Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

MARCH 2012

STATUS OF THE GRF

HIGHLIGHTS

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

The economy continues to advance. Though still below its 2008 peak, consumer credit is expanding and boosting spending on autos and other goods. Growth in nonfarm payroll employment appears to have picked up both nationwide and in Ohio, thus providing income support to households. Ohio's payrolls rose by 32,800 in January, and the unemployment rate, which has trended downward for several months, fell to 7.7% in January, the lowest level since 2008.

Through February, FY 2012 total GRF sources and expenditures were both below their anticipated levels. Year-to-date tax receipts were $187.2 million above estimate. GRF transfers in were also above projections, while the timing-related shortfall in nontax revenues experienced in January remained. Year-to-date Medicaid-related expenditures were below estimate.

Through February 2012, GRF sources totaled $17.68 billion:

- Revenue from the personal income tax was $73.0 million above estimate;
- Sales and use tax receipts were $121.5 million above estimate.

Through February 2012, GRF uses totaled $18.77 billion:

- Program expenditures were $396.2 million below estimate, due primarily to Public Assistance and Medicaid ($322.5 million) and Justice and Public Protection ($71.2 million).

VOLUME 35, NUMBER 7

Table 1: General Revenue Fund Sources
Preliminary Actual vs. Estimate
Month of February 2012
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on March 7, 2012)

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$72,496	$62,900	$9,596	15.3%
Nonauto Sales and Use	$504,874	$482,300	$22,574	4.7%
Total Sales and Use Taxes	$577,370	$545,200	$32,170	5.9%
Personal Income	$263,771	$219,096	$44,674	20.4%
Corporate Franchise	-$11,117	$14,000	-$25,117	-179.4%
Public Utility	$24,242	$27,200	-$2,958	-10.9%
Kilowatt Hour Excise	$25,249	$29,500	-$4,251	-14.4%
Natural Gas Consumption (MCF)	$13,156	$15,000	-$1,845	-12.3%
Commercial Activity Tax	$88,859	$83,900	$4,959	5.9%
Foreign Insurance	$51,647	$60,500	-$8,853	-14.6%
Domestic Insurance	$123	$0	$122	---
Business and Property	$10	$0	$10	---
Cigarette	$59,622	$58,500	$1,122	1.9%
Alcoholic Beverage	$3,978	$4,200	-$222	-5.3%
Liquor Gallonage	$2,806	$2,600	$206	7.9%
Estate	$0	$0	$0	---
Total Tax Revenue	**$1,099,715**	**$1,059,696**	**$40,019**	**3.8%**
NONTAX REVENUE				
Earnings on Investments	$300	$0	$300	---
Licenses and Fees	$8,040	$6,636	$1,404	21.2%
Other Revenue	$3,753	$4,356	-$603	-13.8%
Total Nontax Revenue	**$12,093**	**$10,992**	**$1,101**	**10.0%**
TRANSFERS				
Liquor Transfers**	$0	$0	$0	---
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$153,668	$0	$153,668	---
Total Transfers In	**$153,668**	**$0**	**$153,668**	**---**
TOTAL STATE SOURCES	**$1,265,475**	**$1,070,688**	**$194,787**	**18.2%**
Federal Grants	$679,531	$630,439	$49,092	7.8%
TOTAL GRF SOURCES	**$1,945,006**	**$1,701,128**	**$243,879**	**14.3%**

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

**Liquor Transfers based on a report run in OAKS as of March 1, 2012.

Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Preliminary Actual vs. Estimate
FY 2012 as of February 29, 2012
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on March 7, 2012)

	Actual	Estimate*	Variance	Percent	FY 2011	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$668,248	$612,800	$55,448	9.0%	$608,904	9.7%
Nonauto Sales and Use	$4,701,982	$4,635,900	$66,082	1.4%	$4,451,412	5.6%
Total Sales and Use Taxes	$5,370,230	$5,248,700	$121,530	2.3%	$5,060,316	6.1%
Personal Income	$5,154,143	$5,081,133	$73,010	1.4%	$4,831,916	6.7%
Corporate Franchise	$57,235	$73,701	-$16,466	-22.3%	$70,390	-18.7%
Public Utility	$77,600	$87,999	-$10,400	-11.8%	$81,616	-4.9%
Kilowatt Hour Excise	$207,559	$221,000	-$13,441	-6.1%	$108,284	91.7%
Natural Gas Consumption (MCF)	$31,328	$31,600	-$272	-0.9%	$0	---
Commercial Activity Tax	$298,002	$277,400	$20,602	7.4%	$0	---
Foreign Insurance	$186,129	$190,699	-$4,571	-2.4%	$193,762	-3.9%
Domestic Insurance	$123	-$1,100	$1,223	111.2%	-$1,022	112.0%
Business and Property	-$1,773	-$1,500	-$274	-18.3%	-$993	-78.7%
Cigarette	$504,379	$497,500	$6,879	1.4%	$516,480	-2.3%
Alcoholic Beverage	$37,817	$37,900	-$83	-0.2%	$37,122	1.9%
Liquor Gallonage	$26,438	$24,900	$1,538	6.2%	$25,349	4.3%
Estate	$36,084	$28,200	$7,883	28.0%	$27,436	31.5%
Total Tax Revenue	**$11,985,293**	**$11,798,133**	**$187,160**	**1.6%**	**$10,950,656**	**9.4%**
NONTAX REVENUE						
Earnings on Investments	$2,740	$2,900	-$160	-5.5%	$4,683	-41.5%
Licenses and Fees	$33,609	$32,405	$1,203	3.7%	$31,290	7.4%
Other Revenue	$23,122	$577,699	-$554,577	-96.0%	$154,369	-85.0%
Total Nontax Revenue	**$59,470**	**$613,004**	**-$553,534**	**-90.3%**	**$190,341**	**-68.8%**
TRANSFERS						
Liquor Transfers**	$72,632	$69,500	$3,132	4.5%	$98,977	-26.6%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$383,229	$10,598	$372,631	3516.1%	$405,248	-5.4%
Total Transfers In	**$455,861**	**$80,098**	**$375,763**	**469.1%**	**$504,225**	**-9.6%**
TOTAL STATE SOURCES	**$12,500,624**	**$12,491,235**	**$9,390**	**0.1%**	**$11,645,222**	**7.3%**
Federal Grants	$5,180,389	$5,303,528	-$123,140	-2.3%	$5,720,854	-9.4%
TOTAL GRF SOURCES	**$17,681,013**	**$17,794,763**	**-$113,751**	**-0.6%**	**$17,366,077**	**1.8%**

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

**Liquor Transfers based on a report run in OAKS as of March 1, 2012.

Detail may not sum to total due to rounding.

February GRF sources were $243.9 million above estimates.

Through February, FY 2012 tax receipts were $187.2 million above estimates.

REVENUES

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

Overview

Through February, FY 2012 total GRF sources of $17.68 billion were $113.8 million below the estimates released by the Office of Budget and Management (OBM) in September 2011. Tables 1 and 2 show GRF sources for the month of February and for FY 2012 through February, 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.

February total GRF sources of $1.95 billion were $243.9 million (14.3%) above the estimate, due in large part to a positive variance of $153.7 million in transfers in. For the month, GRF tax receipts and federal grants were also above estimates by, respectively, $40.0 million and $49.1 million. The large transfer mentioned above was a reversal of unintended cash transfers from the GRF to the Permissive Tax Distribution Fund (Fund 7063) and the Local Sales Tax Administrative Fund (Fund 4350). The two funds are used to distribute revenue from permissive county and transit authority sales and use taxes to the county or transit authority of origin. The cash transfer to the GRF in February increased the year-to-date positive variance in the "other transfers in" category to $372.6 million, up from $219.0 million at the end of January.[1]

Through February, FY 2012 GRF tax revenues totaled $11.99 billion, $187.2 million above estimates. Receipts from the sales and use tax, the personal income tax, and the commercial activity tax, were $121.5 million, $73.0 million, and $20.6 million, respectively, above their year-to-date estimates. The corporate franchise tax fell short of estimates by $16.5 million. The anticipated payment of $500 million related to the transfer of the state liquor franchise has yet to occur this year, thus the large negative variance in nontax revenues experienced in January continued in this month's year-to-date figures (see the February issue of *Budget Footnotes* for more details).

