Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION — JULY 2012

STATUS OF THE GRF

HIGHLIGHTS

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

June GRF tax receipts were essentially on target with estimate. FY 2012 tax receipts were nearly $400 million above estimate for the year. Despite not receiving over $500 million in other revenues that were included in the budget, total GRF sources for the year were also generally on target with estimate, ending $12.7 million higher than estimate. Paired with spending that was well below estimate, particularly for Medicaid, the state budget ended the year on solid footing.

FY 2012 GRF sources of $27.19 billion exceeded GRF uses of $27.06 billion by $129.5 million. The GRF finished the fiscal year with an unobligated cash balance of $371.5 million. On July 3, $235.1 million was transferred from the GRF to the Budget Stabilization Fund. The remainder of the unobligated cash balance is used to meet the required ending fund balance.

Simplified GRF Cash Statement, as of June 29, 2012 ($ in millions)	
Beginning Cash Balance	**$844.5**
Plus Revenues and Transfers in	$27,186.0
Less Expenditures and Transfers Out	$27,056.5
Ending Cash Balance	**$974.0**
Less Encumbrances	$602.4
Unobligated Ending Cash Balance	**$371.5**
Plus Budget Stabilization Fund (BSF) Balance	$246.9
Combined GRF and BSF Unobligated Ending Balance	**$618.4**

VOLUME 35, NUMBER 11

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

Next Issue:
September 2012
Have a Great Summer!

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

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$87,764	$90,600	-$2,836	-3.1%
Nonauto Sales and Use	$622,030	$581,800	$40,230	6.9%
Total Sales and Use Taxes	$709,794	$672,400	$37,394	5.6%
Personal Income	$839,110	$801,226	$37,884	4.7%
Corporate Franchise	-$5,280	$5,300	-$10,580	-199.6%
Public Utility	$103	$600	-$497	-82.9%
Kilowatt Hour Excise	$9,330	$20,600	-$11,270	-54.7%
Natural Gas Consumption (MCF)	$14,152	$100	$14,052	---
Commercial Activity Tax	$7,535	$5,700	$1,835	32.2%
Foreign Insurance	-$1,232	-$400	-$832	-208.3%
Domestic Insurance	$11,473	$73,400	-$61,927	-84.4%
Business and Property	$8,491	$17,100	-$8,609	-50.3%
Cigarette	$72,100	$70,300	$1,800	2.6%
Alcoholic Beverage	$5,688	$4,900	$788	16.1%
Liquor Gallonage	$3,537	$3,200	$337	10.5%
Estate	$2,821	$1,700	$1,120	65.9%
Total Tax Revenue	**$1,677,622**	**$1,676,126**	**$1,496**	**0.1%**
NONTAX REVENUE				
Earnings on Investments	$1,392	$2,750	-$1,358	-49.4%
Licenses and Fees	$746	$562	$184	32.8%
Other Revenue	$135,681	$151,732	-$16,052	-10.6%
Total Nontax Revenue	**$137,819**	**$155,044**	**-$17,225**	**-11.1%**
TRANSFERS				
Liquor Transfers**	$0	$0	$0	---
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$215,001	$71,334	$143,666	201.4%
Total Transfers In	**$215,001**	**$71,334**	**$143,666**	**201.4%**
TOTAL STATE SOURCES	**$2,030,442**	**$1,902,505**	**$127,937**	**6.7%**
Federal Grants	$479,626	$555,663	-$76,037	-13.7%
TOTAL GRF SOURCES	**$2,510,067**	**$2,458,168**	**$51,899**	**2.1%**

* Tax estimates of the Office of Budget and Management as of September 2011.
**Liquor Transfers based on a report run in OAKS as of June 29, 2012.
Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Actual vs. Estimate
FY 2012 as of June 30, 2012
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on July 5, 2012)

	Actual	Estimate*	Variance	Percent	FY 2011	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$1,053,479	$976,700	$76,779	7.9%	$976,949	7.8%
Nonauto Sales and Use	$7,033,523	$6,892,100	$141,423	2.1%	$6,601,287	6.5%
Total Sales and Use Taxes	$8,087,002	$7,868,800	$218,202	2.8%	$7,578,235	6.7%
Personal Income	$8,432,909	$8,146,500	$286,409	3.5%	$8,120,323	3.8%
Corporate Franchise	$117,079	$220,000	-$102,921	-46.8%	$236,633	-50.5%
Public Utility	$113,894	$134,700	-$20,806	-15.4%	$124,836	-8.8%
Kilowatt Hour Excise	$294,829	$316,300	-$21,471	-6.8%	$153,875	91.6%
Natural Gas Consumption (MCF)	$60,191	$66,000	-$5,810	-8.8%	$0	---
Commercial Activity Tax	$417,130	$375,200	$41,931	11.2%	$0	---
Foreign Insurance	$266,488	$252,100	$14,388	5.7%	$256,269	4.0%
Domestic Insurance	$189,072	$213,700	-$24,628	-11.5%	$189,369	-0.2%
Business and Property	$19,872	$38,000	-$18,128	-47.7%	$26,026	-23.6%
Cigarette	$843,180	$818,300	$24,881	3.0%	$855,610	-1.5%
Alcoholic Beverage	$57,615	$56,600	$1,015	1.8%	$55,370	4.1%
Liquor Gallonage	$39,438	$37,000	$2,438	6.6%	$37,615	4.8%
Estate	$66,522	$63,000	$3,521	5.6%	$72,081	-7.7%
Total Tax Revenue	**$19,005,221**	**$18,606,200**	**$399,020**	**2.1%**	**$17,706,243**	**7.3%**
NONTAX REVENUE						
Earnings on Investments	$5,418	$7,900	-$2,482	-31.4%	$7,116	-23.9%
Licenses and Fees	$65,299	$62,000	$3,299	5.3%	$58,960	10.8%
Other Revenue	$164,774	$743,000	-$578,226	-77.8%	$169,200	-2.6%
Total Nontax Revenue	**$235,491**	**$812,900**	**-$577,409**	**-71.0%**	**$235,275**	**0.1%**
TRANSFERS						
Liquor Transfers**	$92,638	$69,500	$23,138	33.3%	$154,762	-40.1%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$489,697	$81,932	$407,765	497.7%	$1,237,378	-60.4%
Total Transfers In	**$582,335**	**$151,432**	**$430,903**	**284.6%**	**$1,392,140**	**-58.2%**
TOTAL STATE SOURCES	**$19,823,047**	**$19,570,532**	**$252,514**	**1.3%**	**$19,333,658**	**2.5%**
Federal Grants	$7,362,952	$7,602,748	-$239,796	-3.2%	$8,428,972	-12.6%
TOTAL GRF SOURCES	**$27,185,999**	**$27,173,280**	**$12,718**	**0.0%**	**$27,762,630**	**-2.1%**

* Tax estimates of the Office of Budget and Management as of September 2011.
**Liquor Transfers based on a report run in OAKS as of June 29, 2012.
Detail may not sum to total due to rounding.

REVENUES

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

Overview

FY 2012 tax receipts were $399.0 million above estimate.

Total GRF sources of $27.19 billion in FY 2012 were $12.7 million above the estimates released by the Office of Budget and Management (OBM) in September 2011. GRF tax sources and total transfers in were $399.0 million and $430.9 million, respectively, above estimates. Those positive variances were nearly cancelled out by shortfalls of $577.4 million in nontax revenues and $239.8 million in federal grants. Tables 1 and 2 show GRF sources for the month of June and for FY 2012 through June, 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.

June GRF sources were $51.9 million above estimate.

For the month of June, GRF sources were $51.9 million above estimate, largely due to a surplus of $143.7 million in other transfers in. Federal grants were $76.0 million below estimate. The personal income tax, the sales and use tax, and the cigarette tax, the three major tax sources, were above anticipated receipts by, respectively, $37.9 million, $37.4 million, and $1.8 million. The natural gas consumption tax was above estimate by $14.0 million for the month. Noticeably short of estimates were the domestic insurance tax, by $61.9 million (much of which was due to timing), the franchise tax, by $10.6 million, and the business and property tax, by $8.6 million. The revenue performance in June reversed a $39.2 million year-to-date negative variance in GRF total sources last month into a positive one of $12.7 million for the fiscal year.

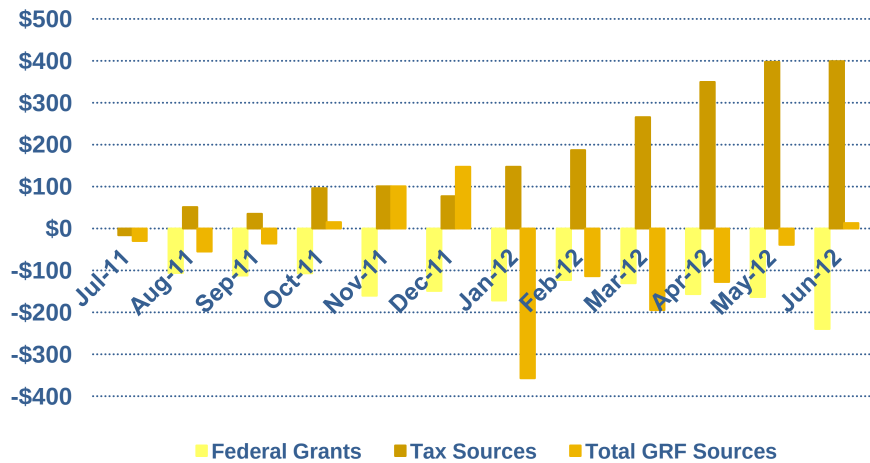
As mentioned above, nontax revenues were substantially below their FY 2012 estimates. This large negative variance was primarily due to the fact that budgeted receipts related to the transfer of the state liquor franchise to JobsOhio ($500 million) and the sale/leasing of state prisons ($50 million) did not materialize in FY 2012, as both processes went slower than originally anticipated.

Commercial activity tax-related transfers were mostly responsible for the positive variance in total transfers in. Insufficient balances at various times in the fiscal year in the School District Tangible Property Tax Replacement Fund and the Local Government Tangible Property Tax Replacement Fund required GRF transfers to the replacement funds. The associated transfers in were reimbursements to the GRF of moneys previously advanced to the replacement funds. (Those advancements were also recorded as GRF transfers out in the Expenditures section.) In addition, commercial activity tax fiscal year revenues were above estimates, and receipts not needed for the required payments were also transferred to the GRF in June 2012.

The fiscal year-long deficit in federal grants was generally due to lower than expected expenditures in certain human service expenditures programs, and also potentially due, in part, to timing issues related to the implementation of the new Medicaid Information Technology System.

Chart 1 below shows the cumulative FY 2012 variances against estimate for federal grants, tax sources, and total GRF sources.

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



FY 2012 total GRF sources decreased $576.6 million compared to prior-year receipts, due to decreases of $1.07 billion in federal grants[1] and $809.8 million in total transfers in. Those decreases were partly offset by an increase of $1.30 billion in GRF tax receipts. The increase in FY 2012 tax revenues, compared to receipts a year ago, was due to the continuing economic recovery, to changes in H.B. 153 to the allocation of tax receipts, and income from two tax amnesty programs.[2] Collectively, H.B. 153 changes increased GRF tax receipts by about $733.0 million, about 56% of the FY 2012 increase in tax revenue. The tax amnesties provided $38.7 million through June 2012.

