Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION — DECEMBER 2011

STATUS OF THE GRF

HIGHLIGHTS

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

The national economy continues to expand, but at a modest pace. Nonfarm payroll employment nationwide rose by 120,000 in November, and the unemployment rate fell to 8.6%, down from 9.0% in October, to the lowest level since March 2009. In Ohio, nonfarm payroll employment fell by 600 in October, after declining 12,600 in the previous month, though increases were recorded in earlier months this year; the state unemployment rate was at 9.0% in October, below the 9.1% rate in September.

Through November, FY 2012 total GRF sources were $101 million above estimate, which equaled the year-to-date positive variance in GRF tax sources. Federal grants, short of estimates by $161 million, nearly cancelled out a net positive variance in nontax revenues and transfers in, most of which was created by a timing issue in November.

Through November 2011, GRF sources totaled $11.04 billion:

- Sales and use tax receipts were $65.3 million above estimate.
- Revenue from the personal income tax was $4.2 million above estimate;

Through November 2011, GRF uses totaled $12.97 billion:

- Program expenditures were $311.1 million below estimate, due primarily to Public Assistance and Medicaid ($283.4 million) and Justice and Public Protection ($47.9 million).

VOLUME 35, NUMBER 4

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

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

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$79,671	$73,400	$6,271	8.5%
Nonauto Sales and Use	$581,346	$566,200	$15,146	2.7%
Total Sales and Use Taxes	$661,017	$639,600	$21,417	3.3%
Personal Income	$583,228	$601,902	-$18,674	-3.1%
Corporate Franchise	-$6,292	$2,200	-$8,492	-386.1%
Public Utility	$20,830	$24,500	-$3,670	-15.0%
Kilowatt Hour Excise	$21,168	$21,900	-$732	-3.3%
Natural Gas Consumption (MCF)	$4,458	$4,300	$159	3.7%
Commercial Activity Tax	$88,318	$79,600	$8,718	11.0%
Foreign Insurance	$449	$100	$349	349.4%
Domestic Insurance	$0	$0	$0	---
Business and Property	$0	-$200	$200	100.0%
Cigarette	$69,265	$63,800	$5,464	8.6%
Alcoholic Beverage	$4,274	$4,100	$174	4.2%
Liquor Gallonage	$3,146	$3,100	$46	1.5%
Estate	$8,130	$8,300	-$171	-2.1%
Total Tax Revenue	**$1,457,991**	**$1,453,202**	**$4,789**	**0.3%**
NONTAX REVENUE				
Earnings on Investments	$3	$0	$3	---
Licenses and Fees	$5,703	$7,168	-$1,465	-20.4%
Other Revenue	$3,430	$5,090	-$1,660	-32.6%
Total Nontax Revenue	**$9,136**	**$12,258**	**-$3,122**	**-25.5%**
TRANSFERS				
Liquor Transfers**	$23,000	$10,000	$13,000	130.0%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$125,278	$0	$125,278	---
Total Transfers In	**$148,278**	**$10,000**	**$138,278**	**1382.8%**
TOTAL STATE SOURCES	**$1,615,405**	**$1,475,460**	**$139,945**	**9.5%**
Federal Grants	$589,542	$643,415	-$53,873	-8.4%
TOTAL GRF SOURCES	**$2,204,946**	**$2,118,875**	**$86,072**	**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 December 1, 2011.
Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Preliminary Actual vs. Estimate
FY 2012 as of November 30, 2011
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on December 6, 2011)

	Actual	Estimate*	Variance	Percent	FY 2011	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$431,059	$409,400	$21,659	5.3%	$409,520	5.3%
Nonauto Sales and Use	$2,863,338	$2,819,700	$43,638	1.5%	$2,712,959	5.5%
Total Sales and Use Taxes	$3,294,397	$3,229,100	$65,297	2.0%	$3,122,479	5.5%
Personal Income	$3,166,177	$3,161,992	$4,185	0.1%	$2,910,773	8.8%
Corporate Franchise	$2,310	$200	$2,110	1052.3%	$247	833.6%
Public Utility	$55,988	$59,500	-$3,512	-5.9%	$55,193	1.4%
Kilowatt Hour Excise	$135,366	$142,800	-$7,434	-5.2%	$73,713	83.6%
Natural Gas Consumption (MCF)	$18,169	$14,700	$3,469	23.6%	$0	---
Commercial Activity Tax	$195,906	$181,500	$14,406	7.9%	$0	---
Foreign Insurance	$134,243	$130,099	$4,144	3.2%	$132,192	1.6%
Domestic Insurance	$58	-$1,100	$1,158	105.2%	-$1,038	105.5%
Business and Property	-$1,788	-$500	-$1,288	-257.6%	-$335	-432.9%
Cigarette	$307,318	$297,701	$9,618	3.2%	$310,914	-1.2%
Alcoholic Beverage	$25,194	$24,700	$494	2.0%	$24,244	3.9%
Liquor Gallonage	$16,279	$15,400	$878	5.7%	$15,604	4.3%
Estate	$34,500	$27,100	$7,400	27.3%	$26,358	30.9%
Total Tax Revenue	**$7,384,116**	**$7,283,192**	**$100,924**	**1.4%**	**$6,670,345**	**10.7%**
NONTAX REVENUE						
Earnings on Investments	$1,202	$1,250	-$48	-3.8%	$3,154	-61.9%
Licenses and Fees	$19,104	$16,468	$2,636	16.0%	$15,284	25.0%
Other Revenue	$12,446	$20,052	-$7,605	-37.9%	$15,341	-18.9%
Total Nontax Revenue	**$32,753**	**$37,770**	**-$5,017**	**-13.3%**	**$33,779**	**-3.0%**
TRANSFERS						
Liquor Transfers**	$58,132	$55,000	$3,132	5.7%	$51,439	13.0%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$173,136	$10,598	$162,538	1533.7%	$248,061	-30.2%
Total Transfers In	**$231,268**	**$65,598**	**$165,670**	**252.6%**	**$299,500**	**-22.8%**
TOTAL STATE SOURCES	**$7,648,137**	**$7,386,560**	**$261,577**	**3.5%**	**$7,003,625**	**9.2%**
Federal Grants	$3,395,000	$3,555,613	-$160,612	-4.5%	$3,885,880	-12.6%
TOTAL GRF SOURCES	**$11,043,138**	**$10,942,173**	**$100,964**	**0.9%**	**$10,889,504**	**1.4%**

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

**Liquor Transfers based on a report run in OAKS as of December 1, 2011.

Detail may not sum to total due to rounding.

REVENUES

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

November GRF tax receipts were $4.8 million above estimates.

Overview

For the month of November, total GRF sources of $2.20 billion were $86.1 million (4.1%) above the estimate released by the Office of Budget and Management in September 2011, from a positive variance of $125.3 million in other transfers in. State-source receipts were $139.9 million above estimate for the month; and federal grants were $53.9 million below estimate. Tables 1 and 2 show GRF sources for the month of November and for FY 2012 through November, 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.

In November, GRF tax receipts totaled $1.46 billion, and were $4.8 million above estimate. Among the primary tax sources, the sales and use tax and the cigarette tax were above estimate by, respectively, $21.4 million and $5.5 million. Receipts were also $8.7 million greater than estimate for the commercial activity tax (CAT). Receipts from the personal income tax were $18.7 million below estimate. The shortfalls in receipts from the corporate franchise tax and the public utility excise tax were $8.5 million and $3.7 million, respectively. CAT-related other transfers in of $125.3 million, due to timing issues according to the Office of Budget and Management, were mostly responsible for the surplus in state-source GRF receipts in November.[1]

Through November, FY 2012 tax receipts were $100.9 million above estimates.

Through November, FY 2012 GRF sources of $11.04 billion were $101.0 million above estimate. State-source GRF receipts of $7.65 billion were $261.6 million ahead of projections, from positive variances of $100.9 million in tax receipts, and $160.7 million in nontax revenues and

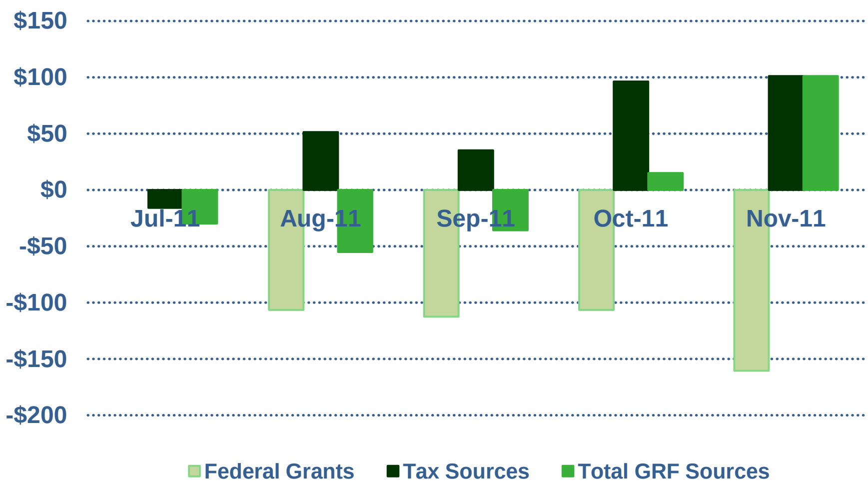
[1] Am. Sub. H.B. 153 (the budget act of the current biennium) changed the reimbursement payment schedule from two CAT-related tangible personal property tax replacement funds, the School District Tangible Property Tax Replacement Fund and the Local Government Tangible Property Tax Replacement Fund. Payments to schools and other local governments from the funds had to be made earlier than scheduled; however, insufficient balances in the two replacement funds for the necessary payments required GRF funds. November's other transfers in are reimbursements to the GRF of moneys previously advanced to the replacement funds. Those advancements are recorded as transfers out in tables 3 and 4 in the Expenditures section of this report.

transfers. A shortfall of $160.6 million in federal grants reduced the positive variance of state-source GRF receipts.