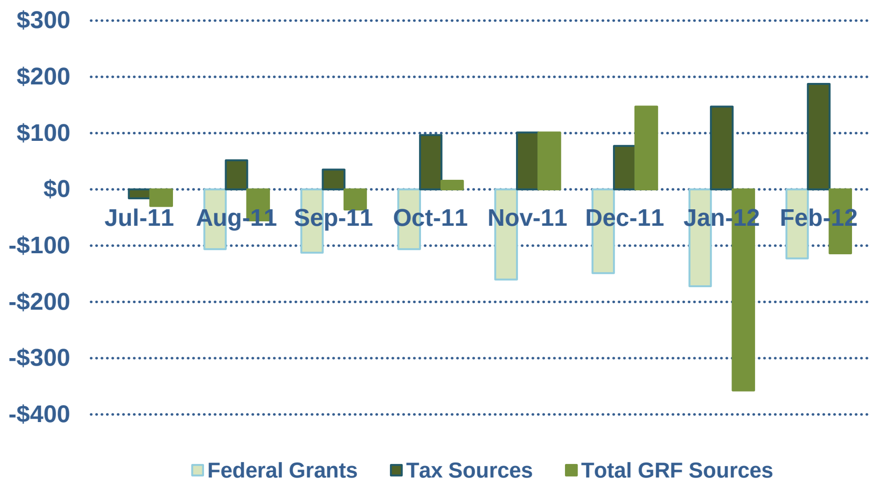
Year to date, FY 2012 state-source receipts of $12.50 billion were $9.4 million above estimate, with this month's unanticipated transfers in

[1]As reported in previous editions of *Budget Footnotes*, this category had also received unanticipated reimbursements of cash advanced in November 2011 to Fund 7047 and Fund 7081 to resolve a temporary cash flow issue related to tangible personal property tax loss payments to schools and local governments.

helping to reverse a state-source deficit of $185.4 million at the end of January 2012. Federal grants were $5.18 billion, $123.1 million below estimates. As in previous months, this negative variance was due largely to lower than expected expenditures in the Medicaid Program. Chart 1 below shows the cumulative variances against estimate for federal grants, tax sources, and total GRF sources.

Through February, FY 2012 tax receipts were $1.03 billion greater than such receipts in FY 2011.

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



FY 2012 year-to-date GRF sources increased $314.9 million compared to receipts in the corresponding period in FY 2011. An increase of $855.4 million in state-source receipts was partially offset by a decrease of $540.5 million in federal grants.[2] The increase in state-source receipts was largely due to a $1.03 billion gain in GRF tax receipts, with $632.1 million of that increase from improved personal income and sales and use taxes. The large year-over-year increase in tax receipts was due to the ongoing economic recovery and to changes in H.B. 153 to the allocation of tax receipts.

Through February, FY 2012 GRF income tax receipts were $73.0 million above estimates.

Personal Income Tax

February GRF receipts from the personal income tax of $263.8 million were $44.7 million (20.4%) above estimate. This positive variance was mostly due to less than anticipated refunds. Monthly GRF receipts were $21.2 million (7.5%) below receipts in February 2011.

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

Through February, FY 2012 withholding receipts were $58.5 million below estimates.

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.

In February, refunds and monthly employer withholding were below estimate by, respectively, $45.4 million (11.4%) and $10.4 million (1.6%); and taxes due with annual returns and quarterly estimated payments were above estimates by, respectively, $5.2 million (29.6%) and $2.4 million (33.6%). For the year through February, the GRF received $5.15 billion from the personal income tax, $73.0 million above estimates. Fewer refunds to taxpayers and better than expected quarterly estimated payments were responsible for that positive variance. However, employer withholding has been below estimates six out of the first eight months of the fiscal year, for a total shortfall of $58.5 million. The table below summarizes FY 2012 income tax revenue variances from estimates and annual changes by component.

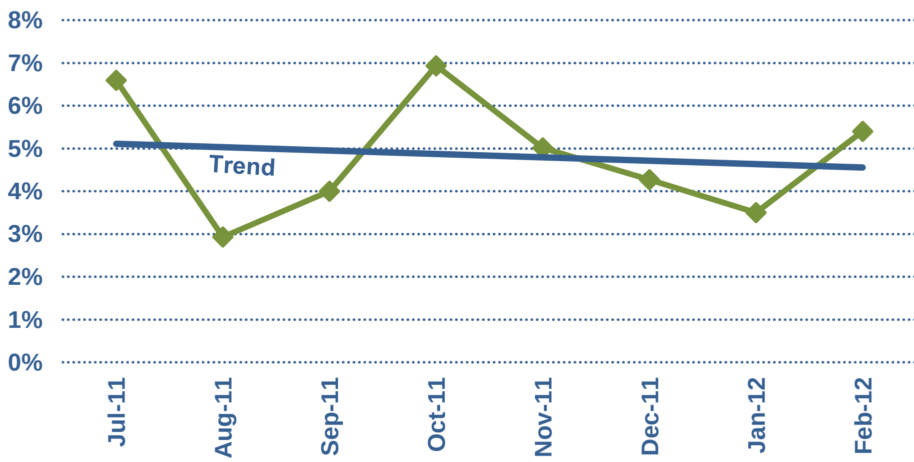
Through February, FY 2012 employer withholding was $242.8 million above similar receipts in FY 2011.

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

Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2011	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	-$58.5	-1.1%	$242.8	5.0%
Quarterly Estimated Payments	$30.2	3.9%	$75.8	10.5%
Trust Payments	$1.9	9.7%	$4.2	23.8%
Annual Return Payments	$17.4	11.6%	$19.8	13.4%
Miscellaneous Payments	$0.9	1.3%	$2.2	3.1%
Gross Collections	-$8.0	-0.1%	$344.7	5.9%
Less Refunds	-$84.2	-11.8%	$83.5	15.3%
Less Local Government Fund Distribution	$3.1	0.8%	-$61.0	-13.4%
Income Tax Revenue	$73.0	1.4%	$322.2	6.7%

[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.

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



Through February, FY 2012 GRF receipts were $322.2 million above receipts during the corresponding period in FY 2011. Revenues from employer withholding were $242.8 million above receipts in this category last year. Chart 2 above shows monthly changes, on a year-ago basis, in withholding receipts in FY 2012. As the economic recovery strengthens, Ohio payrolls continue to expand, though growth has been uneven in the first eight months of the fiscal year and weakened in the last months of 2011. Employment has increased steadily, and the statewide unemployment rate in January 2012 was at its lowest level since 2008. Quarterly estimated payments, the second most important income tax component, increased $75.8 million (10.5%). Payments from annual returns increased $19.8 million (13.4%). Distributions to the Local Government Fund were $61.0 million below amounts in that category through February in FY 2011.

Sales and Use Tax

February GRF receipts from the sales and use tax of $577.4 million were $32.2 million (5.9%) above estimate and $58.3 million (11.2%) above receipts in February 2011. Through February, FY 2012 GRF sales and use tax receipts totaled $5.37 billion, $121.5 million (2.3%) above estimate and $309.9 million (6.1%) above receipts in the corresponding period last year.

Through February, FY 2012 GRF sales and use tax receipts were $121.5 million above estimates.

Through February, GRF receipts from the nonauto sales and use tax were $66.1 million above estimates.

For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[4] generally arise from the sale of motor vehicles while nonauto sales and use tax collections arise from other sales. However, auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax, instead of the auto tax. The sales and use tax has performed well this fiscal year, though persistently high gasoline prices may constitute a risk in the remaining months of the fiscal year. Additional spending on gasoline (nontaxable under sales tax law), reduces amounts available for taxable purchases. Also, sustained high gasoline prices eventually lead to more purchases of fuel-efficient autos, which have a lower average price than trucks, and thus potentially limiting growth of the auto tax base.

Nonauto Sales and Use Tax

Monthly receipts from the nonauto sales and use tax were $504.9 million, $22.6 million (4.7%) above estimate, and $44.7 million (9.7%) above February 2011 receipts. Through February, FY 2012 GRF nonauto sales and use tax receipts were $4.70 billion. Those receipts were $66.1 million (1.4%) above estimate, and $250.6 million (5.6%) above receipts in the corresponding period in FY 2011. Year-to-date receipts include $230.2 million in tax payments by Medicaid health insuring corporations, up $44.9 million (24.2%) in this category through February in FY 2011.