FY 2012 GRF tax receipts were $1.30 billion above such receipts in FY 2011.

[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 were not available in FY 2012.

[2] A business use tax amnesty, started in October 2011 and scheduled to run until May 2013, provided $8.2 million through June 20, 2012. A separate amnesty, from May 1 to June 15, 2012, yielded $30.5 million.

Personal Income Tax

FY 2012 GRF income tax receipts were $286.4 million above estimate.

June GRF receipts from the personal income tax of $839.1 million were $37.9 million (4.7%) above estimate. Monthly receipts were also $63.3 million (8.2%) above receipts in June 2011. 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.

Most income tax components were above estimate for the month, though refunds, as throughout the fiscal year, were below estimate, this time by $11.9 million (39.6%). For the fiscal year, the GRF received $8.43 billion from the personal income tax, $286.4 million (3.5%) above estimates. Though most income tax components fared well, fewer refunds to taxpayers were mostly responsible for that positive variance, as gross collections were $27.7 million below estimates. The shortfall in gross collections was due to poor employer withholding receipts which were below estimates most of the fiscal year.

FY 2012 withholding receipts were $107.6 million below estimate.

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 2012	
	Amount ($ in millions)	**Percentage (%)**	**Amount ($ in millions)**	**Percentage (%)**
Withholding	-$107.6	-1.4%	$332.4	4.5%
Quarterly Estimated Payments	$40.7	3.4%	$86.7	7.4%
Trust Payments	$0.8	1.4%	$4.1	7.6%
Annual Return Payments	$27.5	2.6%	-$100.9	-8.4%
Miscellaneous Payments	$11.0	8.2%	$12.2	9.2%
Gross Collections	-$27.7	-0.3%	$334.5	3.4%
Less Refunds	-$320.2	-20.6%	$123.5	11.1%
Less Local Government Fund Distribution	$6.1	1.0%	-$101.6	-14.5%
Income Tax Revenue	$286.4	3.5%	$312.6	3.8%

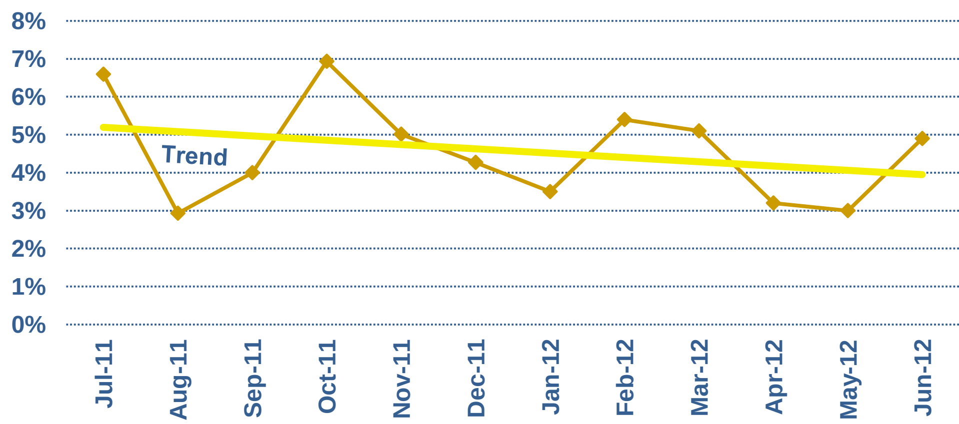
The table above summarizes FY 2012 income tax revenue variances from estimates and annual changes by component. FY 2012 GRF receipts were $312.6 million above receipts in FY 2011. Revenues

[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.

from employer withholding were $332.4 million (4.5%) above receipts in this category in FY 2011. Ohio total nonfarm payroll employment has seesawed in the first five months in 2012, though the unemployment rate has continually fallen, to reach 7.3% in May. Quarterly estimated payments increased $86.7 million (7.4%) but receipts associated with annual tax payments fell $100.9 million (8.4%) due to the decrease in personal income tax rates in tax year (TY) 2011.[4] Distributions to the LGF were $101.6 million (14.5%) below amounts in that category in FY 2011, due to H.B. 153 changes in distributions of state tax revenues to local governments.

FY 2012 employer withholding was $332.4 million above similar receipts in FY 2011.

Chart 2: Monthly Withholding Receipts Trend
Actual vs. Prior Year
(Three-month Moving Average)



Sales and Use Tax

June GRF receipts from the sales and use tax of $709.8 million were $37.4 million (5.6%) above estimate and $62.4 million (9.6%) above receipts in June 2011. Through June, FY 2012 GRF sales and use tax receipts totaled $8.09 billion, $218.2 million (2.8%) above estimate and $508.8 million (6.7%) above receipts in FY 2011. For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[5] 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.

FY 2012 GRF sales and use tax receipts were $218.2 million above estimate.

[4] H.B. 318 (128th General Assembly) delayed the last reduction in rate from H.B. 66 (126th General Assembly) from TY 2009 to TY 2011.

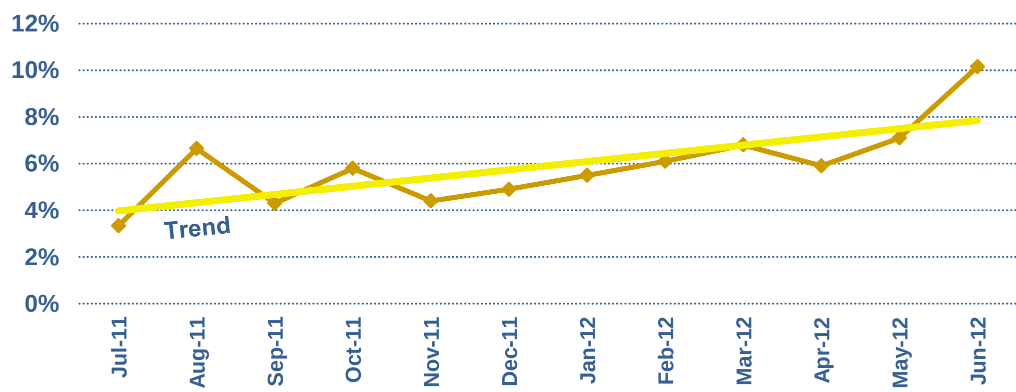
[5] The clerks of court generally make auto sales and use tax payments on Monday for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled. Therefore, auto sales and use tax receipts largely reflect vehicles sold and titled during the month.

FY 2012 GRF receipts from the nonauto sales and use tax were $141.4 million above estimate.

Nonauto Sales and Use Tax

Monthly GRF receipts from the nonauto sales and use tax were $622.0 million, $40.2 million (6.9%) above estimate, and $69.3 million (12.5%) above June 2011 receipts. FY 2012 GRF nonauto sales and use tax receipts were $7.03 billion, $141.4 million (2.1%) above estimate. Those receipts were $432.2 million (6.5%) above receipts in FY 2011. Yearly receipts include $353.4 million in tax payments by Medicaid health insuring corporations, up $78.2 million (28.4%) compared to FY 2011. Chart 3 below shows a steady increase in FY 2012 nonauto sales and use tax monthly receipts against prior-year receipts in the same month. Nationwide retail sales growth slowed in the second quarter of 2012; however, the apparent economic slowdown has not affected Ohio's nonauto sales and use tax growth in the latest months, as the tax base continues to expand.

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

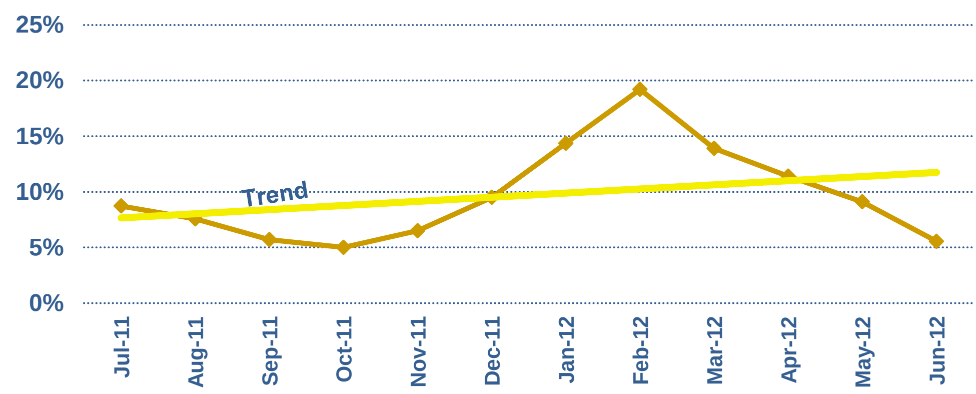


FY 2012 auto sales and use tax receipts were $76.8 million above estimate.

Auto Sales and Use Tax

The auto sales and use tax provided GRF receipts of $87.8 million in June. Those receipts were $2.8 million (3.1%) below estimate. Receipts were also $6.9 million (7.3%) below June 2011 receipts, the first time in more than 18 months receipts were below prior-year receipts in the same month. However, for the fiscal year, the auto sales and use tax strong performance provided $1.05 billion, $76.8 million (7.9%) above estimate and $76.5 million (7.8%) above receipts in FY 2011. Chart 4 below compares FY 2012 monthly auto sales and use tax receipts with year-ago receipts in the same period. Though still positive, the growth of the auto sales and use tax base has slowed considerably from the higher levels mid-way through the fiscal year. On a seasonally adjusted annualized basis, nationwide autos and light truck sales jumped to 14.0 million units in June, up from 13.7 million units in May. For the fiscal year, nationwide vehicle sales grew about 11.5% over FY 2011, a performance unlikely to be repeated in FY 2013.

Chart 4: Auto Sales and Use Tax Receipts Trend
Actual vs. Prior Year
(Three-month Moving Average)



Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax of $72.1 million in June 2012 were $1.8 million (2.6%) above estimate and $4.5 million (5.8%) below receipts in the corresponding month in FY 2011. FY 2012 total receipts of $843.2 million were $24.9 million (3.0%) above estimate. Receipts from cigarette sales were $789.8 million, and sales of products other than cigarettes provided $53.4 million. Compared to FY 2011, total receipts this year were $12.4 million (1.5%) lower. Receipts from the sale of cigarettes decreased $14.0 million and those from the sale of other tobacco products increased $1.6 million. Generally, cigarette tax receipts experience a sustained downward trend on a year-ago basis, though the decline in FY 2012 was less severe than those in recent years.

FY 2012 cigarette tax receipts were $24.9 million above estimate.