The positive variance in GRF tax revenues was due to higher than anticipated receipts from the sales and use tax ($65.3 million), the CAT ($14.4 million), the cigarette tax ($9.6 million), the estate tax ($7.4 million), the personal income tax ($4.2 million), the foreign insurance tax ($4.1 million), the natural gas consumption tax ($3.5 million), the corporate franchise tax ($2.1 million), and the domestic insurance tax ($1.2 million). Year-to-date receipts were below estimates for the kilowatt hour tax ($7.4 million), the public utility excise tax ($3.5 million), and the business and property tax ($1.3 million). The graph below shows the cumulative variance against estimate for federal grants, tax sources, and total GRF sources.

Through November, FY 2012 tax receipts were $713.8 million greater than such receipts in FY 2011.

Cumulative Variances of GRF Sources in FY 2012
(Variance from Estimates, $ in millions)



FY 2012 year-to-date GRF sources increased $153.6 million compared to receipts in the corresponding period in FY 2011. An increase of $644.5 million in state-source receipts was partially offset by a decrease of $490.9 million in federal grants.[2] The increase in state-source receipts was due to a gain of $713.8 million in GRF tax receipts, with $214.1 million of the increase from the CAT and the natural gas consumption tax, tax sources that were not contributing to the GRF last fiscal year. The surplus

Through November, federal grants were $490.9 million below such receipts in FY 2011.

[2] 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.

in tax receipts was partially reduced by decreases in nontax revenue and transfers in totaling $69.3 million.

Through November, FY 2012 GRF income tax receipts were $4.2 million above estimates.

Through November, FY 2012 GRF receipts from the personal income tax and the sales and use tax were above the previous year's levels, respectively, by $255.4 million and $171.9 million, gains that were enhanced by tax changes in H.B. 153. Receipts also increased for the kilowatt hour tax ($61.7 million),[3] the corporate franchise tax ($2.1 million), the estate tax ($8.1 million), the foreign insurance tax ($2.0 million), and the domestic insurance tax ($1.1 million). Tax sources with year-to-year revenue decreases included the cigarette tax ($3.6 million) and the business and property tax ($1.5 million).

Personal Income Tax

November GRF receipts from the personal income tax of $583.2 million were $18.7 million (3.1%) below estimate and $27.1 million (4.9%) above receipts in November 2010. 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 withholding, quarterly estimated payments,[4] trust payments, payments associated with annual returns, and miscellaneous payments. For the month, employer withholding and annual returns payments were below estimates, respectively, by $25.7 million (3.9%) and $2.5 million (21.0%).

The GRF received $3.17 billion from the personal income tax in FY 2012. November's shortfall reduced the year-to-date positive variance to $4.2 million, down from $22.9 million at the end of October 2011. Total FY 2012 GRF receipts were $255.4 million (8.8%) above receipts during the corresponding period in FY 2011. The table below summarizes FY 2012 income tax revenue variances from estimates and annual changes by component.

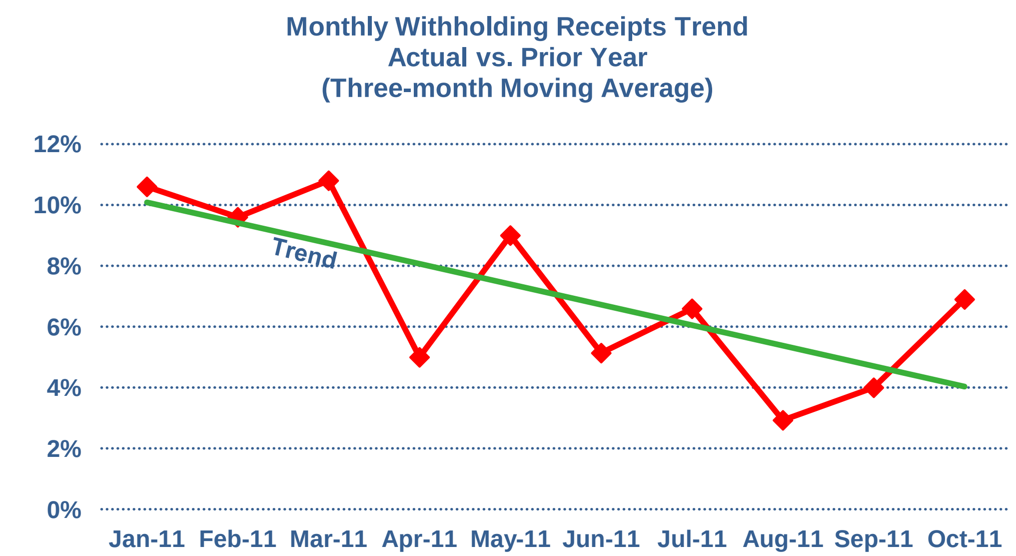
[3] Though FY 2012 year-to-date GRF kilowatt hour tax receipts were 83.6% above receipts in the corresponding period a year ago, total (all funds) kilowatt hour receipts were up only about 2%. H.B. 153 increased the GRF's share of receipts from this tax source from 63% in FY 2011 to 88% in FY 2012.

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

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	-$25.3	-0.8%	$138.1	4.7%
Quarterly Estimated Payments	$7.3	2.3%	$52.9	19.0%
Trust Payments	$1.6	20.3%	$2.9	42.7%
Annual Return Payments	$12.0	11.0%	$17.5	16.9%
Miscellaneous Payments	$1.2	3.1%	$2.5	6.5%
Gross Collections	-$3.1	-0.1%	$213.9	6.4%
Less Refunds	-$9.6	-6.0%	-$11.5	-7.1%
Less Local Government Fund Distribution	$2.3	0.9%	-$30.0	-10.9%
Income Tax Revenue	$4.2	0.1%	$255.4	8.8%

Through November, FY 2012 employer withholding was $138.1 million above similar receipts in FY 2011.

All components of this tax source contributed to higher gross collections in FY 2012. Through November, gross collections increased by $213.9 million (6.4%) compared to the corresponding period in FY 2011, reflecting a continued increase in the tax base. Revenues from employer withholding were $138.1 million (4.7%) above receipts in this category last year. Recent economic indicators, including declining initial unemployment claims in the latest months, indicate a continuing healing of Ohio's labor markets. The graph below shows monthly changes, on a year-ago basis, in withholding receipts in CY 2011. Though the graph shows a downward trend in the growth rate, Ohio payrolls on this basis continue to expand.



Through November, FY 2012 GRF sales and use tax receipts were $65.3 million above estimates.

Quarterly estimated payments, the second most important income tax component after employer withholding, increased $52.9 million (19.0%). Refunds to taxpayers and distributions to the LGF were, respectively, $11.5 million and $30.0 million below amounts in those categories in the corresponding period in FY 2011. H.B. 153 reduced the amount of state tax revenues credited to the LGF below FY 2011 levels for each month between August 2011 and June 2012.[5] Those allocations are debited from the personal income tax. Thus, FY 2012 monthly distributions to the LGF will be below FY 2011's amounts.

Sales and Use Tax

November GRF receipts from the sales and use tax of $661.0 million were $21.4 million (3.3%) above estimate and $48.4 million (7.9%) above receipts in November 2010. Through November, FY 2012 GRF sales and use tax receipts totaled $3.29 billion, $65.3 million (2.0%) above estimate and $171.9 million (5.5%) 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[6] generally arise from the sale of motor vehicles while nonauto sales and use tax collections arise from other sales. However, auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax, instead of the auto tax.

November receipts from the nonauto sales and use tax were $15.1 million above estimate.

Nonauto Sales and Use Tax

Monthly receipts from the nonauto sales and use tax were $581.3 million, $15.1 million (2.7%) above estimate, and $42.1 million (7.8%) above November 2010 receipts. Through November, FY 2012 GRF nonauto sales and use tax receipts were $2.86 billion. Those receipts were $43.6 million (1.5%) above estimate and $150.4 million (5.5%) above receipts in the corresponding period in FY 2011. The nonauto sales and use tax base continues to expand and consumer spending continues to grow. Economic data suggest income growth in recent months has come mainly from increases in employee compensation, not from higher transfer payments such as unemployment compensation and Medicaid.

