Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION MARCH 2013

STATUS OF THE GRF

HIGHLIGHTS

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

In February, U.S. total nonfarm employment rose by 236,000, while unemployment decreased to 7.7% of the labor force from 7.9% in January. Similarly, Ohio's nonfarm payroll employment increased 3,800 from December to January. However, Ohio unemployment rose to 7.0% of the labor force from 6.7% in December.

The fiscal year's budget brightened further due to a deposit of $495.0 million into the GRF related to the transfer of the state liquor franchise, which boosted total GRF sources in February 2013. Additionally, GRF tax receipts continued their solid performance. Through February, they were $276.3 million above the estimates published in August 2012 by the Office of Budget and Management.

Through February 2013, GRF sources totaled $19.40 billion:

- Receipts from the personal income tax were $228.4 million above estimate.
- Receipts from the sales and use tax were $16.2 million below estimate.

Through February 2013, GRF uses totaled $19.04 billion:

- Medicaid GRF expenditures were $30.7 million below estimate. However, Medicaid expenditures across all funds were $461.4 million below estimate. More GRF dollars were used due to a delay in collecting hospital assessment revenue.
- Expenditures for Justice and Public Protection were $46.4 million below estimate.

VOLUME 36, NUMBER 7

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
Actual vs. Estimate
Month of February 2013
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on March 5, 2013)

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$71,226	$64,400	$6,826	10.6%
Nonauto Sales and Use	$547,313	$524,500	$22,813	4.3%
Total Sales and Use Taxes	$618,539	$588,900	$29,639	5.0%
Personal Income	$267,162	$322,517	-$55,355	-17.2%
Corporate Franchise	$72,363	-$6,000	$78,363	1306.1%
Public Utility	$23,000	$23,800	-$800	-3.4%
Kilowatt Hour Excise	$33,160	$27,500	$5,660	20.6%
Natural Gas Consumption (MCF)	$6,875	$13,100	-$6,225	-47.5%
Commercial Activity Tax	$173,940	$185,700	-$11,760	-6.3%
Foreign Insurance	$7,534	$58,500	-$50,966	-87.1%
Domestic Insurance	$0	$100	-$100	-100.0%
Business and Property	$65	$0	$65	---
Cigarette	$56,865	$53,400	$3,465	6.5%
Alcoholic Beverage	$2,034	$4,100	-$2,066	-50.4%
Liquor Gallonage	$2,948	$2,900	$48	1.6%
Estate	$117	$0	$117	---
Total Tax Revenue	**$1,264,602**	**$1,274,517**	**-$9,915**	**-0.8%**
NONTAX REVENUE				
Earnings on Investments	$5	$0	$5	---
Licenses and Fees	$7,414	$5,874	$1,540	26.2%
Other Revenue	$504,646	$3,187	$501,459	15733.8%
Total Nontax Revenue	**$512,066**	**$9,062**	**$503,004**	**5551.0%**
TRANSFERS				
Liquor Transfers**	$0	$11,000	-$11,000	-100.0%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$0	$0	$0	---
Total Transfers In	**$0**	**$11,000**	**-$11,000**	**-100.0%**
TOTAL STATE SOURCES	**$1,776,668**	**$1,294,579**	**$482,089**	**37.2%**
Federal Grants	$710,539	$651,115	$59,424	9.1%
TOTAL GRF SOURCES	**$2,487,207**	**$1,945,694**	**$541,513**	**27.8%**

*Estimates of the Office of Budget and Management as of August 2012.

**Liquor Transfers based on a report run in OAKS as of March 1, 2013.

Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Actual vs. Estimate
FY 2013 as of February 28, 2013
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on March 5, 2013)