Commercial Activity Tax

The commercial activity tax (CAT) ended the year with a strong positive variance. June GRF receipts from the CAT of $7.5 million were $1.8 million (32.2%) above estimate. CAT receipts to the GRF in FY 2012 totaled $417.1 million, $41.9 million (11.2%) above estimate. Overall, FY 2012 total (all funds) CAT receipts of $1.66 billion were $204.0 million (14.1%) above receipts for 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. Distributions to the GRF resumed in FY 2012. The GRF received 25% of CAT receipts; distributions to schools were 52.5% of CAT receipts and those to other local governments were the remaining 22.5%.

FY 2012 GRF CAT receipts were $41.9 million above estimate.

Under current law, if CAT receipts are insufficient for the required reimbursements, the GRF subsidizes the replacement funds. Alternatively, receipts not needed for the required payments are transferred to the GRF, so that this fiscal year, the GRF received $130 million in transfers in from the replacements funds in June 2012.

FY 2012 CFT receipts were $102.9 million below estimate.

Corporate Franchise Tax

FY 2012 receipts from the corporate franchise tax (CFT) were $117.1 million, $102.9 million (46.8%) below estimate and $119.6 million (50.5%) below FY 2011 receipts. CFT receipts grew $94.9 million in FY 2011 from FY 2010. That increase was believed to have been due, in part, to higher capital requirements for banks (prompted by the 2008 financial crisis) which resulted in a boost to the tax base. Those gains were reversed in FY 2012; though reasons for the poor performance are unclear,[6] refunds to taxpayers, $149.8 million according to OAKS, were almost double the amount in this category last year.

Public Utility Excise Tax

Receipts from the public utility excise tax totaled $113.9 million in FY 2012, $20.8 million (15.4%) less than the estimate and $10.9 million (8.8%) less than in FY 2011. All utility-related tax receipts, including the kilowatt hour tax and the natural gas consumption tax, were below estimate for the fiscal year.

FY 2012 receipts from the public utility excise tax were $20.8 million below estimate.

Taxes paid by natural gas companies account for about 97% of total tax receipts from the public utility excise tax. FY 2011 receipts were also below prior-year receipts by $11.9 million. Revenues from this tax are based on utilities' gross receipts, which were affected, in part, by prolonged low natural gas prices. The deterioration in public utility excise tax revenues may also reflect the continuing growth of the natural gas Choice program, under which customers may select their natural gas suppliers and other changes in the natural gas markets. The value of the gas from the alternate suppliers (which are not considered local natural gas utilities) is subject to the sales tax rather than the public utility excise tax. As of March 2012, 65% of commercial and industrial customers of four large natural gas utilities in Ohio participated in the Choice program, up from 52% at the end of 2008, and 59% of residential customers participated, up from 50%.

[6] Actual collections in a fiscal year vary from tax liabilities reported by taxpayers due to tax credits, tax payments that may fall into another fiscal year such as additional payments after audits, refunds from taxes overpaid, and other tax reconciliations from prior tax years.

Kilowatt Hour Tax

GRF receipts from the kilowatt hour tax in FY 2012 were $294.8 million, which was $21.5 million (6.8%) below estimate, from lower than expected sales of electricity. GRF receipts were $140.9 million (91.6%) higher than FY 2011 receipts. FY 2012 total kilowatt hour tax collections (all funds receipts) were $537.9 million, which was $2.0 million (0.4%) higher than FY 2011 total collections. The increase in GRF receipts was mainly due to H.B. 153. The budget act increased to 88% the proportion of tax revenue to the GRF, and decreased receipts earmarked for reimbursing school districts to 9%, and that to other local governments to 3%. Under previous law, 63% of receipts from the tax were distributed to the GRF, 25.4% to the School District Property Tax Replacement Fund, and 11.6% to the Local Government Property Tax Replacement Fund.

FY 2012 GRF receipts from the kilowatt hour tax were $21.5 million below estimate.

Natural Gas Consumption Tax

Natural gas consumption (MCF) tax receipts of $60.2 million in FY 2012 were $5.8 million (8.8%) below estimate. The budget act credited all receipts from this excise tax levied on natural gas distribution companies to the GRF, starting in FY 2012. Under previous law, revenue from the MCF tax was credited to the School District Property Tax Replacement Fund (68.7%) and the Local Government Property Tax Replacement Fund (31.3%).

Foreign and Domestic Insurance Taxes

The domestic insurance tax provided $189.1 million for the GRF in FY 2012, $24.6 million (11.5%) below projections, and $0.3 million (0.2%) less than the FY 2011 amount. The foreign insurance tax raised $266.5 million, $14.4 million (5.7%) more than estimates and $10.2 million (4.0%) more than FY 2011. The domestic insurance tax is paid by insurance companies whose headquarters are located in Ohio, while the foreign insurance tax is paid by those headquartered in other states.

Business and Property Tax

The business and property tax (also called the dealers in intangibles tax) is imposed on businesses (excluding financial institutions and insurance companies) engaged in lending money or buying and selling notes, mortgages, and securities. GRF receipts from the dealers in intangibles tax were $19.9 million, $18.1 million (47.7%) below estimate, and $6.1 million (23.6%) below FY 2011 revenue. The poor performance of the tax was mostly due to higher refunds this year ($13.1 million) than last year ($1.2 million). Nearly all this year's revenue from the tax was from "nonqualified" dealers. Receipts from "qualified" dealers were less than $5,000 according to OAKS, down from $19.0 million in FY 2011. A

FY 2012 receipts from the liquor gallonage tax were $2.4 million above estimate.

FY 2012 GRF receipts from the estate tax were $3.5 million above estimate.

"qualified" dealer is a dealer that is a member of a controlled group of which a financial institution or insurance company is also a member.

Under previous and current law, all taxes paid by "qualified" dealers are credited to the GRF. Under prior law, for "nonqualified" dealers, a share of the tax revenues, three mills, was deposited into the GRF. Revenues from the remaining five mills were distributed to counties and deposited in the county undivided local government funds. However, H.B. 153 provided that the counties no longer would receive revenues from nonqualified dealers starting in FY 2012, which boosted GRF receipts by about $13.5 million this fiscal year.

Alcoholic Beverage Tax

Receipts from the alcoholic beverage tax were $57.6 million in FY 2012, $1.0 million (1.8%) above estimate, and $2.2 million (4.1%) above FY 2011 receipts, from improvements in the beer and malt beverages market. Sales of beer and malt beverages, and those of wine and mixed beverages increased, respectively, by 3.6% and 5.9% this fiscal year. Sales of beer and malt beverages had declined 2.5% in FY 2010 and 2.1% in FY 2011. Beer and malt beverages generate about 81% of the total alcoholic beverage tax receipts.

Liquor Gallonage Tax

Liquor gallonage tax receipts of $39.4 million in FY 2012 were $2.4 million (6.6%) above estimate, and $1.8 million (4.8%) higher than FY 2011 receipts. Liquor sales have increased steadily each year.

Estate Tax

The state GRF received $66.5 million from the estate tax in FY 2012. This amount was $3.5 million (5.6%) above estimate, and below FY 2011 receipts by $5.6 million (7.7%). Estate tax receipts vary from year to year because they depend on the net taxable value of a decedent's estate at the time of death, which depends on financial market conditions and the time of settlement made by each county with the state. The total estate tax revenue is shared by the state GRF (20%) and the municipality or township in which the decedent resided (80%). H.B. 153 eliminated the estate tax starting with dates of death on or after January 1, 2013, with revenue effects likely starting in FY 2014.

Earnings on Investments

In FY 2012, GRF earnings on investments of $5.4 million were $2.5 million (31.4%) below estimate and $1.7 million (23.9%) lower than FY 2011 earnings. Earnings on investments fell significantly because of lower than expected interest rates.

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

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary, Secondary, and Other Education	$530,712	$535,715	-$5,003	-0.9%
Higher Education	$160,392	$167,797	-$7,405	-4.4%
Total Education	$691,104	$703,512	-$12,407	-1.8%
Public Assistance and Medicaid	$770,667	$830,826	-$60,159	-7.2%
Health and Human Services	$51,334	$42,523	$8,811	20.7%
Total Welfare and Human Services	$822,001	$873,349	-$51,348	-5.9%
Justice and Public Protection	$130,800	$123,740	$7,060	5.7%
Environment and Natural Resources	$997	$3,074	-$2,078	-67.6%
Transportation	$1,154	$1,160	-$6	-0.5%
General Government	$13,397	$14,158	-$761	-5.4%
Community and Economic Development	$3,998	$6,254	-$2,256	-36.1%
Capital	$20	$0	$20	---
Total Government Operations	$150,366	$148,386	$1,980	1.3%
Tax Relief and Other	$48,005	$164,987	-$116,982	-70.9%
Debt Service	$29,200	$31,121	-$1,921	-6.2%
Total Other Expenditures	$77,205	$196,108	-$118,903	-60.6%
Total Program Expenditures	**$1,740,676**	**$1,921,355**	**-$180,679**	**-9.4%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$48,901	$15,450	$33,451	216.5%
Total Transfers Out	$48,901	$15,450	$33,451	216.5%
TOTAL GRF USES	**$1,789,576**	**$1,936,804**	**-$147,228**	**-7.6%**

* 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 June 30, 2012
($ in thousands)
(Actual based on OAKS reports run July 2, 2012)

PROGRAM	Actual	Estimate*	Variance	Percent	FY 2011	Percent Change
Primary, Secondary, and Other Education	$6,457,827	$6,523,987	-$66,160	-1.0%	$6,740,044	-4.2%
Higher Education	$2,102,675	$2,127,844	-$25,169	-1.2%	$2,410,989	-12.8%
Total Education	$8,560,501	$8,651,831	-$91,329	-1.1%	$9,151,033	-6.5%
Public Assistance and Medicaid	$12,465,739	$13,001,116	-$535,377	-4.1%	$11,425,794	9.1%
Health and Human Services	$968,945	$972,901	-$3,955	-0.4%	$1,099,120	-11.8%
Total Welfare and Human Services	$13,434,684	$13,974,016	-$539,332	-3.9%	$12,524,915	7.3%
Justice and Public Protection	$1,862,984	$1,934,640	-$71,657	-3.7%	$1,940,199	-4.0%
Environment and Natural Resources	$70,072	$70,463	-$391	-0.6%	$72,410	-3.2%
Transportation	$10,334	$13,384	-$3,050	-22.8%	$13,367	-22.7%
General Government	$272,949	$293,254	-$20,306	-6.9%	$275,479	-0.9%
Community and Economic Development	$98,099	$105,969	-$7,870	-7.4%	$103,244	-5.0%
Capital	$140	$0	$140	---	$24	485.8%
Total Government Operations	$2,314,578	$2,417,710	-$103,133	-4.3%	$2,404,723	-3.7%
Tax Relief and Other	$1,728,464	$1,741,951	-$13,487	-0.8%	$1,691,043	2.2%
Debt Service	$356,523	$416,027	-$59,504	-14.3%	$475,892	-25.1%
Total Other Expenditures	$2,084,987	$2,157,977	-$72,991	-3.4%	$2,166,935	-3.8%
Total Program Expenditures	**$26,394,750**	**$27,201,535**	**-$806,785**	**-3.0%**	**$26,247,606**	**0.6%**
TRANSFERS						
Budget Stabilization	$246,899	$246,899	$0	0.0%	$0	---
Other Transfers Out	$414,855	$160,402	$254,454	158.6%	$1,181,472	-64.9%
Total Transfers Out	$661,754	$407,300	$254,454	62.5%	$1,181,472	-44.0%
TOTAL GRF USES	**$27,056,504**	**$27,608,835**	**-$552,331**	**-2.0%**	**$27,429,078**	**-1.4%**