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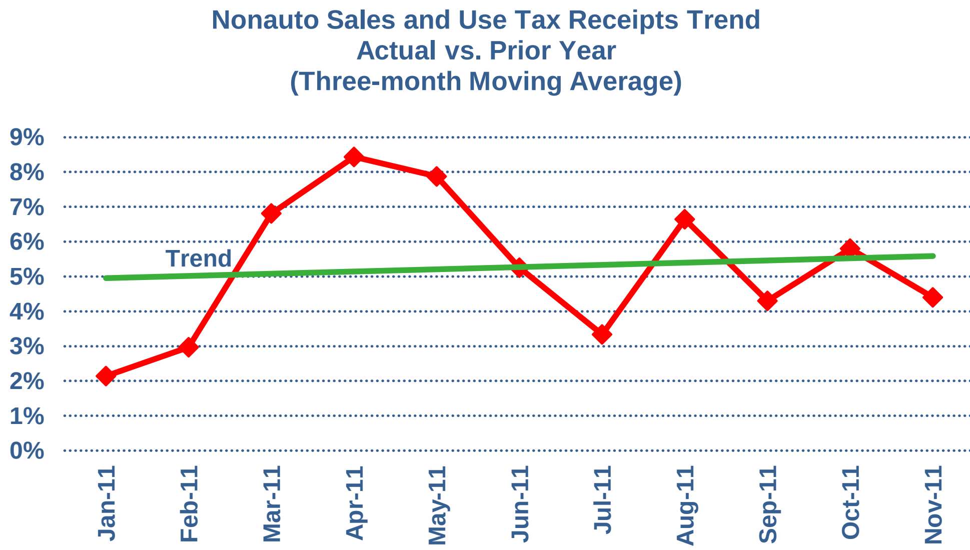
[5] The Greenbook for the Department of Taxation, which may be found at http://www.lsc.state.oh.us/fiscal/greenbooks129/tax.pdf, details the changes to the distribution of tax receipts to local government funds, including the LGF.

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

Nationwide, sales at the largest retailers (excluding Walmart)[7] were 3.7% and 3.2% higher in the last two months than in corresponding months a year earlier. The graph following shows the trend in monthly receipts in CY 2011 against prior-year receipts in the same month.

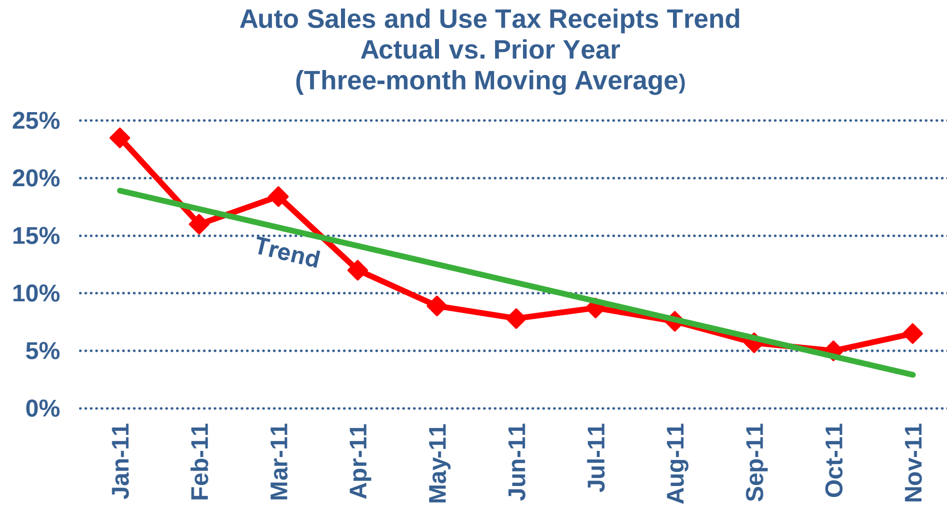


Auto Sales and Use Tax

GRF receipts from the auto sales and use tax of $79.7 million in November 2011 were $6.3 million (8.5%) above estimate, and above November 2010 receipts by $6.2 million (8.5%). For the fiscal year, auto sales and use tax receipts to the GRF totaled $431.1 million, $21.7 million (5.3%) above estimate and $21.5 million (5.3%) above receipts through November in FY 2011.

The graph below, which compares monthly auto sales and use tax receipts with year-ago receipts in the same period, shows a sustained downward trend in the growth rate, though receipts on this basis do continue to grow.

[7] Data are from the International Council of Shopping Centers, and are reported on a comparable store basis for stores open both this year and last.



In November, sales of light motor vehicles strengthened to a 13.6 million unit seasonally adjusted annual rate, 3% higher than in October and 9% higher than in the third quarter. The November sales pace was the highest monthly rate since June 2008, with the exception of August 2009 when federal sales incentives (the "cash for clunkers" program) temporarily boosted deliveries of cars and light trucks. Data from the Ohio Bureau of Motor Vehicles suggest the auto sales tax base is benefiting from higher average prices per unit for new vehicles (driven in part by a higher share of light trucks and sports utility vehicles), and higher prices for used vehicles.

Through November, FY 2012 cigarette tax receipts were $9.6 million above estimates.

Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax of $69.3 million in November 2011 were $5.5 million (8.6%) above estimate and $2.6 million (3.9%) above receipts in the corresponding period in FY 2011.

Through November, FY 2012 receipts of $307.3 million were $9.6 million (3.2%) above estimate, and $3.6 million (1.2%) below receipts in the corresponding period in FY 2011. Receipts from cigarette sales were $283.9 million. Sales of products other than cigarettes provided $23.4 million. Compared to FY 2011, receipts from the sale of cigarettes decreased $5.7 million and those from the sale of other tobacco products increased $2.1 million. Generally, cigarette tax receipts experience a sustained downward trend on a year-ago basis.

Commercial Activity Tax

The second payment for quarterly calendar taxpayers for the commercial activity tax (CAT) was due in November. November GRF receipts from CAT of $88.3 million were $8.7 million (11.0%) above estimate. CAT receipts to the GRF in FY 2012 totaled $195.9 million, $14.4 million (7.9%) above estimate. Overall, FY 2012 total (all funds) CAT receipts of $792.1 million were $84.7 million (12.0%) above receipts in the first five months of 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. This fiscal year, CAT receipts are distributed to the GRF (25%), to the School District Tangible Property Tax Replacement Fund (52.5%), and the Local Government Tangible Property Tax Replacement Fund (22.5%). If CAT receipts are insufficient for the reimbursements, current law requires a GRF subsidy to the two funds.

Through November, FY 2012 GRF CAT receipts were $14.4 million above estimates.

Table 3: General Revenue Fund Uses
Preliminary Actual vs. Estimate
Month of November 2011
($ in thousands)
(Actual based on OAKS reports run December 6, 2011)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary, Secondary, and Other Education	$563,328	$567,108	-$3,779	-0.7%
Higher Education	$218,678	$221,198	-$2,520	-1.1%
Total Education	$782,006	$788,305	-$6,299	-0.8%
Public Assistance and Medicaid	$1,006,369	$1,065,764	-$59,395	-5.6%
Health and Human Services	$54,196	$74,191	-$19,994	-27.0%
Total Welfare and Human Services	$1,060,565	$1,139,955	-$79,390	-7.0%
Justice and Public Protection	$126,381	$127,975	-$1,594	-1.2%
Environment and Natural Resources	$15,668	$15,087	$581	3.8%
Transportation	$804	$579	$225	38.9%
General Government	$16,948	$14,926	$2,022	13.5%
Community and Economic Development	$5,130	$5,813	-$684	-11.8%
Capital	$0	$0	$0	---
Total Government Operations	$164,930	$164,380	$550	0.3%
Tax Relief and Other	$241,068	$198,098	$42,970	21.7%
Debt Service	$0	$0	$0	---
Total Other Expenditures	$241,068	$198,098	$42,970	21.7%
Total Program Expenditures	**$2,248,569**	**$2,290,739**	**-$42,170**	**-1.8%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$225,502	$0	$225,502	---
Total Transfers Out	$225,502	$0	$225,502	---
TOTAL GRF USES	**$2,474,071**	**$2,290,739**	**$183,333**	**8.0%**

* 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
Preliminary Actual vs. Estimate
FY 2012 as of November 30, 2011
($ in thousands)
(Actual based on OAKS reports run December 6, 2011)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2011**	**Percent Change**
Primary, Secondary, and Other Education	$3,015,079	$3,007,704	$7,375	0.2%	$3,137,146	-3.9%
Higher Education	$930,231	$936,892	-$6,661	-0.7%	$1,067,009	-12.8%
Total Education	$3,945,310	$3,944,596	$714	0.0%	$4,204,155	-6.2%
Public Assistance and Medicaid	$5,855,728	$6,139,084	-$283,355	-4.6%	$5,796,360	1.0%
Health and Human Services	$507,545	$491,963	$15,582	3.2%	$518,371	-2.1%
Total Welfare and Human Services	$6,363,274	$6,631,047	-$267,773	-4.0%	$6,314,731	0.8%
Justice and Public Protection	$828,066	$876,016	-$47,949	-5.5%	$876,276	-5.5%
Environment and Natural Resources	$39,908	$37,496	$2,412	6.4%	$40,995	-2.7%
Transportation	$4,522	$5,390	-$868	-16.1%	$8,147	-44.5%
General Government	$142,627	$154,579	-$11,952	-7.7%	$134,782	5.8%
Community and Economic Development	$48,241	$51,280	-$3,039	-5.9%	$48,504	-0.5%
Capital	$120	$0	$120	---	$24	402.1%
Total Government Operations	$1,063,485	$1,124,761	-$61,276	-5.4%	$1,108,728	-4.1%
Tax Relief and Other	$864,645	$839,011	$25,634	3.1%	$841,486	2.8%
Debt Service	$172,167	$180,547	-$8,380	-4.6%	$267,518	-35.6%
Total Other Expenditures	$1,036,812	$1,019,558	$17,253	1.7%	$1,109,003	-6.5%
Total Program Expenditures	**$12,408,881**	**$12,719,963**	**-$311,082**	**-2.4%**	**$12,736,618**	**-2.6%**
TRANSFERS						
Budget Stabilization	$246,899	$246,899	$0	0.0%	$0	---
Other Transfers Out	$310,439	$79,441	$230,998	290.8%	$985,513	-68.5%
Total Transfers Out	$557,338	$326,340	$230,998	70.8%	$985,513	-43.4%
TOTAL GRF USES	**$12,966,218**	**$13,046,303**	**-$80,085**	**-0.6%**	**$13,722,131**	**-5.5%**

