Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION SEPTEMBER 2011

STATUS OF THE GRF

HIGHLIGHTS

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

Economic growth slowed nationally in the first half of the year, and U.S. payroll employment was unchanged in August. Similarly, GRF sources for the first two months of FY 2012 were virtually unchanged from the corresponding months of FY 2011. LSC has not yet received monthly revenue and expenditure estimates from the Office of Budget and Management. This issue of *Budget Footnotes* reports changes from FY 2011 to FY 2012. The October issue will examine variances from estimate.

The lack of change in GRF sources from FY 2011 masked a significant change in the composition of the totals. The end of federal funding from the American Recovery and Reinvestment Act led to a $297 million decrease in federal grants, but this was nearly offset by a $296 million increase in total state sources. The latter was due primarily to GRF tax revenues which were $284 million higher, due in large part to the GRF receiving larger shares of some taxes, as explained in this month's Revenues section.

Through August 2011, GRF sources totaled $4.21 billion:

- Revenue from the personal income tax was $69.9 million higher than FY 2011 through August;
- Sales and use tax receipts were $85.0 million higher than last year.

Through August 2011, GRF uses totaled $5.36 billion.

- GRF Medicaid spending amounted to $2.31 billion.

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STATUS OF THE GRF

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Table 1: General Revenue Fund Sources
Actual Revenue, by Month and Year-to-Date
FY 2012 as of August 31, 2011
($ in thousands)
(Based on report run in OAKS Actuals Ledger on September 6, 2011)

	Month		Year-to-Date			
	July	**August**	**FY 2012**	**FY 2011**	***Variance***	***Change***
STATE SOURCES						
TAX REVENUE						
Auto Sales	$86,863	$97,000	$183,863	$177,690	*$6,173*	*3.5%*
Nonauto Sales and Use	$607,665	$599,554	$1,207,219	$1,128,419	*$78,799*	*7.0%*
Total Sales and Use Taxes	$694,528	$696,554	$1,391,082	$1,306,110	*$84,972*	*6.5%*

Personal Income	$494,905	$604,372	$1,099,277	$1,029,381	*$69,896*	*6.8%*
Corporate Franchise	-$1,950	-$357	-$2,306	-$5,430	*$3,124*	*57.5%*
Public Utility	$0	$33,032	$33,032	$30,478	*$2,554*	*8.4%*
Kilowatt Hour Excise	$21,013	$30,910	$51,923	$31,695	*$20,228*	*63.8%*
Natural Gas Consumption	$1,257	$11,966	$13,222	$0	*$13,222*	---
Commercial Activity Tax	$8,762	$85,592	$94,354	$0	*$94,354*	---
Foreign Insurance	-$456	-$432	-$888	-$179	*-$709*	*-395.4%*
Domestic Insurance	$15	$0	$15	$134	*-$120*	*-89.1%*
Business and Property	$150	$11	$160	$129	*$32*	*24.6%*
Cigarette	$10,226	$80,175	$90,401	$94,223	*-$3,821*	*-4.1%*
Alcoholic Beverage	$5,840	$4,556	$10,396	$10,497	*-$101*	*-1.0%*
Liquor Gallonage	$3,256	$3,403	$6,659	$6,425	*$234*	*3.6%*
Estate	$105	$0	$105	$0	*$105*	---
Total Tax Revenue	**$1,237,651**	**$1,549,781**	**$2,787,432**	**$2,503,463**	***$283,969***	***11.3%***

NONTAX REVENUE						---

Earnings on Investments	$3	$4	$6	$6	*$1*	*14.1%*
Licenses and Fees	$367	$3,729	$4,096	$7,634	*-$3,538*	*-46.3%*
Other Revenue	$692	$5,066	$5,758	$1,120	*$4,638*	*414.1%*
Total Nontax Revenue	**$1,062**	**$8,799**	**$9,861**	**$8,760**	***$1,101***	***12.6%***

TRANSFERS						---

Liquor Transfers	$0	$25,132	$25,132	$26,000	*-$868*	*-3.3%*
Budget Stabilization	$0	$0	$0	$0	*$0*	---
Other Transfers In	$10,598	$55	$10,653	-$1,357	*$12,010*	*884.8%*
Total Transfers In	**$10,598**	**$25,187**	**$35,785**	**$24,643**	***$11,142***	***45.2%***

TOTAL STATE SOURCES	**$1,249,311**	**$1,583,766**	**$2,833,078**	**$2,536,865**	***$296,213***	***11.7%***

Federal Grants	$1,016,135	$364,400	$1,380,534	$1,677,643	*-$297,109*	*-17.7%*

TOTAL GRF SOURCES	**$2,265,446**	**$1,948,166**	**$4,213,612**	**$4,214,508**	***-$896***	***0.0%***

Detail may not sum to total due to rounding.

REVENUES

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

Overview

GRF tax revenues received during the first two months of FY 2012 increased by $284.0 million compared to the corresponding months of FY 2011. The increase reflects both growth in several of the tax bases, as well as changes made by Am. Sub. H.B. 153, the operating budget act for fiscal years 2012 and 2013, to the distribution of certain tax receipts between the GRF and non-GRF local funds. Over one-third of the increase, about $108 million, was due to tax sources that did not contribute to the GRF in FY 2011, the commercial activity tax (CAT) and the natural gas consumption (MCF) tax. In addition, parts of the increases in GRF revenue from the personal income tax, the nonauto sales and use tax, the kilowatt hour tax, and the business and property tax were due to increases in GRF shares of receipts, at the expense of various non-GRF local funds. For more details on the tax changes made by Am. Sub. H.B. 153, please see the LSC bill analysis.

FY 2012 tax receipts were $284.0 million above FY 2011 receipts.

LSC did not receive the monthly GRF revenue estimates from the Office of Budget and Management in time for this issue of *Budget Footnotes*. Therefore, Table 1 shows GRF sources for the months of July and August 2011, and compares FY 2012 year-to-date receipts to FY 2011 receipts in the same period. 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.

H.B.153 changed the distributions of certain tax receipts between the GRF and non-GRF local funds.

Overall, FY 2012 total GRF sources of $4.21 billion were $0.9 million (0.0%) below FY 2011 GRF sources through August 2010. An increase in state-source receipts of $296.2 million was offset by a decrease of $297.1 million in federal grants. The increase in state-source receipts was due to the $284.0 million (11.3%) increase in GRF tax receipts referred to above, and to an increase in nontax revenue and transfers totaling $12.2 million (36.7%).

Through August, FY 2012 GRF receipts from the sales and use tax and the personal income tax were above the previous year's level, respectively, by $85.0 million and $69.9 million. Receipts also increased notably for the commercial activity tax ($94.3 million), the kilowatt hour tax ($20.2 million), and the natural gas consumption tax ($13.2 million). Other taxes with significant year-to-year revenue variances included a decrease of $3.8 million in cigarette tax receipts, and an increase of $2.6 million in public utility excise tax receipts. Also, net corporate

Through August, FY 2012 GRF income tax receipts were $69.9 million above FY 2011 receipts.

franchise tax refunds to taxpayers were $3.1 million lower than in FY 2011 through August, yielding a positive variance for that tax of the same amount.