	Actual	Estimate*	Variance	Percent	FY 2012	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$688,799	$678,400	$10,399	1.5%	$668,248	3.1%
Nonauto Sales and Use	$4,907,438	$4,934,000	-$26,562	-0.5%	$4,701,982	4.4%
Total Sales and Use Taxes	$5,596,237	$5,612,400	-$16,163	-0.3%	$5,370,230	4.2%
Personal Income	$5,782,225	$5,553,811	$228,414	4.1%	$5,154,143	12.2%
Corporate Franchise	$152,139	$56,000	$96,139	171.7%	$57,235	165.8%
Public Utility	$68,005	$73,700	-$5,695	-7.7%	$77,600	-12.4%
Kilowatt Hour Excise	$215,279	$214,700	$579	0.3%	$207,559	3.7%
Natural Gas Consumption (MCF)	$23,834	$31,200	-$7,366	-23.6%	$31,328	-23.9%
Commercial Activity Tax	$604,191	$622,700	-$18,509	-3.0%	$298,002	102.7%
Foreign Insurance	$150,416	$196,400	-$45,984	-23.4%	$186,129	-19.2%
Domestic Insurance	$4,625	-$400	$5,025	1256.2%	$123	3666.1%
Business and Property	$436	-$1,200	$1,636	136.4%	-$1,773	124.6%
Cigarette	$495,317	$492,800	$2,517	0.5%	$504,379	-1.8%
Alcoholic Beverage	$34,093	$38,500	-$4,407	-11.4%	$37,817	-9.8%
Liquor Gallonage	$27,364	$26,900	$464	1.7%	$26,438	3.5%
Estate	$73,696	$34,000	$39,696	116.8%	$36,084	104.2%
Total Tax Revenue	**$13,227,858**	**$12,951,511**	**$276,347**	**2.1%**	**$11,985,293**	**10.4%**
NONTAX REVENUE						
Earnings on Investments	$4,479	$2,500	$1,979	79.2%	$2,740	63.5%
Licenses and Fees	$24,508	$23,668	$840	3.5%	$33,609	-27.1%
Other Revenue	$524,253	$26,644	$497,609	1867.6%	$23,122	2167.4%
Total Nontax Revenue	**$553,240**	**$52,812**	**$500,428**	**947.6%**	**$59,470**	**830.3%**
TRANSFERS						
Liquor Transfers**	$91,500	$99,000	-$7,500	-7.6%	$72,632	26.0%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$5,751	$5,166	$585	11.3%	$383,229	-98.5%
Total Transfers In	**$97,251**	**$104,166**	**-$6,915**	**-6.6%**	**$455,861**	**-78.7%**
TOTAL STATE SOURCES	**$13,878,350**	**$13,108,489**	**$769,860**	**5.9%**	**$12,500,624**	**11.0%**
Federal Grants	$5,526,128	$5,575,728	-$49,600	-0.9%	$5,180,389	6.7%
TOTAL GRF SOURCES	**$19,404,478**	**$18,684,218**	**$720,259**	**3.9%**	**$17,681,013**	**9.7%**

*Estimates of the Office of Budget and Management as of August 2012.
**Liquor Transfers based on a report run in OAKS as of March 1, 2013.
Detail may not sum to total due to rounding.

Through February, GRF tax receipts in FY 2013 were $276.3 million above OBM's August 2012 estimate.

REVENUES

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

Overview

GRF sources totaled $2.49 billion in February. These sources were $541.5 million (27.8%) above the estimates released by the Office of Budget and Management (OBM) in August 2012,[1] due mostly to a positive variance of $503.0 million in nontax revenues. A deposit of $495.0 million to the GRF was made February 1, 2013, from proceeds of a $1.57 billion bond sale related to the transfer of the state liquor franchise. H.B. 153 of the 129th General Assembly, the operating budget act for the FY 2012-FY 2013 biennium, authorized the transfer of the state liquor operation to JobsOhio, a private nonprofit entity created by H.B. 1 of the 129th General Assembly. In exchange for the state liquor franchise, JobsOhio was to transfer nearly $500 million into the GRF in FY 2012, but the bond sale was delayed for several months.

For the month of February, tax receipts were $9.9 million below estimates, while federal grants were $59.4 million above estimates. Tables 1 and 2 show GRF sources for the month of February and for FY 2013 through February, respectively. GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants, which are federal reimbursements for Medicaid and certain other human service programs that receive federal funding.