* 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 December 6, 2011)

Medicaid (600525) Payments by Service Category	November Actual	November Estimate	November Variance	November Percent Variance	Year to Date Actual thru Nov	Year to Date Estimate thru Nov	Year to Date Variance	Year to Date Percent Variance
Managed Care Plans	$565,707	$590,116	-$24,409	-4.1%	$2,428,502	$2,496,843	-$68,341	-2.7%
Nursing Facilities	$205,321	$211,551	-$6,230	-2.9%	$1,023,425	$1,054,801	-$31,376	-3.0%
Prescription Drugs	$35,925	$41,385	-$5,460	-13.2%	$607,929	$621,136	-$13,207	-2.1%
Hospitals	$109,093	$109,077	$16	0.0%	$525,724	$614,880	-$89,156	-14.5%
Aging Waivers	$51,222	$50,651	$571	1.1%	$276,015	$255,422	$20,593	8.1%
ICFs/MR	$45,487	$47,708	-$2,221	-4.7%	$230,525	$234,701	-$4,176	-1.8%
ODJFS Waivers	$23,809	$26,432	-$2,623	-9.9%	$133,943	$148,593	-$14,650	-9.9%
Physicians	$21,650	$26,576	-$4,926	-18.5%	$117,653	$145,167	-$27,514	-19.0%
All Other	$128,672	$134,062	-$5,390	-4.0%	$663,999	$693,415	-$29,416	-4.2%
Total Payments	$1,186,886	$1,237,558	-$50,672	-4.1%	$6,007,715	$6,264,958	-$257,243	-4.1%
Total Offsets (non-GRF)	-$240,127	-$247,280	$7,153	-2.9%	-$604,788	-$621,021	$16,233	-2.6%
Total 600525 (net of offsets)	$946,759	$990,278	-$43,519	-4.4%	$5,402,927	$5,643,937	-$241,010	-4.3%
Medicare Part D (600526)	$17,179	$23,164	-$5,985	-25.8%	$97,744	$112,767	-$15,023	-13.3%
Total GRF	**$963,938**	**$1,013,442**	**-$49,504**	**-4.9%**	**$5,500,671**	**$5,756,704**	**-$256,033**	**-4.4%**
Total All Funds	**$1,204,065**	**$1,260,722**	**-$56,657**	**-4.5%**	**$6,105,459**	**$6,377,725**	**-$272,266**	**-4.3%**

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

Through November, FY 2012 GRF uses totaled $12.97 billion, $80.1 million below the estimate released by the Office of Budget and Management (OBM) in September 2011. Tables 3 and 4 show GRF uses for the month of November and for FY 2012 through November, respectively. GRF uses mainly consist of program expenditures but also include transfers out. For the first five months of FY 2012, GRF program expenditures were $12.41 billion, $311.1 million below estimate. Public Assistance and Medicaid had the largest negative variance at $283.4 million, followed by Justice and Public Protection at $47.9 million. Year-to-date GRF transfers out were $557.3 million, $231.0 million above estimate. Of this $231.0 million positive variance, $225.5 million occurred in the month of November, due primarily to temporary cash transfers to the two non-GRF funds used to reimburse school districts and local governments for their tangible personal property (TPP) tax losses. The variances in the two program categories and transfers out will be briefly discussed below, followed by a summary of the prior-year encumbrance activity as of December 1, 2011.

For the first five months of FY 2012, GRF uses were $80.1 million below estimate.

Public Assistance and Medicaid

Year-to-date GRF expenditures for Public Assistance and Medicaid totaled $5.86 billion, $283.4 million (4.6%) below estimate. Medicaid, including both state and federal shares, accounts for 94% of expenditures in this program category. Table 5 details Medicaid GRF expenditures by service category and also summarizes Medicaid expenditures across all funds. (Medicaid is mainly funded with the GRF but is also supported by various non-GRF funds.) As seen from the table, Medicaid GRF expenditures for the year to date totaled $5.50 billion, which was $256.0 million (4.4%) below estimate. Across all funds, year-to-date Medicaid expenditures amounted to $6.11 billion, which was $272.3 million (4.3%) below estimate.

Year-to-date GRF spending for Medicaid was $256.0 million below estimate.

According to the Ohio Department of Job and Family Services (ODJFS), the most likely explanation for the negative variance is the implementation of the new Medicaid Information Technology System (MITS), which may be causing timing issues with payments to certain providers. MITS was operational beginning in August. ODJFS expects that expenditures for the categories affected by MITS will align with estimates later in the fiscal year. The categories most affected are

Hospitals with a negative variance of $89.2 million (14.5%) for the year to date, Physicians with a negative variance of $27.5 million (19.0%), and Medicare Part D with a negative variance of $15.0 million (13.3%). Also contributing to the negative year-to-date variance, Managed Care Plan expenditures were below estimate by $68.3 million (2.7%). Somewhat offsetting these negatives variances, expenditures for Aging Waivers were above estimate by $20.6 million (8.1%). Each month, ODJFS advances funding for the PASSPORT, Assisted Living, and Choices waiver programs to the local Area Agencies on Aging (AAAs). The expenditures made by the AAAs for these Medicaid waivers are reconciled at a later date.

Justice and Public Protection

Year-to-date GRF expenditures for Justice and Public Protection totaled $828.1 million, $47.9 million (5.5%) below estimate. The Department of Rehabilitation and Correction (DRC), the largest agency within this program category, contributed $38.2 million to the total negative variance. The second largest agency, the Department of Youth Services (DYS), contributed another $7.8 million. Through November, expenditures for DRC's main operating line item (501321) were $387.7 million, $19.4 million (4.8%) below its year-to-date estimate. Year-to-date expenditures for the line item that is used to provide medical services for inmates (505321) were also below estimate, by $11.9 million (12.1%). The vast majority of the negative variance in DYS occurred in its RECLAIM Ohio line item (470401). According to the October and November issues of the OBM *Monthly Financial Report*, the negative variances in DRC and DYS were largely due to a higher than normal personnel vacancy rate related to the organizational restructuring occurring in these two agencies.

The positive variances in GRF transfers out were largely due to a timing issue.

Transfers Out

The GRF had unanticipated transfers out totaling $225.5 million in the month of November, which brings this category's year-to-date positive variance to $231.0 million. This positive variance was largely a timing issue. GRF cash transfers were made in November to address the cash flow issue related to TPP tax loss reimbursements for school districts and local governments. These reimbursements are to be supported by commercial activity tax (CAT) receipts that are deposited into the School District Tangible Property Tax Replacement Fund (Fund 7047) and the Local Government Tangible Property Tax Replacement Fund (Fund 7081). The GRF will be reimbursed by these two funds. In fact, before the month of November ended, $125.0 million cash had already been transferred back into the GRF from Fund 7047. These transfers in are recorded in tables 1 and 2 in the Revenues section of this report.

Prior-Year Encumbrances

As reported in the July issue of *Budget Footnotes*, state agencies carried into FY 2012 more than $413 million in encumbered GRF funds that were originally appropriated for fiscal years prior to FY 2012. An agency generally has five months to spend prior year encumbrances for operating expenses. Any unspent operating expense encumbrances will lapse at the end of the five-month period and will become part of the GRF cash balance once OBM cancels the encumbrances. 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.

As of December 1, 2011, outstanding prior-year GRF encumbrances totaled $169.4 million.

Prior-Year GRF Encumbrances by Agency ($ in millions)

Agency	Prior Year Encumbrances as of July 1, 2011	Amount Expended	Outstanding Encumbrances as of December 1, 2011	Amount Lapsed
Education	$125.5	$50.2	$74.4	$1.0
Job & Family Services	$133.8	$53.1	$43.6	$37.1
Development	$39.5	$12.6	$26.4	$0.5
Developmental Disabilities	$15.5	$4.0	$11.5	$0.0
Regents	$17.8	$6.3	$6.5	$5.0
Transportation	$6.7	$1.8	$4.8	$0.0
Rehabilitation and Correction	$40.6	$38.1	$0.9	$1.6
All Other Agencies	$34.3	$27.2	$1.4	$5.7
Total	**$413.6**	**$193.3**	**$169.4**	**$50.9**

As shown in the table above, as of December 1, 2011, $193.3 million (46.7%) of the $413.6 million in total encumbrances was spent, $169.4 million was still outstanding, and the remaining $50.9 million lapsed. The Ohio Department of Education (ODE) had the largest share (43.9%) of the total outstanding encumbrances, followed by ODJFS at 25.7% and the Department of Development (DOD) at 15.6%. Together, these three agencies had $144.4 million (85.2%) of the $169.4 million in total outstanding encumbrances.