Personal Income Tax

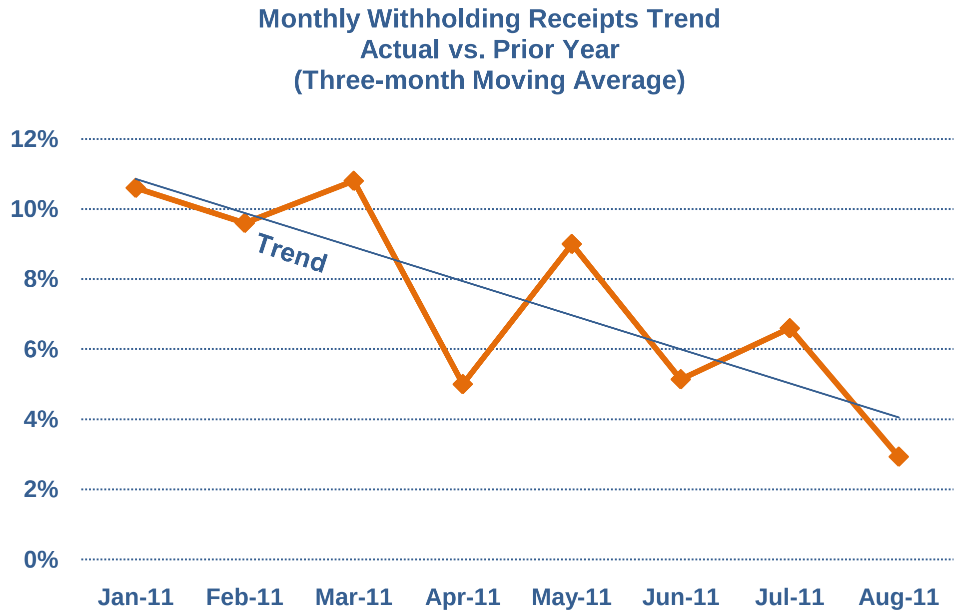
Through August, the GRF received $1.10 billion from the personal income tax in FY 2012. This amount was $69.9 million (6.8%) above receipts during the corresponding period in FY 2011. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the Local Government Fund. Gross collections are the sum of withholding, quarterly estimated payments,[1] trust payments, payments associated with annual returns, and miscellaneous payments. The table below summarizes FY 2012 income tax revenue annual changes by component.

FY 2012 Year-to-Date Changes by Component from FY 2011

Category	Amount (in millions)	Percentage (%)
Withholding	$51.4	4.5%
Quarterly Estimated Payments	$3.5	14.1%
Trust Payments	$0.3	29.2%
Annual Return Payments	$5.3	34.9%
Miscellaneous Payments	-$0.4	-3.0%
Gross Collections	**$60.0**	**5.0%**
Less Refunds	-$6.8	-11.1%
Less Local Government Fund Distribution	-$3.1	-2.8%
Income Tax Revenue	**$69.9**	**6.8%**

Year to date, revenues from employer withholding were $51.4 million above receipts in this category last year. Gross collections increased by $60.0 million (5.0%), reflecting an increase in the tax base. Refunds and distributions to the Local Government Fund were, respectively, $6.8 million and $3.1 million below amounts in those categories in the first two months of FY 2011. Ohio payrolls have continued to grow, though recent improvements in the employment situation have been weaker than earlier in 2011, as shown in the graph below.

[1] 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.



Through August, FY 2012 employer withholding was $51.4 million above similar receipts in FY 2011.

Sales and Use Tax

Through August, FY 2012 GRF sales and use tax receipts totaled $1.39 billion, $85.0 million (6.5%) above FY 2011 receipts in the corresponding period. For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[2] 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.

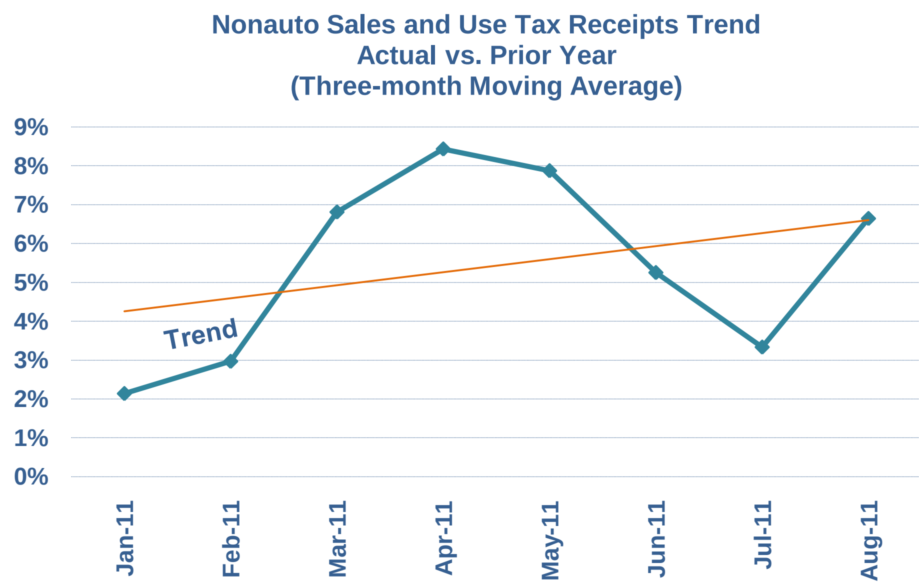
Through August, FY 2012 GRF sales and use tax receipts were $85.0 million above FY 2011 receipts.

Nonauto Sales and Use Tax

Nonauto sales and use tax receipts to the GRF were $1.21 billion, $78.8 million (7.0%) above receipts in FY 2011 through August 2010. According to the Office of Budget and Management, about $28 million in nonauto sales tax receipts in August were advanced sales tax payments by Medicaid health insuring corporations that would have been collected in September. Excluding the extra payment, year-over-year growth in nonauto tax receipts would be about 4.5%. The nonauto sales and use tax base continues to expand, though growth has slowed compared to that of

[2] 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.

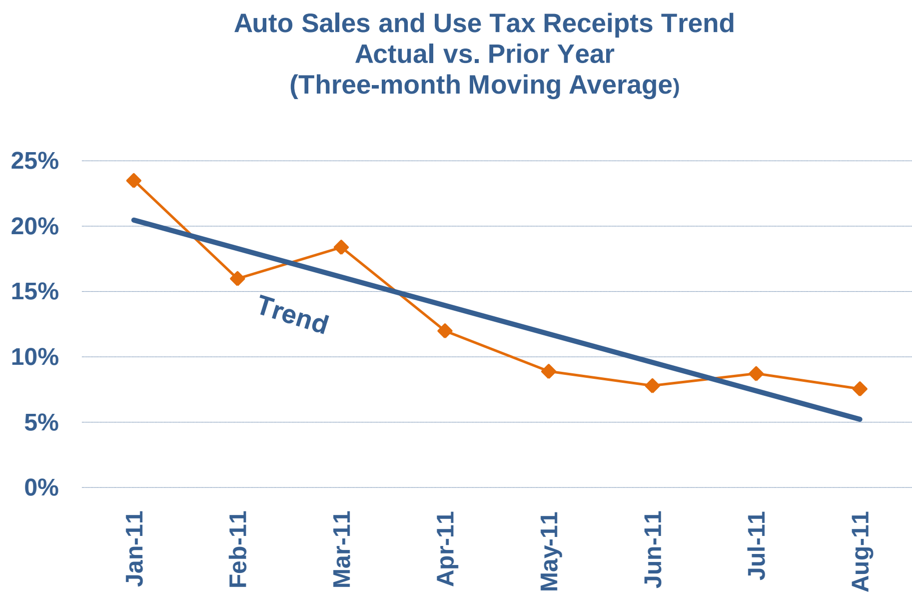
previous quarters. The graph below shows the trend in monthly receipts in CY 2011 against prior-year receipts in the same month. Despite persistent economic headwinds, consumer spending has been steady in recent months. The dollar value of sales at 26 large retailers that report results monthly was 4.6% higher in August than a year earlier, a figure that matches the year-over-year increase in July.[3]



Auto Sales and Use Tax

FY 2012 year-to-date auto sales and use tax receipts to the GRF totaled $183.9 million, $6.2 million (3.5%) above receipts in FY 2011 through August 2010. Though growth in auto tax receipts has receded in recent months compared to earlier in the year, it may be returning to a more sustainable path. 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.

[3] Figures by the International Council of Shopping Centers.



Light vehicle sales in the U.S. last year totaled 11.6 million units, up from 10.4 million in 2009 but less than in 2008 when 13.2 million cars and light trucks were sold. In August, sales of cars and light trucks were at a seasonally adjusted annual rate of 12.1 million units, down slightly from July's 12.2 million unit pace but higher than May and June when sales averaged about an 11.6 million unit annual rate, due in part to problems resulting from the March 2011 earthquake in Japan.

Cigarette and Other Tobacco Products Tax

Through August, receipts from the tax on cigarettes and other tobacco products in FY 2012 were $90.4 million, $3.8 million (4.1%) below FY 2011 receipts through August 2010. Receipts from cigarette sales were $81.7 million. Sales of products other than cigarettes provided $8.7 million. Compared to FY 2011, receipts from the sale of cigarettes declined $4.2 million and those from the sale of other tobacco products increased $0.4 million. The decrease in revenues attributable to cigarette sales reflects the continuation of a sustained downward trend.

