Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

OCTOBER 2011

# STATUS OF THE GRF

## HIGHLIGHTS

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

Data released in recent weeks paint a picture of weak, but stable economic growth. Nonfarm payroll employment nationwide rose by 103,000 in September, but not enough to reduce the unemployment rate which remained at 9.1%. In Ohio, nonfarm payroll declined by 700 workers in August, the first monthly decline since 2010; the state unemployment rate rose to 9.1%, the third consecutive increase.

Through September, total GRF sources were $36.0 million below estimate in FY 2012, though GRF tax sources were above projected receipts by $35.1 million. For the first quarter, the one major tax source underperforming notably was the personal income tax. The sales tax and the cigarette tax had strong quarterly results, with the latter being nearly $12 million above estimate.

**Through September 2011, GRF sources totaled $6.62 billion:**

- Revenue from the personal income tax was $10.8 million below estimate;
- Sales and use tax receipts were $34.5 million above estimate.

**Through September 2011, GRF uses totaled $7.88 billion:**

- Program expenditures were $95.9 million below estimate, due primarily to Public Assistance and Medicaid ($160.1 million) and Justice and Public Protection ($31.8 million).

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STATUS OF THE GRF



ISSUE UPDATES



TRACKING THE ECONOMY



Legislative Service Commission
77 South High Street, 9th Floor
Columbus, Ohio 43215

Telephone: (614)466-3615

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

| | Actual | Estimate* | Variance | Percent |
|---|---|---|---|---|
| **STATE SOURCES** | | | | |
| ***TAX REVENUE*** | | | | |
| Auto Sales | $91,283 | $82,600 | $8,683 | 10.5% |
| Nonauto Sales and Use | $511,022 | $529,500 | -$18,478 | -3.5% |
| Total Sales and Use Taxes | $602,305 | $612,100 | -$9,795 | -1.6% |
| Personal Income | $858,001 | $869,461 | -$11,460 | -1.3% |
| Corporate Franchise | -$1,748 | $6,100 | -$7,848 | -128.7% |
| Public Utility | $140 | $0 | $141 | 29807.8% |
| Kilowatt Hour Excise | $36,638 | $35,800 | $838 | 2.3% |
| Natural Gas Consumption (MCF) | $4 | $0 | $4 | 2119.8% |
| Commercial Activity Tax | $2,385 | $1,700 | $685 | 40.3% |
| Foreign Insurance | $7,358 | $5,800 | $1,558 | 26.9% |
| Domestic Insurance | $23 | -$500 | $524 | 104.7% |
| Business and Property | -$1,953 | -$100 | -$1,852 | -1848.7% |
| Cigarette | $84,611 | $72,900 | $11,710 | 16.1% |
| Alcoholic Beverage | $5,375 | $5,000 | $375 | 7.5% |
| Liquor Gallonage | $3,235 | $3,000 | $235 | 7.8% |
| Estate | $2,854 | $4,300 | -$1,445 | -33.6% |
| **Total Tax Revenue** | **$1,599,229** | **$1,615,561** | **-$16,332** | **-1.0%** |
| ***NONTAX REVENUE*** | | | | |
| Earnings on Investments | $4 | $0 | $4 | --- |
| Licenses and Fees | $7,778 | $1,977 | $5,801 | 293.4% |
| Other Revenue | $1,673 | $3,881 | -$2,208 | -56.9% |
| **Total Nontax Revenue** | **$9,456** | **$5,858** | **$3,598** | **61.4%** |
| ***TRANSFERS*** | | | | |
| Liquor Transfers** | $10,000 | $9,000 | $1,000 | 11.1% |
| Budget Stabilization | $0 | $0 | $0 | --- |
| Other Transfers In | $37,337 | $0 | $37,337 | --- |
| **Total Transfers In** | **$47,337** | **$9,000** | **$38,337** | **426.0%** |
| **TOTAL STATE SOURCES** | **$1,656,021** | **$1,630,419** | **$25,603** | **1.6%** |
| Federal Grants | $754,504 | $760,591 | -$6,087 | -0.8% |
| **TOTAL GRF SOURCES** | **$2,410,525** | **$2,391,010** | **$19,515** | **0.8%** |

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

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

*Detail may not sum to total due to rounding.*

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

| | Actual | Estimate* | Variance | Percent | FY 2011 | Percent Change |
|---|---|---|---|---|---|---|
| **STATE SOURCES** | | | | | | |
| ***TAX REVENUE*** | | | | | | |
| Auto Sales | $275,146 | $260,300 | $14,846 | 5.7% | $260,328 | 5.7% |
| Nonauto Sales and Use | $1,718,241 | $1,698,600 | $19,641 | 1.2% | $1,638,928 | 4.8% |
| Total Sales and Use Taxes | $1,993,387 | $1,958,900 | $34,487 | 1.8% | $1,899,255 | 5.0% |
| Personal Income | $1,957,278 | $1,968,091 | -$10,813 | -0.5% | $1,810,489 | 8.1% |
| Corporate Franchise | -$4,288 | $400 | -$4,689 | -1170.8% | $433 | -1089.2% |
| Public Utility | $33,172 | $32,899 | $273 | 0.8% | $30,509 | 8.7% |
| Kilowatt Hour Excise | $88,561 | $92,900 | -$4,339 | -4.7% | $52,385 | 69.1% |
| Natural Gas Consumption (MCF) | $13,227 | $9,900 | $3,327 | 33.6% | $0 | --- |
| Commercial Activity Tax | $96,973 | $90,700 | $6,274 | 6.9% | $0 | --- |
| Foreign Insurance | $6,470 | $5,600 | $870 | 15.5% | $5,692 | 13.7% |
| Domestic Insurance | $38 | -$300 | $338 | 112.6% | -$311 | 112.2% |
| Business and Property | -$1,792 | $100 | -$1,892 | -1896.6% | $59 | -3134.4% |
| Cigarette | $175,012 | $163,100 | $11,912 | 7.3% | $170,382 | 2.7% |
| Alcoholic Beverage | $15,771 | $15,700 | $71 | 0.5% | $15,369 | 2.6% |
| Liquor Gallonage | $9,894 | $9,300 | $593 | 6.4% | $9,456 | 4.6% |
| Estate | $2,959 | $4,300 | -$1,341 | -31.2% | $4,189 | -29.4% |
| **Total Tax Revenue** | **$4,386,661** | **$4,351,591** | **$35,070** | **0.8%** | **$3,997,907** | **9.7%** |
| ***NONTAX REVENUE*** | | | | | | |
| Earnings on Investments | $10 | $0 | $10 | --- | $8 | 27.8% |
| Licenses and Fees | $11,874 | $8,621 | $3,253 | 37.7% | $9,633 | 23.3% |
| Other Revenue | $7,432 | $7,601 | -$169 | -2.2% | $4,717 | 57.5% |
| **Total Nontax Revenue** | **$19,316** | **$16,222** | **$3,094** | **19.1%** | **$14,358** | **34.5%** |
| ***TRANSFERS*** | | | | | | |
| Liquor Transfers** | $35,132 | $34,000 | $1,132 | 3.3% | $40,144 | -12.5% |
| Budget Stabilization | $0 | $0 | $0 | --- | $0 | --- |
| Other Transfers In | $47,858 | $10,598 | $37,260 | 351.6% | $12,329 | 288.2% |
| **Total Transfers In** | **$82,990** | **$44,598** | **$38,392** | **86.1%** | **$52,473** | **58.2%** |
| **TOTAL STATE SOURCES** | **$4,488,967** | **$4,412,411** | **$76,556** | **1.7%** | **$4,064,739** | **10.4%** |
| Federal Grants | $2,135,038 | $2,247,595 | -$112,557 | -5.0% | $2,514,990 | -15.1% |
| **TOTAL GRF SOURCES** | **$6,624,005** | **$6,660,005** | **-$36,001** | **-0.5%** | **$6,579,729** | **0.7%** |

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

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

*Detail may not sum to total due to rounding.*

# REVENUES

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

## Overview

Through September FY 2012 GRF sources were $36.0 million below estimates.

Three months into the fiscal year, FY 2012 total GRF sources of $6.62 billion were $36.0 million (0.5%) below the estimates released by the Office of Budget and Management in September 2011. For the month of September, total GRF sources of $2.41 billion were $19.5 million (0.8%) above estimate. A positive variance of $25.6 million in state-source receipts was partly offset by a shortfall of $6.1 million in federal grants. Tables 1 and 2 show GRF sources for the month of September and for FY 2012 through September, 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.

September GRF tax receipts were $16.3 million below estimates.

For the month of September, GRF tax receipts of $1.60 billion were $16.3 million below estimate. The personal income tax, the sales and use tax, and the corporate franchise tax were below estimate by, respectively, $11.5 million, $9.8 million, and $7.8 million. The shortfalls in receipts from the business and property tax and the estate tax were $1.8 million and $1.4 million. Receipts in September were $11.7 million higher than anticipated for the cigarette tax, and $1.6 million greater for the foreign insurance tax. The subpar performance of tax sources as a whole this month reduced a positive variance of $41.9 million in nontax revenues and transfers in.

Through September, FY 2012 tax receipts were $35.1 million above estimates.