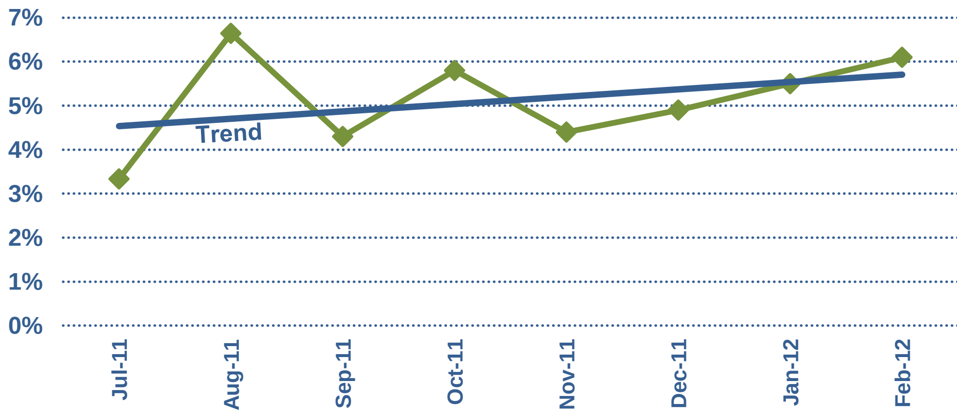
Consumer fundamentals, including consumer confidence, better access to credit, and an improving labor market, have steadily firmed in recent months and helped increase spending on cars and other goods. For example, a preliminary nationwide report covering February sales at 18 large retailers that report their results monthly, compiled by Thomson Reuters, showed a sizable 6.4% increase from a year earlier.[5] Chart 3 below shows the trend in FY 2012 nonauto sales tax monthly receipts against prior-year receipts in the same month.

---

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

[5] This statistic includes only store locations open in both the current and year-earlier months.

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

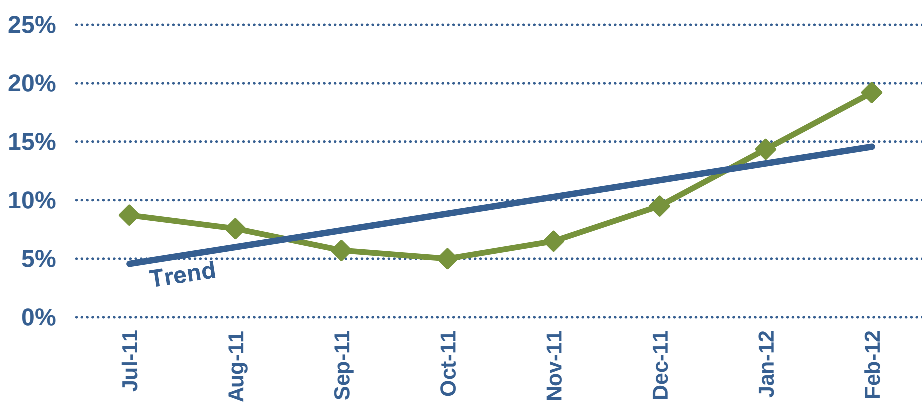


Auto Sales and Use Tax

More borrowing by consumers is powering auto sales which are exceeding forecasts so far in 2012. In February, GRF receipts of $72.5 million were $9.6 million (15.3%) above estimate and $13.6 million (23.2%) above February 2011 receipts. For the fiscal year, auto sales and use tax receipts to the GRF totaled $668.2 million, $55.4 million (9.0%) above estimate and $59.3 million (9.7%) above receipts through February in FY 2011. Chart 4, which compares FY 2012 monthly auto sales and use tax receipts with year-ago receipts in the same period, shows an upward trajectory since October 2011.

Through February, FY 2012 auto sales and use tax receipts were $55.4 million above estimates.

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



Nationwide, light vehicle sales surged to a seasonally adjusted annualized rate of 15.0 million units in February, the highest pace since early 2008. This represents a 15.8% year-over-year gain, following the 11.4% year-over-year gain in January.

Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax of $59.6 million in February 2012 were $1.1 million (1.9%) above estimate and $1.6 million (2.8%) above receipts in the corresponding period in FY 2011.

Through February, FY 2012 receipts of $504.4 million were $6.9 million (1.4%) above estimates. Receipts from cigarette sales were $468.2 million, and sales of products other than cigarettes provided $36.2 million. Compared to FY 2011, total receipts were $12.1 million (2.3%) below receipts in the corresponding period. Receipts from the sale of cigarettes decreased $13.7 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.

Through February, FY 2012 GRF CAT receipts were $20.6 million above estimates.

Commercial Activity Tax

February GRF receipts from the commercial activity tax (CAT) of $88.9 million were $5.0 million (5.9%) above estimate. CAT receipts to the GRF in FY 2012 totaled $298.0 million, $20.6 million (7.4%) above estimate. Overall, FY 2012 total (all funds) CAT receipts of $1.20 billion were $122.2 million (11.3%) above receipts through February in FY 2011.

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

Table 3: General Revenue Fund Uses
Preliminary Actual vs. Estimate
Month of February 2012
($ in thousands)
(Actual based on OAKS reports run March 6, 2012)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary, Secondary, and Other Education	$297,680	$280,507	$17,173	6.1%
Higher Education	$186,778	$189,225	-$2,448	-1.3%
Total Education	$484,458	$469,733	$14,725	3.1%
Public Assistance and Medicaid	$1,129,752	$1,080,504	$49,248	4.6%
Health and Human Services	$46,960	$65,140	-$18,179	-27.9%
Total Welfare and Human Services	$1,176,713	$1,145,644	$31,069	2.7%
Justice and Public Protection	$118,435	$129,323	-$10,887	-8.4%
Environment and Natural Resources	$3,369	$3,095	$273	8.8%
Transportation	$710	$1,158	-$448	-38.7%
General Government	$15,058	$14,796	$262	1.8%
Community and Economic Development	$4,648	$5,398	-$749	-13.9%
Capital	$0	$0	$0	---
Total Government Operations	$142,221	$153,770	-$11,549	-7.5%
Tax Relief and Other	-$5	$218	-$223	-102.5%
Debt Service	$34,293	$34,306	-$13	0.0%
Total Other Expenditures	$34,287	$34,524	-$236	-0.7%
Total Program Expenditures	**$1,837,678**	**$1,803,670**	**$34,008**	**1.9%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$160,363	$2,097	$158,266	7546.2%
Total Transfers Out	$160,363	$2,097	$158,266	7546.2%
TOTAL GRF USES	**$1,998,042**	**$1,805,767**	**$192,274**	**10.6%**

* 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
Preliminary Actual vs. Estimate
FY 2012 as of February 29, 2012
($ in thousands)
(Actual based on OAKS reports run March 6, 2012)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2011**	**Percent Change**
Primary, Secondary, and Other Education	$4,392,729	$4,366,299	$26,430	0.6%	$4,806,848	-8.6%
Higher Education	$1,440,698	$1,455,718	-$15,020	-1.0%	$1,655,163	-13.0%
Total Education	$5,833,428	$5,822,017	$11,411	0.2%	$6,462,011	-9.7%
Public Assistance and Medicaid	$8,810,930	$9,133,456	-$322,526	-3.5%	$8,019,050	9.9%
Health and Human Services	$709,023	$708,610	$414	0.1%	$772,336	-8.2%
Total Welfare and Human Services	$9,519,953	$9,842,066	-$322,113	-3.3%	$8,791,386	8.3%
Justice and Public Protection	$1,242,708	$1,313,874	-$71,166	-5.4%	$1,315,220	-5.5%
Environment and Natural Resources	$51,142	$50,753	$389	0.8%	$51,965	-1.6%
Transportation	$6,628	$8,435	-$1,808	-21.4%	$10,729	-38.2%
General Government	$192,404	$208,462	-$16,057	-7.7%	$186,904	2.9%
Community and Economic Development	$63,756	$69,098	-$5,342	-7.7%	$65,440	-2.6%
Capital	$120	$0	$120	---	$24	402.1%
Total Government Operations	$1,556,758	$1,650,622	-$93,863	-5.7%	$1,630,283	-4.5%
Tax Relief and Other	$870,045	$847,456	$22,589	2.7%	$846,685	2.8%
Debt Service	$264,230	$278,487	-$14,258	-5.1%	$355,720	-25.7%
Total Other Expenditures	$1,134,275	$1,125,944	$8,331	0.7%	$1,202,405	-5.7%
Total Program Expenditures	**$18,044,414**	**$18,440,648**	**-$396,234**	**-2.1%**	**$18,086,085**	**-0.2%**
TRANSFERS						
Budget Stabilization	$246,899	$246,899	$0	0.0%	$0	---
Other Transfers Out	$481,171	$107,526	$373,645	347.5%	$995,333	-51.7%
Total Transfers Out	$728,070	$354,425	$373,645	105.4%	$995,333	-26.9%
TOTAL GRF USES	**$18,772,484**	**$18,795,073**	**-$22,589**	**-0.1%**	**$19,081,418**	**-1.6%**

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

Table 5: FY 2012 Medicaid Expenditures
($ in thousands)
(Actuals based on OAKS report run on March 6, 2012)

