $27.6 million in each fiscal year to fund the Division.

TRACKING THE ECONOMY

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

Overview

Economic reports continue to show improving national and Ohio economies. Mild weather affected a number of the statistical indicators. Nationwide employment growth continued in March but slowed, and unemployment fell further lowering the unemployment rate to 8.2%. In Ohio, payroll employment rose sharply in January and February, and unemployment fell further. Nationwide manufacturing production, shipments, and orders increased in February, and activity in manufacturing as well as in other parts of the economy rose further in March based on purchasing managers' reports. Consumer spending rose in January and February, but likely slipped in March as light motor vehicle sales slowed from elevated levels in February. Construction activity remains slow, overall, but is picking up. In last year's fourth quarter, inflation-adjusted gross domestic product (real GDP) was reported to have grown at a 3.0% annual rate, matching the previous estimate. Inflation worsened in February mainly because of higher gasoline prices.

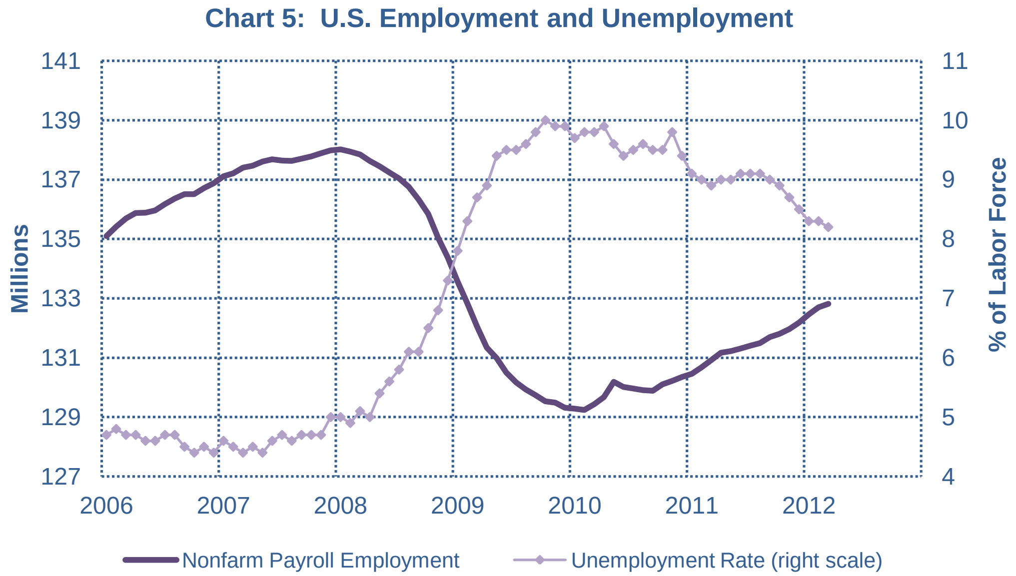
At its meeting in March, the central bank's Federal Open Market Committee kept monetary policy unchanged. The Committee's post-meeting press release had a somewhat more positive tone, however, and market interest rates climbed following release of the statement.

The National Economy

Employment and Unemployment

U.S. total nonfarm payroll employment in March rose by 120,000, following larger increases in the previous three months.

U.S. total nonfarm payroll employment in March rose by 120,000, following larger increases in the previous three months that averaged 246,000. The number of people counted as unemployed declined to 12.7 million, lowering the nationwide average unemployment rate to 8.2%. Payroll employment is at its highest level, and the unemployment rate is at its lowest level, since early 2009. Trends in U.S. total employment and unemployment are shown in Chart 5.



In March, employment rose in manufacturing, food services and drinking places, and health care, and fell in retail trade. Factory employment has increased 470,000 (4.1%) since early 2010, almost all at producers of durable goods. Employment at restaurants, bars, and others in the food services and drinking places industry has increased 563,000 (6.1%) during this period. Employment in health care has risen every year for decades. Employment in retail trade rose 405,000 (2.8%) from its recent low point in December 2009 through January of this year but declined, seasonally adjusted, in February and March.