* 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 July 2, 2012)

Medicaid (600525) Payments by Service Category	June Actual	June Estimate	June Variance	June Percent Variance	Year to Date Actual thru June	Year to Date Estimate thru June	Year to Date Variance	Year to Date Percent Variance
Managed Care Plans	$563,714	$594,817	-$31,103	-5.2%	$6,423,655	$6,644,179	-$220,524	-3.3%
Nursing Facilities	$205,021	$205,952	-$931	-0.5%	$2,444,486	$2,483,573	-$39,087	-1.6%
Hospitals	$102,627	$111,844	-$9,217	-8.2%	$1,334,765	$1,442,021	-$107,256	-7.4%
Prescription Drugs	$37,761	$41,065	-$3,304	-8.0%	$894,844	$932,036	-$37,192	-4.0%
Aging Waivers	$41,235	$52,780	-$11,545	-21.9%	$589,318	$618,773	-$29,455	-4.8%
ICFs/MR	$52,584	$47,697	$4,887	10.2%	$565,661	$562,062	$3,599	0.6%
Physicians	$24,277	$28,893	-$4,616	-16.0%	$296,983	$360,062	-$63,079	-17.5%
ODJFS Waivers	$24,138	$26,829	-$2,691	-10.0%	$314,420	$346,586	-$32,166	-9.3%
All Other	$150,959	$139,871	$11,088	7.9%	$1,640,231	$1,688,661	-$48,430	-2.9%
Total Payments	$1,202,316	$1,249,748	-$47,432	-3.8%	$14,504,363	$15,077,953	-$573,590	-3.8%
Total Offsets (non-GRF)	-$498,438	-$495,493	-$2,945	0.6%	-$3,080,230	-$3,183,177	$102,947	-3.2%
Total 600525 (net of offsets)	$703,878	$754,255	-$50,377	-6.7%	$11,424,133	$11,894,776	-$470,643	-4.0%
Medicare Part D (600526)	$22,012	$23,896	-$1,884	-7.9%	$261,608	$277,996	-$16,388	-5.9%
Total GRF	**$725,890**	**$778,151**	**-$52,261**	**-6.7%**	**$11,685,741**	**$12,172,772**	**-$487,031**	**-4.0%**
Total All Funds	**$1,224,328**	**$1,273,644**	**-$49,316**	**-3.9%**	**$14,765,971**	**$15,355,949**	**-$589,978**	**-3.8%**

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

ICFs/MR - Intermediate Care Facilities for the Mentally Retarded

Expenditures

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Overview

GRF uses for FY 2012 were $552.3 million below estimate, the net result of a negative variance of $806.8 million in program expenditures and a positive variance of $254.5 million in transfers out.

For the month of June, GRF uses totaled $1.79 billion. These uses were $147.2 million below the estimate released by the Office of Budget and Management (OBM) in September 2011. For the whole fiscal year, GRF uses totaled $27.06 billion, $552.3 million below estimate. Tables 3 and 4 show GRF uses for the month of June and for FY 2012, respectively.

GRF uses consist primarily of program expenditures but also include transfers out. GRF program expenditures totaled $26.39 billion in FY 2012, $806.8 million below estimate. For reporting purposes, GRF program expenditures are grouped into 12 categories. Except for the Capital category, which had unanticipated expenditures of $140,000, all categories' expenditures were below their FY 2012 estimates. Public Assistance and Medicaid had the largest negative variance at $535.4 million, accounting for 66.4% of the total negative variance in program expenditures for FY 2012. Other categories with significant negative variances include Justice and Public Protection ($71.7 million), Primary, Secondary, and Other Education ($66.2 million), Debt Service ($59.5 million), Higher Education ($25.2 million), and General Government ($20.3 million). Together, these six categories had a combined negative variance of $778.3 million in FY 2012, accounting for 96.5% of the total negative variance in program expenditures for the fiscal year. The section that follows this overview provides more information on these six categories' negative variances.

GRF transfers out totaled $661.8 million in FY 2012, $254.5 million above estimate. As reported throughout the fiscal year, the positive variance in GRF transfers out was mainly due to the temporary transfers made in November 2011 to address the cash flow issue related to tangible personal property tax loss reimbursements for schools and local governments; these transfers were not anticipated in the OBM estimate. A total of $225.3 million cash was transferred from the GRF to the School District Tangible Property Tax Replacement Fund (Fund 7047) and the Local Government Tangible Property Tax Replacement Fund (Fund 7081) in November 2011 for purposes of making timely reimbursement payments; these payments are to be supported by commercial activity tax (CAT) receipts that are deposited into Fund 7047 and Fund 7081. Before the month of November ended, $125.0 million cash was transferred back to the GRF from Fund 7047. In June, the GRF received an additional cash transfer of $70.0 million from Fund 7047 and a cash transfer of $60.0 million from Fund 7081. In total, the cash transfers from Fund 7047 and Fund 7081 to the GRF amounted to $255.0 million in FY 2012. These transfers in are recorded in tables 1 and 2 in the Revenues section of this report.

For the month of June, GRF transfers out totaled $48.9 million, $33.5 million above estimate. According to various provisions of law, OBM made a series of cash transfers from the GRF in June, some of which were not anticipated in its estimate. For example, $12.8 million cash was transferred from the GRF to the ARRA Compliance Fund (Fund 5JA0), which is used by the Ohio Department of Education (ODE). Fund 5JA0 was originally created in S.B. 181 of the 128th General Assembly. Money in the fund is used to make an additional per pupil subsidy to schools to comply with conditions of the American Recovery and Reinvestment Act (ARRA). In FY 2011, the GRF also supported $18.4 million in expenditures from Fund 5JA0.

Year-end encumbrances totaled $602.4 million for FY 2012.

In addition to program expenditures and transfers out, state agencies encumbered a total of $602.4 million in GRF funding, as of June 29, 2012, for expenditure in FY 2013. In comparison, GRF encumbrances at the end of FY 2011 totaled $413.8 million. The **Encumbrances** section of this report provides additional information on FY 2012 year-end encumbrances.

Categories with Significant Negative Variances in FY 2012

Public Assistance and Medicaid

FY 2012 Medicaid GRF spending was $487.0 million ($175.3 million state share) below estimate; all-fund spending was $590.0 million ($212.4 million state share) below estimate.

GRF expenditures for Public Assistance and Medicaid totaled $12.47 billion in FY 2012, $535.4 million (4.1%) below estimate. Medicaid, including both state and federal shares, accounts for about 94% of expenditures in this program category. The federal share of Medicaid expenditures is about 64% and the state's share is about 36%. Medicaid is mainly funded by the GRF, but is also supported by various non-GRF funds. FY 2012 Medicaid GRF expenditures totaled $11.69 billion, which was $487.0 million (4.0%) below estimate. The state's share of this negative variance is about $175.3 million. Across all funds, FY 2012 Medicaid expenditures totaled $14.77 billion, which was $590.0 million (3.8%) below estimate. The state's share of this negative variance is about $212.4 million. Table 5 details Medicaid GRF expenditures by service category and also summarizes Medicaid expenditures across all funds.

As seen from Table 5, Medicaid expenditures were below their year-to-date estimates for all categories, except ICFs/MR. Categories with significant negative year-to-date variances include Managed Care Plans

FY 2012 Medicaid expenditures were below estimate for all service categories except ICFs/MR.

($220.5 million, 3.3%), Hospitals ($107.3 million, 7.4%), Physicians ($63.1 million, 17.5%), and All Other ($48.4 million, 2.9%). As reported throughout the fiscal year, OBM indicated that 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 Medicaid Information Technology System (MITS). There are programming issues in MITS that have affected timing of certain payments. Funds were encumbered in items 600525, Health Care/Medicaid and 600526, Medicare Part D, for those payments. (The **Encumbrances** section of this report provides additional information on the encumbered funds in these two items.) At the same time, MITS is expected to produce some savings as the new system has a more comprehensive mechanism to properly reject certain claims. The overall negative variance in Medicaid was also attributable to caseloads being below estimate for the year. On average, the Medicaid caseload has been 2,200,700 per month in FY 2012, about 24,480 (1.1%) below estimate.

Justice and Public Protection finished the fiscal year $71.7 million below estimate.

Justice and Public Protection

GRF expenditures for Justice and Public Protection amounted to $1.86 billion in FY 2012, $71.7 million (3.7%) below estimate. Of this variance, $66.9 million was attributable to the Department of Rehabilitation and Correction (DRC). The Supreme Court of Ohio contributed another $3.6 million to the variance. Expenditures for the Office of Attorney General, one of the five statewide elected offices, were essentially on target with estimate totaling $46.2 million in FY 2012.

Expenditures for DRC's main operating item 501321, Institutional Operations, were $32.7 million below their FY 2012 estimate. Items 505321, Institution Medical Services, and 502321, Mental Health Services, contributed another $20.9 million and $6.6 million to the variance, respectively. As reported throughout the fiscal year, the organizational restructuring in DRC has resulted in a higher than expected personnel vacancy rate and a lower than expected expenditure level for FY 2012. As of June 14, 2012, the DRC employee head count totaled 11,996 compared with 13,112 as of June 15, 2011, a decrease of 1,116 (8.5%) employees. Note that funds were encumbered in items 501321, 505321, and 502321 to pay certain outstanding obligations in FY 2013.

Primary, Secondary, and Other Education

GRF expenditures for Primary, Secondary, and Other Education totaled $6.46 billion in FY 2012, $66.2 million (1.0%) below estimate. Of this variance, $65.5 million was attributable to ODE. Expenditures for ODE's two school foundation payment items 200550, Foundation Funding, and 200502, Pupil Transportation, were below their FY 2012 estimates by $29.7 million and $20.0 million, respectively. Expenditures for item 200540, Special Education Enhancements were $8.0 million below their FY 2012 estimate.

Spending for Primary, Secondary, and Other Education was $66.2 million below estimate in FY 2012.

According to ODE's latest calculations, school foundation payments total $6.52 billion for FY 2012. These payments depend on a variety of factors, including a district's average daily membership and the total appropriation available for these payments. School foundation payments for a given fiscal year are generally not finalized until the following fiscal year. Funds are encumbered in items 200550 and 200502 for those final adjustments. In addition to these two items, School foundation payments for FY 2012 were also supported by lottery profits ($717.5 million).