Through September, FY 2012 federal grants of $2.14 billion were $112.6 million short of estimate. That deficit was partially offset by a positive variance of $76.6 million in state-source receipts. The latter variance was due to positive variances of $35.1 million in tax receipts, $38.4 million in transfers in, and $3.1 million in nontax revenues. The positive variance in tax revenues was due to higher than anticipated sales and use tax receipts ($34.5 million) and cigarette tax receipts ($11.9 million). GRF receipts from the commercial activity tax (CAT) and the natural gas consumption tax exceeded estimates by $6.3 million and $3.3 million, respectively. First-quarter receipts were below projections for the personal income tax ($10.8 million), the kilowatt hour tax ($4.3 million), the corporate franchise tax ($4.7 million), the business and property tax ($1.9 million), and the estate tax ($1.3 million).

FY 2012 year-to-date GRF sources increased $44.3 million compared to receipts in the corresponding period in FY 2011. An increase of $424.2 million in state-source receipts was partially offset by a decrease of $380.0 million in federal grants.[1] The increase in state-source receipts was largely due to a gain of $388.8 million (9.7%) in GRF tax receipts. Over one-fourth of the increase in tax receipts over FY 2011 ($109.5 million) was from the CAT and the natural gas consumption tax, tax sources that were not contributing to GRF last fiscal year. Through September, FY 2012 GRF receipts from the personal income tax and the sales and use tax were above the previous year's level, respectively, by $146.8 million and $94.1 million. Receipts also increased for the cigarette tax ($4.6 million), the kilowatt hour tax ($36.2 million),[2] and the public utility excise tax ($2.7 million). Other taxes with significant year-to-year revenue variances included decreases of $1.9 million in business and property tax receipts and $1.2 million in estate tax receipts. Also, net corporate franchise tax refunds to taxpayers were $4.7 million higher than in the first quarter of FY 2011, yielding a negative variance for that tax of the same amount.

## Personal Income Tax

Through September, FY 2012 GRF income tax receipts were $10.8 million below estimates.

September GRF receipts from the personal income tax of $858.0 million were $11.5 million (1.3%) below estimate and $76.9 million (9.8%) above receipts in September 2010. Through September, the GRF received $1.96 billion from the personal income tax in FY 2012. This amount was $10.8 million (0.5%) below estimates and $146.8 million (8.1%) above receipts during the corresponding period in FY 2011. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the Local Government Fund. Gross collections are the sum of withholding, quarterly estimated payments,[3] trust payments, payments associated with annual returns, and

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[1] The American Recovery and Reinvestment Act of 2009 (ARRA) boosted FY 2011 first-quarter federal grants by about $920 million, 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 nearly 10% below the level of FY 2011.

[2] Though GRF kilowatt hour tax receipts were 69.1% above first-quarter receipts a year ago, total (all funds) kilowatt hour receipts were up only 26.8%. H.B. 153 increased the GRF's share of receipts from this tax source.

[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.

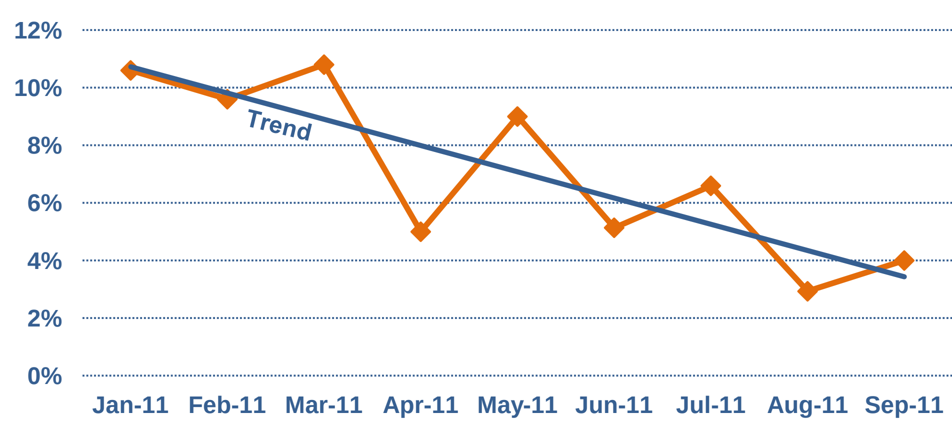
miscellaneous payments. The table below summarizes FY 2012 income tax revenue variances from estimates and annual changes by component.

| 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 | -$23.4 | -1.3% | $70.3 | 4.0% |
| Quarterly Estimated Payments | -$2.7 | -0.9% | $42.8 | 16.9% |
| Trust Payments | $0.5 | 6.7% | $1.7 | 29.6% |
| Annual Return Payments | $9.1 | 24.1% | $10.7 | 29.4% |
| Miscellaneous Payments | -$1.7 | -7.8% | -$0.4 | -2.1% |
| **Gross Collections** | -$18.2 | -0.8% | $125.1 | 6.1% |
| Less Refunds | -$8.8 | -10.8% | -$10.8 | -12.9% |
| Less Local Government Fund Distribution | $1.4 | 1.0% | -$10.9 | -6.8% |
| **Income Tax Revenue** | -$10.8 | -0.5% | $146.8 | 8.1% |

Through September, FY 2012 employer withholding was $70.3 million above similar receipts in FY 2011.

All components, except miscellaneous payments, contributed to higher gross collections in FY 2012. Through September, gross collections increased by $125.1 million (6.1%) compared to the corresponding period in FY 2011, reflecting a continued increase in the tax base. First-quarter revenues from employer withholding, though $23.4 million (1.3%) below estimates, were $70.3 million (4.0%) above receipts in this category last year. Quarterly estimated payments increased $42.8 million (16.9%). Refunds and distributions to the Local Government Fund were, respectively, $10.8 million and $10.9 million below amounts in those categories in the first quarter of FY 2011.

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



Ohio payrolls have continued to grow, despite rising unemployment rates in the latest three months. The graph above shows monthly changes, on a year-ago basis, in withholding receipts in CY 2011.

## Sales and Use Tax

September GRF receipts from the sales and use tax of $602.3 million were $9.8 million (1.6%) below estimate and $9.2 million (1.5%) above receipts in September 2010. Through September, FY 2012 GRF sales and use tax receipts totaled $1.99 billion, $34.5 million (1.8%) above estimate and $94.1 million (5.0%) above receipts in the corresponding period last year. For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[4] generally arise from the sale of motor vehicles while nonauto sales and use tax collections arise from other sales. However, auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax, instead of the auto tax.

Through September, FY 2012 GRF sales and use tax receipts were $34.5 million above estimates.

### Nonauto Sales and Use Tax

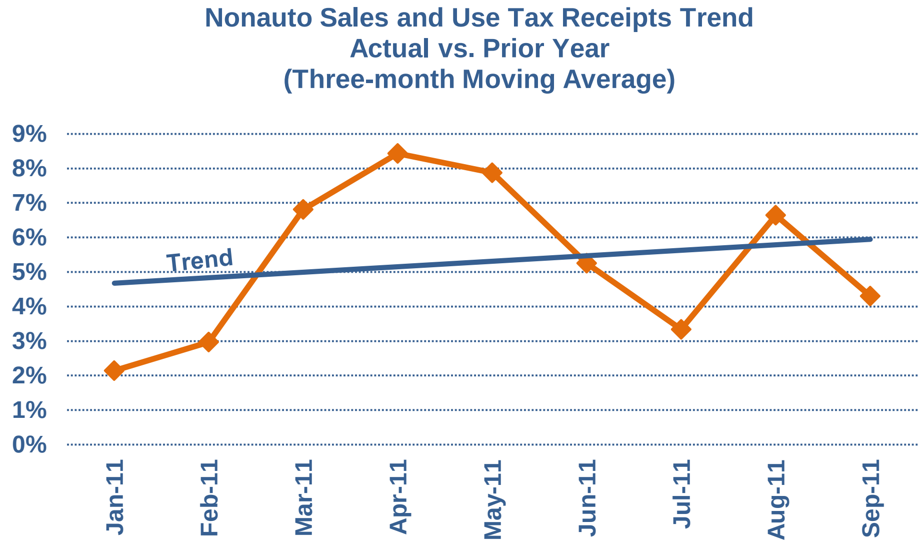
Monthly receipts from the nonauto sales and use tax were $511.0 million, $18.5 million (3.5%) below estimate, and $0.5 million (0.1%) above September 2010 receipts. The negative variance was due to an advanced sales tax payment by Medicaid health insuring corporations of about $28 million in August. That payment was previously scheduled to be collected in September.

First-quarter GRF nonauto sales and use tax receipts were $1.72 billion in FY 2012. Those receipts were $19.6 million (1.2%) above estimate and $79.3 million (4.8%) above receipts in the corresponding period in FY 2011. The nonauto sales and use tax base continues to expand, though growth has slowed compared to that of previous quarters. The graph below shows the trend in monthly receipts in CY 2011 against prior-year receipts in the same month.

The upward trend continues despite a national economic recovery that appears to be losing steam. Households continue to be stressed as they try to keep up with higher food and gas prices and higher insurance premiums, while wages remain mostly stagnant. Inflation-adjusted disposable personal income fell in August for the second consecutive month, and income support from government transfer payments is

[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.

fading. Thus, headwinds for consumer spending and constraints to households' cash flow may intensify in the next few months.