ODE had $74.4 million in outstanding encumbrances as of December 1, 2011. Foundation funding accounted for $67.3 million (90.5%) of ODE's total outstanding encumbrances. This money will be used for the final adjustments of FY 2011 school foundation aid, which will occur sometime in early 2012. Medicaid alone accounted for $35.6 million (81.7%) of ODJFS's total outstanding encumbrances. The vast majority of DOD's outstanding encumbrances were for various economic development grants. Many of these grant programs are operated on a reimbursement basis, under which grantees have to carry out the programs and certify that certain requirements or objectives have been met before they are reimbursed by the state. For example, a grantee may be awarded grants in FY 2011 but not receive them until FY 2012 or later, depending on the scope of the project.

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

ISSUE UPDATES

Utilization Controls Take Effect for Behavioral Health Medicaid Services

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

On November 1, 2011, utilization controls for certain behavioral health Medicaid services took effect. These utilization controls, which include benefit limits and tiered rate reimbursement, are expected to save about $65.7 million in FY 2012 ($23.0 million state share). Most of the savings (about $65.0 million) comes from limiting mental health benefits, while about $728,000 comes from utilization controls on alcohol and drug addiction services.

The utilization controls were developed by the departments of Alcohol and Drug Addiction Services and Mental Health. The table below shows the services affected and the limit for each.

Utilization Controls for Behavioral Health Medicaid Services

Services	Limits
Mental Health Services (limits per year)	
Community psychiatric supportive treatment*	104 hours
Pharmacological management	24 hours
Counseling*	52 hours
Diagnostic assessment by a medical doctor	2 hours
Diagnostic assessment	4 hours
Partial hospitalization	60 days
Alcohol and Drug Addiction Services	
Case management, group counseling, individual counseling, or medical/somatic benefit limit**	30 hours per week
Case management (over 1.5 hours per day)	50% reimbursement

*Limit includes combined individual and group treatment.

**The limit is placed on the cumulative amount of hours for these four services.

When medically necessary, children are exempted from the benefit limits in accordance with the early periodic screening, diagnosis, and treatment program, also known as EPSDT. In addition, when medically necessary and approved through prior authorization, adults may receive partial hospitalization and community psychiatric supportive treatment services beyond the limits.

Medicaid Managed Care Plans Resume Responsibility for Pharmacy Benefit

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

On October 1, 2011, Medicaid managed care plans (MCPs) resumed responsibility for providing pharmacy benefits to their members. Prior to that date, these benefits were provided through Medicaid fee-for-service (FFS). In February 2010, the pharmacy benefit had been "carved out" of managed care to allow Ohio to collect federally negotiated rebates on pharmaceuticals. At that time, rebates could only be collected under Medicaid FFS. However, in March 2010, the federal Affordable Care Act allowed states to collect the drug rebates through managed care.

H.B. 153 required that the Medicaid pharmacy benefit for managed care members be provided as part of MCPs. The MCPs must offer all of the prescription drugs covered under the Ohio Medicaid Program; however, MCPs may have preferred drug lists and prior authorization requirements that are different from the state's Medicaid FFS policy.

It is estimated that the "carve-in" of pharmacy benefits into managed care will generate net savings of $26.7 million state share in FY 2012 and $84.9 million state share in FY 2013. State Medicaid payments to managed care companies are subject to the sales and use tax as well as the health insuring corporation tax. These estimated net savings include new revenue from those taxes.

Environmental Protection Agency Awards Clean Diesel School Bus Grants

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

The Ohio Environmental Protection Agency (Ohio EPA) recently awarded Clean Diesel grants totaling $295,733 to seven school districts for the purpose of installing pollution control equipment or idle reduction technology on 134 school buses (see table below). The purpose of these grant awards is to retrofit school buses with equipment that will reduce students' exposure to harmful pollutants in diesel exhaust. This round of grant awards is expected to eliminate 1,705 pounds of fine particle pollution and more than 20 tons of carbon monoxide, nitrogen monoxide, and hydrocarbons annually. The Ohio EPA releases these annual grants in two rounds (April and October), with the timing intended to allow school districts to install the equipment during the summer or winter breaks while the buses are largely out of service.

These grants are supported with money appropriated from two distinct revenue streams: federal Clean Diesel grants awarded by the U.S. EPA and civil penalties collected by the Ohio EPA for violations of Ohio environmental protection laws. The program was started in 2006 and to date more than $7 million has been awarded to school districts for the installation of pollution control equipment on 2,337 school buses and idle reduction equipment on 544 buses. These actions have removed an estimated 145 tons of pollution from the air.

Ohio EPA Clean Diesel School Bus Grant Program Awards			
School District	**County**	**Buses Serviced**	**Award Amount**
Crooksville Exempted Village	Perry	12	$45,405
Eastern Local	Meigs	13	$24,310
Granville Exempted Village	Licking	26	$62,655
Mad River Local	Montgomery	16	$25,207
Middletown City	Butler	25	$38,775
West Holmes Local	Holmes	29	$61,770
Wooster City	Wayne	13	$37,611
	Total	**134**	**$295,733**

Department of Natural Resources Awards $366,000 in Boating Safety Education Grants

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

In November 2011, the Ohio Department of Natural Resources (DNR) awarded 30 FY 2012 Boating Safety Education Grants totaling $366,528, a slight increase from the approximately $363,000 issued in FY 2011. These grants will be used by state and local government, nonprofit organizations, educational institutions, and other eligible entities to provide watercraft safety programs that benefit the general boating public. Grants are made from the Waterways Safety Fund (Fund 7086) which receives seven-eighths of 1% of Ohio's motor fuel tax revenues. Grants under the program may range from $1,000 to $30,000. The grants awarded for FY 2012 range from $2,240 for the Bay Village City School District to $23,023 for the Disability Resource Network, Inc. The average grant amount in FY 2012 is $12,217, compared with $14,518 in FY 2011. The complete list of FY 2012 grant recipients can be found at: http://dnr.state.oh.us/tabid/2721/default.aspx.

Department of Agriculture Announces Additional Steps to Quarantine Asian Longhorned Beetle

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

In November, the Ohio Department of Agriculture (AGR) announced additional steps to quarantine the Asian Longhorned Beetle. The first step is to restrict the movement of wood in a 56 square-mile area within Clermont County where an Asian Longhorned Beetle infestation was identified earlier this year. The next step will be removing some 5,000 infested trees from properties within the quarantine area. Surveillance and control of the Asian Longhorned Beetle, as well as a number of other plant pests and pathogens, are supported through both federal and state sources. The Controlling Board approved the spending of additional federal funding totaling $2.0 million in FY 2012 for these various programs at its November 28, 2011 meeting. The federal funding will be deposited into the Federal Plant Industry Fund (Fund 3R20). The new federal funding requires a state match of $500,000, which will come from the Pesticide, Fertilizer, and Lime Inspection Fund (Fund 6690). Of the new federal funding, approximately $1.5 million will be used specifically for Asian Longhorned Beetle control activities.

The Asian Longhorned Beetle grows, reproduces in, and kills many deciduous species of hardwood trees, but maples are especially vulnerable. AGR estimates that $2.5 billion in maple timber statewide could be susceptible to infestation should the beetle spread. Indigenous to East Asia, the beetle is thought to have migrated to the United States in wooden shipping containers. The insect has been found in five different states. The Clermont County infestation was first identified in June 2011. Since AGR made the initial discovery, the agency has surveyed over 67,000 trees and confirmed over 5,000 infestations in that county.

Public Safety Awards $4.1 Million in Federal Violence Against Women Act Grants

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

In November 2011, the Department of Public Safety's Office of Criminal Justice Services awarded 92 federal Violence Against Women Act (VAWA) grants totaling $4.1 million. These grants fund projects designed to improve the criminal justice system's response to violence against women and enhance services for victims.[8] Ninety

[8] A list of funded projects can be found at http://www.ocjs.ohio.gov/FY2011_VAWAFunding.pdf and http://www.ocjs.ohio.gov/FY2011_VAWA_ARRA_Funding.pdf. The latter link lists those projects funded with $140,000 in American Recovery and Reinvestment Act (ARRA) funding.

of the awards are for projects focusing on 47 different Ohio counties. The remaining two awards are for statewide projects. The table below summarizes the grant awards, with the number of grants per county in parentheses.

Violence Against Women Act Awards by County					
County	**Amount**	**County**	**Amount**	**County**	**Amount**
Adams (1)	$44,997	Fulton (1)	$50,140	Portage (1)	$50,000
Allen (3*)	$88,157	Geauga (4)	$101,567	Preble (1)	$35,000
Ashland (1)	$35,000	Greene (2)	$92,056	Putnam (1)	$50,000
Athens (3)	$110,000	Hamilton (1)	$40,000	Richland (3*)	$84,482
Belmont (3)	$78,968	Hancock (2*)	$25,305	Shelby (1)	$35,000
Brown (2)	$21,609	Henry (1)	$35,000	Stark (8*)	$235,000
Butler (2)	$89,785	Jefferson (1)	$38,969	Summit (6*)	$189,070
Clark (2)	$35,000	Lake (2)	$90,000	Trumbull (1)	$40,000
Clermont (2)	$25,214	Lorain (1)	$40,000	Tuscarawas (1)	$40,000
Coshocton (1)	$35,000	Lucas (2)	$211,580	Union (1)	$50,000
Cuyahoga (2)	$492,057	Mahoning (3*)	$84,963	Vinton (1)	$19,124
Delaware (2)	$40,000	Marion (2)	$80,000	Warren (1)	$40,000
Erie (1)	$44,417	Miami (2)	$44,772	Washington (1)	$45,000
Fairfield (1)	$45,000	Montgomery (1)	$35,000	Wayne (3*)	$90,000
Fayette (2)	$80,731	Morgan (1)	$37,174	Wood (2)	$90,342
Franklin (3)	$622,527	Pickaway (1)	$35,000	Statewide (2)	$45,000

*Includes a project funded with ARRA moneys.