Through August, FY 2012 total CAT receipts were $30.1 million above FY 2011 receipts.

Commercial Activity Tax

The first quarterly commercial activity tax (CAT) payment for quarterly taxpayers for FY 2012 was due August 2011. According to OAKS, August GRF CAT receipts totaled $85.6 million. July receipts were $8.8 million, for a total of $94.3 million in GRF receipts for the fiscal year. Through August, FY 2012 total CAT receipts were $377.7 million, $30.7 million (8.9%) above receipts in the corresponding period 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 (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.

EXPENDITURES

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

Overview

As seen from Table 2 below, total GRF uses for the first two months of FY 2012 were $5.36 billion. Program expenditures, which totaled $5.03 billion, comprised slightly more than 93.8% of the total GRF uses. LSC did not receive the monthly GRF use estimates for FY 2012 in time for publishing this issue of *Budget Footnotes*. Therefore, this brief expenditure report does not compare actual GRF uses in July and August with the estimated uses for these two months.

Total GRF uses for the first two months of FY 2012 were $5.36 billion.

Table 2. General Revenue Fund Uses
Months of July and August 2011
($ in thousands)
(Actual based on OAKS report run on September 6, 2011)

PROGRAM	July Actual	August Actual	Year-to-Date Actual
Primary, Secondary, and Other Education	$846,209	$530,888	$1,377,097
Higher Education	$198,278	$171,626	$369,904
Total Education	$1,044,487	$702,514	$1,747,001
Public Assistance and Medicaid	$1,732,540	$707,605	$2,440,145
Health and Human Services	$184,627	$56,834	$241,462
Total Welfare and Human Services	$1,917,167	$764,439	$2,681,606
Justice and Public Protection	$206,081	$140,114	$346,195
Environment and Natural Resources	$6,942	$5,867	$12,809
Transportation	$424	$607	$1,031
General Government	$40,102	$19,594	$59,696
Community and Economic Development	$10,487	$5,496	$15,983
Capital	$0	$0	$0
Total Government Operations	$264,036	$171,678	$435,715
Tax Relief and Other	$5,352	$67,357	$72,708
Debt Service	$60,205	$27,782	$87,988
Total Other Expenditures	$65,557	$95,139	$160,696
Total Program Expenditures	**$3,291,247**	**$1,733,770**	**$5,025,017**
TRANSFERS			
Budget Stabilization	$246,899	$0	$246,899
Other Transfers Out	$65,276	$18,533	$83,809
Total Transfers Out	$312,175	$18,533	$330,708
TOTAL GRF USES	**$3,603,422**	**$1,752,303**	**$5,355,725**

Most of the program expenditures ($4.53 billion or 90.2%) in the first two months of the year were concentrated in the following four program categories: Public Assistance and Medicaid ($2.44 billion); Primary, Secondary, and Other Education ($1.38 billion); Higher

GRF Medicaid spending totaled $2.31 billion for the first two months of FY 2012.

Education ($369.9 million); and Justice and Public Protection ($346.2 million). The other component of GRF uses, transfers out, expended $330.7 million through the first two months of FY 2012. The majority of this amount was attributable to a transfer from the GRF to the Budget Stabilization Fund (Fund 7013) made in July. After FY 2011 ended, the Director of the Office of Budget and Management (OBM) transferred $246.9 million to the Budget Stabilization Fund, which previously had a balance of less than two dollars.

GRF expenditures for Medicaid totaled $2.31 billion in July and August, accounting for almost 95% of the total year-to-date GRF expenditures for Public Assistance and Medicaid. Table 3 below shows FY 2012 actual GRF Medicaid expenditures by service category. On an all-fund basis, Medicaid expenditures totaled $2.39 billion for the first two months of FY 2012.

Table 3. FY 2012 Medicaid Expenditures
($ in thousands)
(Actual based on OAKS reports run on September 7, 2011)

Medicaid (600525) Payments by Service Category	July Actual	August Actual	Year-to-Date Actual
Nursing Facilities	$215,197	$196,725	$411,922
ICFs/MR	$45,210	$47,468	$92,678
Inpatient Hospitals	$71,249	$69,261	$140,510
Outpatient Hospitals	$31,076	$32,585	$63,661
Physicians	$23,546	$23,932	$47,479
Prescription Drugs	$167,401	$135,043	$302,444
ODJFS Waivers	$26,611	$26,578	$53,189
MCP	$843,968	$0	$843,968
Other (including Medicare Buy-In)	$134,704	$135,330	$270,034
Aging Waivers	$87,270	$36,816	$124,087
Total Payments	$1,646,231	$703,738	$2,349,970
Non-GRF Offsets	$0	$79,645	$79,645
Total 600525 (net of offsets)	$1,646,231	$624,093	$2,270,325
Medicare Part D (600526)	$19,643	$22,888	$42,531
Total GRF	**$1,665,874**	**$646,981**	**$2,312,855**
Total All Funds	**$1,665,874**	**$726,626**	**$2,392,500**

ICFs/MR – Intermediate Care Facilities for the Mentally Retarded
ODJFS – Ohio Department of Job and Family Services
MCP – Managed Care Plan
Aging Waivers include PASSPORT, CHOICE, PACE, and Assisted Living

ISSUE UPDATES

FY 2011 Operating and Capital Expenditures Total $60.31 Billion

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

In FY 2011, the state of Ohio incurred a total of $60.31 billion in operating and capital expenditures. As seen from Table 1, $54.88 billion (91.0%) of the total expenditures were authorized in the main operating budget. The transportation and capital budgets accounted for $3.51 billion (5.8%) and $1.61 billion (2.7%), respectively, of the total. The remaining $315.2 million (0.5%) was authorized in the Bureau of Workers' Compensation and Industrial Commission budgets.

Table 1. FY 2011 Operating and Capital Expenditures by Budget

Budget	Amount	% of Total
Main Operating	$54,884,048,417	91.0%
Transportation	$3,509,354,147	5.8%
Capital	$1,605,585,773	2.7%
Workers' Compensation System	$315,232,692	0.5%
Total	**$60,314,221,028**	**100.0%**

Table 2 shows FY 2011 expenditures by account category used in the state's accounting system. As seen from Table 2, Subsidies and Shared Revenue is the largest spending area. In FY 2011, 86.5% ($22.71 billion) of the total GRF expenditures were distributed as subsidies to schools, colleges and universities, local governments, and various other entities. Across all funds, this category's expenditures totaled $39.21 billion (65.0%). The vast majority of the expenditures incurred under the Capital Item category – $3.64 billion (6.0%) across all funds – supported the construction and maintenance of roads and bridges in the state as well as the construction and renovation of public K-12 schools and colleges and universities. Capital Item expenditures are mainly funded by bond proceeds. FY 2011 debt service payments totaled $298.8 million (1.1%) for the GRF and $1.18 billion (2.0%) across all funds.

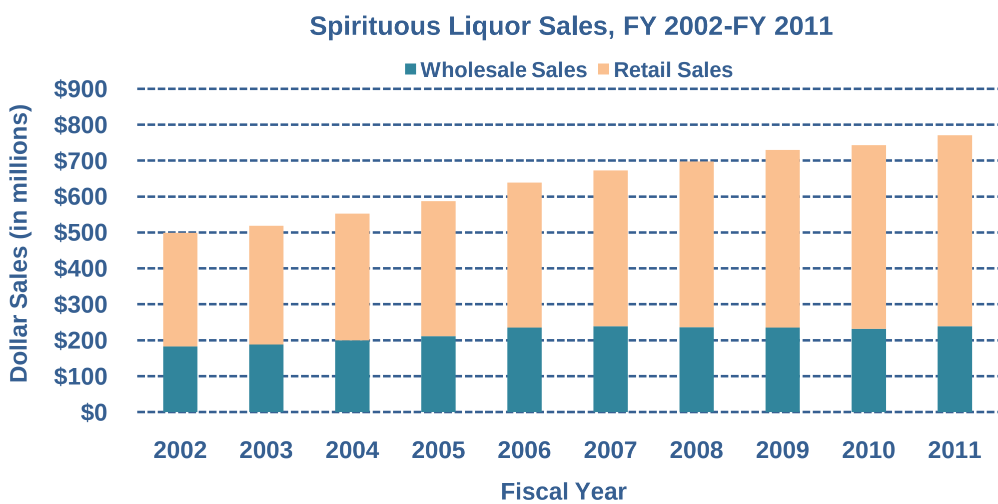
For FY 2011, state payroll costs (including both salaries and fringe benefits) amounted to $4.51 billion across all funds, of which $1.90 billion was supported by the GRF. In addition to Payroll, what commonly is referred to as the state government's operating expenses also include expenditures incurred under the Purchased Personal Services and Other, Supplies and Maintenance, and Equipment categories. For FY 2011, the state government's operating expenses totaled $7.06 billion across all funds, of which $2.55 billion came from the GRF. In percentage terms, these amounts represent 11.7% and 9.7% of the respective totals.