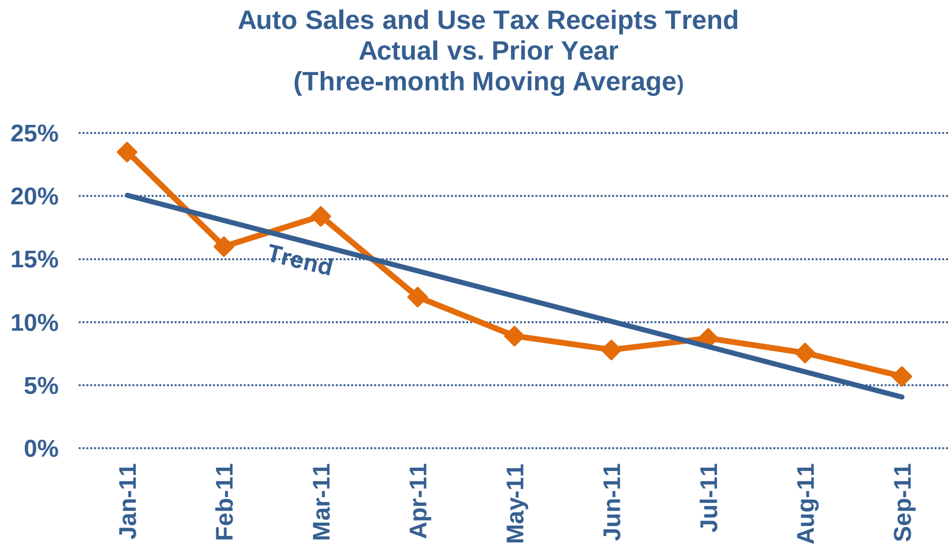



September receipts from the auto sales and use tax were $8.7 million above estimate.

## Auto Sales and Use Tax

GRF receipts from the auto sales and use tax of $91.3 million in September 2011 were above both estimate and September 2010 receipts by about $8.7 million (10.5%). For the fiscal year, first-quarter auto sales and use tax receipts to the GRF totaled $275.1 million, $14.8 million (5.7%) above receipts through September in FY 2011.

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



Nationwide light vehicle (autos and light trucks) sales in September, at an annualized rate of 13.0 million units, hit their strongest pace since April 2011. Sales were up from an annualized sales rate of 12.1 million units in August, and climbed nearly 10% on a year-ago basis. Increased sales were due to richer discounts, lower gas prices and stronger demand for pickup trucks and sports utility vehicles. Sales ended the quarter on a positive note as the drag of Japanese automakers' supply chain problems ease, and they are expected to continue rising slowly the rest of the calendar year.

## Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax of $84.6 million in September 2011 were $11.7 million (16.1%) above estimate and $8.4 million (11.1%) above receipts in the corresponding period in FY 2011. This large increase over receipts in September 2010 may be due to timing, and should reverse in future months.

Through September, FY 2012 cigarette tax receipts were $11.9 million above estimates.

Through September, FY 2012 receipts of $175.0 million were $11.9 million (7.3%) above estimate, and $4.6 million (2.7%) above receipts in the corresponding period in FY 2011. Receipts from cigarette sales were $160.5 million. Sales of products other than cigarettes provided $14.5 million. Compared to FY 2011, receipts from the sale of cigarettes increased $3.5 million and those from the sale of other tobacco products rose $1.1 million. Generally, cigarette tax receipts would experience a sustained downward trend on a year-ago basis. Thus, the increase in first-quarter receipts over a year ago is surprising and unexplained at this time.

## Commercial Activity Tax

September GRF receipts from the CAT of $2.4 million were $0.7 million (40.3%) above estimate. CAT receipts to the GRF in FY 2012 totaled $97.0 million, $6.3 million (6.9%) above estimate. Overall, FY 2012 total (all funds) CAT receipts of $392.7 million were $38.8 million (11.0%) above receipts in the first quarter of FY 2011.

Through September, FY 2012 GRF CAT receipts were $6.3 million above estimates.

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 (TPP). This fiscal year, CAT receipts are distributed to the GRF (25%), to the School District Tangible Property Tax Replacement Fund (52.5%), and the Local Government Tangible Property Tax Replacement Fund (22.5%). If CAT receipts are insufficient for the reimbursements, current law requires a GRF subsidy to the two funds.

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

| ***PROGRAM*** | **Actual** | **Estimate*** | **Variance** | **Percent** |
|---|---|---|---|---|
| Primary, Secondary, and Other Education | $516,379 | $514,129 | $2,250 | 0.4% |
| Higher Education | $166,416 | $174,631 | -$8,216 | -4.7% |
| **Total Education** | $682,795 | $688,761 | -$5,966 | -0.9% |
| | | | | |
| Public Assistance and Medicaid | $1,119,836 | $1,207,750 | -$87,915 | -7.3% |
| Health and Human Services | $115,782 | $50,172 | $65,610 | 130.8% |
| **Total Welfare and Human Services** | $1,235,618 | $1,257,923 | -$22,305 | -1.8% |
| | | | | |
| Justice and Public Protection | $148,176 | $159,916 | -$11,740 | -7.3% |
| Environment and Natural Resources | $4,767 | $5,085 | -$319 | -6.3% |
| Transportation | $469 | $3,017 | -$2,548 | -84.5% |
| General Government | $49,654 | $55,625 | -$5,972 | -10.7% |
| Community and Economic Development | $21,486 | $26,144 | -$4,658 | -17.8% |
| Capital | $120 | $0 | $120 | --- |
| **Total Government Operations** | $224,671 | $249,786 | -$25,116 | -10.1% |
| | | | | |
| Tax Relief and Other | $336,841 | $230,277 | $106,564 | 46.3% |
| Debt Service | $41,315 | $43,447 | -$2,132 | -4.9% |
| **Total Other Expenditures** | $378,156 | $273,724 | $104,432 | 38.2% |
| | | | | |
| **Total Program Expenditures** | **$2,521,240** | **$2,470,194** | **$51,046** | **2.1%** |
| | | | | |
| ***TRANSFERS*** | | | | |
| | | | | |
| Budget Stabilization | $0 | $0 | $0 | --- |
| Other Transfers Out | $0 | $7,650 | -$7,650 | -100.0% |
| **Total Transfers Out** | $0 | $7,650 | -$7,650 | -100.0% |
| | | | | |
| **TOTAL GRF USES** | **$2,521,240** | **$2,477,844** | **$43,396** | **1.8%** |

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

| ***PROGRAM*** | **Actual** | **Estimate*** | **Variance** | **Percent** | **FY 2011** | **Percent Change** |
|---|---|---|---|---|---|---|
| Primary, Secondary, and Other Education | $1,893,476 | $1,897,726 | -$4,250 | -0.2% | $1,980,535 | -4.4% |
| Higher Education | $536,320 | $541,919 | -$5,598 | -1.0% | $606,903 | -11.6% |
| **Total Education** | $2,429,796 | $2,439,645 | -$9,849 | -0.4% | $2,587,437 | -6.1% |
| | | | | | | |
| Public Assistance and Medicaid | $3,559,980 | $3,720,109 | -$160,128 | -4.3% | $3,403,369 | 4.6% |
| Health and Human Services | $357,244 | $298,484 | $58,759 | 19.7% | $298,872 | 19.5% |
| **Total Welfare and Human Services** | $3,917,224 | $4,018,593 | -$101,369 | -2.5% | $3,702,242 | 5.8% |
| | | | | | | |
| Justice and Public Protection | $494,371 | $526,216 | -$31,845 | -6.1% | $530,460 | -6.8% |
| Environment and Natural Resources | $17,576 | $17,801 | -$226 | -1.3% | $19,232 | -8.6% |
| Transportation | $1,500 | $3,971 | -$2,471 | -62.2% | $7,190 | -79.1% |
| General Government | $109,349 | $117,814 | -$8,464 | -7.2% | $98,662 | 10.8% |
| Community and Economic Development | $37,469 | $37,663 | -$194 | -0.5% | $36,701 | 2.1% |
| Capital | $120 | $0 | $120 | --- | $24 | 391.8% |
| **Total Government Operations** | $660,385 | $703,465 | -$43,080 | -6.1% | $692,269 | -4.6% |
| | | | | | | |
| Tax Relief and Other | $409,549 | $342,788 | $66,761 | 19.5% | $315,910 | 29.6% |
| Debt Service | $129,303 | $137,682 | -$8,379 | -6.1% | $226,869 | -43.0% |
| **Total Other Expenditures** | $538,852 | $480,469 | $58,383 | 12.2% | $542,779 | -0.7% |
| | | | | | | |
| **Total Program Expenditures** | **$7,546,257** | **$7,642,172** | **-$95,915** | **-1.3%** | **$7,524,728** | **0.3%** |
| | | | | | | |
| ***TRANSFERS*** | | | | | | |
| | | | | | | |
| Budget Stabilization | $246,899 | $246,899 | $0 | 0.0% | $0 | --- |
| Other Transfers Out | $83,809 | $79,441 | $4,368 | 5.5% | $569,874 | -85.3% |
| **Total Transfers Out** | $330,708 | $326,340 | $4,368 | 1.3% | $569,874 | -42.0% |
| | | | | | | |
| **TOTAL GRF USES** | **$7,876,965** | **$7,968,512** | **-$91,547** | **-1.1%** | **$8,094,601** | **-2.7%** |