Public Safety Awards $6.6 Million in Federal JAG Program Grants

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

In November 2011, the Department of Public Safety's Office of Criminal Justice Services awarded 155 federal Edward Byrne Memorial Justice Assistance Grant (JAG) awards totaling $6.6 million. These grants fund projects designed to support crime prevention and control activities.[9] Awards totaling $6.3 million were made for 146 projects focusing on 57 counties. The remaining $0.3 million was awarded for nine statewide projects. The table below summarizes the grant awards, with the number of grants per county in parentheses.

[9] A list of funded projects can be found at http://www.ocjs.ohio.gov/FY2011_JAGFunding.pdf and http://www.ocjs.ohio.gov/FY2011_JAG_ARRA_Funding.pdf. The latter link lists those projects funded with $407,000 in American Recovery and Reinvestment Act (ARRA) funding.

JAG Awards by County					
County	**Amount**	**County**	**Amount**	**County**	**Amount**
Adams (1)	$32,286	Gallia (2)	$45,293	Marion (5)	$104,871
Allen (5)	$145,564	Geauga (2)	$61,579	Medina (3)	$95,740
Athens (4)	$251,500	Greene (3)	$135,439	Miami (1)	$23,406
Auglaize (1)	$31,266	Hamilton (5)	$216,741	Montgomery (6)	$294,643
Belmont (2)	$68,933	Hancock (2)	$58,858	Ottawa (1)	$50,989
Butler (3)	$54,931	Hardin (1)	$21,250	Pickaway (1)	$35,189
Carroll (1*)	$32,025	Henry (1)	$31,436	Portage (3)	$113,734
Champaign (1)	$19,760	Highland (3*)	$128,414	Putnam (1*)	$55,196
Clark (1)	$100,000	Hocking (1)	$34,000	Richland (2)	$175,250
Clermont (2)	$98,730	Jackson (1)	$42,765	Ross (3)	$125,383
Clinton (1)	$30,600	Jefferson (1)	$31,424	Scioto (2)	$42,863
Columbiana (1)	$25,766	Knox (1)	$11,250	Stark (4)	$180,820
Cuyahoga (7)	$486,610	Lake (6)	$168,845	Summit (4*)	$161,873
Defiance (1)	$56,100	Lawrence (1)	$55,250	Trumbull (3*)	$164,967
Delaware (6)	$249,599	Licking (2)	$123,611	Tuscarawas (1)	$63,750
Erie (1)	$14,344	Logan (3*)	$111,587	Vinton (1)	$19,561
Fairfield (4*)	$228,857	Lorain (1)	$83,400	Warren (1)	$70,550
Fayette (1)	$15,934	Lucas (5)	$185,000	Wayne (3)	$175,060
Franklin (8)	$550,000	Mahoning (8*)	$309,301	Wood (1)	$17,000

*Includes a project funded with ARRA moneys.

Casinos May Start Paying Taxes This Fiscal Year

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

Assuming all regulatory processes are completed in time, casinos may start paying the tax on gross casino revenues (wagers minus payouts) in FY 2012. According to various reports, the casino in Cleveland is to open in late March 2012, while Toledo's casino would begin operations in early April 2012. The Columbus and Cincinnati facilities would welcome visitors, respectively, in the fourth quarter of 2012 and in the spring of 2013. Based on these timelines, Cleveland and Toledo casinos would start paying the casino tax in the last quarter of FY 2012, while the other two would start paying the tax in FY 2013. According to estimates released by the Department of Taxation in conjunction with the constitutional amendment authorizing casinos in 2009, estimated yearly receipts from the casino tax may be up to $643 million when all casinos are fully operational. Estimated tax receipts are reduced to $470 million if video lottery terminals are installed at Ohio's seven horse racing tracks.

Receipts from the casino tax will be deposited into the Casino Tax Revenue Fund (Fund 5JF0). Moneys will be transferred from that fund according to shares prescribed in the Ohio Constitution to the following non-GRF funds: the Gross Casino Revenue County Fund (Fund 5JG0), the Gross Casino Revenue County Student Fund (Fund 5JH0), the Gross Casino Revenue Host City Fund (Fund 5JJ0), the Ohio State Racing Commission Fund (Fund 5JK0), the Ohio Law Enforcement Training Fund (Fund 5JN0), the Problem Casino Gambling and Addictions Fund (Fund 5JL0), the Casino Control Commission Fund (Fund 5HS0), and the Casino Tax Administration Fund (Fund 5JM0). Am. Sub. H.B. 519 of the 128th General Assembly required an upfront fee of $50 million per casino to be deposited in the Economic Development Programs Fund (Fund 5JC0), and set an operator application fee of $1.5 million to be deposited in Fund 5HS0. In addition to those fees, the Governor announced in June 2011 an agreement with the casino operators which includes an additional $220 million in fee payments ($20 million annually for the first five years, and $24 million annually for the following five years), though the agreement has yet to become law.

Department of Youth Services Receives Federal Second Chance Act Grants Totaling $1.1 Million

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

In October, the Department of Youth Services received two federal Second Chance Act grants totaling $1.1 million. The grants were awarded by the U.S. Department of Justice's Office of Justice Programs to provide supportive services to youth reentering their communities subsequent to being released from one of the Department's juvenile correctional facilities. The first grant, totaling $608,358, will be used to provide mentoring services for approximately 245 youth returning to Cuyahoga, Franklin, Montgomery, Summit, and Allen counties. The mentoring services, to be provided by community based organizations, will begin four to six months prior to a youth's anticipated release and will continue for at least six months post release. The second grant, totaling $494,728, will be used to provide information technology training and employment assistance to about 60 youth in Franklin County who are in the Department's custody.

Of the total amount of Second Chance Act grant funding awarded to Ohio statewide in 2011 – $5.5 million – the Department of Youth Services was the largest single recipient with $1.1 million. Other recipients include the Department of Rehabilitation and Correction and several county mental health and recovery boards. The federal Second Chance Act, which was signed into law on April 9, 2008, provides resources to state and local governments, as well as nonprofit organizations, for the purpose of improving outcomes for adults and juveniles returning to their communities after being released from incarceration.

Higher Educational Facility Commission Decreases Annual Bond Issuances

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

In FY 2011, the Higher Educational Facility Commission issued $227.4 million in bonds on behalf of Ohio's independent nonprofit colleges, universities, and health care systems – more than four times less than the $1.57 billion financed in FY 2010, but much closer to the $360.3 million financed in FY 2009. The table below provides the institutions receiving bond funds and the amounts received. The Commission helps independent nonprofit colleges, universities, hospitals, and health care systems obtain construction capital at lower costs than otherwise might be available to them. Because it is a state agency, interest paid by the Commission to the bondholders is exempt from state and federal income taxes, allowing the bonds to be issued at lower interest rates, effectively enabling the Commission to charge the institutions and hospitals capital financing rates that are lower than commercial market rates.

With the decrease in bond issuances, the total principal amount of debt outstanding to the Commission decreased by $6.2 million between FY 2010 and FY 2011 to a total of $5.01 billion. The bond debt issued by the Commission is held by the state; however, the state makes no payments and is not liable in case of default. Instead, the colleges, universities, hospitals, or health systems lease the assisted facility from the Commission and pay rent in amounts needed to make all principal and interest payments and retire the bonds. The Commission receives no GRF money; it is supported entirely by fee revenue. As of June 30, 2011, the Commission has a balance of $345,687 in the State Special Revenue fund it uses for operating costs.

Higher Educational Facilities Commission Bond Issuances, FY 2011

Institution	Bond Amount
University Hospitals Health System	$71,125,000
University of Dayton	$60,755,000
Hiram College	$30,000,000
Marietta College	$24,500,000
Cleveland Institute of Music	$19,320,000
University of Mt. Union	$10,400,000
Franklin University	$9,500,000
Mt. Vernon Nazarene University	$1,800,000
Total	**$227,400,000**

Nine Community School Sponsors Prohibited from Sponsoring Additional Schools

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

In October, the Ohio Department of Education (ODE) announced that nine community school sponsors are prohibited from sponsoring additional schools for at least one year. The nine sponsors include the Marion City, Upper Scioto Valley, Van Wert City, Rittman Exempted Village, Mansfield City, and Ridgedale Local school districts, the Hardin County and Portage County educational service centers, and the Richland Academy. H.B. 153 requires ODE to rank sponsors of community schools annually based upon a newly calculated performance index (PI) score. The sponsor's PI score is the combined PI scores of all the community schools it sponsors except dropout recovery schools and schools that primarily serve students with disabilities. The bottom 20% of the sponsors on the list are prohibited from sponsoring additional schools for at least one year.

TRACKING THE ECONOMY

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

Overview

The national economy continued to expand through November, though only at a modest pace. Inflation-adjusted gross domestic product (real GDP) increased at a downward-revised 2.0% annual rate in the third quarter. Payroll employment rose in November, extending the uptrend underway since February 2010, and the nationwide average unemployment rate fell to its lowest level since March 2009. Factory production and shipments rose in October, and purchasing managers' reports suggest that further slow expansion continued in November. Consumer spending rose in September and October, and unit sales of light vehicles strengthened in November. New home construction and home sales remain weak, based on data through October, but home improvement, apartment construction, and nonresidential building activity turned higher. Inflation, measured by consumer and producer price indices, eased in October.