Table 2. FY 2011 Operating and Capital Expenditures by Account Category				
Account Category	**GRF Only**	**% of Total**	**All Funds**	**% of Total**
500 – Payroll	$1,895,349,838	7.2%	$4,505,321,001	7.5%
510 – Purchased Personal Services & Other	$235,757,650	0.9%	$1,046,153,287	1.7%
520 – Supplies and Maintenance	$400,453,810	1.5%	$1,352,047,789	2.2%
530 – Equipment	$15,437,925	0.1%	$160,267,890	0.3%
550 – Subsidies and Shared Revenue	$22,705,039,833	86.5%	$39,209,437,410	65.0%
560 – Goods and Services for Resale	$0	0.0%	$560,290,970	0.9%
570 – Capital Items	$43,290	0.0%	$3,641,819,471	6.0%
590 – Judgments, Settlements, & Bonds	$11,250,569	0.0%	$27,221,009	0.0%
591 – Debt Service	$298,845,700	1.1%	$1,177,959,707	2.0%
595 – Transfers & Non-expense	$685,427,564	2.6%	$8,633,702,493	14.3%
Total	**$26,247,606,179**	**100.0%**	**$60,314,221,028**	**100.0%**

Liquor Sales Break another Record in FY 2011, Powered by Retail Sales and Improved Results in Wholesale Sales

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

Total spirituous liquor sales climbed to a record $770.7 million in FY 2011, an increase of 3.8% ($28.1 million) over FY 2010 sales of $742.7 million. Although this growth rate was stronger than the 1.7% increase registered in FY 2010, it is still below the ten-year average of 4.8%. As the chart below shows, increases in liquor sales over the past decade have been driven primarily by growth in retail sales (sales made by contract liquor agencies directly to consumers). FY 2011 retail sales increased to $532.3 million, $21.1 million (4.1%) over the $511.2 million in sales recorded in FY 2010. Wholesale sales (sales made by contract liquor stores to restaurants and bars) grew for the first time since FY 2007, with an overall tally of $238.5 million in FY 2011, an increase of $7.0 million (3.0%) over the $231.4 million in wholesale receipts in FY 2010.



The proceeds of liquor sales have been used to pay for the operating expenses of the Department of Commerce's Division of Liquor Control, retire certain economic development and Clean Ohio revitalization bonds, and fund state liquor law enforcement and alcoholism treatment. Profits remaining after these expenses have been paid are transferred to the GRF. In FY 2011, the transfers to the GRF from the Liquor Control Fund (Fund 7043) amounted to $153 million. Beginning in early 2012, liquor sales proceeds will no longer be available for the purposes described above due to the transfer of the state's liquor enterprise to JobsOhio, where it will be used to provide a dedicated revenue stream to support job creation efforts.

Department of Development Reports on Initial Steps in Forming the JobsOhio Economic Development Corporation

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

On August 18, 2011, the Ohio Department of Development released a statutorily mandated report outlining its plan for transitioning certain functions to the new nonprofit JobsOhio corporation as required by Am. Sub. H.B. 1.[4] Included in the document is a report on the Department's use of the $1 million in GRF funding appropriated in that act for the initial startup costs of JobsOhio. To date, the Department has incurred costs of just over $101,000 in preparing JobsOhio to assume certain state economic development programs beginning in calendar year 2012. Of this amount, about $61,000 has actually been spent, while the remainder has been obligated for specific purposes.

The amount spent or obligated to date includes $68,000 for insurance to indemnify the JobsOhio board of directors and $33,684 for computers and related equipment, including laptop and desktop computers, multifunction machines, software, and other such items. The remaining appropriation of $898,316 will be spent throughout FY 2012 as JobsOhio continues to develop its business plan and statewide economic development strategy. Legislation will be necessary to fully transfer certain Department of Development operations to JobsOhio and realign the Department's programs and organizational structure accordingly. A principal source of funding for JobsOhio programs is expected to be provided through liquor profits pursuant to the lease of the state's liquor merchandising operations, as authorized under H.B. 153.

[4] The full report, *Report to the Ohio General Assembly Pursuant to ORC 187.05,* is available at: www.development.ohio.gov.

Ohio's School District Report Card Ratings Show Improvement in FY 2011

—Andy Plagenz, Budget Analyst, 614-728-4815

Ohio's most recent school district report cards, released by the Ohio Department of Education (ODE) on August 24, 2011, continue to show an increase in the number of school districts receiving the state's highest ratings. Of the 609 Ohio school districts receiving report cards, 567 (93.1%) were rated effective or higher in FY 2011, compared to 536 (87.9%) in FY 2010. A district's report card rating depends on four basic measurements: (1) the number of state academic standards met, (2) the performance index score, (3) whether adequate yearly progress (AYP) has been met, and (4) the value-added designation.

In FY 2011, the state as a whole met 17 (65.4%) out of a possible 26 academic standards. This is down from 18 (69.2%) standards met in FY 2010. The 26 possible standards include minimum proficiency rates on all 24 achievement assessments as well as minimum graduation and attendance rates. The performance index, ranging from zero to 120, is a composite measure of achievement of all students on all achievement assessments. The index for the state as a whole improved from 93.3 in FY 2010 to 95.0 in FY 2011. AYP, a rating established by the federal No Child Left Behind Act, requires districts to meet annual performance goals for student subgroups. In FY 2011, 309 school districts (50.6%) met AYP, compared to 283 school districts (46.3%) in FY 2010. The value-added measure rates districts on how their students' academic growth compares to the expected growth standard set by the state. In 2011, 148 districts (24.3%) were above, 336 districts (55.2%) had met, and 125 districts (20.5%) were below the expected growth standard.

ODE Awards $16.2 Million in Grants to 45 Innovative Programs

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

In June, ODE announced they had awarded over $16.2 million in Race to the Top (RttT) Innovative Grants to 45 school district and community school programs. The programs were selected through a competitive application process involving districts and schools participating in RttT. The Innovative Grant Program focuses on five program models, but also allows applicants to propose other "proven" models. The awards generally cover a three-year period. Brief descriptions of each program model and the number and total amount awarded for each model are given below.

- **AVID (Advancement Via Individual Determination)**

  AVID encourages students to take and excel in advanced coursework that leads to college and provides support to them along the way. A total of $965,000 was awarded to 17 programs.

- **STEM (Science, Technology, Engineering, and Math)**

  STEM schools and programs are supported by the Ohio STEM Learning Network, a public-private partnership that aims to build STEM teaching and learning capacity throughout the state. A total of $1,750,000 was awarded to seven programs.

- **New Tech Network**

  The New Tech Network Program focuses on project-based learning supported by technology. A total of $3,750,000 was awarded to five programs.

- **Asia Society**

  The International Studies School Network, a program of the Asia Society, supports schools that focus on international studies, including at least one Asian language. A total of $3,000,000 was awarded to five programs.

- **Early College High Schools**

  Early College High Schools use a rigorous curriculum that provides students up to 60 hours of dual-credit opportunities over a four-year high school experience. A total of $3,370,500 was awarded to six programs.