* 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 October 6, 2011)

| Medicaid (600525) Payments by Service Category | September Actual | September Estimate | September Variance | September Percent Variance | Year to Date Actual thru Sept | Year to Date Estimate thru Sept | Year to Date Variance | Year to Date Percent Variance |
|---|---|---|---|---|---|---|---|---|
| Managed Care Plans | $421,439 | $473,520 | -$52,081 | -11.0% | $1,265,407 | $1,317,487 | -$52,080 | -4.0% |
| Nursing Facilities | $205,543 | $211,283 | -$5,740 | -2.7% | $617,481 | $638,971 | -$21,490 | -3.4% |
| Prescription Drugs | $135,642 | $138,784 | -$3,142 | -2.3% | $440,707 | $438,641 | $2,066 | 0.5% |
| Hospitals | $94,665 | $114,907 | -$20,242 | -17.6% | $300,737 | $364,849 | -$64,112 | -17.6% |
| ICFs/MR | $45,817 | $47,755 | -$1,938 | -4.1% | $138,485 | $140,883 | -$2,398 | -1.7% |
| Aging Waivers | $49,239 | $33,191 | $16,048 | 48.4% | $173,437 | $154,320 | $19,117 | 12.4% |
| ODJFS Waivers | $25,469 | $27,636 | -$2,167 | -7.8% | $79,418 | $88,332 | -$8,914 | -10.1% |
| Physicians | $19,379 | $26,415 | -$7,036 | -26.6% | $67,328 | $85,498 | -$18,170 | -21.3% |
| All Other | $132,435 | $132,323 | $112 | 0.1% | $397,509 | $406,516 | -$9,007 | -2.2% |
| Total Payments | $1,129,628 | $1,205,814 | -$76,186 | -6.3% | $3,480,509 | $3,635,497 | -$154,988 | -4.3% |
| Total Offsets (non-GRF) | -$80,699 | -$83,174 | $2,475 | -3.0% | -$161,351 | -$166,908 | $5,557 | -3.3% |
| Total 600525 (net of offsets) | $1,048,929 | $1,122,640 | -$73,711 | -6.6% | $3,319,158 | $3,468,589 | -$149,431 | -4.3% |
| Medicare Part D (600526) | $15,042 | $23,289 | -$8,247 | -35.4% | $57,573 | $66,230 | -$8,657 | -13.1% |
| **Total GRF** | **$1,063,971** | **$1,145,929** | **-$81,958** | **-7.2%** | **$3,376,731** | **$3,534,819** | **-$158,088** | **-4.5%** |
| **Total All Funds** | **$1,144,670** | **$1,229,103** | **-$84,433** | **-6.9%** | **$3,538,082** | **$3,701,727** | **-$163,645** | **-4.4%** |

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

ICFs/MR - Intermediate Care Facilities for the Mentally Retarded

# EXPENDITURES

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

## Overview

Tables 3 and 4 show GRF uses for the month of September and for FY 2012 through September, respectively. For September, GRF uses of $2.52 billion were $43.4 million above the estimate published by the Office of Budget and Management (OBM) in September 2011. Through September, FY 2012 GRF uses of $7.88 billion were $91.5 million below estimate.

For the first quarter of FY 2012, GRF uses were $91.5 million below estimates.

GRF uses primarily consist of program expenditures but also include transfers out. For the first three months of FY 2012, GRF program expenditures amounted to $7.55 billion (95.8% of total GRF uses), whereas transfers out totaled $330.7 million (4.2%). The largest single transfer out occurred in July when the OBM Director transferred $246.9 million from the GRF to the Budget Stabilization Fund. The year-to-date GRF program expenditures were $95.9 million below estimate, which was largely attributable to negative variances of $160.1 million in Medicaid and Public Assistance and $31.8 million in Justice and Public Protection. The negative variances in these two program categories were partially offset by positive variances of $66.8 million in Tax Relief and Other and $58.8 million in Health and Human Services. These four program categories' variances are briefly discussed below.

## Negative Variances

Year-to-date GRF expenditures for Public Assistance and Medicaid totaled $3.56 billion, $160.1 million (4.3%) below estimate. Medicaid, including both state and federal shares, accounts for 95% of expenditures in this program category. Table 5 details Medicaid GRF expenditures by service category and also summarizes Medicaid expenditures across all funds. (Medicaid is mainly funded with the GRF but is also supported by various non-GRF funds.) As seen from the table, Medicaid GRF expenditures for the year to date totaled $3.38 billion, which was $158.1 million (4.5%) below estimate. Across all funds, year-to-date Medicaid expenditures amounted to $3.54 billion, which was $163.6 million (4.4%) below estimate.

Year-to-date GRF Medicaid spending was $158.1 million below estimates.

According to the Ohio Department of Job and Family Services (ODJFS), the main contributing factor to the negative year-to-date variance was the implementation of the new Medicaid Information Technology System (MITS), which has caused timing issues with payments to certain fee-for-service providers. MITS became operational

The implementation of the new Medicaid Information Technology System has caused timing issues with certain payments.

beginning in August. ODJFS expects expenditures for the categories affected by MITS to align with estimates later in the fiscal year. The two categories most affected are Hospitals, with a negative variance of $64.1 million (17.6%) for the year to date, and Physicians, with a negative variance of $18.2 million (21.3%). Also contributing to the negative year-to-date variance, Managed Care Plan expenditures were $52.1 million (4.0%) below estimate. This variance was mainly due to a timing issue with the portion of the managed care payment made for new-born deliveries, which is made separately from the capitated payments. Two delivery payments of about $23 million each were included in the estimates for September; however, no payments were made. According to ODJFS, delivery payments will be made in October.

Somewhat offsetting these negatives variances, expenditures for Aging Waivers were above estimate by $19.1 million (12.4%) for the year-to-date. Each month, ODJFS advances funding for the PASSPORT, Assisted Living, and Choices waiver programs to the local area agencies on aging (AAAs). The expenditures made by the AAAs for these Medicaid waivers are reconciled at a later date. The amounts that have been advanced are higher than estimated. "Aging Waivers" is a new service category funded in ODJFS's GRF appropriation item 600525, Health Care/Medicaid, for FY 2012, pursuant to H.B. 153. In prior budgets, expenditures for these waiver programs were made by the Department of Aging. The three Medicaid waiver programs provide home and community-based services to individuals.

Year-to-date expenditures for Justice and Public Protection amounted to $494.4 million, $31.8 million (6.1%) below estimate. The Department of Rehabilitation and Correction (DRC) and the Department of Youth Services (DYS) accounted for $24.3 million and $6.0 million, respectively, of this program category's total negative variance. Within the DRC budget, GRF appropriation items 501321, Institutional Operations, and 505321, Institution Medical Services, were both below their three month estimates by $14.9 million and $9.7 million, respectively. As for DYS, $5.5 million of its negative variance was attributable to GRF appropriation item 470401, RECLAIM Ohio. Item 501321 is the primary funding source for DRC's operations whereas item 505321 funds medical services for inmates housed in the state's prison system. Item 470401 provides funding for institutional placement and community program services to youth who have been convicted of a felony offense and to other delinquent youth.

## Positive Variances

Year-to-date expenditures for Tax Relief and Other totaled $409.5 million, $66.8 million (19.5%) above estimate. This positive year-to-date variance was entirely due to a positive variance of $106.6 million (46.3%) in the month of September. The main cause of the September variance was the timing of reimbursement payments for the 10% rollback, the 2.5% rollback, and the Homestead exemption. All of the reimbursements for the August real property tax settlements are generally complete before the end of this calendar year. The year-to-date variance for this program category is expected to narrow by the end of December. Property tax relief reimbursement payments for school districts and other local governments are made twice per year, one based on the August real property settlements and one based on the February settlements.

Year-to-date expenditures for Health and Human Services amounted to $357.2 million, $58.8 million (19.7%) above estimate. This variance was mainly a net result of a positive variance of $68.4 million in the Department of Mental Health's GRF appropriation item 335501, Mental Health Medicaid Match, and a negative variance of $9.3 million in the Department of Health's GRF appropriation item 440459, Help Me Grow. The positive year-to-date variance in item 335501 was mainly a timing issue, and the variance will narrow in the coming months. This new GRF appropriation item is used to distribute the nonfederal share (also referred to as match) of Medicaid funding to local behavioral health boards in FY 2012. H.B. 153 "elevated" the financial responsibility for the nonfederal share of community mental health Medicaid costs from local boards to the state. Elevation will allow local boards to use local behavioral health levy dollars, to the extent these dollars are available, exclusively for services to those who are not eligible for Medicaid. Beginning in FY 2013, community mental health Medicaid services will be paid for by ODJFS. Item 440459 includes subsidy funding for 88 county level offices to implement the Help Me Grow Program. Actual timing for disbursing program subsidies may vary from month to month. The program promotes the optimal development of infants and toddlers, as well as family centered programs and services that acknowledge and support the social, emotional, cognitive, intellectual, and physical development of children, and the vital role of families in ensuring the well-being and success of children.

Year-to-date positive variances in Tax Relief and Other and Health and Human Services are mainly related to payment timing issues.

## Summary of OBM Estimate for GRF Uses for FY 2012

FY 2012 GRF uses are estimated to total $27.86 billion.

The table below shows the estimate made by OBM in September 2011 for GRF uses for FY 2012. As seen from the table, GRF program expenditures are estimated to total $27.20 billion. Of this amount, $13.00 billion will go to Public Assistance and Medicaid and $6.52 billion will go to Primary, Secondary, and Other Education. Together, these two program categories will account for 71.8% of the total program expenditures. In addition, OBM anticipates $407.3 million in GRF transfers out and $254.1 million in year-end encumbrances. After accounting for program expenditures, transfers out, and encumbrances, GRF uses are expected to total $27.86 billion in FY 2012.