Debt Service

GRF debt service expenditures amounted to $356.5 million in FY 2012, $59.5 million (14.3%) below estimate. This variance was largely due to the current low interest rate environment, which lowers the payments for the state's variable debt and allows the state to issue refunding bonds to lower its borrowing costs. The School Facilities Commission accounted for $30.0 million of the total negative variance in this category. The Board of Regents (BOR) and the Department of Development contributed another $11.6 million and $10.9 million to the variance, respectively. These agencies receive general obligation bond proceeds to help fund the construction and renovation of K-12 and higher education facilities as well as various economic development projects. They also receive GRF funding to pay required debt service payments on those general obligation bonds. Under the Ohio Constitution, the state is obligated to fully fund required debt service payments for general obligation bonds it has issued.

Debt service spending in FY 2012 was $59.5 million below estimate due primarily to low interest rates.

Higher Education

GRF expenditures for Higher Education totaled $2.10 billion in FY 2012, $25.2 million (1.2%) below estimate. This variance mainly occurred in items 235563, Ohio College Opportunity Grant (OCOG, $11.1 million) and 235438, Choose Ohio First Scholarship ($10.7 million).

Higher education spending in FY 2012 was $25.2 million below estimate.

Item 235563 funds the state's need-based financial aid program for students pursuing higher education in Ohio. OCOG awards equal to the remaining "state cost of attendance," as determined by the Chancellor of Regents, after a student's expected financial contribution and federal Pell grant are applied to the instructional and general charges for the program. They therefore vary from year to year depending on a variety of factors, such as Pell grant awards and instructional and general fees charged by colleges and universities. The appropriation for item 235563 totaled $80.3 million for FY 2012, of which $37.0 million was earmarked for making grants to students attending public colleges and universities. The remaining appropriation was earmarked for students attending nonpublic institutions, including career colleges and schools. Grant awards for students attending public institutions were $6.5 million below their FY 2012 estimate, while grant awards for students attending nonpublic institutions accounted for the remaining $4.6 million of the negative variance in this item. H.B. 153 reappropriated the unexpended and unencumbered portion of item 235563 at the end of FY 2012 to BOR for the same purpose in FY 2013.

Additional financial aid for students attending career colleges and schools was provided under Fund 5JC0 appropriation item 235667, Ohio College Opportunity Grant – Proprietary. Expenditures for this item totaled $176,520 in FY 2012. Fund 5JC0 receives casino licensing revenue. In FY 2012 casino licensing revenue also supported expenditures of $4.0 million from item 235668, Air Force Institute of Technology – Defense/Aerospace Graduate Studies Institute, and $910,000 from item 235649, Co-Op/Internship Program, in the BOR budget, as well as expenditures of $841,295 from item 195622 – Defense Development Assistance in the Department of Development budget.

Item 235438 provides scholarships for the recruitment of Ohio residents attending selected public institutions of higher education and private institutions engaged in strategic partnerships with public institutions to study in the fields of science, technology, engineering, mathematics, and medicine (STEM) and STEM education. These funds are awarded as competitive grants to selected institutions. Actual disbursements of the grants may vary from estimate. Funds were encumbered in this item to pay any awards that had already been granted.

General Government finished the fiscal year $20.3 million below estimate.

General Government

GRF expenditures for General Government totaled $272.9 million in FY 2012, $20.3 million (6.9%) below estimate. Of this total, $7.1 million was attributable to the Department of Taxation, $5.6 million to the

Department of Administrative Services, $4.0 million to the six legislative agencies (House of Representatives, Senate, Legislative Service Commission, Joint Committee on Agency Rule Review, Joint Legislative Ethics Committee, and Capital Square Review and Advisory Board), and $2.1 million to four of the five elected statewide offices (Governor, Treasurer of State, Auditor of State, and Secretary of State). As reported earlier, the Office of Attorney General, the other elected statewide office, is included in the Justice and Public Protection program category

Encumbrances

As indicated earlier, as of June 29, 2012, state agencies encumbered a total of $602.4 million in GRF funds for expenditure in FY 2013. An agency generally has five months to spend prior-year encumbrances for operating expenses. Any unspent operating expense encumbrances generally will lapse at the end of the five-month period and will become part of the GRF cash balance. Subject to the approval of the Director of Budget and Management, an agency may carry funds encumbered for purposes other than operating expenses beyond the five-month period. Encumbrances for some grant and aid payments may be carried for several months or even years.

The table below summarizes the encumbrances by the fiscal year for which funds were originally appropriated. As seen from the table, the majority (81.6%) of the encumbrances were originally appropriated in FY 2012, but smaller amounts were first appropriated for earlier years back to FY 2003.

The majority (81.6%) of the $602.4 million year-end encumbrances were originally appropriated in FY 2012.

FY 2012 Year-End Encumbrances by Fiscal Year for Which Appropriations Were Originally Made

Fiscal Year	Amount (in thousands)	Percentage of Total
2003	$96	0.0%
2004	$124	0.0%
2005	$366	0.1%
2006	$310	0.1%
2007	$421	0.1%
2008	$8,264	1.4%
2009	$28,591	4.7%
2010	$35,565	5.9%
2011	$37,168	6.2%
2012	$491,517	81.6%
Total	**$602,422**	**100.0%**

Of the total year-end encumbrances, 66.6% is attributable to the departments of Job and Family Services and Education.

The encumbrance amounts vary greatly from agency to agency. As show in the table below, ODJFS has the largest encumbrance amount at $263.2 million, 43.7% of the total, followed by ODE, at $137.9 million, 22.9% of the total. Four other agencies with significant encumbrance amounts are DRC at $87.8 million (14.6% of the total), the Department of Development at $45.1 million (7.5%), the Department of Developmental Disabilities at $15.8 million (2.6%), and BOR at $13.6 million (2.2%). Together, these six agencies account for $563.3 million (93.5%) of the total encumbrances; these encumbrances are briefly discussed below. Forty other agencies accounted for the remaining $39.1 million, 6.5% of the total encumbrances.

FY 2012 Year-End Encumbrances by Agency

Agency	Amount (in thousands)	Percentage of Total
Job and Family Services	$263,169	43.7%
Education	$137,897	22.9%
Rehabilitation and Correction	$87,794	14.6%
Development	$45,144	7.5%
Developmental Disabilities	$15,757	2.6%
Regents	$13,563	2.2%
All Other Agencies	$39,099	6.5%
Total	**$602,422**	**100.0%**

Ohio Department of Job and Family Services

A total of $221.7 million was encumbered for Medicaid spending in FY 2013.

ODJFS encumbered a total of $263.2 million for expenditure in FY 2013. The encumbrances in four appropriation items account for $249.1 million of the total. These four items are: item 600525, Health Care/Medicaid ($211.7 million); item 600416, Computer Projects ($16.8 million); item 600321, Support Services ($10.6 million); and item 600526, Medicare Part D ($10.0 million).

As reported earlier, the implementation of MITS has affected timing of certain Medicaid payments. Funds encumbered in items 600525 and 600526 will be used to pay Medicaid obligations that occurred in FY 2012. Of the $211.7 million encumbered in item 600525, $179.7 million was originally appropriated in FY 2012. The remaining $32.0 million was originally appropriated in fiscal years prior to FY 2012. The whole $10.0 million encumbrances in item 600526 were originally appropriated in FY 2012.

Funds encumbered in item 600416 will be used mainly for payments on contracts for the electronic benefit payment system for public assistance programs, the child support payment system, and computer equipment. Item 600321 is the primary source of funding for support services for various offices within ODJFS. Expenditures from this item for federal programs earn federal reimbursement, which is deposited into the GRF. The majority ($7.9 million) of the encumbered funds will be used for postage payments.

Ohio Department of Education

Year-end encumbrances in two school foundation funding items totaled $84.8 million.

ODE encumbered a total of $137.9 million for expenditure in FY 2013. Of this total, $113.6 million (82.4%) occurred in four appropriation items: item 200550, Foundation Funding ($69.5 million); item 200502, Pupil Transportation ($15.3 million); item 200540, Special Education Enhancements ($15.2 million); and item 200437, Student Assessment ($13.7 million).

Funds encumbered in items 200550 and 200502 will mainly be used to meet year-end school foundation payment adjustments. As indicated earlier, foundation payments are allocated to individual districts based on a variety of data. Some of these data are not finalized until the following fiscal year or later. Funds are generally encumbered each year in order to make adjusted payments based on the updated data. The majority of the encumbrances in item 200550 were originally appropriated in FY 2012. In contrast, all of the encumbrances in item 200502 were originally appropriated in FY 2010 and FY 2011.

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

Department of Rehabilitation and Correction

DRC encumbered a total of $87.8 million for expenditure in FY 2013.

DRC encumbered a total of $87.8 million for expenditure in FY 2013. Of this total, $81.6 million (93.0%) occurred in items 501321, Institutional Operations ($50.9 million), 505321, Institution Medical Services ($25.1 million), and 503321, Mental Health Services ($5.6 million). Funds encumbered in item 501321 will be used for a mix of purchased personal services, supplies, maintenance, repairs, materials, and other expenditures at DRC and institutions, including $14.1 million for the Lake Erie Correctional Institution and $13.1 million for the North Central Correctional Institution in Marion. Funds encumbered in items 505321 and 502321 will be used to pay various outstanding bills for providing medical and mental health services to inmates, including $3.2 million (item 505321) for The Ohio State University Hospital and $2.0 million (item 502321) for the North Central facility. As authorized in H.B. 153, the ownership of the Lake Erie facility was transferred to the private Corrections Corporation of America on December 31, 2011. The North Central facility and the former Marion Juvenile Correctional Facility were leased to the private Management and Training Corporation. Prior to these changes, the Management Training Corporation operated the Lake Erie and North Coast correctional institutions. As part of the changes, the North Coast facility was returned to state control.

Department of Development

Development encumbered a total of $45.1 million for expenditure in FY 2013.

The Department of Development encumbered $45.1 million for expenditure in FY 2013. These encumbrances are largely attributable to various economic development incentive grants that have already been awarded but not yet disbursed. Many of these grant programs are operated on a reimbursement basis, whereby grant recipients do not receive money from the state until a project has been completed or certain conditions have been met. For example, a grantee may be awarded grants in FY 2012 but not receive them until FY 2013 or later.

Appropriation item 195412, Business Development Grants, had the largest encumbrance totaling $14.9 million. These encumbrances will be used to fund awards to companies that undertake projects to expand in or relocate to Ohio and that intend to create or retain jobs in doing so. Item 195434, Industrial Training Grants, is second with an encumbrance of $14.0 million. These encumbered funds support a portion of the training costs of eligible companies that are expanding or undertaking new capital projects that will result in the creation or retention of jobs in targeted industries. Item 195416, Governor's Office of Appalachia, ended the fiscal year with an encumbrance of $5.0 million. Funds in this item provide one-to-one matching funds to support two federal initiatives: the ARC Technical Assistance Program and the Appalachian Investment Training Program. The Governor's Office of Appalachia acts as an advocate to promote and assist various economic and community development activities in Ohio's 32 Appalachian counties.

Other items with large encumbrances include item 195401, Thomas Edison Program ($4.7 million) and item 195422, Technology Action ($2.5 million).