- **Other Proven Models**

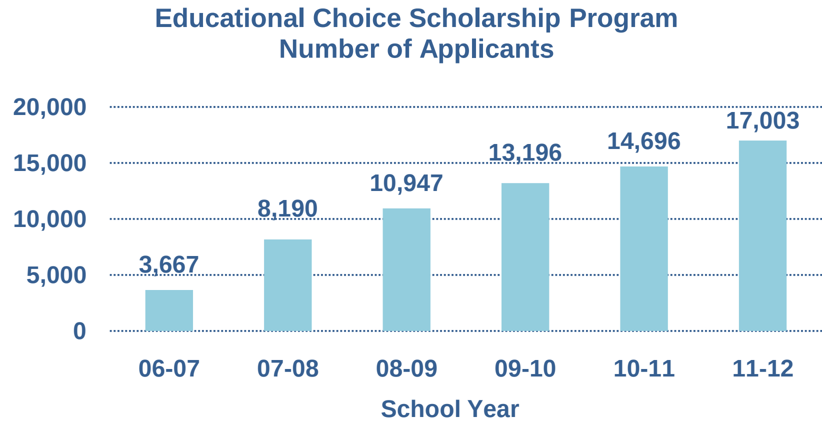
  Five programs based on various other models were awarded a total of $3,373,500.

Educational Choice Scholarship Program Draws 1,681 New Applicants During Second Application Period

—Andrew Plagenz, Budget Analyst, 614-728-4815

According to the Ohio Department of Education, 1,681 new applications for the Educational Choice Scholarship Program (Ed Choice) were received during the second application period held July 1st through August 15th. Adding these new applicants to the 15,397 applicants from the original spring application period brings the total number of scholarship applications for the 2011-2012 school year to slightly more than 17,000.[5] The second application period was required by H.B. 153, which also increased the number of scholarships available from 14,000 in FY 2011 to 30,000 in FY 2012 and 60,000 in subsequent years.

[5] The actual number of scholarships is generally lower than the number of applicants as some students decline the scholarship or are determined to be ineligible.



As shown in the table above, the number of applicants grew annually from the program's beginning in 2007 before exceeding the scholarship cap of 14,000 for the first time in the 2010-2011 school year. In addition to increasing the number of scholarships available, changes in H.B. 153 expanded the eligibility criteria from students entitled to attend a school that has been in academic watch or academic emergency for two of the three most recent years to also include students entitled to attend a school rated in the lowest 10% of all school buildings by performance index score for at least two of the last three years. The Ed Choice Program provides scholarships to be used at participating nonpublic schools. Scholarship amounts, financed by deductions from state aid to scholarship recipients' districts of residence, are limited to the lesser of the actual tuition charged or $4,250 for grades K to 8 or $5,000 for grades 9 to 12.

Chancellor Announces Enterprise University Plan

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

On August 11, the Chancellor of the Board of Regents released a plan for establishing charter universities, which are called Enterprise Universities or International Enterprise Universities in the plan. Creation of the plan was mandated by H.B. 153, which also expresses the General Assembly's intention to take action so that a plan may be implemented by the start of FY 2013. The Chancellor's plan consists of two phases. Phase one provides relief to all universities from certain state mandates. Phase two provides additional mandate relief at two levels to universities designated as Enterprise Universities and International Enterprise Universities. International Enterprise Universities receive the most mandate relief. In order to be designated as an International Enterprise University, an institution must meet seven of nine benchmarks, which are outlined in the plan, and agree to invest a certain portion of its State Share of Instruction (SSI) allocation. SSI is the state's main contribution to the costs of instruction at public institutions of higher education and its use is generally unrestricted. The plan recommends establishing a foundation to receive the invested

SSI. The invested funds would be used to provide some benefit to the institution and its students. As an example, the plan suggests a Preeminent Scholarship Award Program to attract and retain high performing students. A university that does not meet seven of the nine benchmarks may qualify as an Enterprise University by establishing an Enterprise University Agreement with the Chancellor based on the institution's unique mission. An Enterprise University will also be required to invest a certain portion of its SSI allocation. The complete plan is available on the Board of Regents' web site: www.ohiohighered.org.

Ohio Receives $2.4 Million Federal Grant for Reemployment Services

—Michele Perch, LSC Fellow, 614-644-1262

In June, Ohio received a $2.4 million federal Unemployment Insurance Reemployment and Eligibility Assessment (REA) grant to provide reemployment services and eligibility assessments to individuals receiving unemployment benefits who do not have a definite return-to-work date. Under the grant, participants receive at least one in-person, one-on-one session at their local One-Stop Career Center. One-Stop staff provide a review of labor market information, assist in developing a work search plan, and conduct an assessment of eligibility for unemployment benefits. The grant funds may be used to provide two additional sessions, which may be conducted by telephone.

States are required to submit quarterly reports to the federal government comparing the outcomes of REA participants with unemployed individuals who do not receive REA services. The reports have generally shown that REA services help reduce the length of unemployment claims and improve payment accuracy of unemployment benefits.

REA grants were awarded to 36 other states and the District of Columbia, totaling $48.7 million. The grants were awarded based on the level of REA services provided by each state that applied. Ohio received the fifth largest award, behind New York, Florida, Massachusetts, and Washington. This year marks the seventh year that Ohio has received the grant. As of August 2011, the program had served a total of 199,044 individuals.

Eligibility and Provider Rates Reduced for Publicly Funded Child Care

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

In July, the Ohio Department of Job and Family Services (ODJFS) reduced eligibility for new enrollees and provider reimbursement rates for publicly funded child care. Eligibility was reduced from 150% of the federal poverty guidelines (FPG), which is $33,525 annually for a family of four, to 125% FPG, which is $27,938 annually for a family of four. Families with incomes between 125% FPG and 150% FPG that were enrolled in child care when the change was made were held harmless from this eligibility change. ODJFS estimates that the eligibility reduction will decrease expenditures for this program by $12.1 million in FY 2012 and $12.2 million in FY 2013.

ODJFS also reduced subsidy payments to providers. In the previous biennium, reimbursement rates were set at the 35th percentile of the 2008 child care market rate survey. Rates are now set at the 21st percentile of the 2010 market rate survey. This represents a 7.2% average decrease to provider rates across the state, though the effect on each individual provider will vary depending upon the market rates in each county. The market rate surveys are conducted every two years by The Ohio State University in conjunction with ODJFS. Providers in all counties report information on their standard full-time, part-time, and hourly rates for children of all age groups. ODJFS expects reducing subsidy payments to decrease program expenditures by $40.9 million in FY 2012 and by $41.4 million in FY 2013.

In FY 2010, there was an average monthly caseload of 110,260 children receiving child care subsidies with a total cost of $581.5 million (FY 2011 data is not yet available). These subsidies are funded from the federal TANF Block Grant, the Child Care and Development Fund Block Grant, and state GRF. Participating families are required to pay copayments on a sliding scale based on income.

Fund 4020 Cash Balance Boosted by a $4.5 Million Federal Crime Victim Compensation Grant

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

In July, the Office of the Attorney General announced that the U.S. Department of Justice (DOJ) had awarded Ohio a grant of $4.5 million to provide awards of compensation to crime victims. This annual grant award, which was made from the Crime Victim Compensation formula grant program administered by the DOJ's Office for Victims of Crime, will be deposited to the credit of the state's Victims of Crime/Reparations Fund (Fund 4020). This deposit will give a boost to Fund 4020's cash balance, which stood at $13.1 million at the end of FY 2011. As shown in the table below, expenditures made from the fund exceeded revenues credited to the fund every year from FY 2006 to FY 2009. As a result, the fund's year-end cash balance declined from $42.3 million in FY 2005 to $12.3 million in FY 2009. To prevent a potential depletion of the fund's cash balance, the Office of the Attorney General has capped certain expenses and standardized the amounts private attorneys are paid for assisting victims. These measures have helped reverse the fund's cash flow trend. In both FY 2010 and FY 2011, revenues credited to the fund exceeded expenditures.

Fund 4020's revenues are derived primarily from court costs imposed upon certain offenders and secondarily from federal grants and driver's license reinstatement fees.