Medicaid (600525) Payments by Service Category	February Actual	February Estimate	February Variance	February Percent Variance	Year to Date Actual thru Feb	Year to Date Estimate thru Feb	Year to Date Variance	Year to Date Percent Variance
Managed Care Plans	$571,243	$591,736	-$20,493	-3.5%	$4,168,972	$4,269,425	-$100,453	-2.4%
Nursing Facilities	$203,594	$210,015	-$6,421	-3.1%	$1,642,841	$1,679,259	-$36,418	-2.2%
Hospitals	$115,893	$113,235	$2,658	2.3%	$843,950	$971,148	-$127,198	-13.1%
Prescription Drugs	$39,705	$40,984	-$1,279	-3.1%	$727,647	$755,251	-$27,604	-3.7%
Aging Waivers	$49,415	$51,675	-$2,260	-4.4%	$415,039	$409,298	$5,741	1.4%
ICFs/MR	$46,729	$47,685	-$956	-2.0%	$372,884	$376,150	-$3,266	-0.9%
ODJFS Waivers	$24,041	$26,181	-$2,140	-8.2%	$211,556	$234,028	-$22,472	-9.6%
Physicians	$25,491	$29,372	-$3,881	-13.2%	$187,208	$233,252	-$46,044	-19.7%
All Other	$130,178	$136,340	-$6,162	-4.5%	$1,072,804	$1,115,478	-$42,674	-3.8%
Total Payments	$1,206,289	$1,247,223	-$40,934	-3.3%	$9,642,901	$10,043,289	-$400,388	-4.0%
Total Offsets (non-GRF)	-$170,168	-$254,253	$84,085	-33.1%	-$1,530,417	-$1,651,563	$121,146	-7.3%
Total 600525 (net of offsets)	$1,036,121	$992,970	$43,151	4.3%	$8,112,484	$8,391,726	-$279,242	-3.3%
Medicare Part D (600526)	$28,356	$23,568	$4,788	20.3%	$166,268	$182,810	-$16,542	-9.0%
Total GRF	**$1,064,477**	**$1,016,538**	**$47,939**	**4.7%**	**$8,278,752**	**$8,574,536**	**-$295,784**	**-3.4%**
Total All Funds	**$1,234,645**	**$1,270,791**	**-$36,146**	**-2.8%**	**$9,809,169**	**$10,226,099**	**-$416,930**	**-4.1%**

Estimates from the Ohio Department of Job and Family Services

ICFs/MR - Intermediate Care Facilities for the Mentally Retarded

EXPENDITURES

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

Year-to-date GRF program expenditures were $396.2 million below estimate.

Overview

For the first eight months of FY 2012, GRF uses totaled $18.77 billion. These uses were $22.6 million below the estimate released by the Office of Budget and Management (OBM) in September 2011. GRF uses consist mainly of program expenditures but also include transfers out. Tables 3 and 4 show GRF uses for the month of February and for FY 2012 through February, respectively. Through February, GRF program expenditures totaled $18.04 billion, which were $396.2 million below estimate. During the same period, GRF transfers out totaled $728.1 million, which were $373.6 million above estimate due primarily to unanticipated temporary GRF cash transfers made in February 2012 and November 2011.

In February, $153.7 million cash was inadvertently transferred from the GRF to the Permissive Tax Distribution Fund (Fund 7063) and Local Sales Tax Administrative Fund (Fund 4350). Before the month ended, these transfers were reversed. The same amount of cash was transferred into the GRF from funds 7063 and 4350. These two funds are used by the Department of Taxation to administer county and transit authority permissive sales and use taxes and distribute the revenue to the county or transit authority of origin. The reversed transfers from funds 7063 and 4350 to the GRF were recorded in tables 1 and 2 of the Revenues section of this report. As reported in prior issues of *Budget Footnotes*, unanticipated temporary GRF cash transfers totaling $225.3 million were made in November 2011 to address the cash flow issue related to tangible personal property tax loss reimbursements for schools and local governments. Through February, $180.7 million of that total was transferred back into the GRF.

Public Assistance and Medicaid, which will be discussed in the next section, accounted for $322.5 million of the $396.2 million negative year-to-date variance in GRF program expenditures. Justice and Public Protection contributed another $71.2 million. As reported in prior issues of *Budget Footnotes*, the negative variance in Justice and Public Protection was mainly due to a higher than expected personnel vacancy rate related to the organizational restructuring in the departments of Rehabilitation and Correction (DRC) and Youth Services (DYS). DRC's year-to-date expenditures were $62.0 million (6.1%) below estimate. Expenditures for DRC's two main appropriation items 501321, Institutional Operations, and 505321, Institution Medical Services, were $31.5 million and

$17.3 million, respectively, below their year-to-date estimates. Year-to-date expenditures for the largest appropriation item in the DYS budget, 470401, RECLAIM Ohio, were $3.6 million below estimate.

Public Assistance and Medicaid

Year-to-date GRF expenditures for Public Assistance and Medicaid totaled $8.81 billion, $322.5 million (3.5%) below estimate. Medicaid, including both state and federal shares, accounts for 94% of expenditures in this program category. Medicaid is mainly funded with the GRF but is also supported by various non-GRF funds. Table 5 details Medicaid GRF expenditures by service category and also summarizes Medicaid expenditures across all funds. Through February, FY 2012 Medicaid GRF expenditures totaled $8.28 billion, which was $295.8 million (3.4%) below estimate. Across all funds, year-to-date Medicaid expenditures amounted to $9.81 billion, which was $416.9 million (4.1%) below estimate.

Year-to-date GRF Medicaid expenditures were $295.8 million below estimate, due partially to timing.

As seen from Table 5, GRF expenditures were below their year-to-date estimates for all but one service category. Categories with significant negative year-to-date variances include Hospitals ($127.2 million, 13.1%), Managed Care Plans ($100.5 million, 2.4%), Physicians ($46.0 million, 19.7%), and All Other ($42.7 million, 3.8%). The implementation of the new Medicaid Information Technology System (MITS) in August 2011 appears to be the main reason behind these negative variances. According to the Ohio Department of Job and Family Services (ODJFS), the implementation of MITS is expected to produce some savings in several of the categories. In other words, expenditures for those categories are likely to be somewhat lower than estimates for the fiscal year. Compared with the prior payment system, MITS has built in a more comprehensive mechanism to properly reject payment claims that should be denied.

On the other hand, as with any major new information technology project, there are programming issues in MITS that still need to be resolved. These programming issues have affected timing of certain payments. MITS has deemed many Medicaid eligible individuals ineligible for Medicaid, thus denying payments to various providers who have provided services to those individuals. For example, approximately 12,000 to 16,000 Aged, Blind, and Disabled (ABD) enrollees are not being recognized as eligible by MITS. Once these individuals' eligibility is "restored" in MITS, providers will be paid for their services. ODJFS is currently working on fixing the programming issues. It anticipates being able to provide, in the next few months, a clearer picture of how much of the negative year-to-date variances were actual savings resulting from MITS implementation and how much of those variances were due to timing. The eligibility programming issue has made year-to-date actual caseload data somewhat unreliable, which complicates the caseload and expenditure variance analysis. While some savings is expected, variances are likely to narrow significantly in many service categories in coming months. For example, ODJFS expects expenditures for various waiver programs to be fairly close to estimates once the programming issues are fixed. Through February, expenditures for ODJFS Waivers were $22.5 million (9.6%) below estimate.

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

ISSUE UPDATES

Department of Administrative Services Launches Ohio Public Notice Web Site

—Justin Pinsker, Budget Analyst, 614-466-5709

In mid-February 2012, the Office of Information Technology of the Department of Administrative Services (DAS) launched the Ohio Public Notice web site: www.publicnotice.ohio.gov. This web site allows state agencies and political subdivisions to post, free of charge, required public notices such as invitations to bid and announcements of public meetings. It also enables the public to search and browse public notices for free. The web site is housed on the Ohio Business Gateway, a portal that provides state agencies, political subdivisions, and private entities with access to information about conducting business with the state. As of February 22, 2012, the web site had 13 registered users and seven notices, including three invitations to bid from Allen County, two meeting notices and one auction notice from Butler Township of Darke County, and one meeting notice from the Ohio Rail Development Commission.