Department of Developmental Disabilities

The Department of Developmental Disabilities encumbered a total of $15.8 million for expenditure in FY 2013. Almost the entire amount ($15.6 million) of the encumbrances will be used to cover the costs of home and community-based services for Individual Options (I/O) waiver recipients in compliance with the Martin Settlement. The Settlement, which was accepted by the court in March 2007, ended a class-action lawsuit that sought to allow individuals with developmental disabilities to receive community-based rather than institution-based services. It requires the state to make community-based services available for 1,500 individuals who have developmental disabilities. Service providers have up to one year to bill for services rendered. Item 322504, Martin Settlement Agreement, had $11.1 million in encumbrances at the end of FY 2012, all of which were originally appropriated in FY 2010 and FY 2011. In addition, $4.5 million was encumbered in item 322407, Medicaid State Match; these encumbrances were all originally appropriated in FY 2012. Funds encumbered in item 322407 will be used to pay the state share of home and community-based Medicaid services for I/O waiver recipients.

Board of Regents

BOR encumbered a total of $13.6 million for expenditure in FY 2013, of which $11.0 million was encumbered in appropriation item 235438, Choose Ohio First Scholarship. These funds will be used to pay the state's obligations to scholarship recipients. Another $1.4 million was encumbered in item 235544, Adult Career-Technical Education, to make outstanding payments to adult workforce education service providers.

ISSUE UPDATES

Department of Development Awards First Round of Funding Under the Local Government Innovation Program

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

On June 9, 2012, the Controlling Board approved the first round of grants and loans awarded under the Local Government Innovation Program administered by the Ohio Department of Development. The program was established under H.B. 153, which provided $45.0 million in funding for grants and loans to eligible political subdivisions. H.B. 371, enacted in December 2011, subsequently altered some of the eligibility criteria that applied to the program. Overall, $9.0 million is available for grants and $36.0 million is available for loans. Funds are to be awarded to projects that promote efficiency, shared services, collaboration, and mergers among local governments. The table below displays the first round of awards, separated into nine categories according to project type.

Local Government Innovation Council – Round 1 Awards by Category				
Category	**# of Grants**	**Total Grant Funding Awarded**	**# of Loans**	**Total Loan Funding Awarded**
Administration	9	$737,488	1	$300,000
Technology	7	$619,900	2	$500,000
Public Safety	5	$311,353	4	$1,497,000
Public Works	4	$399,000	2	$567,000
Health & Human Services	4	$353,175	1	$100,000
Fleet Management	5	$457,150	0	$0
Educational Instructional Support	3	$232,875	0	$0
Facilities	2	$157,500	0	$0
Economic Development	2	$194,052	0	$0
Total	**41**	**$3,462,493**	**10**	**$2,964,0000**

Under the program, no more than $100,000 in total grants and not more than $100,000 in total loans may be awarded to an individual political subdivision for each project. For a project involving a group of political subdivisions, the award maximum is $500,000, with the average amount per political subdivision not to exceed $100,000. In addition, at least 30% of awards must go to political subdivisions that are not counties and have fewer than 20,000 residents, or counties with fewer than 235,000 residents. Also, at least 30% must go to political subdivisions that are not counties and have 20,000 residents or more, or counties with 235,000 residents or more.

Secretary of State Announces Plan to Mail Absentee Ballot Applications to All Registered Voters for the November 2012 General Election

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

In June 2012, the Ohio Secretary of State announced that the office will mail absentee ballot applications to all registered voters for the November 6, 2012 General Election. The statewide mailing will occur in two installments. The first will be at the beginning of September, and will be addressed to voters registered as of July 30, 2012. The second mailing will be sent during the first week of October, and will be addressed to individuals who have registered to vote or changed their voting information after the first mailing has occurred. The absentee voting period for the 2012 General Election begins on October 2nd. In total, the Secretary of State estimates that the office will mail approximately seven million absentee ballot applications at a cost of between $2 million and $3 million, depending on the number of voter registration changes and new registrations submitted after the first mailing. The mailings will be paid for using existing federal funding available in the Help America Vote Act Fund (Fund 3AS0). As of June 21, the cash balance in Fund 3AS0 was $7.2 million.

Controlling Board Approves $90 Million Plan to Upgrade MARCS

—Tom Wert, Budget Analyst, 614-466-0520

On May 21, 2012, the Controlling Board approved a plan by the Department of Administrative Services (DAS) to enter into a $90.0 million contract with Motorola Solutions, Inc., to upgrade the Multi-Agency Radio Communication System (MARCS). The upgrade will make MARCS, a statewide data and voice communication system for public safety and emergency management, compliant with P25 standards. These standards are a set of interoperability requirements that apply to mobile radio devices used by public safety agencies and first responders in North America. The upgrade will also enable MARCS to accommodate additional users. According to DAS, more than 1,200 public safety agencies statewide currently subscribe to MARCS. Together, these organizations operate over 47,500 voice units, more than 1,800 mobile data units, and 75 computer aided dispatch stations on the MARCS system. Currently, about 18,000 of the total number of voice and data units are subject to user subscription fees. DAS estimates that the upgrade will increase the number of full fee MARCS units to over 60,000 by 2016. As of June 7, 2012, the per unit annual subscription fee for each category of device that connects to MARCS was as follows: (1) $240 for portable/mobile radios, (2) $480 for control stations, (3) $4,200 for mobile data terminals, and (4) $21,000 for computer aided dispatch. These fees are deposited into the MARCS Administration Fund (Fund 5C20) and are used to support the operating costs of the system.

H.B. 482, the capital appropriations act of the 129th General Assembly, provided up to $90 million in funding for the MARCS upgrade. As a condition of funding, the bill required the MARCS Steering Committee to certify that the upgrade is P25 compliant and develop a business plan for the updated system. H.B. 482 also required DAS to obtain Controlling Board approval before making any purchases related to the P25 upgrade. The state will finance the MARCS upgrade by issuing Certificates of Participation (COPs). The state has used this financing method to acquire and install other large-scale IT systems, such as the Ohio Administrative Knowledge System (OAKS) and the State Taxation Accounting and Revenue System (STARS).

PUCO Awards FY 2012 Hazardous Materials Training Grants

—Russ Keller, Economist, 614-644-1751

On May 2, 2012, the Public Utilities Commission (PUCO) approved seven hazardous materials training grants totaling $336,531 (see table below). The grants will be used to train more than 1,000 public safety and emergency services professionals. PUCO provides annual grants to local governments, educational institutions, and state agencies for emergency response training and other hazardous materials training programs throughout the state. Funding for the grants comes from fines and civil forfeitures assessed against hazardous materials transporters, which are deposited into the Hazardous Materials Transportation Fund (Fund 6610). Under current law, up to $800,000 of such fines and civil forfeitures are deposited into Fund 6610 each year for training purposes, with amounts in excess of $800,000 being deposited into the GRF. Current law requires PUCO to distribute 50% of the money in Fund 6610, or up to $400,000 per year, to the Cleveland State University's Center for Emergency Preparedness to provide training to government and private industry regarding the safe handling of hazardous materials. Another 45% is used to fund other training programs through competitive grants, such as those announced on May 2. The remaining 5% is used to fund PUCO's administrative costs. PUCO is responsible for conducting audits, inspections, and reviews to evaluate the safety records, policies, and procedures of motor carriers, including hazardous materials carriers.

FY 2012 Hazardous Materials Training Grants

Grantee	Award Amount
University of Findlay	$270,445
Portage County Hazmat Team	$19,170
Chagrin/Southeast Council of Governments	$17,000
City of Toledo Division of Environmental Services	$11,715
Dayton Regional Hazardous Materials Response Team	$6,661
City of Franklin Division of Fire	$5,990
Shawnee Township Fire Department	$5,550
Total	**$336,531**

Ohio's Workforce Investment Act Allocation Decreases by $11.9 Million in FY 2013

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

Ohio's federal Workforce Investment Act (WIA) allocation will decrease from $105.5 million in FY 2012 to $93.6 million in FY 2013, a decrease of $11.9 million (11.2%). This is mainly due to a reduction in the state's proportion of economically disadvantaged individuals as compared to other states as well as a reduction in the national WIA allocation, which is set by Congress each year. The decrease in Ohio's allocation for FY 2013 will impact both the WIA dollars allocated to local workforce investment boards and the dollars retained by the Ohio Department of Job and Family Services (ODJFS) for administration and statewide activities. According to ODJFS, the allocation of WIA dollars to the state's 20 workforce investment boards will decrease by $9.6 million. The WIA funds are used by local boards to administer locally based employment and training services. The amount retained by ODJFS will decrease by $2.3 million. Statewide activities administered by ODJFS include employment services to areas experiencing mass layoffs and customized training to incumbent workers to help prevent layoffs.

Ohio Launches a $10 Million Medicaid Healthcare Access Initiative

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

On June 4, 2012, ODJFS announced the launch of the Medicaid Technical Assistance and Policy Program Healthcare Access Initiative, a $10.0 million project that is funded with federal dollars. As part of the program, Ohio Medicaid and certain universities will collaborate with the departments of Health and Mental Health, and the Board of Regents, to recruit, train, and retain health care practitioners to better serve the Medicaid population. ODJFS estimates that more than 1,000 healthcare students and practitioners will be trained as a result of the program. An initial emphasis will be placed on medical fields with a shortage of professional healthcare practitioners providing services to Medicaid clientele, such as child and adolescent psychiatry, community psychiatry, pediatrics, family practice, advanced practice nursing, and dentistry. Additionally, the program will seek to place students in these fields in geographical areas that lack needed healthcare professionals or in areas that serve large numbers of Medicaid clientele.

The universities of Akron, Case Western Reserve, Kent State, Ohio State, Toledo, and Wright State have all been awarded funds. The funding received by Akron and Kent State will support the universities' nursing programs. Case Western will use its funding to support programs and curriculums focused on mental health, pediatrics, dentistry, and family medicine. Ohio State will use its funding to create interdisciplinary educational programs in fields such as dentistry, behavioral health education, and nursing. The funding received by Toledo will support the university's psychiatry program. Lastly, Wright State will use the funding to support child and adolescent psychiatry and community psychiatry programs.

Claim Review Program Reduces Medical Expenditures in State Prisons

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

As part of its ongoing efforts to reduce the cost of institutional medical services, the Department Rehabilitation and Correction contracts with Permedion, Inc., of Westerville, Ohio for the provision of various healthcare review services to ensure that the services are delivered in the appropriate setting and are billed accurately. In FY 2012, Permedion has performed retrospective reviews on around 920 claims submitted by The Ohio State University Wexner Medical Center for various in-patient medical services. In about 320, or just over one-third, of those claims, Permedion identified problems in the billing that resulted in $2.0 million in overpayments, for which the Department anticipates reimbursement or a credit issued by Ohio State. In addition, Permedion coordinated the review and repricing of claims from local hospital and emergency room billings to reflect the Medicaid or Medicare reimbursement rate for Ohio. In FY 2012, a total of 53,400 claims for services have been repriced, which resulted in a $123.6 million reduction from the total charges initially billed by the medical providers.