In state and local government, employment with states edged up in the first three months of 2012, rising 17,000 (0.3%) from December to March, seasonally adjusted, after declining 80,000 (1.6%) in 2011. Local government employment was about unchanged in this year's first three months after falling 150,000 (1.1%) in 2011.

Total payroll employment has risen about 3.6 million since the recent low point in February 2010 but remains 5.2 million lower than at the peak in January 2008.

The unemployed included 5.3 million people who had been out of work for more than six months. Included among the employed were 7.7 million people working part time who would have preferred full-time employment. Persons not in the labor force included 0.9 million so-called "discouraged workers" who had looked for jobs in the past year but did not actively seek work in the most recent survey period because they thought no work was available for them.

Total payroll employment has risen about 3.6 million since February 2010 but remains 5.2 million lower than in January 2008.

Production, Shipments, and Inventories

Real GDP, in the most recent estimate from the U.S. Bureau of Economic Analysis, rose at a 3.0% annual rate in last year's fourth quarter, the same as previously reported. The latest figure is based on more complete statistics. Growth in the fourth quarter was at the highest rate since the second quarter of 2010, and reflected in part production to add to inventories, as well as growth of consumer spending, residential fixed investment, nonresidential investment in equipment, and exports. Private investment in structures and government spending fell. Part of the net increase in demand was met by increased imports of goods and services.

Real GDP rose at a 3.0% annual rate in last year's fourth quarter.

Industrial production was unchanged in February after rising 0.5% in January. Factory output rose 0.4% in February following a 1.1% increase in January, mainly reflecting increases in durable goods output. Mining production fell 1.6% in February after dropping 1.4% in January, as natural gas production and coal production fell in both months. The output of electric and gas utilities edged down in February after large declines in January and December, as temperatures remained unseasonably warm after mild weather in the previous two months.

The dollar value of manufacturers' shipments rose in February for the ninth straight month, increasing 0.1%. Factory new orders, volatile from month to month, rose 1.3% in February after declining 1.1% in January. Manufacturers' unfilled orders rose 1.3% in February and increased in 22 of the most recent 23 months. Factory inventories rose 0.4%, continuing to trend upward.

Manufacturing activity expanded again in March, based on a survey of purchasing managers by the Institute for Supply Management (ISM). More of the survey respondents reported increases in production at their companies than said production decreased. New orders and order backlogs also rose. Prices increased for the third consecutive month. An ISM survey of purchasing managers with organizations other than manufacturers showed further growth of business activity and new orders, but contraction of order backlogs, accompanied by generally rising prices.

Consumer Spending

Personal income grew slowly in January and February, and declined net of taxes and adjusted for inflation. Much of the growth in nominal personal income was accounted for by higher wages and salaries. Spending by consumers grew in both months. Real personal consumption expenditures rose 0.5% in February after increasing 0.2% in

January. Consumer spending on durables, particularly motor vehicles, rose in both months, and spending on services picked up in February.

In March, sales of light motor vehicles slowed to a 14.3 million unit seasonally adjusted annual rate from a 15.0 million unit rate in February. The sales pace in March was, apart from the previous month, the highest since early 2008. First quarter sales averaged a 14.5 million unit annual rate, more than 1 million units higher than in last year's fourth quarter.

Sales at large retailers that report results monthly were 4.1% higher in March than in the year-earlier month, according to a report from the International Council of Shopping Centers (ICSC) which compiled the data. These numbers are on a same-store basis, including only store locations open in both of the months being compared. ICSC attributed the relatively strong performance in March, matching that in February, to warm temperatures and an earlier Easter that boosted apparel demand, and to favorable effects of a better economy.

Total household net worth in the U.S. as of the end of 2011 had rebounded by 16% since the recession low, but remained 13% lower than at the pre-recession peak, according to Federal Reserve System estimates.[9] Owners' equity in household real estate lost more than half of its value from 2006 to 2009, falling to around the level in 1999, and had not recovered as of year-end 2011. Net declines in the estimated market value of owner-occupied real estate plus second homes since March 2009 outpaced reductions in home mortgage debt owed.