H.B. 153 required DAS to develop and implement a statewide public notice web site to reduce the costs incurred by state agencies and political subdivisions for publishing legally required notices in newspapers. Under H.B. 153, a state agency or political subdivision, after publishing the first notice in full in a general circulation newspaper, may publish a second, abbreviated notice in the newspaper if the notice directs the public to the full notice on the state public notice web site. According to DAS, it has incurred about $75,000 in IT and personnel costs to develop and launch the web site. DAS anticipates incurring additional development costs in the next several months to improve how the system works and add interconnectivity to the Ohio Newspaper Association's public notice web site and RSS feed capacity. All costs related to the Ohio Public Notice web site are paid from GRF line item 100418, Web Site and Business Gateway.

Secretary of State Distributes $2.75 Million to County Boards of Elections to Help Cover Redistricting Related Expenses

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

In mid-February 2012, the Ohio Secretary of State distributed $2.75 million in GRF funding to county boards of elections to help defray the costs related to the congressional redistricting plan adopted by the General Assembly. In 2011, the

General Assembly enacted H.B. 319 and H.B. 369 to redraw Ohio's congressional district lines based on the 2010 decennial census. As a result, counties incurred IT and personnel costs for adjusting district maps, revising precinct boundaries, updating voter registration databases, and reprogramming voting machines. H.B. 319 appropriated $2.75 million in GRF funding to help cover these costs. The Ohio Secretary of State based the amounts distributed on the number of registered voters in each county as of the November 8, 2011, general election. As of that date, there were approximately 7.71 million registered voters statewide. The six largest counties in Ohio (Cuyahoga, Franklin, Hamilton, Montgomery, Summit, and Lucas) accounted for approximately $1.14 million (41.5%) of the $2.75 million distributed by the Ohio Secretary of State. Counties will be required to pay any costs that exceed the amounts provided by the state.

State's Debt Service Ratio Determined to be Less Than 4%

—Ruhaiza Ridzwan, Economist, 614-387-0476

On March 1, 2012, the state's debt service ratio was determined to be 3.93%. This ratio is only determined for general and special obligation bonds[6] that are backed by the GRF and net lottery profits and that are subject to the 5% debt service limit that was established in the state constitution by Ohio voters in November 1999. The ratio is calculated by dividing the highest debt service annual payment for those bonds by the total GRF and net lottery profits for FY 2012. In general, under the 5% limit, new obligations may not be issued if debt service for any future fiscal year on the new and then-outstanding bonds would exceed 5% of the estimated total GRF and net lottery profits for the fiscal year of issuance.[7] Whenever the state issues new bonds subject to the 5% debt limit, the Director of Budget and Management is required to issue a certification to indicate the state's compliance with this provision. The latest certification was made on March 1, 2012.

The table below lists the general and special obligation bonds, including their outstanding amounts, that are counted toward the 5% limit, as specified under Section 17 of Article VIII of the Ohio Constitution. As can be seen from the table, as of

[6] Both general and special obligation bonds are considered direct debt of the state. However, general obligation bonds are backed by the full faith and credit of the state. Because of this additional backing, general obligation bonds generally can be issued at lower interest rates than are required by special obligation bonds.

[7] Application of the 5% limit may be waived in a particular instance by a three-fifths vote of each house of the General Assembly. The limit does not apply to bonds issued to retire bond anticipation notes for which the requirements were met when the notes were issued or to bonds issued to defend the state in time of war.

March 1, 2012, Ohio had approximately $8.7 billion of outstanding bonds subject to the 5% debt limit. In addition to the amounts shown in the table, there were $1.1 billion of authorized bonds that had not yet been sold. Note that the 5% limit does not apply to general obligation bonds payable from non-GRF funds, such as highway bonds that are paid from highway user receipts. Also excluded are GRF-backed general obligation bonds issued for Third Frontier research and development, and for the development of sites for industry, commerce, distribution, and research and development.

Bonds Subject to the 5% Limit and Their Outstanding Amounts as of March 1, 2012		
General Obligations		**Amount**
Coal Development Bonds		$27.1 million
Infrastructure Improvement Bonds		$1,748.4 million
Natural Resources Capital Facilities Bonds		$131.9 million
Common Schools Capital Facilities Bonds		$2,830.5 million
Higher Education Capital Facilities Bonds		$1,738.9 million
Conservation Projects Bonds		$215.5 million
	Subtotal	***$6,692.4 million***
Special Obligations		**Amount**
Cultural and Sports Capital Facilities Bonds		$165.7 million
Higher Education Capital Facilities Bonds		$61.5 million
Mental Health Capital Facilities Bonds		$159.7 million
Parks and Recreation Capital Facilities Bonds		$133.8 million
State Facilities Bonds (Departments of Rehabilitation and Correction, Youth Services, and Administrative Services)		$1,528.1 million
	Subtotal	***$2,048.9 million***
	TOTAL	**$8,741.2 million**

Public Defender Contracts for Indigent Criminal Defense Training Seminars

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

On January 1, 2012, the Ohio Public Defender entered into a six-month contract totaling $231,000 with the National Defender Training Project (NDTP), of Saratoga Springs, New York, to provide six criminal defense training seminars to attorneys who represent indigent persons (see table below). The contract is funded with a mix of GRF ($108,000) and non-GRF ($123,000) money appropriated to the Public Defender for FY 2012. State law permits the Public Defender to conduct training programs to educate attorneys and others in the legal representation of indigent persons.

The seminar on cross-examination techniques was held on January 6-8 at the University of Dayton Law School. The other five seminars will be held at the same location in the next several months. In total, these six seminars will train up to 370 participants. NDTP utilizes a skills-based training approach rather than a more traditional classroom lecture style to conduct these seminars. This approach emphasizes mastering one stage of a criminal proceeding at a time in a small group setting. Participants are given the opportunity to perform the skills taught and receive immediate feedback. The seminars are free of charge to participants. They range from one to six days, with most running from two and one-half to three days.

Indigent Criminal Defense Training Seminars, FY 2012		
Seminar Topic	**Cost**	**Maximum Number of Participants**
Cross-examination Techniques	$65,000	50
Train the Trainers	$18,000	15
Voir Dire Techniques for Capital Cases	$30,000	25
Opening and Closing Arguments	$52,000	40
Trial Advocacy	$60,000	40
Evaluation of Jurors in Noncapital Cases	$6,000	200
Total	**$231,000**	**370**

Federal Government Approves Ohio's New Medicaid Program for Individuals with Developmental Disabilities

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

In December 2011, the Ohio Department of Developmental Disabilities (ODODD) received federal approval to implement a new Medicaid program for individuals with developmental disabilities. This program, called the Self-Empowered Life Funding (SELF) waiver, is designed to allow individuals with developmental disabilities to self-direct the services they receive in home or community-based settings. The new program is scheduled to begin July 1, 2012. ODODD expects 500 individuals to enroll during FY 2013. Enrollment is expected to increase to 1,000 in FY 2014 and 2,000 in FY 2015.

ODODD estimates that the program will cost $6.5 million, $25.1 million, and $50.0 million in fiscal years 2013, 2014, and 2015, respectively. The majority of these costs, about 64%, will be paid by the federal government. Most of the nonfederal share of the costs will be paid by Ohio's 88 county boards of developmental disabilities. Boards may use state subsidies and local dollars to fund the nonfederal share. The nonfederal share of the costs for certain individuals with intensive behavioral needs will be paid by the state.

The new program is called a waiver because it "waives" federal Medicaid requirements that individuals with developmental disabilities be served in institutional settings. In order to provide Medicaid home or community-based services to individuals, a state must receive federal approval. Ohio submitted the request for the SELF waiver to the federal government in October 2010.

ODMH Awards $400,000 in Ex-Offender Reentry Grants

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

In December 2011, the Ohio Department of Mental Health (ODMH) awarded 14 grants totaling about $400,000 to local mental health boards (see table below). These grants are intended to increase the capacity to serve offenders with serious and persistent mental illness (SPMI) before they are released from correctional facilities. ODMH estimates that 350 ex-offenders with SPMI will be served with these dollars. Funding for the grants was provided through the federal Mental Health Block Grant (MHBG). The majority of the MHBG is allocated each year to the local mental health boards. However, ODMH retains a portion of the MHBG to fund special projects such as ex-offender reentry grants.

Ex-Offender Reentry Grant Recipients, December 2011			
Board	**Amount**	**Board**	**Amount**
Allen, Auglaize, Hardin	$29,000	Hamilton	$25,000
Ashtabula	$16,000	Lorain	$25,093
Athens, Hocking, Vinton	$25,000	Lucas	$25,000
Butler	$30,000	Mahoning	$29,000
Delaware, Morrow	$25,000	Miami, Darke, Shelby	$18,700
Fairfield	$25,000	Richland	$25,000
Franklin	$80,000	Trumbull	$22,218

Local mental health boards provide a variety of services to ex-offenders with SPMI prior to, and after, their release from correctional facilities. In order to facilitate the offender's transition back into society, whenever possible, boards initiate contact before release. This allows the boards to conduct a mental health assessment and to establish a service plan to ensure access to support services such as counseling, temporary housing, public assistance, and medications. However, sometimes contact is not initiated until after release. The ex-offender reentry grants are intended to help alleviate this issue. According to ODMH, providing services without interruption greatly increases the likelihood of a positive outcome.