Victims of Crime/Reparations Fund (Fund 4020) Cash Flow Summary, FY 2005-FY 2011				
Fiscal Year	Beginning Cash Balance	Revenues (Including Transfer In)	Expenditures (Including Transfers Out)	Ending Cash Balance
2005	$40,652,816	$28,314,745	$26,620,278	$42,347,283
2006	$42,347,283	$27,528,874	$35,228,784	$34,647,373
2007	$34,647,373	$25,611,318	$37,049,119	$23,209,572
2008	$23,209,572	$24,613,930	$31,606,023	$16,217,479
2009	$16,217,479	$25,996,697	$29,944,736	$12,269,440
2010	$12,269,440	$27,079,045	$26,828,391	$12,520,095
2011	$12,520,095	$25,622,642	$25,022,022	$13,120,715

TRACKING THE ECONOMY

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

Overview

U.S. employment growth slowed in the second quarter and came to a halt in August. In Ohio, employment continued to grow through July.

Total output of the U.S. economy, as indicated by inflation-adjusted gross domestic product (real GDP), has been lower than previously thought, based on revised estimates released in late July. The 2007-2009 recession was more severe than the earlier data indicated. First quarter 2011 growth was revised lower, and second quarter growth continued slow. Employment growth slowed in the second quarter and came to a halt in August. Unemployment remains elevated, and the unemployment rate has risen above its post-recession low early this year. In July, factory production, shipments, and orders rose, but these gains may not have continued in August, based on purchasing managers' reports. Consumer spending was anemic in the second quarter but rose in July and appears to have held up in August based on very preliminary indicators. Construction activity and residential sales remain weak. Inflation indicators are mixed, with consumer prices in July rising more sharply than in previous months since March, while commodity prices have been lower.

In Ohio, employment continued to grow through July, but unemployment rose in the latest two months. A summary from the Federal Reserve Bank of Cleveland of reports from outside contacts said the economy in this region continued to grow slowly in recent weeks, but the near-term outlook has weakened.

At the August meeting of the central bank's Federal Open Market Committee, the short-term interest rate target for the federal funds rate was kept at 0% to 0.25%, its level since December 2008. However, the Committee changed its post-meeting statement to indicate that economic recovery had been considerably slower than expected, and that the Committee expected economic conditions to "warrant exceptionally low levels for the federal funds rate at least through mid-2013." The Committee was divided, with a few members indicating that they thought a more substantial change in policy was justified in response to economic developments, while three members preferred the previous language in the post-meeting statement referring to low levels for the federal funds rate for an "extended period" rather than the more explicit reference to mid-2013.

Raising the federal debt limit, to permit the borrowing necessary to pay the obligations implied by previous spending and revenue decisions, was exceptionally contentious this year. Agreement was not achieved and signed into law until August 2, the date that the U.S. Treasury had estimated it would no longer be able to use extraordinary measures to stay within the statutory debt limit and still pay all obligations on time.

Subsequently, one of the major rating services downgraded federal debt from the top rating category (AAA) to the next lower rating category (AA+). Despite the downgrade, interest rates on U.S. Treasury securities remain at very low levels. The U.S. government kept its rating in the highest category at the other two major rating firms.

The seeming inability of federal decision makers to agree in a timely fashion on a plan to ensure payment of all of the government's obligations when due appears to have had an adverse effect on business and consumer confidence. Another factor sapping confidence may be concerns about the ability of some European governments to pay their obligations on time, and the potential for any sovereign debt crisis to ensnare a widening circle of banks and other creditors.

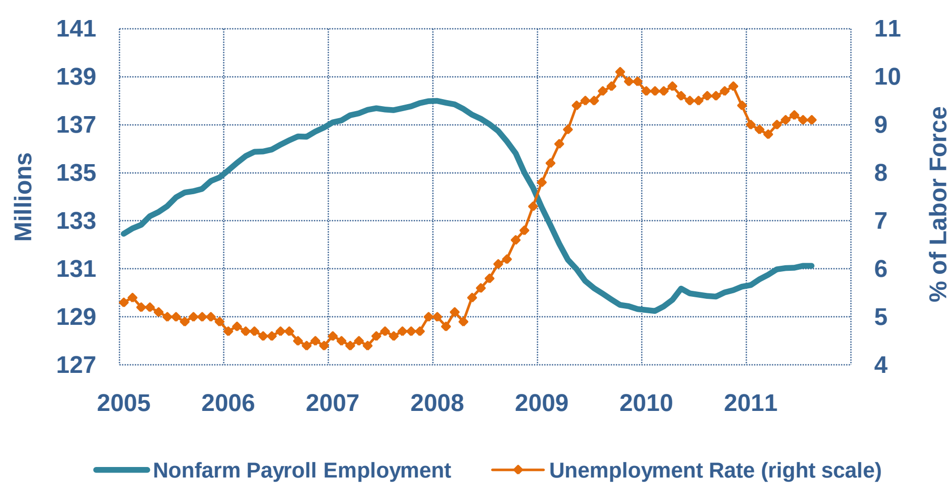
Nationwide, 14 million people were counted as unemployed in August, 9.1% of the labor force.

The National Economy

Employment and Unemployment

Nationwide, nonfarm payroll employment and the unemployment rate were unchanged in August. Job growth was decidedly slower during the previous three months than earlier this year, as shown in Chart 1. Prior to August, total nonfarm payroll employment rose in every month since last October. About 14 million people were counted as unemployed in August, 9.1% of the labor force, up from the post-recession low of 8.8% in March.

Chart 1: U.S. Employment and Unemployment



Real GDP rose at only a 1.0% annual rate in the second quarter.

Employment on nonfarm payrolls in August rose in health care, in computer systems design and related services, and in mining. A strike by 45,000 telecommunications workers reduced employment in that sector. Although 22,000 state employees returned to work in Minnesota after a partial government shutdown in July, nationwide employment by state governments rose only 5,000 (0.1%). Local government employment continued to fall.

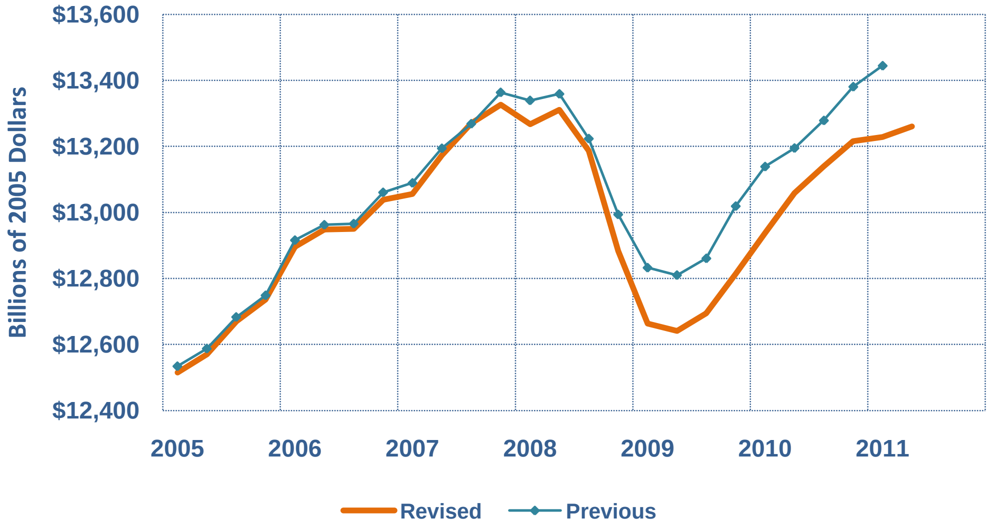
Six million people in August, 43% of the unemployed, had been out of work more than six months. In addition to the unemployed, the underemployed in August included 8.8 million people working part-time for economic reasons including slack work or business conditions, and inability to find other than part-time work. Among those not included in the labor force, nearly one million wanted jobs, were available for work, and had searched for work during the prior 12 months, but were not counted as unemployed because they had not looked for work in the previous four weeks, for reasons such as thinking no work was available for them, or that they could not find work, or that they lacked schooling or training, or would be viewed as too young or too old, or would be subject to other forms of discrimination.

As of the end of July, U.S. business and government had an estimated 3.2 million job openings. Compared with the approximately 14 million people without jobs and actively looking for work, this implies that more than four people were unemployed for each job opening. The number of job openings in the latest month remains below the 4.4 million job openings in December 2007, the last business cycle peak, but is 1.1 million job openings higher than at the low point in July 2009.