In Ohio, nonfarm payroll employment fell in September and October. The statewide average unemployment rate declined to 9.0% in October matching the U.S. rate for that month.

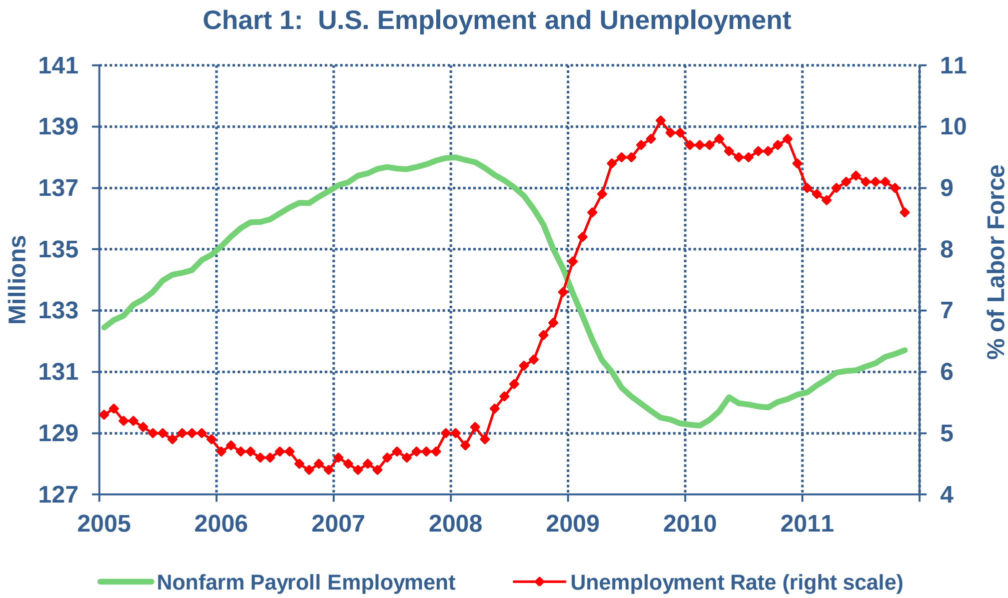
Nonfarm payroll employment nationwide rose by 120,000 in November, and unemployment as a share of the labor force fell to 8.6%.

The National Economy

Employment and Unemployment

Nonfarm payroll employment nationwide rose by 120,000 (0.1%) in November, and unemployment as a share of the labor force fell to 8.6% from 9.0% in October. U.S. employment and the unemployment rate are shown in Chart 1.

Payroll employment gains averaged 133,000 (0.1%) per month in July through November, including an upward revision to employment in October of 72,000. Increases in employment slowed in May and June. Since the recent low in February 2010, payroll employment has grown by 2.5 million, but the total remains 6.3 million lower than at the peak in January 2008.



From October to November, payroll employment grew in retail trade, professional and business services, health care, and leisure and hospitality, continuing the upward trends in these sectors, and contracted in government. Retail employment grew by 50,000 in November, and by nearly 0.3 million since February 2010. Employment in professional and business services increased by 33,000 in November, of which 22,000 was with temporary help services. Since February 2010, the number of jobs in professional and business services has grown more than 0.8 million, of which nearly half was with temporary help services. Health care employment grew by 17,000 in November, and by more than 0.5 million since February 2010. Employment in the leisure and hospitality sector grew by 22,000 in November, more than accounted for by additional jobs in food services and drinking places. Since February 2010, the number of jobs in leisure and hospitality rose nearly 0.4 million, mostly in food services and drinking places. Employment in government fell by 20,000 in November, including 11,000 in local governments. State and local government employment has dropped 0.6 million since the second half of 2008, with most of the job losses at local governments.

The national average unemployment rate in November was at its lowest level since March 2009, when it was also 8.6%. The number of people counted as unemployed, those without jobs and actively looking for work in the latest four weeks or on temporary layoffs, declined in November to 13.3 million. Of these persons, 5.7 million, or 43%, had been out of work for more than six months. The employed included 8.5 million people working part time (34 hours or less a week) involuntarily, because their hours had been reduced or they were unable to find full-time employment.

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Initial claims for unemployment compensation under regular state programs declined in the week ended December 3 to the lowest number, seasonally adjusted, since July 2008, with the exception of one week early this year. This series is volatile from week to week, but the trend is clearly downward.

Production, Shipments, and Inventories

Real GDP grew in the third quarter at a 2.0% annual rate, in the second estimate from the U.S. Bureau of Economic Analysis (BEA). This slow pace of expansion is higher than in the first half of 2011, but below that in the previous five quarters. Third-quarter growth of the economy was revised downward from 2.5% reported initially, mainly because BEA now estimates that private inventories were liquidated in the third quarter, rather than accumulated (at a slow pace) as initially estimated. Other revisions were smaller and offsetting. Consumer spending increased for the ninth consecutive quarter, growing at a modest 2.3% annual rate. Nonresidential fixed investment grew at a double-digit pace for the second consecutive quarter. Residential fixed investment also expanded. Exports rose, for the ninth straight quarter. Government spending fell, for the fourth consecutive quarter.

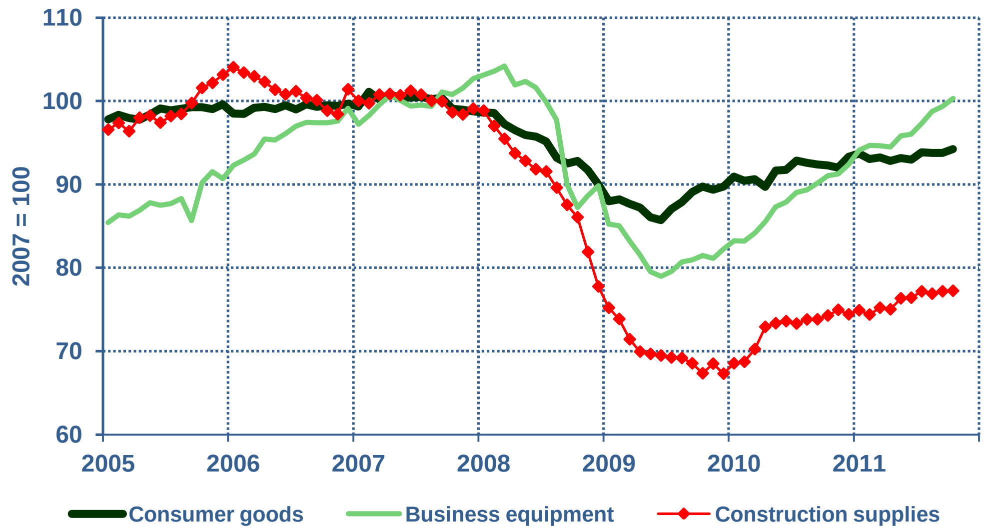
Total industrial production increased 0.7% in October, and had recovered by 13% from its recession low in June 2009. Industrial output was 6% lower in October than at the pre-recession peak in September 2007. Manufacturing output, which accounts for most of industrial production, rose 0.5% from September to October, mainly reflecting higher output of automotive products. Mining production increased 2.3% in October and utility output fell 0.1%. Chart 2 shows trends in three components of total industrial production: consumer products, business equipment, and construction supplies.[10] As the chart indicates, through October production of business equipment had recovered more rapidly than output of consumer goods, after falling more steeply in the recession. Recovery in production of construction supplies also trailed that for business equipment, after a steep fall from a peak in 2006. All three remained short of previous peaks.

Manufacturers' shipments rose 0.6% (dollar value) in October, the fifth consecutive monthly rise after declines in April and May. Shipments from factories were 28% higher in October than at the recent low point in May 2009. Manufacturers' new orders fell 0.4% in October,

[10] Other components of industrial production include business supplies, defense and space equipment, and materials.

the second consecutive monthly decline following an upward trend earlier in the year, and were 34% higher in October than at the recession low in March 2009. Backlogs of unfilled orders at factories as of the end of October were 0.2% higher than a month earlier, and rose nearly every month since December 2009, by a total of 11%. Manufacturers' inventories at the end of October were 0.9% higher than a month earlier and 20% higher than at the low point in September 2009.

Chart 2: Industrial Production



In November, manufacturing activity grew, according to purchasing managers surveyed by the Institute for Supply Management (ISM). More said that new orders and production increased at their firms than reported declines. Order backlogs contracted, however, as did inventories. Prices paid fell. A comparable survey of purchasing managers with nonmanufacturing organizations also showed growth of new orders and contraction of order backlogs. The latter survey also indicated that business activity rose, and that prices paid increased.

Consumer Spending

Personal income rose 0.4% in October while personal consumption expenditures rose only 0.1%. However, in September real consumer spending grew by 0.5%. Real consumer spending in the fourth quarter appears to be growing at a 2% to 3% annual rate. Growth was strongest in sales of durable goods. Income growth in recent months has come mainly from increases in employee compensation, not from higher transfer payments such as unemployment compensation and Medicaid.

In November, sales of light motor vehicles strengthened to a 13.6 million unit seasonally adjusted annual rate, 3% higher than in October and 9% higher than in the third quarter. The November sales pace was the

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highest monthly rate since June 2008 and earlier, with the exception of August 2009 when federal sales incentives (the "cash for clunkers" program) temporarily boosted deliveries of cars and light trucks.