**OBM Estimate for GRF Uses for FY 2012 by Program Area**
**(dollars in thousands)**

| Program Categories | Expenditures | As a % of Total Expenditures |
|---|---|---|
| **Public Assistance and Medicaid** | $13,001,116 | 47.8% |
| **Primary, Secondary, and Other Education** | $6,523,987 | 24.0% |
| **Higher Education** | $2,127,844 | 7.8% |
| **Justice and Public Protection** | $1,934,640 | 7.1% |
| **Tax Relief and Other** | $1,741,951 | 6.4% |
| **Health and Human Services** | $972,901 | 3.6% |
| **Debt Service** | $416,027 | 1.5% |
| **General Government** | $293,254 | 1.1% |
| **Community and Economic Development** | $105,969 | 0.4% |
| **Environment and Natural Resources** | $70,463 | 0.3% |
| **Transportation** | $13,384 | 0.0% |
| **Capital** | $0 | 0.0% |
| **Total Program Expenditures** | **$27,201,535** | **100.0%** |
| **Transfers Out** | $407,300 | n/a |
| **Year-end Encumbrances** | $254,056 | |
| **Total GRF Uses** | **$27,862,891** | **n/a** |

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

# ISSUE UPDATES

## Refunding Bonds Reduce the State's GRF Debt Service Payments by $449.3 million in FY 2012

*—Ruhaiza Ridzwan, Economist, 614-387-0476*

Through two issuances of refunding bonds, the state has reduced its GRF debt service payments by $449.3 million in FY 2012. The Ohio Building Authority completed an issuance in September 2011. The Ohio Public Facilities Commission completed an issuance in July 2011. Issuing refunding bonds is one of several measures used to help support the state's operating budget for FY 2012. Proceeds from the refunding bonds are used in place of GRF funding to defray current costs of debt service, thereby reducing GRF debt service payments. Such a debt restructuring plan essentially delays the payments for certain outstanding bonds and increases the overall costs of those bonds. The table below shows the annual impact of the debt restructuring plan on total GRF debt service payments for FY 2012 through FY 2025. As seen from the table, the state will have to pay $110.9 million more in interest payments over 14 years (from FY 2012 to FY 2025) due to the delay in repaying existing debt in FY 2012. The $110.9 million in extra interest paid in the future is estimated to be equivalent to $3.5 million in present value terms.

**Debt Restructuring and its Effect on GRF Cash Flow**

| Fiscal Year | Debt Service (Prior to the Restructuring Plan) | Debt Service (After Restructuring) | Effect on GRF Cash Flow | Present Value of the Effect on GRF Cash Flow |
|---|---|---|---|---|
| 2012 | $460,079,113 | $10,743,728 | ($449,335,385) | ($445,877,576) |
| 2013 | | $19,273,781 | $19,273,781 | $18,547,930 |
| 2014 | | $19,273,781 | $19,273,781 | $18,010,835 |
| 2015 | | $47,424,106 | $47,424,106 | $43,227,284 |
| 2016 | | $47,432,131 | $47,432,131 | $41,991,992 |
| 2017 | | $47,431,231 | $47,431,231 | $40,784,262 |
| 2018 | | $47,426,731 | $47,426,731 | $39,609,454 |
| 2019 | | $47,430,106 | $47,430,106 | $38,475,161 |
| 2020 | | $47,428,906 | $47,428,906 | $37,370,163 |
| 2021 | | $47,428,356 | $47,428,356 | $36,298,070 |
| 2022 | | $47,424,856 | $47,424,856 | $35,254,950 |
| 2023 | | $47,426,459 | $47,426,459 | $34,246,175 |
| 2024 | | $47,426,119 | $47,426,119 | $33,265,533 |
| 2025 | | $47,425,375 | $47,425,375 | $32,313,219 |
| **TOTAL** | **$460,079,113** | **$570,995,669** | **$110,916,556** | **$3,517,452** |

## State Employee Related Unemployment Compensation and Early Retirement Incentive Expenditures Total $12.9 million for FY 2011

*—Wendy Zhan, Deputy Director, 614-728-4814*

In FY 2011, state agencies expended a total of $7.6 million for unemployment compensation (UC) benefits for former state employees and $5.3 million for various early retirement incentive (ERI) plans. The three agencies with the largest UC benefits payments were the Department of Natural Resources (DNR, $1.2 million), the Department of Rehabilitation and Correction (DRC, $1.1 million), and the Department of Youth Services (DYS, $1.0 million). Together, these three agencies accounted for 43.4% of the total UC benefits expenditures in FY 2011. The three agencies with the largest ERI expenditures in FY 2011 were the Office of Attorney General ($1.4 million), the Supreme Court of Ohio ($1.3 million), and the Department of Developmental Disabilities (DDD, $1.3 million). These three agencies' combined ERI expenditures accounted for 77.3% of the total.

**State Employee Related UC Benefits and ERI Expenditures, FY 2008-FY 2011**

| | FY 2008 | FY 2009 | FY 2010 | FY 2011 | Total |
|---|---|---|---|---|---|
| **UC Benefits – Total** | **$4,789,377** | **$7,158,914** | **$7,547,273** | **$7,628,881** | **$27,124,445** |
| GRF Share | $2,036,112 | $3,309,523 | $3,681,623 | $3,259,596 | $12,286,855 |
| Non-GRF Share | $2,753,265 | $3,849,391 | $3,865,649 | $4,369,285 | $14,837,590 |
| **ERI – Total** | **$15,124,328** | **$26,928,790** | **$17,607,828** | **$5,313,762** | **$64,974,708** |
| GRF Share | $4,131,091 | $14,227,242 | $10,729,083 | $2,743,944 | $31,831,360 |
| Non-GRF Share | $10,993,237 | $12,701,548 | $6,878,745 | $2,569,819 | $33,143,348 |
| **UC Benefits & ERI – Total** | **$19,913,705** | **$34,087,704** | **$25,155,101** | **$12,942,644** | **$92,099,153** |
| GRF Share | $6,167,203 | $17,536,765 | $14,410,706 | $6,003,540 | $44,118,214 |
| Non-GRF Share | $13,746,502 | $16,550,938 | $10,744,394 | $6,939,104 | $47,980,938 |

The table above summarizes the total expenditures for state employee related UC benefits and ERI payments as well as their respective GRF and non-GRF shares from FY 2008 to FY 2011. As seen from the table, during this four-year period the state expended a total of $27.1 million in UC benefits payments for former state employees and $65.0 million in state employee ERI plans. Agencies with the largest total UC benefits payments during this period include DNR ($4.3 million), DRC ($4.2 million), DYS ($2.7 million), and the Department of Mental Health ($2.1 million). The combined UC benefits expenditures for these four agencies were $13.2 million, representing 48.8% of the total. Agencies with the largest total ERI payments during the same period include DRC ($16.2 million), the Bureau of Workers' Compensation ($8.1 million), the Rehabilitation Service Commission ($7.6 million), and DDD ($5.9 million). These four agencies' combined ERI payments were $37.8 million, representing 58.2% of the total.

The state government workforce has decreased steadily since FY 2008. The state employee head count (as of July 15) decreased from 64,203 in 2007 to 62,265 in 2008, 59,986 in 2009, 59,593 in 2010, and to 57,266 in 2011. Overall, from July 2007 to July 2011 the state government workforce decreased by 6,937 employees or 10.8%. Of the 57,266 current state employees, 45,633 (79.7%) are under the control of the Office of the Governor.

## Lottery Profits Transfers to Education Total Almost $739 million in FY 2011

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

The Ohio Lottery transferred $738.8 million in profits from operations to the Lottery Profits Education Fund (Fund 7017) in FY 2011. This is the second largest transfer in Ohio Lottery's history, approximately $10 million below the largest transfer of $748.5 million in FY 1997. Once transferred, lottery profits are used to help pay for state foundation payments for schools. The $738.8 million profits transfer represents 28.4% of about $2.60 billion in lottery sales in FY 2011, which is a new record of yearly sales. The table below shows lottery ticket sales by game in FY 2010 and FY 20110. As seen from the table, total ticket sales grew $111.7 million (4.5%) in FY 2011.

**Ohio Lottery Ticket Sales by Game**
**($ in millions)**

| Game | FY 2010 | FY 2011 | $ Change | % Change |
|---|---|---|---|---|
| Pick 3 | $366.8 | $364.4 | ($2.3) | -0.6% |
| Pick 4 | $201.3 | $209.0 | $7.8 | 3.9% |
| Rolling Cash 5 | $67.1 | $62.4 | ($4.7) | -6.9% |
| Kicker | $24.1 | $10.3 | ($13.8) | -57.3% |
| Classic Lotto | $42.8 | $42.7 | ($0.1) | -0.3% |
| Multi-state Games | $239.3 | $241.3 | $2.0 | 0.8% |
| Keno | $120.6 | $157.9 | $37.2 | 30.9% |
| Other* | $49.2 | $50.1 | $0.9 | 1.8% |
| Instants | $1,375.6 | $1,460.3 | $84.7 | 6.2% |
| **TOTAL** | **$2,486.8** | **$2,598.5** | **$111.7** | **4.5%** |

* "Other" games include Raffle, EZ-Play, and Ten-OH

H.B. 153 appropriates $717.5 million in FY 2012 and $680.5 million in FY 2013 from lottery profits for education. The much lower appropriation in FY 2013 reflects the anticipated negative impact on lottery ticket sales of casinos. In November 2009, Ohio voters approved a constitutional amendment authorizing four casinos, one each in Cincinnati, Cleveland, Columbus, and Toledo. All casinos are expected to be operational in FY 2013.