Department of Youth Services Awards $6.2 Million in Targeted RECLAIM Funds

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

In FY 2012, the Department of Youth Services awarded $6.2 million in Targeted RECLAIM funds to 14 counties. Eight of these counties – Allen, Ashtabula, Licking, Lorain, Mahoning, Medina, Stark, and Trumbull – received awards for the first time. RECLAIM Ohio is a funding initiative that encourages juvenile courts to develop community-based programs for juvenile offenders, thereby diverting them from the Department's juvenile correctional facilities. All counties currently receive RECLAIM funding. The Targeted RECLAIM initiative provides additional funding to counties with a disproportionate number of commitments to the Department. Prior to FY 2012, Targeted RECLAIM funds were limited to six counties – Cuyahoga, Franklin, Hamilton, Lucas, Montgomery, and Summit – since these counties were responsible for more than 60% of commitments to the Department annually. The other eight counties that were allocated Targeted RECLAIM funds collectively were responsible for almost 29% of the 687 youth committed to the Department's custody in FY 2011.

FY 2012 Targeted RECLAIM Awards			
County	**Amount**	**County**	**Amount**
Allen	$176,722	Lucas	$434,000
Ashtabula	$279,419	Mahoning	$125,800
Cuyahoga	$1,756,395	Medina	$37,500
Franklin	$298,500	Montgomery	$1,047,544
Hamilton	$1,435,039	Stark	$41,370
Licking	$29,600	Summit	$351,896
Lorain	$93,960	Trumbull	$113,460
		Total	**$6,221,205**

Board of Regents Awards Second Cohort of Woodrow Wilson Teaching Fellows

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

In May, the Board of Regents (BOR) announced the 92 recipients that will make up the second cohort of Ohio's Woodrow Wilson Teaching Fellows. Each Ohio fellow will receive a stipend of $30,000 to complete a special intensive master's program at one of seven Ohio public and private universities.[7] Current undergraduates, college graduates, and professionals who have majored in, or had careers in, STEM (Science, Technology, Engineering, Mathematics, and Medicine) fields are eligible to apply for a Woodrow Wilson Fellowship. Fellows pursue a master's degree in education with a focus on STEM fields and commit to teaching for at least three years in a high-need urban or rural secondary school. They are provided with support and mentoring throughout their master's degree programs and three-year teaching commitments, as well as guidance in obtaining an Ohio teaching license. Participating universities agree to redesign their teacher education program to meet the program's specifications and partner with a local high-need school district. The Woodrow Wilson Teaching Fellowship Program is partially administered by the Woodrow Wilson National Fellowship Foundation, and funding is shared among several entities. In FY 2013, the program is expected to have a budget of $8.3 million, including $4.3 million in federal Race to the Top funding, $2.0 million in state funding from GRF appropriation item 235438, Choose Ohio First Scholarship, and $2.0 million in matching funds from participating universities.

[7] The University of Akron, University of Cincinnati, University of Dayton, John Carroll University, Ohio University, The Ohio State University, and University of Toledo.

Six School Districts Receive Solvency Assistance in FY 2012

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

Six school districts received solvency assistance totaling $14.2 million in FY 2012. The Controlling Board approved the following advances for the fiscal year:

- $5.9 million for Little Miami Local (Warren) on July 11, 2011
- $1.9 million for Liberty Local (Trumbull) on November 14, 2011
- $1.8 million for Bellaire City (Belmont) on April 23, 2012
- $0.7 million for Cloverleaf Local (Medina) on April 23, 2012
- $1.7 million for Ledgemont Local (Geauga) on April 23, 2012
- $2.2 million for Monroe Local (Butler) on June 11, 2012

Districts declared to be in fiscal emergency may qualify for advances from the Solvency Assistance Fund. Each advance is to be repaid by the respective school districts over the next two fiscal years. In FY 2012, four school districts were released from fiscal emergency, including Springfield Local (Summit), Beaver Local (Columbiana), McDonald Local (Trumbull), and Federal Hocking Local (Athens). Fiscal emergency, along with fiscal watch and fiscal caution, are applied to school districts deemed to be operating under a certified or anticipated deficit or failing to meet other fiscal or budgetary guidelines established by the Superintendent of Public Instruction and the Auditor of State. Districts in fiscal emergency or fiscal watch as of the end of FY 2012 are listed in the table below.

School Districts in Fiscal Emergency or Watch, as of the end of FY 2012	
District Name (County)	**District Name (County)**
Fiscal Emergency	**Fiscal Watch**
Bellaire Local (Belmont)	Brookfield Local (Trumbull)
Cloverleaf Local (Medina)	Coventry Local (Summit)
Ledgemont Local (Geauga)	Mansfield City (Richland)
Liberty Local (Trumbull)	Niles City (Trumbull)
Little Miami Local (Warren)	
Monroe Local (Butler)	

U.S. Department of Education Conditionally Approves Ohio's NCLB Flexibility Request

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

On May 29, 2012, the U.S. Department of Education (USDOE) granted conditional approval to Ohio's request for a waiver from a number of federal requirements associated with the No Child Left Behind Act of 2001 (NCLB). Notably, the waiver frees Ohio from requirements that prescribe how the state is to set annual measurable objectives for determining adequate yearly progress (AYP) to ensure that all students are proficient in reading and mathematics by the end of the 2013-2014 school year, frees Ohio and local education agencies from having to identify schools that fail to make AYP for two or more consecutive years for school improvement, corrective action, or restructuring, and provides greater flexibility in the use of federal funds. Without a waiver from the 100% proficient requirement, many more schools in Ohio are expected to be subject to various school improvement sanctions in the coming years. These sanctions impose restrictions in the use of federal Title I funds and other various costs on schools.

In exchange for the waiver, the state has committed to, among other proposals, setting annual measurable objectives that reduce performance gaps in reading and mathematics by half over six years, implementing a more rigorous school district and school building rating system using letter grades, improving the support provided to the lowest performing schools and schools with the largest performance gaps, and releasing schools from some reporting requirements. Ohio's waiver is currently only in effect through the 2012-2013 school year. Approval of the waiver through the 2013-2014 school year is contingent on the enactment and implementation of legislation authorizing the more rigorous rating system. In order for the waiver to be extended, Ohio must submit and USDOE must approve an amended waiver request incorporating the final version of the letter grade rating system and associated documentation. At the end of the 2013-2014 school year, Ohio may submit a request to USDOE for the waiver to be extended beyond that time. As of June 1, 2012, Ohio is one of 19 states that have received an NCLB waiver.

TRACKING THE ECONOMY

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

Overview

Policymakers interpreted recent economic data, and disseminated their views in public forums throughout the month of June. Federal Reserve Chairman Ben Bernanke provided his outlook on the economy to Congress earlier in the month. In doing so, he remarked that "concerns about developments in Europe, U.S. fiscal policy, and the strength and sustainability of the recovery have left some firms hesitant to expand capacity." With regard to fiscal policy, Bernanke further stated that "a severe tightening of fiscal policy at the beginning of next year that is built into current law – the so-called fiscal cliff – would, if allowed to occur, pose a significant threat to the recovery." Other Federal Reserve officials, such as Bank of New York President William Dudley said the economic recovery has been "disappointing," and cited consumer deleveraging, a lack of credit availability, fiscal tightening, and the sovereign debt crisis in Europe as headwinds to the economy.

Federal Reserve officials downgraded their economic forecasts while noting "significant downside risks" to the economy.

As expected, the Federal Reserve kept its short-term interest target for federal funds unchanged at 0% to 0.25% at the June meeting of its policy-setting Federal Open Market Committee. The Committee issued a policy statement that differed from previous iterations when it stated it is "prepared to take further action as appropriate to promote a stronger economic recovery and sustained improvement in labor market conditions in a context of price stability," which was coupled with the press conference announcement that policy makers are focusing "primarily" on the outlook for jobs in deciding whether to take additional action. The Committee also voted to continue "Operation Twist," which is a maturity-extension program for the Federal Reserve's securities portfolio, through the end of 2012. Committee members' projections for the economy, published after the meeting, show downgraded forecasts for real GDP growth (1.9%-2.4% for 2012) and the unemployment rate (8.0%-8.2% at year end) while noting "significant downside risks" to the economy.

The sovereign debt crisis in Europe, which is often cited as a risk to U.S. economic growth, had multiple developments this past June. Greece elected new leaders in an election that was viewed by commentators as a referendum on the terms of the country's bailout agreement with the rest of Europe, and perhaps even membership in the euro-zone. Separately, Spain asked Europe for a loan to recapitalize the

Spanish banking industry, becoming the fourth euro-zone country to request an European Union (EU) bailout after Greece, Portugal and Ireland *(Cyprus became the fifth such country later in June)*. Spain encountered adversity in recent weeks when its government issued ten-year debt, paying a yield that exceeded 7.0%, a symbolic threshold for financial markets.

In general, the EU is the largest individual importer of U.S. goods and services; according to a research paper issued by the St. Louis Federal Reserve about 26% of total U.S. exports in 2011 were to the EU. Exports to the EU represented 3.5% of U.S. GDP and 0.4% of U.S. GDP growth in 2011. The author of the paper, Silvio Contessi, concluded in May 2012 that "none of the euro area countries that are currently [*as of May*] burdened with sovereign debt crises are major importers of U.S. goods and services. Thus, a potential slowdown in U.S. exports to these countries would have little impact overall. . . . The indirect trade effects, however, may still be substantial since the EU is a large export destination for goods and services for other U.S. trade partners – for example, the EU is the largest trading partner for China."

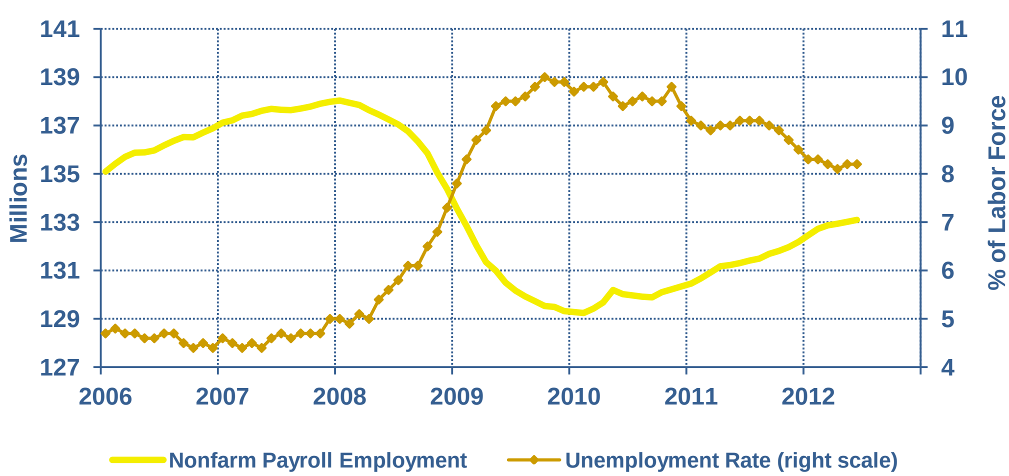
Total nonfarm payrolls rose by 80,000, or slightly less than 0.1%, in June.