OHFA Awards $786,658 in Capital Investment Pilot Program Grants

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

On February 15, 2012, the Ohio Housing Finance Agency (OHFA) awarded $786,658 in Ohio Housing Trust Fund money for minor renovations and maintenance of 12 permanent supportive housing projects funded by the Ohio Department of Mental Health (ODMH). These grant awards (see table below) were approved under a new Capital Investment Pilot Program that was established in partnership with ODMH. The pilot program is an outgrowth of a recommendation by the Ohio Interagency Council on Homelessness and Affordable Housing that federal, state, and local agencies work in partnership to align resources and maximize permanent supportive housing opportunities for individuals with serious and persistent mental illness. Eligible applicants are nonprofit organizations that have (1) an existing permanent supportive housing project, and (2) an existing ODMH contract, mortgage, and note for the property eligible for renovation. OHFA has set aside $1.0 million from the Ohio Housing Trust Fund for the pilot program in FY 2012, and anticipates distributing the remaining funds later this fiscal year. Since the late 1980's, ODMH has been providing capital funds for housing for individuals with serious and persistent mental illness; about 4,800 units of permanent supportive housing have been created.

Capital Investment Pilot Program Grant Recipients, February 2012

Award Recipient	County	Properties Funded	Award Amount
Appleseed Community Mental Housing	Ashland	1	$136,718
Emerald Development and Economic Network, Inc.	Cuyahoga	2	$176,721
New Home Development Company	Williams	1	$65,550
Housing Solutions of Greene County	Greene	3	$151,732
ICAN Housing Solutions of Canton	Stark	3	$182,305
Mercer Residential Services	Van Wert	1	$27,727
Eastway Corporation	Montgomery	1	$45,905
Total		**12**	**$786,658**

Tobacco Settlement Enforcement Funding Supplemented by the GRF in FY 2012

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

On January 30, 2012, the Controlling Board authorized the transfer of $554,690 cash from the Controlling Board Emergency Purposes Fund (Fund 5KMO) to the Tobacco Master Settlement Oversight, Administration and Enforcement Fund (Fund U087). Fund 5KMO, which has an appropriation of $10 million in FY 2012, was supported by a transfer from the FY 2011 GRF ending balance. Fund U087 is used by the office of the Attorney General to pay the costs incurred in the oversight, administration, and enforcement of certain provisions of the Tobacco Master Settlement Agreement (TMSA).

The $554,690 cash transfer was needed due to a shortfall in the payments from the major tobacco companies during CY 2011 to the trustee for Ohio's securitized TMSA funds. This shortfall was largely driven by a drop in cigarette sales and a larger than expected number of disputed payments.[8] As a result, there was an insufficient cash balance in Fund U087 to support mandated tobacco settlement enforcement activities for the remainder of FY 2012. From FY 2009 to FY 2011, the Attorney General expended approximately $1.5 million to $1.9 million per year for those activities. For FY 2012, the Attorney General expended close to $1.5 million through February for various enforcement activities.

In 2007, TMSA payments to the state were securitized. Annual receipts from the tobacco manufacturers are now largely pledged to pay debt service on the tobacco revenue bonds issued by the Buckeye Tobacco Settlement Financing Authority. Until this year, there had been sufficient payments to Ohio to cover debt service and the Attorney General's mandated enforcement activities. The office of the Attorney General is monitoring the payments situation and will be working with the Office of Budget and Management to identify a potentially more reliable funding source for its enforcement expenses.

Public Safety Awards $4.95 Million in Drug Law Enforcement Grants

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

In January 2012, the Department of Public Safety's Office of Criminal Justice Services (OCJS) granted 37 state Drug Law Enforcement Fund awards totaling $4.95 million. These awards were provided to entities in 34 different counties. A complete grant award list can be found at: www.ocjs.ohio.gov under OCJS News. The grants are used by local law enforcement agencies, including county sheriffs or prosecutors and chiefs of police, and local drug task forces to perform functions related to the enforcement of state drug laws and other state laws related to illegal drug activity. Funding for the grants is from the Drug Law Enforcement Fund (Fund 5ET0), which receives $3.40 of the court costs charged for moving violation convictions.

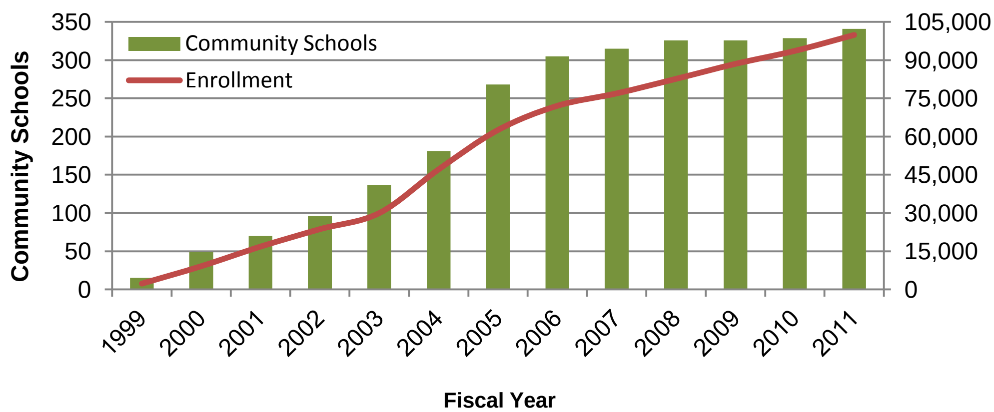
[8] Per the Tobacco Master Settlement Agreement, tobacco companies are permitted to set aside a portion of their annual payments for dispute purposes. These funds are not distributed to the participating states until those disputes are resolved through arbitration.

ODE Releases 2010-2011 Annual Report on Community Schools

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

In December 2011, the Ohio Department of Education (ODE) released its ninth Annual Report on Ohio Community Schools. According to the report, during FY 2011, nearly 99,900 students were enrolled in community schools (a 6.7% increase over FY 2010). Those students attended 341 community schools. About 65.1% (222) of the community schools in Ohio were located in five counties: Franklin (69), Cuyahoga (63), Lucas (35), Montgomery (30), and Hamilton (25). Chart 5 below shows the growth of community schools and student enrollment from FY 1999 to FY 2011.

Chart 5: Community Schools and Enrollment in Ohio FY 1999-FY 2011



The report outlines recently enacted community school policies established by H.B. 153. Generally, the legislation expands opportunities to establish community schools. For example, H.B. 153 broadens the definition of "challenged school districts" (where start-up community schools may be located) by including districts that have scored in the lowest 5% of the state based on performance index score.[9] H.B. 153 also includes policies that hold schools and their sponsors more accountable. The report specifically highlights one provision that requires certain schools to close automatically if they have been declared to be in academic emergency in two of the past three years. For the complete report, please visit ODE's web site: www.ode.state.oh.us and search for "Community Schools Annual Report."

[9] Under continuing law, a "challenged school district" also refers to a district located in Akron, Canton, Cincinnati, Cleveland, Columbus, Dayton, Toledo, or Youngstown; a district in academic emergency or academic watch; or a district located in the original community school pilot project area of Lucas County.

TRACKING THE ECONOMY

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

Overview

The economy continues to advance. U.S. total nonfarm payroll employment rose 227,000 in February and the nationwide average unemployment rate was unchanged at 8.3%. In Ohio, the statewide average unemployment rate declined to 7.7% in January, the lowest this rate has been since 2008. Ohio total nonfarm payroll employment registered a large gain in January and was 1.2% higher than a year earlier. U.S. manufacturing production, in the industrial production index, rose in January, as did the dollar value of factory shipments. Though manufacturers' new orders fell in January, this series is volatile from month to month. Surveys of purchasing managers indicated further growth in activity in February, in manufacturing as well as in other segments of the economy. Consumer spending, adjusted for inflation, was flat in January, December, and November. However, unit sales of light motor vehicles rose in February to the strongest monthly rate since early 2008, and a number of large retailers reported sizable sales gains in February compared with a year earlier. Construction activity was up from its lows but remained weak through January despite very low interest rates. Growth of inflation-adjusted gross domestic product (real GDP) in last year's fourth quarter was revised upward to a 3.0% annual rate. Higher crude oil prices, in part a reflection of rising tensions about Iran's nuclear program, are feeding through into retail gasoline prices, putting upward pressure on inflation.