## Chancellor Establishes Ohio Technology Consortium (OH-TECH)

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

In September, the Chancellor of the Ohio Board of Regents (BOR) and The Ohio State University announced an agreement to merge five of Ohio's higher education technology organizations into the Ohio Technology Consortium (OH-TECH). The Ohio Academic Resources Network (OARnet), the Ohio Supercomputer Center (OSC), the Ohio Learning Network (OLN), the Ohio Library and Information Network (OhioLINK), and the Ohio Articulation and Transfer Network will combine services and some personnel into a single consortium in an effort to achieve cost savings. The table below provides a brief description of each of the five organizations that are consolidated in the consortium. All organizations except OLN will continue to perform their current duties. OLN will be dissolved and replaced by an OH-TECH student services division. Through reduction of personnel, the consortium is projected to save $650,000 in its first year and $850,000 in its second year, with potential for further savings in future years.

**Ohio Technology Consortium (OH-TECH) Partners**

| Organization | Description of Duties | H.B. 153 GRF Appropriations Per Fiscal Year |
|---|---|---|
| Ohio Library and Information Network (OhioLINK) | Provides access to millions of library items, electronic journals, and research databases to public and private institutions of higher education around the state | $6.1 million |
| Ohio Supercomputer Center (OSC) | Located at The Ohio State University; provides advanced computing technology and hardware to Ohio universities and private businesses around the state | $3.3 million |
| Ohio Academic Resources Network (OARnet) | Offers broadband services to public schools and libraries around the state and provides technology support to BOR | $3.2 million |
| Ohio Learning Network (OLN) | Works with public and private entities, including schools and businesses, to expand educational opportunities through technology | $2.5 million |
| Ohio Articulation and Transfer Network | Operates a seamless online system of credit transfer for students of Ohio's public universities | $2.0 million |
| | **Total** | **$17.1 million** |

## eTech Ohio Releases Report on Interactive Distance Learning Pilot Project

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

In late August, eTech Ohio released its final report on the Ohio Synchronous Interactive Video Conference Distance Learning Pilot Project. H.B. 1 of the 128th General Assembly established the project and earmarked a portion of Ohio's federal Enhancing Education Through Technology (EETT) grant to fund it. In FY 2011, the project provided $50,000 grants to 43 public high schools in 26 different school districts. According to H.B. 1, 25% of each grant award was to be spent on professional development related to the project and an unspecified portion was to be spent to contract with a vendor approved by eTech to develop and offer interactive distance learning courses. The grant could also be spent on the purchase of equipment and the upgrading of the school's Internet service.

According to the report issued in August, the primary goals of the pilot project were to connect students and instructors through real-time communication and to enable certain public schools to provide advance placement (AP) and foreign language courses. In general, the report concludes that student access to AP and foreign language courses was expanded through the pilot, but the pilot suffered from significant implementation issues that would need to be addressed if the program is continued or expanded.

## Auditor of State Adjusts Local Government Audit Fees

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

In September, the Auditor of State announced a new fee structure that applies to state-mandated financial audits of local government offices. The new flat fee is $41 an hour. Under the former schedule, the rate was the hourly wage of the Auditor of State employee conducting the audit, or the negotiated hourly rate of the private-sector auditor hired by the Auditor of State to conduct the audit, including a surcharge designed to cover miscellaneous overhead costs. The fees ranged from $24 to $64 an hour, depending on who was conducting the audit. An Auditor of State's analysis, however, determined the actual cost of conducting these audits was just under $65 an hour. These expenses were paid from both the Public Audit Expense – Local Government Fund (Fund 4220) and the GRF. Under the new rate schedule, the Auditor of State estimates that approximately 30% of all local government audit costs will be subsidized. Nevertheless, the new rate is expected to increase revenues to the Public Audit Expense – Local Government Fund (Fund 4220) by approximately $5.3 million over the biennium. In FY 2011, receipts were $31.7 million against expenditures of $30.2 million. The Auditor of State conducts approximately 4,200 financial audits each year, many of which are of local governments. Local governments that receive only state money are required to be audited every two years. Those local governments that receive federal and state money are required to be audited annually.

## Department of Youth Services to Realize Savings from Closure of Ohio River Valley Juvenile Correctional Facility

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

On September 10, 2011, the Department of Youth Services ceased operations at the Ohio River Valley Juvenile Correctional Facility, located in Franklin Furnace (Scioto County), a move that it is expected to save the state an estimated $20 million annually. As the facility closed near the end of the first quarter of FY 2012, the first-year savings will likely be closer to $14 million. In addition, as authorized by H.B. 153, the Department has been in discussions with the Department of Administrative Services' Real Estate Division for the purpose of developing a plan to market the facility and surrounding property nationally. The asking or potential sales price is uncertain as of this writing. If sold, the facility would generate a one-time revenue gain, which would be deposited to the credit of the Adult and Juvenile Correctional Facilities Fund to retire state bonds that were issued for the facility, with any remaining proceeds being transferred to the GRF. The facility, which had an average daily population of 142 in FY 2011, was closed as a result of departmental budget cuts and a continued reduction in the number of juveniles committed to a state juvenile correctional facility. Juveniles residing at the facility with time remaining on their sentences, as well as 86 of the facility's 333 employees, were transferred to one of the Department's remaining facilities. Eight additional employees transferred to other state agencies. The remainder, 239 employees, left state employment through a mix of layoffs, resignations, and retirements. Ohio River Valley's closure leaves four state juvenile correctional facilities still in operation: Circleville, Cuyahoga Hills, Indian River (Massillon), and Scioto (Delaware).

## Closure of Cuyahoga County State Psychiatric Hospital to Save $8 million

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

The Ohio Department of Mental Health (ODMH) estimates net savings of $8 million over the FY 2012-FY 2013 biennium from the closure of the Cuyahoga County campus of Northcoast regional psychiatric hospital. The hospital closed on June 30, which reduced the number of state psychiatric hospitals from seven to six and reduced statewide capacity by 20 beds to 1,048. As a result of the closure, 23 patients were transferred to Northcoast's Summit County campus, 12 forensic patients were transferred to Heartland hospital in Stark County, and four forensic patients were transferred from Heartland to Twin Valley hospital in Franklin County.[5] The net savings include $1.8 million in costs for early retirement incentives and $200,000 for unemployment. A total of 88 employees took the incentive, 41 were laid off (21 were temporary employees), and six transferred to other hospitals.

H.B. 153 permits ODMH to convey the land and the Cuyahoga County hospital facility to the Board of County Hospital Trustees of the MetroHealth System. It also requires, within 30 days of the land conveyance, the ODMH Director to disburse $3.4 million from capital appropriation item C58010, Campus Consolidation, to MetroHealth to pay for the demolition of the hospital. If demolition costs are less than $3.4 million, the remaining funds will be returned to ODMH. ODMH is preparing to convey the land and to disburse the funds for demolition to MetroHealth this fall.

## Kinship Permanency Incentive Program Subsidies Reduced

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

The Ohio Department of Job and Family Services (ODJFS) has reduced the amount of monthly subsidies issued under the Kinship Permanency Incentive (KPI) Program for FY 2012. The initial benefit at the time of placement was reduced from $525 to $450, and subsequent payments, which are provided every six months, were reduced from $300 to $250. The amounts were reduced to accommodate a decrease in appropriations for the program in FY 2012. The KPI Program is funded at $3.7 million in FY 2012, a decrease of about $593,000 (13.8%) from FY 2011 expenditures. The program is primarily funded through the GRF and is supplemented with federal Temporary Assistance for Needy Families dollars.

The KPI Program provides financial assistance to family members or friends who are caring for children who cannot live with their parents. Families may receive up to six payments (including the initial payment) over three years. To be eligible, the caregiver's household income may not exceed 300% of federal poverty guidelines ($55,590 for a family of three). In FY 2011, more than 7,800 children living in kinship families received benefit payments through the KPI Program. The last time subsidy payments were adjusted was in November 2009 when initial benefit payments were reduced from $1,000 to $525 and subsequent payments from $500 to $300.

[5] Forensic patients are individuals involved with the criminal justice system.

## Statewide Consortium of County Law Library Resource Boards Granted Appropriation to Begin Operations

*—Matthew Stiffler, Budget Analyst, 614-466-5654*

On September 26, the Controlling Board approved a request submitted by the Supreme Court and allocated $430,000 in each of FY 2012 and FY 2013 to the Supreme Court's non-GRF line item 005620, County Law Library Resources Boards. The purpose of this allocation is to fund operations of the Statewide Consortium of County Law Library Resources Boards and its affiliated five-member Statewide Consortium Board. The funding is supported by the money deposited into the Statewide Consortium of County Law Library Resources Boards Fund (Fund 5JY0), which consists of 2% of the money from fines, penalties, and forfeited bail credited to each county's law library resources fund from the immediately preceding calendar year and forwarded to the state by the county treasurer.