Sales of 21 large retailers that report results monthly were 3.2% higher last month than a year earlier, the smallest rise since March, in a compilation by the International Council of Shopping Centers. These sales are reported on a same-store basis, including store locations open in both the current and year-earlier months, so exclude any increases from new store openings as well as decreases from store closings. They are in dollar terms, so include increases resulting from higher prices.[11]

Consumer credit, which helps support spending, fell steeply in the last recession but has been trending upward for more than a year. Total consumer credit other than that secured by real estate increased in September and October, and was 2.7% higher in the latest month than at its recent low point in September 2010. Revolving credit, mostly credit cards, was 0.3% higher in October than at the post-recession trough in April of this year. Nonrevolving credit, which includes loans for purchases of automobiles, education, mobile homes, and other uses, was at a new all-time high in October.

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Construction and Real Estate

Housing starts in the U.S. remain at low levels, compared with experience earlier in the post-World War II period, but multifamily construction has picked up. In the first ten months of 2011, total starts on housing units were about unchanged from a year earlier, with single-family starts 11% lower than a year earlier and multifamily starts 45% higher.

The number of new single-family homes sold in the U.S. this year through October was 7% lower than in the first ten months of 2010. Unit sales in all of last year were lowest on records that start in 1963. Inventories of finished new homes for sale and of homes under construction were the lowest on records that start in 1973.

Home sales nationwide reported by the National Association of Realtors (NAR) were 1% higher in the first ten months of 2011 than a year earlier. These figures measure transactions completed. In reporting the figures, NAR noted that higher rates of contract failures have held back completion of home sales. These contract failures include home appraisals for less than negotiated prices, mortgage loan applications not approved, and other problems.

[11] The largest U.S. retailer by far, Walmart, is not included in these figures, as it stopped publishing its monthly sales results in 2009.

A separate series from NAR, which measures new contract signings in the U.S. for home sales, rose 10% in October. This index was at its highest rate in October, seasonally adjusted, since November 2010.

The Federal Housing Finance Agency's index of prices for homes purchased rose 0.9% in September, increasing to a level 2% higher than the recent low in March, seasonally adjusted. This national index was 18% lower than its peak in April 2007, and at about the same level as in 2004. Another home price measure, the S&P/Case-Shiller home price index for 20 cities, declined in September, seasonally adjusted. The S&P/Case-Shiller national home price index, available quarterly, was around its 2003 level in this year's third quarter.

Mortgage interest rates remain exceptionally low. The nationwide average rate on 30-year fixed-rate mortgages, in a weekly survey by Freddie Mac, was 4.00% in the week ended December 1, the fifth consecutive week at or below that level. The all-time low for the survey, conducted since 1971, was 3.94% in early October of this year.

The value of construction put in place in the U.S. rose 0.8% in October, and has trended upward since March, by a total of 5%, seasonally adjusted. An upturn in private nonresidential construction activity accounts for most of the increase. Private residential construction spending also increased over this period, mostly for improvements rather than new buildings, while public construction spending declined.

Inflation

The consumer price index (CPI) declined 0.1% in October, as consumer energy costs fell. Gasoline prices fell 3.1%, seasonally adjusted, and household energy costs also declined. The CPI for food rose in October by only 0.1%, the smallest rise of the year in this index, and the CPI for all items less food and energy also rose 0.1%, the same as in September and the smallest monthly rise of the year in this measure. Compared with a year earlier, the CPI for all items was 3.5% higher, down from a 3.9% year-over-year increase in September, the most rapid rise since 2008. The CPI for all items less food and energy was 2.1% higher in October than a year earlier, its largest year-over-year increase since 2008.

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Gasoline prices have fallen from peaks last spring. The average price of regular gasoline nationwide fell to $3.29 per gallon on December 5, in the U.S. Energy Information Administration's weekly survey, down from a peak this year of $3.97 per gallon in early May. In Ohio, the average price of regular gasoline was $3.20 on December 5, up from $3.10 per gallon on November 28 but down from $4.11 per gallon in early May.

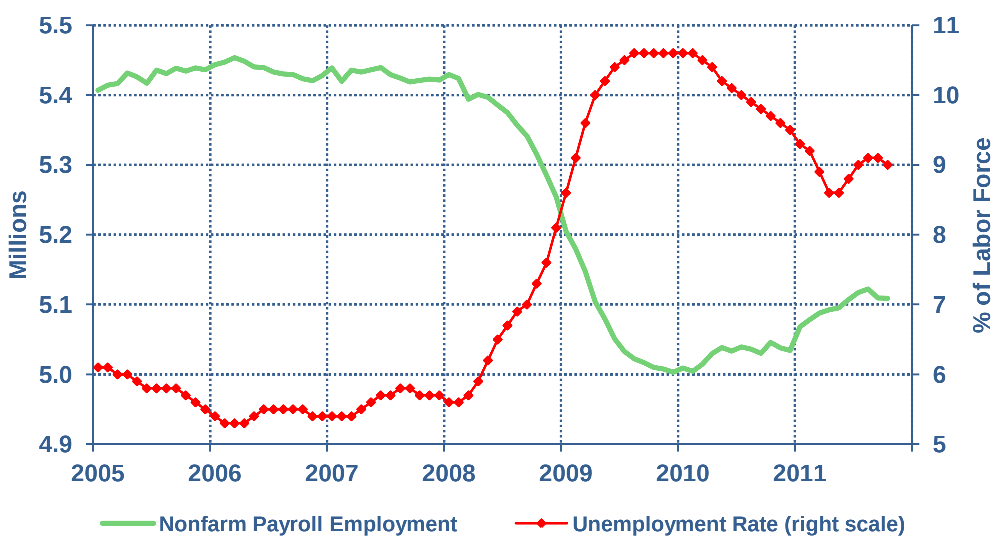
The producer price index (PPI) for finished goods declined 0.3% in October, reflecting lower energy prices. The decline was the second monthly fall this year in this index. Compared with its level a year earlier, the PPI for finished goods in October was 5.9% higher, mostly a result of price increases early this year and late in 2010. The recent peak year-over-year change in the PPI for finished goods was in July, a 7.2% increase, the most rapid since 2008. At earlier stages in the production process, the PPI for intermediate goods declined 1.1% in October and the PPI for crude materials declined 2.5%. At both the intermediate and crude goods levels, price indices for foods, for energy, and for other goods all declined in October. Compared with a year earlier, the PPI for intermediate goods was 8.3% higher and the PPI for crude materials was 12.6% higher, the smallest increases since early this year.

The Ohio Economy

Total nonfarm payroll employment in Ohio fell by 600 (0.01%) in October, after declining 12,600 (0.2%) in September.

Total nonfarm payroll employment in Ohio fell by 600 (0.01%) in October, after declining 12,600 (0.2%) in September. The number of Ohioans counted as unemployed declined to 526,000, 9.0% of the labor force, equaling the average unemployment rate nationwide. Trends in Ohio employment and in the unemployment rate are shown in Chart 3.

Chart 3: Ohio Employment and Unemployment



The decline in total nonfarm payroll employment in Ohio in the latest two months occurred in a number of industry groups, including professional and business services, leisure and hospitality, manufacturing, finance, and local government. Employment was initially reported to have declined by 21,600 in September, but the number of jobs was revised higher in the latest report, resulting in a smaller month-to-month decline. Employment levels were also revised higher than initially reported for June, July, and August. The decline in employment in September and October follows increases totaling nearly 120,000 (2.4%) from the business cycle low in December 2009, with employment gains in most months during that period. Payroll employment in Ohio in October remained more than 0.5 million lower than at its all-time peak in 2000.

Statewide unemployment has declined more than 100,000 since reaching a peak in August 2009. The number of people unemployed reached a low in May of this year and has been higher since then, by about 18,000 as of October. Unemployment in October was more than 50% higher than in 2007, and more than double the level in the first half of 2001. The state's labor force, which includes persons either employed, actively seeking work, or on temporary layoff, has declined more than 117,000 (2.0%) since June 2008, with most of the decline taking place since April 2009. As of October, the state's labor force was reported to be at its lowest level since 2004.

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Business activity in this region grew at a modest rate in recent weeks, according to the Federal Reserve Bank of Cleveland's section of the Beige Book, a Federal Reserve System publication summarizing comments from business and other outside contacts.[12] Manufacturing orders and production were described as stable, though with output mainly higher than a year earlier. Steel producers and service centers said shipping volume was steady or lower. Auto production in the region was steady month to month but moderately higher than a year ago particularly for domestic models. Construction of single-family homes stayed sluggish while work on multifamily housing and remodeling increased. Nonresidential builders saw steady or slowly rising activity. Retail spending improved slightly in October, overall, and auto sales were said to be very good. The volume of freight transport was stable in recent weeks and up slightly from a year earlier. Drilling of shale gas wells and production continued expanding.

The Ohio Association of Realtors (OAR) reported that the number of homes sold in Ohio in October was 16% higher than a year earlier. Year-to-date unit sales were 2% lower than in January-October 2010, at an average price of about $129,000, 3% lower than in the year-ago period.

[12] The Federal Reserve Bank of Cleveland's summary pertains to developments in Ohio and nearby parts of Kentucky, Pennsylvania, and West Virginia. This information was collected prior to November 18.