The fourth quarter real GDP growth was revised upward to a 3% annual rate.

In the Federal Reserve's semi-annual monetary policy report to Congress, Chairman Bernanke reiterated the expectation of the Federal Open Market Committee (FOMC) that economic conditions will warrant exceptionally low rates for federal funds, the FOMC's short-term policy target rate, at least through late 2014. The current target for this rate is zero to 0.25%. The Federal Reserve is continuing to lengthen the average maturity of its U.S. Treasury security holdings, which is expected to put downward pressure on longer-term interest rates thereby supporting economic growth. It is also continuing to invest in mortgage-backed securities, supporting mortgage markets.

Fiscal policy changes in the past month include extension through December of a two percentage point reduction in the Social Security tax rates on employees and the self-employed that had been set to expire at the end of February. Also, two federally funded extended unemployment insurance benefit programs were continued through December. The Congressional Budget Office estimated the cost of these extensions at about $125 billion.

The National Economy

Employment and Unemployment

Total nonfarm payroll employment nationwide rose by 227,000 in February.

Total nonfarm payroll employment nationwide rose by 227,000 (0.2%) in February and was revised upward by 61,000 for the previous month. Employment rose in February in professional and business services, particularly in temporary help services; in health care; in leisure and hospitality, mostly in food services and drinking places; in durable goods manufacturing; and in mining. Government employment was little changed, declining 6,000. Increases in total employment turned higher in recent months after slowing around the middle of last year. Total nonfarm payrolls in February were 3.5 million higher than at the cyclical low point two years earlier, but remained 5.3 million short of the all-time peak in January 2008.

The number of persons counted as unemployed in February was little changed at 12.8 million, 8.3% of the labor force. Of these persons, the number unemployed for more than six months was also little changed at 5.4 million. The employed included 8.1 million working part time for economic reasons, because their hours of work had been reduced or they were unable to find full-time jobs. Persons not in the labor force included 1.0 million without jobs who wanted work but were not currently job hunting because they believed no jobs were available for them.

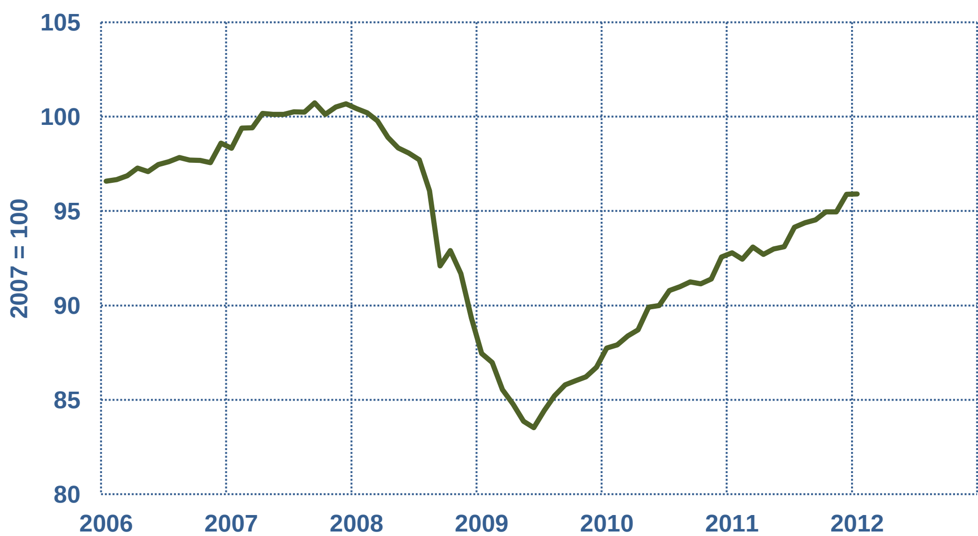
Production, Shipments, and Inventories

Real GDP, the broadest measure of U.S. output, rose in the 2011 fourth quarter at a 3.0% annual rate, revised upward from an initial estimate of 2.8%. This quarterly growth rate was the strongest since the second quarter of 2010. Sectors of the economy that grew in the fourth quarter included inventories, consumer spending particularly on durable goods, residential fixed investment, business investment in equipment, and exports, partly offset by lower government spending at both the federal and the state and local levels, and by lower spending on nonresidential structures. For all of 2011, real GDP rose 1.7%, after increasing 3.0% in 2010 from the recession trough in 2009. Total gross domestic product in current dollars, not adjusted for inflation, rose to more than $15 trillion in 2011.

The industrial production index for the U.S. was unchanged in January, seasonally adjusted, as an increase of 0.7% in manufacturing output was offset by declines in mining and utility output.[10] Motor vehicle and parts output rose sharply in January, accounting for more than half of the increase in the manufacturing index. The fall in utility output was attributed to continued unseasonably warm weather which held down demand for heating. Total industrial production in January was 15% higher than at the cyclical trough in June 2009, but remained 5% short of the prior cyclical peak in September 2007. These trends are shown in Chart 6.

The industrial production index for the U.S. was unchanged in January.

Chart 6: Industrial Production Index



Manufacturing activity expanded further in February, based on a survey of purchasing managers released by the Institute for Supply Management (ISM). More survey respondents reported increases than noted declines in production, new orders, and order backlogs. An index of prices paid for raw materials rose to its highest level since June 2011. A comparable ISM survey of organizations other than manufacturers also showed growing business activity, new orders, and order backlogs, accompanied by more widespread increases in prices paid.

The dollar value of manufacturers' new orders fell in January by 1.0% following a 1.4% increase in December. Factory new orders were 38% higher in January than at the recession low point in March 2009.

---

[10] Manufacturing has a weight of about 74% in the total index, mining 15%, and electric and natural gas utilities 11%.

Shipments of manufacturers rose 0.9% in January, the eighth consecutive rise, to 30% higher than at the recession low in May 2009. Factory backlogs of unfilled orders rose 0.6% and rose in 21 of the latest 22 months. Manufacturers' inventories rose 0.6% and rose in 27 of the latest 28 months.

Consumer Spending

Personal income rose 0.3% in January as employee compensation, proprietors' income, and interest and dividend payments each rose 0.4% while personal transfer payments (Medicaid, for example) declined. After-tax personal income rose a smaller 0.1%, reflecting higher projected taxes in 2012, and fell 0.1% adjusted for inflation. Real consumer spending was about unchanged in January as well as December and November. Growth of inflation-adjusted consumer spending on durable goods was offset by lower real spending on nondurables in November and December, and on services in January.

In February, sales of cars and light trucks rose to the strongest pace since early 2008.

In February, sales of cars and light trucks rose to a 15.0 million unit seasonally adjusted annual rate, the strongest pace since early 2008. The sales pace in February exceeded the rate in August 2009 when the federal "Cash for Clunkers" program caused a brief surge in sales, followed by a lull. Calendar year sales exceeded 16 million units from 1999 through 2007.

A preliminary report covering February sales at 18 large retailers that report their results monthly, compiled by Thomson Reuters, showed a sizable 6.4% increase from a year earlier. The statistics are on a same-store basis, including only store locations open in both the current and year-earlier months.

Consumer credit, an important factor in the ability of consumers to increase their spending, expanded in January, continuing an upturn underway since September 2010. Earlier, during the recession and its aftermath, borrowing by consumers peaked and then fell starting in the second half of 2008. Total consumer credit, not including loans secured by real estate, remained 3% lower in January than at the 2008 peak, seasonally adjusted. Outstanding revolving credit balances, mainly credit cards, increased in most months since April, but fell in January and remain well below the all-time high in 2008. Nonrevolving credit, which includes auto and education loans, rose to a new peak in January.

Construction and Real Estate

Housing starts rose 1% in January, seasonally adjusted, and were 10% higher than a year earlier. Construction activity may have been boosted in January by relatively mild weather in parts of the country. At about a 0.7 million unit annual rate, housing starts remained far below the 2005 peak when more than 2 million housing units were started, but were up from the low in 2009 of about 0.55 million units. The 2009 trough reflected the low point for starts on housing in structures with five or more units, which by 2011 had risen 72% from that low. In contrast, starts on single-family housing as well as on structures with two to four units reached cyclical lows in 2011.

New home sales in January were 1% lower than in December, seasonally adjusted. In all of 2011, 304,000 new homes were sold, the lowest on records kept since 1963 and down 76% from peak year 2005. Sales at the start of 2012 were 6% higher, at an annualized rate, than sales in all of 2011, but remained quite weak.