The Statewide Consortium Board was created in January 2011 pursuant to H.B. 420 of the 127th General Assembly. The Board is charged to assist county law library resources boards in acquiring and sharing resources as well as providing consultation and assistance. A law library resources board exists in each of Ohio's 88 counties for the purpose of providing legal research, reference, and a library to the county and its municipal corporations, townships, and courts. The planned allocation of each year's $430,000 appropriation is as follows: $370,000 for direct assistance to law library resources boards, which could include purchasing shared services contracts to provide services to all law library resources boards and providing grants for technology upgrades, $50,000 for the payroll costs of a part-time executive director, and $10,000 for supplies and maintenance.

## Congress Approves Another Federal Transportation Funding Extension

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

On September 16, 2011, President Obama signed the Surface and Air Transportation Programs Extension Act of 2011, extending current levels of federal funding for surface transportation and aviation programs through the six-month period ending on March 31, 2012. Without the extension, federal funding for these programs would have expired on September 30, 2011. This extension, the eighth such temporary funding measure since the previous long-term surface transportation reauthorization bill expired on September 30, 2009, provides additional time for Congress to pass the next long-term reauthorization bill. These bills typically cover a period of four to six years to allow transportation planners some certainty regarding the level of federal transportation funding that will be available.

Ohio's federal highway funding allocation is subject to the appropriation process of the General Assembly through the biennial transportation budget act. The current such act, H.B. 114 of the 129th General Assembly, appropriates federal highway funding totaling $1.31 billion for FY 2012, including federal funds designated for planning and research activities, grade crossing safety projects, and debt service on bonds issued against and primarily retired with federal highway funds. Certain federal public transit funds, primarily those for rural and small urban transit systems, are also appropriated in H.B. 114, amounting to $51.8 million for FY 2012. This includes $20 million in flexible federal highway funds that will be transferred for public transit purposes. All such federal highway and public transit funds are deposited in and expended out of the Highway Operating Fund (Fund 7002).

# TRACKING THE ECONOMY

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

The economy continues to expand, but not fast enough to reduce unemployment.

## Overview

The economy continues to expand, but not fast enough to reduce unemployment. Inflation-adjusted gross domestic product (real GDP) rose at less than a 1% annual rate on average in this year's first half. Employment continued to grow at a modest rate in the third quarter, and hiring plans suggest employment will increase further in the current quarter. Manufacturing production increased through August, and likely also in September based on reports from purchasing managers. Consumer spending rose in the third quarter. Apartment and nonresidential construction activity appear to have turned higher, from low levels, but single-family housing construction and sales remain weak. Domestic inflation looks to be easing. The potential for additional conflicts in Washington over appropriate fiscal policy may further erode consumer and business confidence. Slower growth or declines in the economies of some foreign trading partners will cut into demand for U.S. exports. The potential for worsening Eurozone sovereign debt problems overhangs the economic outlook.

As expected, the central bank's Federal Open Market Committee (FOMC) decided at its September meeting to try to push longer-term interest rates lower by buying U.S. Treasury securities with longer remaining maturities and selling U.S. Treasury securities with shorter remaining maturities. This policy is sometimes referred to as "Operation Twist." Specifically, the FOMC announced that by the end of June 2012 it would buy $400 billion of Treasury securities with six years to 30 years until maturity, and would sell an equal amount of Treasury securities with three years or less until maturity. In addition, the FOMC changed its handling of maturing U.S. agency debt and mortgage-backed securities, reinvesting the principal in agency mortgage-backed securities instead of in U.S. Treasury securities. This change is intended to help support mortgage markets. The central bank will continue to roll over maturing U.S. Treasury securities in its portfolio, kept its target for federal funds at zero to 0.25%, and reiterated that it expects exceptionally low levels for the federal funds rate through mid-2013.

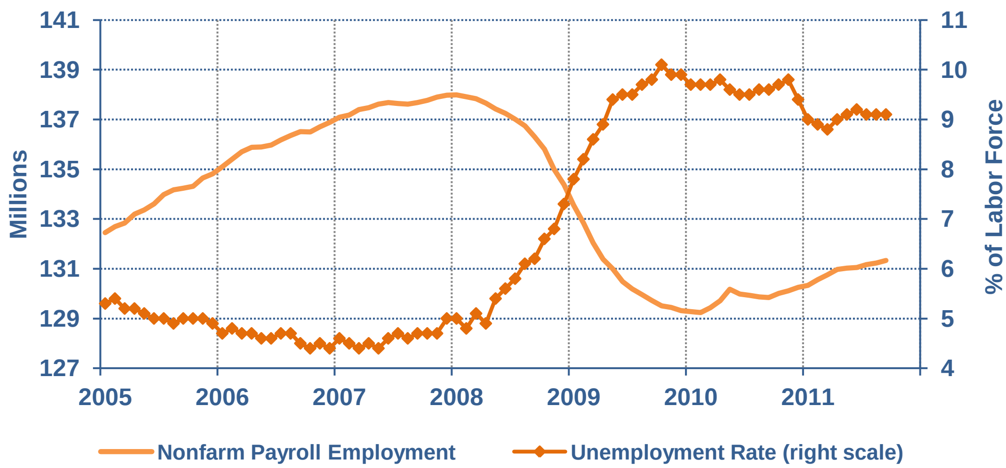
# The National Economy

## Employment and Unemployment

Nonfarm payroll employment nationwide rose by 103,000 in September, and employment in the previous two months was revised upward, with August revised 99,000 higher. The national average unemployment rate was unchanged at 9.1%. U.S. employment and unemployment are shown in Chart 1.

Nonfarm payroll employment nationwide rose 103,000 in September, and the unemployment rate was unchanged at 9.1%.

Chart 1: U.S. Employment and Unemployment




Total nonfarm payroll employment rose in September in part because of a return to payrolls of about 45,000 telecommunications workers who were on strike in August. Also, gains were reported in September in professional and business services, health care, nonresidential construction, and mining. Total private payrolls rose 137,000 in September, and have gained nearly 1.8 million in the past year. Government employment continued to trend downward in September, with decreases at local governments and at the U.S. Postal Service.

The number of persons counted as unemployed in September was little changed at about 14 million. More than 6 million (45%) of these people had been out of work for over six months. The unemployment rate has fluctuated between 9.0% and 9.2% since April. The peak for the unemployment rate nationwide was in October 2009, at 10.1%. Among the employed, more than 9 million people were part-time workers who would have preferred full-time jobs but had been unable to find full-time work or had their hours of work reduced. Persons not counted in the labor force included 1 million who wanted jobs and had looked for work in the prior 12 months, but had not searched for jobs in the latest four weeks because they believed no employment was available for them.

Real GDP rose at an anemic 1.3% annual rate in the second quarter, up from 0.4% in the first quarter.

A survey of hiring intentions conducted by ManpowerGroup indicated that more employers in the U.S. expected to add to the number of people employed at their locations in the fourth quarter than expected to reduce employment. After adjustment for typical seasonal fluctuations, the net employment outlook was for less widespread hiring than earlier in 2011, and much less widespread hiring than in 2004 through 2007 and in much of the 1990s.

### Production, Shipments, and Inventories

Real GDP rose at an anemic 1.3% annual rate in the second quarter, in the federal government's latest estimate, up from a 0.4% annual rate of increase in the first quarter. In 2010, real GDP rose 3.0%. Consumer spending, more than two-thirds of the total, rose at only a 0.7% annual rate in the second quarter. Nonresidential fixed investment gained for the sixth consecutive quarter, residential fixed investment also increased, and exports rose, while government spending fell and additions to inventories slowed.

In August, industrial production rose 0.2%, and manufacturing output rose 0.5%. The rise in factory production followed a 0.6% increase in July. The upturn reflects in part higher motor vehicle and parts production following declines in the second quarter when supply chains were disrupted by the earthquake and tsunami in Japan. Mining output rose 1.2% in August after a 1.1% increase in July. Utility output fell in August, seasonally adjusted, as temperatures moderated somewhat following extreme heat in July.

In September, more purchasing managers with manufacturers reported increases in production at their firms than reported decreases, in the monthly survey by the Institute for Supply Management (ISM). In August, the production index declined, seasonally adjusted. Growth in September was less widespread than in any month during the two years through July. The ISM manufacturing survey also reported increases in employment and inventories, but contraction in new orders and in order backlogs. The index of order backlogs was at its weakest level since the 2007-2009 recession. More purchasing managers reported increases in prices paid than reported decreases, but price increases were less widespread than in most months since mid-2009. A comparable ISM survey of purchasing managers with organizations other than manufacturers showed increases in September in business activity, new orders and order backlogs, and inventories, but contraction in employment, accompanied by rising prices paid.

The dollar value of manufacturers' new orders, volatile from month to month, fell 0.2% in August after rising in July to the highest level since the 2007-2009 recession. Year-to-date new orders were 13% higher than a year earlier. Factory shipments also slipped 0.2% in August from a post-recession peak. Year-to-date shipments were 12% higher than in the year-earlier period. Manufacturers' backlogs of unfilled orders in August were at the highest level since the low point in 2009, and 8% higher than a year earlier. Inventories were also at a post-recession high, 13% above a year earlier.

### Consumer Spending

Personal income fell in August, though only by 0.1%. Previously, personal income rose every month since late 2009. Private-sector wage and salary disbursements and interest income declined from July to August. Also, transfer payments fell, mainly reflecting lower Medicaid and unemployment insurance benefits. Transfer payments are providing less support for consumer spending than earlier. The peak for total transfer payments to persons and for Medicaid payments was in December 2010, and the peak for unemployment insurance payments was in January 2010. Consumer spending rose in August in current dollars, but adjusted for inflation was about unchanged after a 0.4% increase in July. Third quarter consumer spending growth appears likely to be somewhat higher than the anemic increase in the second quarter.