Production, Shipments, and Inventories

Real GDP rose at only a 1.0% annual rate in the second quarter, and earlier figures were revised back to as early as 2003. The revision, released in July, altered perceptions of the course of the economy in recent years. Prior to the revision, real GDP was thought to have reached a new peak in the fourth quarter of 2010, above the previous peak in 2007. With the revision, as shown in Chart 2, the 2007 peak was revised downward by 0.3%, the economy fell more sharply during the recession, and the recovery so far has not yet raised economic activity back to the level reached at the end of 2007. Growth in the first quarter of 2011 was revised downward from a 1.9% annual rate to only a 0.4% annual rate.

Chart 2: Inflation-adjusted Gross Domestic Product

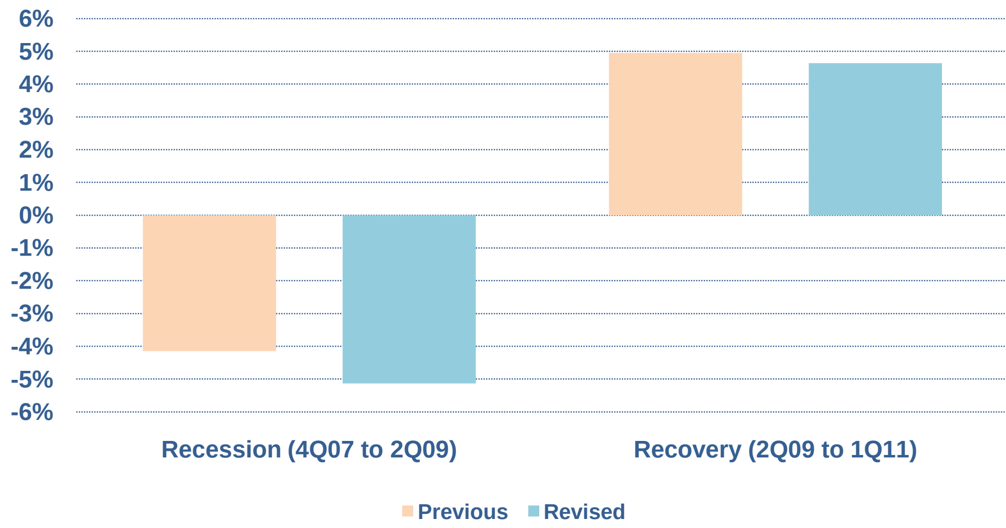


Revised figures now show a 5.1% drop in real GDP during the recession.

Anemic economic growth in the second quarter reflected in part less consumer spending on durable goods, as buying of motor vehicles fell, likely in part a result of shortages of vehicle parts and new vehicles for sale following the earthquake and tsunami that struck Japan. Light vehicle sales are up somewhat in the third quarter. Growth of U.S. exports in the second quarter added less to demand for American products than in recent quarters. Also, state and local government spending on goods and services continued to fall. On the other hand, business fixed investment expanded at a 10% annual rate in the second quarter, with increases in investment in both structures and equipment. Residential fixed investment also rose, though it remained at a very weak level.

The deeper recession and weaker recovery shown by the revised real GDP figures are also illustrated in Chart 3. Previous data showed a 4.1% decline in real GDP during the recession, from the fourth quarter of 2007 to the second quarter of 2009. Revised figures now show a 5.1% drop in this measure of aggregate economic activity during the same period. In the next six quarters, to the end of 2010, real GDP rose 4.5% both before and after the data revisions. But growth in the first quarter of 2011 was revised downward as noted above. Prior to the revision, an estimate of second quarter real GDP was not available from the source agency, the U.S. Bureau of Economic Analysis (BEA).

Chart 3: Real GDP in Recession and Recovery



Industrial production rose 0.9% in July, and manufacturing output rose 0.6%, its strongest gain since March.

Industrial production rose 0.9% in July, and manufacturing output rose 0.6%, its strongest gain since March. Motor vehicle and parts production rose 5.2% in the month as supply chain disruptions eased. Output of most other durable goods industries also rose. Utility output was sharply raised as unseasonably hot weather boosted air conditioning use. Compared with a year earlier, production in July was higher for consumer goods by 1.3%, for business equipment by 8.5%, and for construction supplies by 4.4%.

Manufacturing gains may not have continued in August, based on the monthly survey of purchasing managers by the Institute for Supply Management (ISM). In August, more survey respondents reported lower new orders than said new orders were higher. Indexes for production and order backlogs also fell. Inventories rose, after contracting the month before. More purchased inputs were reported up in price than were reported down in price, but increases were not as widespread as in earlier months back to 2009. In its report, the ISM said that "overall sentiment is one of concern and caution over the domestic and international economic environment, which is affecting customers' confidence and willingness to place orders, at least in the short term."

A comparable ISM survey of purchasing managers in sectors of the economy other than manufacturing was more favorable, indicating growth of business activity, new orders, inventories, and employment. Order backlogs fell, however.

The dollar value of manufacturers' new orders rose 2.4% in July, compared with June. Year-to-date factory new orders were 13% higher than in the year-earlier period. Factory shipments rose 1.6% from June to

July, and shipments in this year's first seven months were 12% higher than in January-July 2010. Unfilled orders of manufacturers rose 0.8% in the latest month and 7.2% in the past 12 months. Factory inventories increased 0.5% in July, to 13% higher than at the end of July 2010.

Consumer Spending

Personal income rose 0.3% in July, but fell 0.1% on an after-tax basis and adjusted for inflation, the first decline in monthly real after-tax personal income since last September. Personal consumption expenditures, in contrast, rose 0.8% in dollars in July, and 0.5% adjusted for inflation. The increase reflected higher purchases of motor vehicles and parts, and increased spending on services. The latter likely resulted in part from higher purchases of electric utility services in response to hot weather.

Personal income rose 0.3% in July, but fell 0.1% on an after-tax basis and adjusted for inflation.

In August, U.S. sales of cars and light trucks were at a seasonally adjusted annual rate of 12.1 million units, down slightly from July's 12.2 million unit pace but higher than in May and June when sales averaged an 11.6 million unit annual rate. Sales slowed abruptly from April to May, apparently in part as a result of tight supply following the earthquake and tsunami in Japan and the resulting disruptions of auto and parts manufacturing. If the U.S. light vehicle sales rate in September matches that in August, third quarter sales will be slightly higher than the second quarter average. Light vehicle sales in the U.S. last year totaled 11.6 million units, up from 10.4 million in 2009 but less than in 2008 when 13.2 million cars and light trucks were sold, and in 2007 when sales were 16.1 million units.

The dollar value of sales at 26 large retailers that report results monthly was 4.6% higher in August than a year earlier, in a tabulation of these figures by the International Council of Shopping Centers. This matched the year-over-year increase in July. Sales were boosted at some retailers by buying ahead of Hurricane Irene while sales were reduced at other stores. These figures are reported on a same-store basis, including only sales at store locations open in both the current month and the year-earlier month.

Construction and Real Estate

Housing starts remained at a low rate in July. The start of construction activity on new homes and apartments was at a 604,000-unit annual rate in the month, 1% lower than in June. Calendar year-to-date housing starts were 4% lower than in the year-earlier period. Starts on new housing remain far below rates prior to late 2008. In peak year 2005, nearly 2.1 million units were started.

New home sales remained very weak in July.

New home sales also remained very weak in July. The seasonally adjusted sales rate for new single-family houses was 298,000, 1% lower than a month earlier. Year-to-date sales were 11% lower than in the first seven months of 2010. In peak year 2005, nearly 1.3 million new single-family houses were sold.

Sales of homes reported by the National Association of Realtors (NAR), mostly previously occupied units, were 4% lower in July than a month earlier, but 21% higher than in July 2010 when sales were depressed following the end of a federal tax credit program. The July sales pace was lower than sales in peak year 2005 by more than one-third. In reporting the latest sales results, the NAR noted that housing is exceptionally affordable, but banks are restrictive in granting mortgage credit, and low appraisal valuations are also a problem.

Average home prices nationwide rose 0.9% in June, according to the Federal Housing Finance Agency (FHFA) and based on prices at which homes were purchased. The June increase was the third consecutive monthly rise in home prices. The average price was 19% lower than at the peak in 2007, and about at its level in February 2004. Another index of average home prices, the S&P/Case-Shiller National Home Price Index, rose by 3.6% from this year's first quarter to the second quarter, but was 5.9% lower than a year earlier, and around the level of early 2003.