Construction and Real Estate

Residential construction is increasing, though building activity is still low compared with levels in past years. Housing starts in February were 1% lower than in January, seasonally adjusted, but were 35% higher than a year earlier. The number of housing units started in the first two months of the year was 25% higher than a year earlier, with starts on single-family homes 21% higher and starts on apartments 34% higher. Issuance of permits to start construction on new housing was stronger, with the number of units authorized by permits 34% higher in January and February than a year earlier, including a 22% increase in permits for one-unit dwellings and a 67% increase in apartments. The number of housing units under construction bottomed out last year and has been trending upward since then.

Residential construction is increasing, though building activity is still low compared with levels in past years.

[9] These changes are calculated from estimates of the combined balance sheets of households and nonprofit organizations, published as part of the Flow of Funds accounts.

New single-family home sales slowed, seasonally adjusted, in January and February 2012 after climbing in late 2011. Sales in the first two months of this year were 8% higher than a year earlier. New home sales are up modestly from all-time lows for these statistics reached in the second half of 2010, on a seasonally adjusted basis, after expiration of tax breaks for qualifying home purchases that boosted sales in some months of 2009 and into 2010.[10]

Sales of homes reported by the National Association of Realtors (NAR), generally previously occupied homes, slowed 1% from January to February, seasonally adjusted, but remained on an uptrend from lows in 2010 following expiration of the home purchase tax credits. For the first two months of 2012, sales were 10% higher than a year earlier. NAR said that 34% of sales in February were foreclosures or short sales, down from 39% a year earlier.

Mortgage interest rates have risen but remain very low. The nationwide average contract rate on 30-year fixed-rate conventional home mortgages was 3.98% in the week of April 5, in the Freddie Mac survey, up from the all-time low rate in the 41-year history of this survey of 3.87% in February, but down from 4.08% in the March 22 week, the highest since last October.

Construction activity is also trending upward. The value of construction put in place in February was 1% lower than in January, seasonally adjusted, but year-to-date construction spending was 7% higher than a year earlier, including a 6% increase in private residential construction and a 16% increase in private nonresidential construction. Components of these totals include spending on multifamily residential projects which was 25% higher than a year earlier, spending on power projects, 26% higher, and spending on manufacturing, 40% higher. Public construction put in place in January and February was about even with a year earlier.

The consumer price index (CPI) rose 0.4% in February, its largest increase since April 2011.

Inflation

The consumer price index (CPI) rose 0.4% in February, its largest increase since April 2011, with sharply higher gasoline prices accounting for over 80% of the rise. Consumer energy prices rose 3.2% in February despite a decline in natural gas prices paid by consumers, for the fifth consecutive month. Food prices on average were unchanged in February, and the CPI for all items excluding food and energy rose 0.1%. Compared with its level a year earlier, the CPI in February was 2.9%

[10] The all-time lows are in statistics compiled since 1963.

higher, down from a 3.9% year-over-year increase last September, which was the most rapid rise in this measure of inflation since 2008.