Sales of previously occupied homes rose 4%, seasonally adjusted, from December to January, according to the National Association of Realtors (NAR). Home sales bottomed out in 2008, 42% lower than at the peak in 2005, but last year the NAR series was only 4% higher than its 2008 low point. The annualized sales pace in January was the highest since May 2010, when sales were boosted by tax incentives, and was 7% higher than sales in all of 2011.

An index of housing prices nationwide published by the Federal Housing Finance Agency rose 0.7% in December, seasonally adjusted, and had increased 1.8% since a recent low in March 2011. The index was 19% lower than at its peak in 2007, and about at the same level as in 2004. This index is based on home sales price information for mortgages acquired by Fannie Mae and Freddie Mac. Another measure of housing prices, S&P/Case-Shiller's index of housing prices in 20 large cities, also reached a low point in March 2011 and then rose, but subsequently fell back further, including a 1.1% decline in December. This housing price index is 34% below its 2006 peak, and about at its level in 2003.

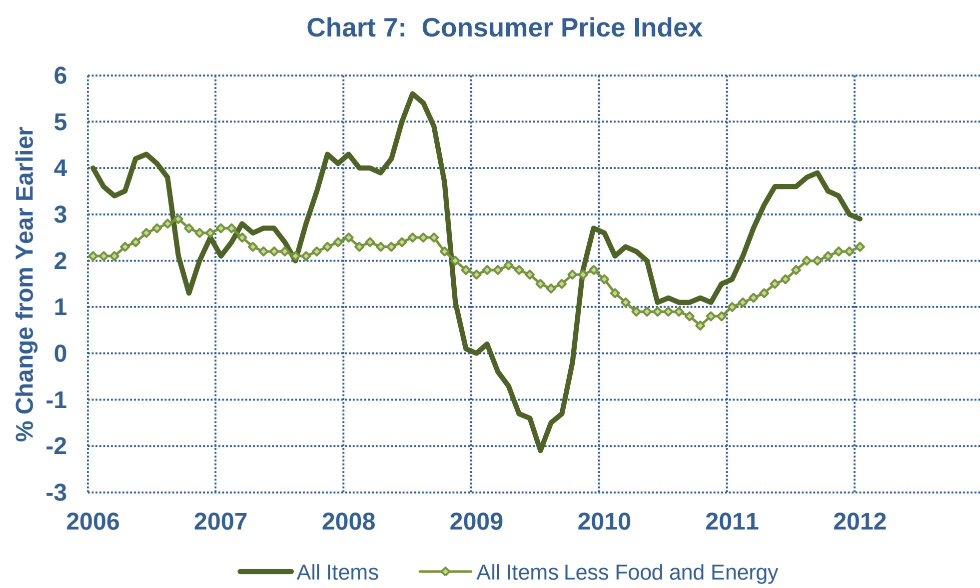
The nationwide average contract rate on 30-year fixed-rate conventional home mortgages was 3.88% on March 8, in the weekly survey conducted by Freddie Mac since 1971. The latest rate is just above the all-time low for this survey of 3.87% for three consecutive weeks in February.

The value of new construction put in place in January was little changed, seasonally adjusted, from December, as an increase in private residential construction was about offset by a decrease in private nonresidential construction. Compared with a year earlier, total construction activity in January was 8% higher, with private residential construction 7% higher, private nonresidential construction 17% higher, and public construction about the same as in January 2011.

The value of new construction put in place in January was little changed from December.

Inflation

The consumer price index (CPI) rose 0.2% in January, its largest increase since last September. Indexes for prices of food, of energy, and of all other items in the CPI also rose 0.2% from December to January. Compared with a year earlier, the CPI for all items was 2.9% higher, down from larger year-over-year increases during most of 2011. Food prices in January averaged 4.4% higher than a year earlier and energy prices averaged 6.1% higher. The index for prices of all items less food and energy was 2.3% higher in January than a year earlier, its largest year-over-year increase since 2008. Trends in the consumer price index are shown in Chart 7.



The price of regular gasoline nationwide averaged $3.79 per gallon on March 5, highest since last May.

The price of regular gasoline nationwide averaged $3.79 per gallon on March 5, in the U.S. Energy Information Administration's weekly survey, the highest average price since last May. In Ohio, the average price of regular gasoline was $3.74 per gallon on March 5, highest since June. The rise in gasoline prices reflects escalating costs for crude oil.

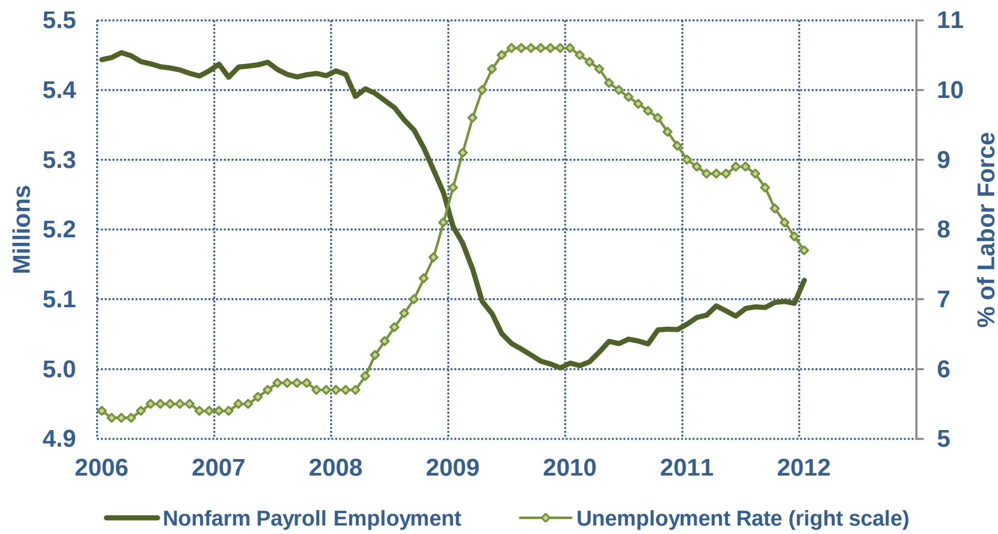
The producer price index (PPI) for finished goods rose 0.1% in January, and was 4.1% higher than a year earlier, its smallest year-over-year increase since January 2011. At earlier stages in the production process, the PPI for intermediate goods fell 0.4% in January and was 4.2% higher than a year earlier, the smallest increase since 2009. The PPI for crude materials rose 1.5% in January and was 4.5% higher than a year earlier, also smallest since 2009.

The Ohio Economy

Total nonfarm payroll employment in Ohio rose by 32,800 (0.6%) in January and statewide unemployment declined to 447,000, lowering the statewide unemployment rate to 7.7% from a revised 7.9% in December. The statewide unemployment rate in January was at its lowest level since 2008. Historical statistics for both series were revised. Trends in employment and unemployment are shown in Chart 8.

Total nonfarm payroll employment in Ohio was 1.2% higher in January than a year earlier.

Chart 8: Ohio Employment and Unemployment



The sizable increase in total nonfarm payroll employment from December to January reflected gains in healthcare and social assistance; construction; administrative, support, and waste services; arts, entertainment, and recreation; accommodation and food services; and other industries. Compared with a year earlier, total nonfarm payrolls were 62,500 (1.2%) higher, with increases in durable goods manufacturing, construction, mining and logging, and in most private service industries. Government employment fell, more than accounted for by lower employment with local governments.

A report on this region's economy by the Federal Reserve Bank of Cleveland noted growth at a moderate pace in recent weeks. The report is in the Federal Reserve's Beige Book, a compilation of comments from business and other contacts on or prior to February 17. The Cleveland bank's section noted stable or moderately higher new orders and production at factories. An upturn in single-family home construction in late 2011 has abated, but multifamily construction and conversions of existing properties into rental units is expected to be strong. Nonresidential construction activity has increased. January retail sales

The statewide unemployment rate in January declined to 7.7%, its lowest level since 2008.

reports were said to be mixed, with sales of seasonal items held down by the warm winter weather. The volume of freight transported has trended higher.

The Ohio Association of Realtors (OAR) reported that the number of homes sold in January was approximately 13% more than in January 2011. This was the seventh consecutive month of year-over-year sales increases, following earlier declines. This pattern of sales was influenced by the now-expired federal program of tax incentives for home buyers that boosted sales in late 2009 and the first half of 2010. The average price of homes purchased in January in Ohio was about even with a year earlier, according to the OAR data, with increases in average prices in some parts of the state and decreases in other areas.