In September, U.S. sales of light vehicles improved to a 13.0 million unit seasonally adjusted annual rate, the industry's highest sales rate since April. Sales were disrupted in May and June by parts supply issues related to the earthquake and tsunami in Japan. Third quarter unit sales of cars and light trucks were 12% higher, at an annual rate, than in the second quarter.

In September, U.S. sales of light vehicles improved to a 13.0 million unit seasonally adjusted annual rate, the industry's highest sales rate since April.

A compilation of reports on the dollar amount of sales of large retailers that release their results monthly, by the International Council of Shopping Centers, showed September sales 5.5% higher than a year earlier, following a 4.8% increase in August. These numbers are on a same-store basis, including only sales at store locations open in both the current and year-earlier months.

Consumer willingness to borrow and lender willingness to extend credit are important influences on the amount of consumer spending. The dollar value of all consumer credit outstanding, other than borrowings backed by real estate, fell 0.4% from July to August, seasonally adjusted, and was 5.3% lower than at the all-time peak in July 2008. Consumers remain in repayment mode on their credit cards. The amount of consumer revolving credit, which is mostly on credit cards, fell in July and August to its lowest level since 2004, nearly 19% lower than at the peak in 2008. However, nonrevolving consumer credit, which consists of car loans, education loans, and other loans not included in revolving credit, fell 0.3% in August from an all-time high in July.

Housing starts remain weak, more than 70% below the rate for starts in peak year 2005.

### Construction and Real Estate

Housing starts remain weak, more than 70% below the rate for starts in peak year 2005. In August, housing starts fell 5% from July and were 6% lower than in August 2010. Year-to-date housing starts were 4% lower than in the year-earlier period, reflecting weakness in starts of single-family homes and of structures with two to four units, and a 44% upturn in starts on apartment buildings. Starts on construction of apartments nevertheless remain at less than half of the rate at the 2005 peak.

Sales of new single-family homes also continue to be soft, with contract signings for home sales in August 2% lower than in July and only 6% higher than in August 2010, when they were the lowest on records kept since 1963. Home sales a year ago were depressed following the winding down of the federal tax credit program aimed at boosting sales. The rate of new home sales in August was less than one-fourth of sales in peak year 2005.

Home sales reported by the National Association of Realtors (NAR), mostly of homes previously owned and occupied, were 8% higher in August than in July, seasonally adjusted, at the highest rate since March, and 19% higher than a year earlier. The sales rate this year remains about 30% slower than in peak year 2005. The NAR in its monthly release of these figures again noted that tight credit availability and appraisal values below negotiated prices continue to restrain sales.

An index of nationwide average home prices published by the Federal Housing Finance Agency has risen in the latest four months, through July, after allowance for typical seasonal changes. The index is based on purchase prices of homes that back mortgages sold to or guaranteed by Fannie Mae or Freddie Mac. The home price index was 2.2% higher than its recent low in March, but 18.4% lower than its peak in April 2007, and was about even with its value in 2004. S&P/Case-Shiller's monthly index of home prices in 20 large cities rose in April but was little changed, seasonally adjusted, in May through July, reaching a level 0.2% higher than in March.

Mortgage interest rates are at exceptionally low levels. The average interest rate on commitments for 30-year fixed-rate first mortgages fell to 3.94% in the week ended October 6, in a weekly survey by Freddie Mac, its lowest level on records kept since 1971.

The value of construction put in place rose 1.4% from July to August, as public construction rose 3.1%. Although year-to-date total construction spending was 3.0% lower than a year earlier, this measure of construction activity was higher in the latest month than earlier this year, seasonally adjusted. Total construction was 5% higher in August than at this year's low in March, as was private residential construction. Private nonresidential construction was 12% higher than in January. Public construction was 3% higher than in May. These increases may indicate that construction activity is bottoming out. Total construction spending fell each year from 2007 through 2010.

### Inflation

The consumer price index (CPI) for all items rose 0.4% from July to August, and was 3.8% higher than a year earlier, its largest year-over-year increase since September 2008. The increase was broad-based. Most categories of food prices rose. The index for energy prices rose, as a decline in the price of gasoline was less than usual as reflected in the seasonal adjustment factors. The CPI for all items less food and energy rose 0.2% from July to August, and was 2.0% higher than in August 2010, the largest year-over-year increase since November 2008.

The average price of regular gasoline fell to $3.43 per gallon nationwide ($3.17 in Ohio) on October 3, in the U.S. Energy Information Administration's weekly survey. This average was nearly $4 per gallon at the recent peak in May (over $4 in Ohio). The price for the U.S. benchmark crude oil, West Texas Intermediate, fell from over $90 per barrel in early September, and more than $110 last spring, to less than $80 in early October, lowest in more than a year, before recovering back above that level.

The producer price index (PPI) for finished goods was unchanged in August as lower wholesale energy prices were offset by higher prices for food and other items. Compared with its level a year earlier, the finished goods PPI was 6.5% higher in August, mainly reflecting price increases early this year and late last year. Finished energy prices in the PPI fell in the latest three months. At earlier stages in the production process, the PPI for intermediate materials, supplies, and components declined in August, and the PPI for crude materials rose 0.2% after declines in the previous three months.

Total nonfarm payroll employment in Ohio declined in August by 700 workers (0.01%), and the state's unemployment rate rose to 9.1%.

## The Ohio Economy

Total nonfarm payroll employment in Ohio declined in August by 700 workers (0.01%), and the state's unemployment rate rose to 9.1%. Statewide employment and unemployment are shown in Chart 2.

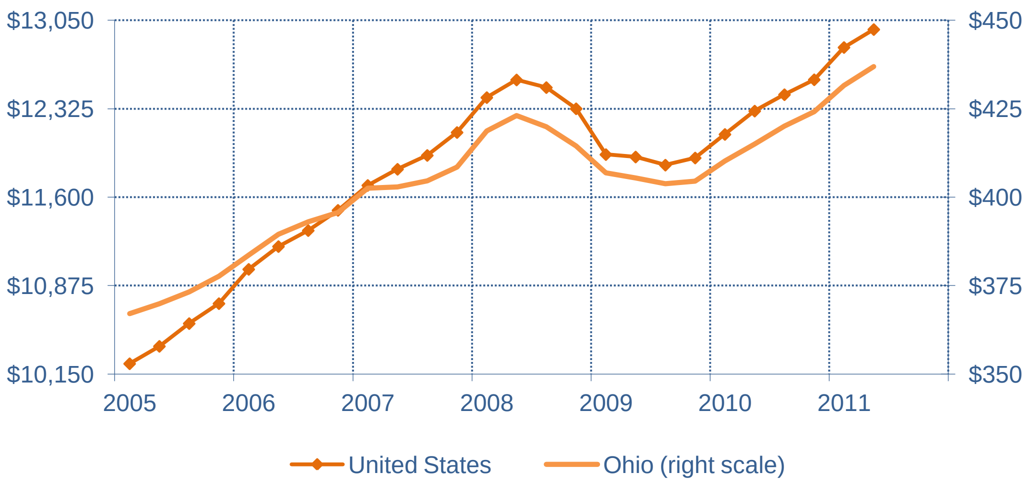
**Chart 2: Ohio Employment and Unemployment**


The August decline in Ohio total nonfarm payrolls was the first monthly decline since 2010. Total private nonfarm payroll employment was unchanged in August, after increasing earlier in the year, as gains in accommodation and food services, health care, and other industries were offset by declines in manufacturing, retail trade, and some other services. Government employment fell in August, continuing a downtrend underway since 2006. Since the cyclical low for total nonfarm payrolls in December 2009, employment has risen 113,000 (2.3%), with the largest gains in education and health services, professional and business services, manufacturing, and leisure and hospitality. Statewide total employment on nonfarm payrolls remains more than 500,000 below the all-time peak in 2000.

The number of people counted as unemployed in the state in August totaled 536,000, down from a peak of 627,000 two years earlier. The statewide unemployment rate rose in the latest three months, from a post-recession low of 8.6% in April and May, and equaled the nationwide average rate in August after being lower earlier this year.

Personal income in Ohio rose 1.2% on average from this year's first quarter to the second quarter, down from a 1.7% increase in the first quarter. Nationwide, state personal income rose 1.1% on average in the second quarter, down from 2.1% in the first quarter. State personal income is shown in Chart 3. These figures are in dollars of current purchasing power, not adjusted for inflation. Since reaching a cyclical low in the third quarter of 2009, personal income in Ohio increased 8% by this year's second quarter, while personal income of all states increased 9%.

**Chart 3: Personal Income**
**($ in billions)**




Home sales in Ohio, reported by the Ohio Association of Realtors, were 22% higher in August than a year earlier, based on the number of units sold. For the first eight months of 2011, unit sales were 6% lower than a year earlier. As with the national numbers, year-to-year comparisons continue to reflect the effects of federal tax incentives that boosted sales earlier in 2010, after which sales slowed later in the year. The average price at which homes were sold in Ohio in January through August was about $129,900, 3% lower than a year earlier.

Personal income in Ohio rose 1.2% on average from this year's first quarter to the second quarter, down from a 1.7% increase in the first quarter.