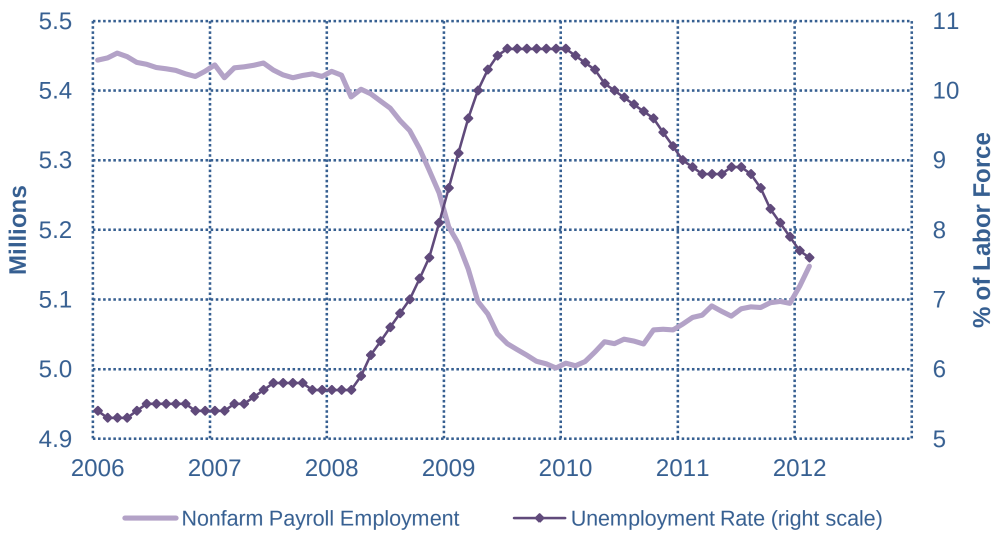
The producer price index (PPI) for finished goods rose 0.4% in February, its largest increase since September, as prices of finished energy goods rose 1.3% mostly because of higher gasoline prices. The index for finished consumer food prices fell 0.1% in February, the third monthly decline in a row. Prices of finished goods less foods and energy rose 0.2% in February. Compared with a year earlier, the PPI for finished goods was 3.3% higher, the smallest rise in this measure of wholesale price inflation since 2010. At earlier stages in the production process, the PPI for intermediate goods was 3.3% higher in February than a year earlier, and the PPI for crude materials was 0.7% higher than a year earlier, both of which were the smallest increases in those indexes since 2009.

The Ohio Economy

Total nonfarm payroll employment in Ohio rose strongly again in February, increasing about 28,000 (0.6%) after a 25,000 (0.5%) rise in January. Statewide unemployment, as a percent of the labor force, fell to 7.6%, the lowest since 2008. These trends are shown in Chart 6.

Total nonfarm payroll employment in Ohio rose strongly again in February, increasing about 28,000 (0.6%).

Chart 6: Ohio Employment and Unemployment



The increase in Ohio employment in February was larger than in any other state. It occurred mainly in the service sector, including large gains at retailers and in health care and social assistance. Local government employment also rose, seasonally adjusted, reflecting gains in education that were larger than usual for the month. In goods producing industries, employment rose in construction, perhaps boosted by mild weather, and in manufacturing and mining.

Over the past year, about two-thirds of nonfarm payroll employment gains were in services, chiefly health care, trade, and professional and technical services. Gains in goods producing industries were concentrated at durable goods manufacturers and in construction, though in percentage terms the largest gain, 5%, was in mining and logging.

From the cyclical low point for employment in December 2009, Ohio total nonfarm payrolls had increased 146,000 (3%) as of February 2012. This rise is a little more than one-third of the 419,000 (8%) decline in nonfarm payrolls from December 2007 to December 2009. The all-time peak for Ohio total nonfarm payroll employment was in 2000, and employment in February was about 489,000 (9%) lower than at that peak.

About 443,000 Ohioans were counted as unemployed in February, the fewest since 2008. The statewide unemployment rate was down from a peak of 10.6% in the second half of 2009 and early 2010. However, a sizable part of the decline in the number unemployed reflects fewer people in the labor force, rather than increased total employment.

Personal income in Ohio rose 0.6% in last year's fourth quarter, compared with a 0.8% increase nationwide.

The number of homes sold in the state, reported by the Ohio Association of Realtors, was 17% higher in the first two months of 2012 than a year earlier. On average, prices of the homes sold were 1% lower in January-February than in the year-earlier period.

Personal income in Ohio rose 0.6% in last year's fourth quarter, from the third quarter (not at an annual rate), compared with a 0.8% increase nationwide. In all of 2011, Ohio personal income rose 4.6%, less than the 5.1% increase in the 50 states plus the District of Columbia. Growth of net earnings from work strengthened in 2011 while growth of transfer payments (such as unemployment compensation) slowed, both in Ohio and in the country as a whole. Since the recession low point for personal income in the third quarter of 2009, personal income growth in Ohio has trailed that nationwide in most quarters. Recent trends in personal income in the nation and Ohio are shown in Chart 7.

Chart 7: Personal Income
(Billions of Dollars)