Construction activity remained weak through July. The dollar value of new construction put in place during the month was 1.3% lower than in June, seasonally adjusted. Year-to-date construction spending was 3.5% lower than a year earlier, including private residential construction, 0.6% lower; private nonresidential construction, 2.8% lower; and public construction, 6.5% lower.

Inflation

The consumer price index (CPI) rose 0.5% from June to July, its largest increase since March, as gasoline prices rose sharply after declines in May and June. Food prices continued to increase. The CPI for all items less food and energy rose 0.2% in July, down from increases of 0.3% in May and June. Compared with a year earlier, the CPI for all items was 3.6% higher, for the third consecutive month; food prices were 4.2% higher; energy prices were 19% higher; and all items less food and energy were 1.8% higher, the largest year-over-year rise in this index since 2009.

Prices for regular gasoline, in the U.S. Energy Information Administration's weekly survey, have remained below peaks in early

May of nearly $4 per gallon on average nationwide, and over $4 per gallon in Ohio. In the September 5 survey, gasoline prices averaged $3.67 per gallon in the U.S. and $3.68 per gallon in Ohio. The cost of the U.S. benchmark crude oil, West Texas Intermediate, an important influence on retail gasoline prices, has remained below peaks reached last April.

The producer price index (PPI) for finished goods rose 0.2% from June to July, and was little changed on balance over the past three months. In contrast with the gasoline price increases in the CPI report, finished gasoline prices fell at the producer level. However, the PPI for finished goods excluding food and energy rose 0.4% in July, its largest increase since January. Compared with its level a year earlier, the PPI for all finished goods was 7.2% higher, but this reflects increases earlier this year and in 2010. At earlier stages in the production process, the PPI for intermediate goods rose 0.2% in July after no change the month before. The PPI for crude materials fell in May, June, and July.

The consumer price index (CPI) rose 0.5% from June to July, its largest increase since March.

Despite high unemployment, inflationary pressures are appearing in labor markets, reflecting slower productivity gains and modestly more rapid increases in average compensation including supplements to wages and salaries. Early in the recovery, business added to output but continued to pare employee hours. In 2010, nonfarm business output rose an estimated 4.0% while an index of total hours of all persons fell 0.1%. The implied 4.1% increase in average output per hour compared with a 2.1% increase in average compensation per hour (wages plus employer-paid benefits), implying a 2.0% <u>decrease</u> in the average cost of producing a unit of output. In contrast, in this year's second quarter, the average cost of producing a unit of output in the nonfarm business sector was 1.9% <u>higher</u> than a year earlier. Nonfarm business output in this year's second quarter was 2.4% higher than a year earlier while employee hours paid were 1.6% higher, implying a 0.7% increase in average output per hour. Average compensation per hour in the second quarter was 2.7% higher than a year earlier.

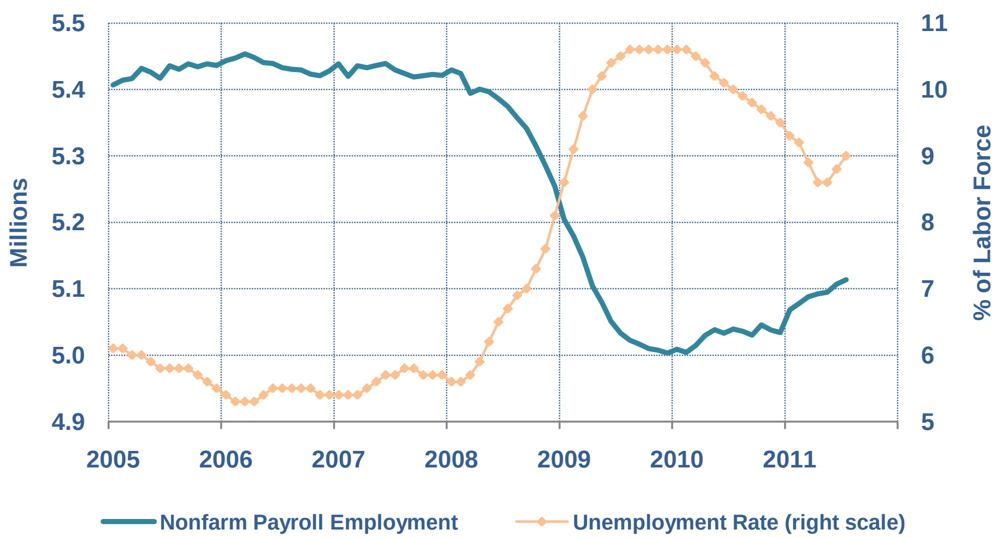
The uptick in compensation increases appears to reflect mainly more rapid increases in the estimated cost to private-sector employers of employee benefits. In June, average private-sector employer-paid benefits were 4.0% more expensive than a year earlier, up from a 2.4% increase in the year to June 2010 and 0.9% in the year to December 2009. Average wages and salaries in June were 1.7% higher than a year earlier, up from an increase of 1.3% in the year to December 2009. Only a modest upturn is evident in average benefits paid by state and local governments, Ohio nonfarm payroll employment rose 6,500 in July, continuing an uptrend underway since the end of 2009.

but increases in the average cost of these public-sector benefit programs outpaced those in the private sector from 2005 through early 2010.[6]

The Ohio Economy

Ohio nonfarm payroll employment rose 6,500 in July, continuing an uptrend underway since the end of 2009. The number of people without jobs and actively looking for work statewide rose to 529,000 in July, and this number of unemployed as a percent of the labor force rose to 9.0%, highest since February. These changes are shown in Chart 4.

Chart 4: Ohio Employment and Unemployment



Ohio has added about 110,000 nonfarm payroll jobs since the cyclical low point in December 2009, a 2.2% increase. Private-sector payrolls have grown about 120,000 (2.8%) during this period. Employment with government has fallen since the end of 2009, more than accounted for by job declines at units of local government. Employment with local governments in Ohio has fallen for a number of years, by more than 5% from five years ago, but the decline accelerated in 2009, and again recently.

Though Ohio's unemployment rate rose in the latest two months, it remained lower in July than the average rate nationwide, at 9.1%. Jobless rates in other states in July ranged from 3.3% in North Dakota to 12.9% in Nevada. A year earlier, in July 2010, Ohio's statewide average unemployment rate was 10.0%, with 589,000 people counted as unemployed.

[6] These figures are based on the U.S. Bureau of Labor Statistics' Employment Cost Index report.

Unemployment rates in Ohio metropolitan areas in July ranged from a low of 8.1% in Sandusky to a high of 11.4% in Mansfield. These metropolitan area unemployment rates are not seasonally adjusted, unlike the statewide figures cited above which are adjusted for seasonal variation.

Unemployment rates in Ohio metropolitan areas in July ranged from a low of 8.1% in Sandusky to a high of 11.4% in Mansfield.

The number of homes sold in Ohio in July, reported by the Ohio Association of Realtors, was 18% higher than a year earlier; as was the case with national figures, discussed above, sales a year ago were very low due to expiration of a federal tax credit. The average selling price was 3% higher than in July 2010. For the year to date, however, the number of units sold was 10% below a year earlier. The average selling price, at about $128,500, was 4% lower than in the same period in 2010. Unit sales in all of 2010 were 31% lower than in peak year 2005, at an average price that was 15% lower than in 2005 but 3% above that in 2009.

The Federal Reserve Bank of Cleveland's section of the Beige Book, a summary of reports on business and economic conditions from sources outside the Federal Reserve System, indicated that the region's economy continued to grow slowly in recent weeks.[7] Many of the Cleveland Fed's contacts said they were downgrading their near-term outlooks. Factory production was described as stable, but new orders and backlogs fell. Retail sales were in line with or ahead of plan. New car buying increased. Home building remained weak. Inquiries to nonresidential builders regarding new construction have fallen. Employment increases were mostly at manufacturing and energy firms. Staffing firms saw growth in job openings in technical occupations and in healthcare, mostly for experienced workers.

[7] The latest report is based on information gathered up to August 26. The area covered by the Federal Reserve Bank of Cleveland includes Ohio and parts of Kentucky, Pennsylvania, and West Virginia.