The National Economy

Employment and Unemployment

Total nonfarm payrolls rose by 80,000, or slightly less than 0.1%, in June. Unemployment remained unchanged at 8.2% of the labor force, which means the rate has fluctuated within a narrow range from 8.1% to 8.3% through the first six months of 2012. The average workweek for all employees on private nonfarm payrolls edged up by 0.1 hour to 34.5 hours in June, and the civilian labor force participation rate remained at 63.8%. Trends in U.S. total nonfarm payroll employment and in the unemployment rate are shown in Chart 5.

Chart 5: U.S. Employment and Unemployment



June concluded a quarter where private nonfarm payroll employment growth was slower than any of the previous six quarters. Slower job growth in the second quarter occurred in most major industries. According to the U.S. Bureau of Labor Statistics (BLS), employment in manufacturing continued to edge up in June. Growth in the second quarter averaged 10,000 per month, compared with an average of 41,000 per month during the first quarter. In June, employment increased in motor vehicles and parts and in fabricated metal products. Professional and business services added 47,000 jobs in June, with temporary help services accounting for 25,000 of the increase. Overall, that industry has seen employment grow by 1.5 million since its most recent low point in September 2009. Employment in three other major industries – trade, construction, and education and health services – showed little or no change from May to June.

The June employment report aligns with labor market information previously released by BLS. In a separate report, data showed that job openings in the U.S. decreased in April by 325,000 when the number of open positions dropped to 3.42 million from 3.74 million, which was the biggest monthly decline since the September 2008 drop of 438,000. Professional and business services led the drop in job openings for the month of April, followed by manufacturers, retailers, and government agencies. Hiring slowed from the prior month while layoffs and discharges climbed.

Consumer spending, especially the purchase of durable goods, contributed the most to the positive growth in first quarter GDP.

Production, Shipments, and Inventories

Inflation-adjusted gross domestic product (real GDP) rose in the 2012 first quarter at a 1.9% annual rate, in the U.S. Bureau of Economic Analysis' latest estimate, which reaffirmed the previous estimate for the quarter. In the year's first quarter, consumer spending, especially the purchase of durable goods, contributed the most to the positive growth in GDP. Business fixed investment also contributed positive growth for the first three months of 2012. Net exports contributed positive GDP gains, albeit modestly, for the third time in the past four quarters, whereas government purchases of goods and services fell for the sixth consecutive quarter.

The Federal Reserve's national industrial production index declined 0.1% in May, which marked the second decline in three months. Prior to March, the index grew in 29 of 32 months following the June 2009 recession trough. The index remains 4.7% above its level one year ago. Mining output and utility output had the strongest May, growing 0.9% and 0.8%, respectively. Durable manufacturing output declined 0.5% for the month but remains 9.0% ahead of May 2011 levels.

Nondurable manufacturing output declined 0.2% in May and maintains an output level 1.4% above its 12-month benchmark.

Orders placed for manufactured goods rose in May for the first time in three months according to the U.S. Census Bureau's Manufacturers' Shipments, Inventories, and Orders survey. The 0.7% increase in bookings followed a revised 0.7% drop in April. New orders for durable goods climbed 1.3% for the month, also the first gain in three months.

Manufacturing activity shrank for the first time in three years in June according to the monthly report from the Institute for Supply Management (ISM). The national index of factories fell to 49.7 for the month from 53.5 in May. An index reading below 50 indicates contraction in the manufacturing sector, which had not occurred since July 2009. Of particular concern, the index for new orders declined by 12.3 percentage points, from 60.1 in May to 47.8 in June.

Economic activity in the nonmanufacturing sector grew in June for the 30th consecutive month according to a separate ISM report. The nonmanufacturing index registered 52.1 in June, 1.6 percentage points lower than the 53.7% registered in May. This indicates continued growth this month at a slower rate in the nonmanufacturing sector.

Consumer Spending

Personal income rose 0.2% in May, and wage and salary disbursements kept pace with inflation for the month, although manufacturing payrolls decreased in May. Personal income, net of adjustments for inflation and taxes, rose 0.3% from April to May and was 1.1% higher than in May 2011. Inflation-adjusted consumer spending advanced 0.1% in May; expenditures for durable goods declined for the third straight month, but growth in spending for services and nondurable goods remained positive.

Retail sales fell for a second month, with the May total, excluding autos, slumping by the most (-0.4%) in two years. Retail sales remain 4.3% ahead of May 2011 levels.

U.S. light vehicle sales rebounded in June from May's 2012 low point by increasing to a 14.0 million unit seasonally adjusted annualized rate. Automakers sold nearly 1.3 million cars and trucks in June, up 22.1% from the same month last year. Sales for the first six months of the year put the industry on pace for its best year since 2008. Sales are aided by low interest rates for new car purchases. According to Bankrate.com data, 48-month and 60-month interest rates for new car loans have remained near five year lows for the past 12 months.

Personal income rose 0.2% in May, and wage and salary disbursements kept pace with inflation for the month, although manufacturing payrolls decreased in May.

Construction and Real Estate

Housing starts were down 4.8% from April, but remain 28.5% above the rate in May 2011. A decline in construction of apartments, which is often volatile, led to a drop in total housing starts. However, starts for single-family houses were up for a third consecutive month. Midwest housing starts were down 13.3% from April, reflecting declines in both single-family and apartment housing starts, but remain 11.0% ahead of the May 2011 rate.

New home sales increased to a 369,000 seasonally adjusted annual rate in May, which is 7.6% higher than April's rate. Sales of existing homes declined 1.5% to a seasonally adjusted annual rate of 4.55 million in May, but existing sales are 9.6% above the annual rate in May 2011. Existing-home sales in the Midwest rose 1.0% in May to a pace of 1.04 million and are 19.5% above last year's pace. The median price in the Midwest was $147,700, up 6.4% from May 2011. Lower interest rates are partially responsible; the average rate on a 30-year fixed mortgage dropped to 3.66% in June, the lowest since Freddie Mac recordkeeping began in 1971.

The consumer price index (CPI) for all items declined 0.3% from April to May, which represented the biggest drop since December 2008.

Inflation

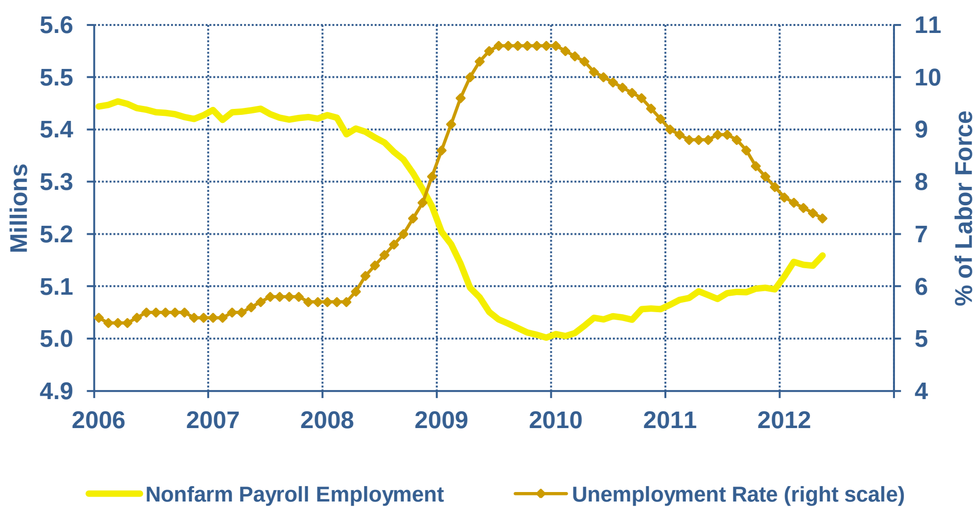
The consumer price index (CPI) for all items declined 0.3% from April to May, which represented the biggest drop since December 2008, after no change the prior month. The CPI for all items other than energy and food, increased 0.2% for a third consecutive month. Data showed energy costs decreased 4.3% from a month earlier, the largest decline since December 2008. Gasoline prices retreated 6.8%, and the costs of natural gas and fuel oil also fell. Compared with May 2011, energy costs fell 3.9%, the first year-over-year decrease since October 2009. Food costs were unchanged in May as increases in prices of fruits and vegetables were offset by cheaper beverages, dairy products, and meats.

The producer price index (PPI) for finished goods fell 1.0% in May after declining 0.2% in April. Prices for finished energy goods fell for the third consecutive month, and for the seventh time in the previous eight months. The 4.3% decline in the energy index in May was the largest such decline since March 2009. An 8.9% drop in the gasoline index accounted for over 80% of the May energy index decline. Compared with a year earlier, the PPI for all finished goods was 0.7% higher, the lowest such growth rate since 2009. At earlier stages of processing, the PPI for intermediate goods fell 0.8% in May, to an index level 0.6% below that in May 2011, which is the first year-over-year decline since 2009. The PPI for crude goods fell 3.2% in May, which widened April's year-over-year decline to 7.7% in May. Slower global growth that restrains demand for raw materials may allow producers to preserve profit margins through lower producer costs, which could benefit consumers facing weaker income gains.

The Ohio Economy

Employment on Ohio nonfarm payrolls rose by 19,600 (0.4%) from April to May, which was the second-highest number of monthly job gains among the 50 states. The statewide unemployment rate was lowered to 7.3% in May from 7.4% in April, 0.9 percentage point lower than the rate nationwide. Trends in Ohio employment and unemployment are shown in Chart 6.

Chart 6: Ohio Employment and Unemployment



Total nonfarm payroll employment statewide rose 75,700 (1.5%) from May 2011 to May 2012. Increases in employment during the latest year were reported in goods producing industries including durable and nondurable goods manufacturing, construction, and mining and logging, as well as in various service industries including healthcare and social assistance; trade, transportation, and utilities; professional and business services; information; and others.

The number of Ohioans statewide counted as unemployed in May, 426,000, was lower than a year earlier by 86,000 mainly reflecting increased employment but also due to a slightly lower rate of labor force participation. The number of Ohioans who were either employed or actively seeking work increased by about 1,000 during the past 12 months, while Ohio's population age 16 and over is estimated to have risen by about 43,000 during this period.

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Unit sales of homes in the state, as reported by the Ohio Association of Realtors, were 19% higher in May than a year earlier, and 13.3% higher during January through May than in the year-earlier period. Homes in the five-month period sold at an average price of about $125,826, 3.6% higher than a year earlier.

The U.S. Bureau of Economic Analysis recently released its preliminary estimates of 2012 first quarter personal income by state. Ohio remained the eighth largest state with personal income estimated at about $447 billion, 3.4% of the national total. Overall, U.S. state personal income growth accelerated to 0.8% in the first quarter of 2012, from 0.4% in the fourth quarter of 2011. Over that same time period, Ohio's growth exceeded that pace by growing 0.9% in the most recent quarter, which trended close to the state's 1.0% growth rate for the last quarter of 2011. Earnings for the health care and social assistance and the durable goods manufacturing industries were the two best performers, whereas the real estate and rental and leasing industry was the largest negative contribution to Ohio earnings.