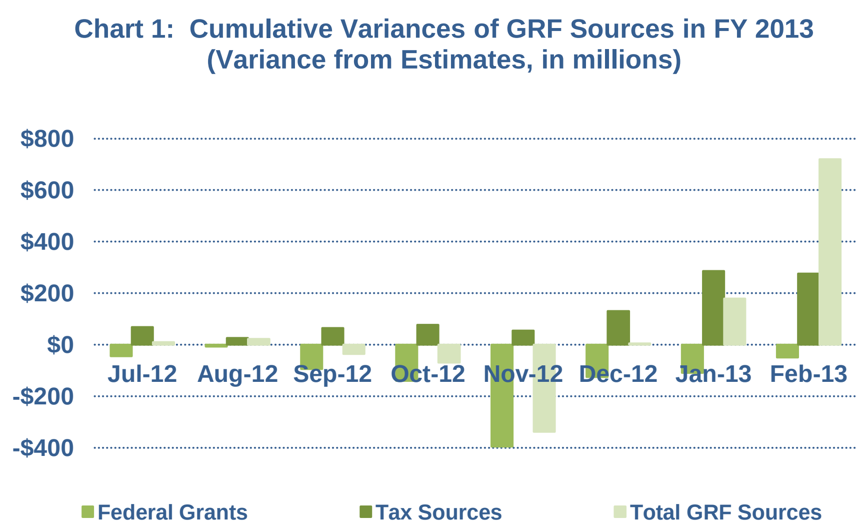
The personal income tax was $55.4 million below anticipated receipts, while the sales and use tax was $29.6 million above estimate. Revenue from the first corporate franchise tax (CFT) payment for FY 2013[2] received in February were $78.4 million above projections, raising the CFT's year-to-date positive variance to $96.1 million, up from $17.8 million for the first seven months of the fiscal year. The kilowatt hour tax and the cigarette tax were $5.7 million and $3.5 million, respectively, above estimates. Conversely, the foreign insurance tax, the commercial activity tax (CAT), the natural gas consumption tax, and the alcoholic beverage tax had shortfalls of, respectively, $51.0 million, $11.8 million, $6.2 million, and $2.1 million. Through February, FY 2013 GRF tax receipts were $276.3 million above estimate, federal grants were

[1] As stated in last month's *Budget Footnotes*, in February 2013, OBM revised upward by $432.0 million estimated FY 2013 total GRF sources. However, OBM did not revise monthly revenue estimates published in August 2012, which continue to be used in this and future editions of this publication.

[2] The CFT is paid in three installments: January 31, March 31, and May 31.

$49.6 million below expected revenues, and total GRF sources were $720.3 million ahead of projections. Chart 1 shows the cumulative variances against estimates for federal grants, tax sources, and total GRF sources.

Through February, FY 2013 GRF sources were $720.3 million above OBM's August 2012 estimate.



Compared to the first eight months of FY 2012, year-to-date FY 2013 total GRF sources increased $1.72 billion. Gains of $1.24 billion in GRF tax revenues, $493.8 million in nontax revenue, and $345.7 million in federal grants were partly offset by a decline of $358.6 million in transfers in. Receipts from the personal income tax grew $628.1 million, while revenue from the CAT and the sales and use tax increased $306.2 million and $226.0 million, respectively. Growth in GRF receipts from the income tax and the CAT was due in part to changes that H.B. 153 made to revenue sharing with local governments.

Personal Income Tax

In February, GRF personal income tax receipts were $267.1 million. These receipts were $55.4 million (17.2%) below estimate, mostly due to higher than expected refunds. The underperformance in February reduced the personal income tax's positive year-to-date variance from $283.8 million at the end of January to $228.4 million at the end of February. However, GRF receipts in February 2013 were $3.4 million (1.3%) above receipts in the same month last year. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the Local Government Fund (LGF). Gross collections are the sum of employer

Through February, FY 2013 GRF income tax receipts were $228.4 million above OBM's August 2012 estimate.

withholding, quarterly estimated payments,[3] trust payments, payments associated with annual returns, and miscellaneous payments.

For the month of February, refunds (which reduce receipts) were higher than estimate by $51.3 million and taxes due with annual returns were below projections by $18.5 million. Those results were partly offset by a positive monthly variance of $23.1 million in monthly employer withholding. An almost two-week delay by the Internal Revenue Service in accepting federal tax returns affected the timing of refunds to taxpayers in both January (when refunds were $86.8 million lower than estimate) and February.[4]

For the fiscal year to date, the GRF received $5.78 billion from the personal income tax. The table below summarizes year-to-date FY 2013 income tax revenue variances from estimates and from a year earlier by component.

Through February, FY 2013 withholding tax receipts were $63.3 million above OBM's August 2012 estimate.

FY 2013 Year-to-Date Income Tax Revenue Variances and Changes by Component

Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2012	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	$63.3	1.2%	$306.2	6.0%
Quarterly Estimated Payments	$148.8	19.5%	$114.0	14.3%
Trust Payments	$31.4	144.9%	$31.5	146.0%
Annual Return Payments	-$29.7	-17.8%	-$29.6	-17.7%
Miscellaneous Payments	-$6.7	-9.1%	-$6.6	-9.0%
Gross Collections	$207.1	3.2%	$415.5	6.7%
Less Refunds	-$26.4	-4.4%	-$51.4	-8.2%
Less LGF Distribution	$5.1	2.2%	-$161.2	-40.8%
Income Tax Revenue	$228.4	4.1%	$628.1	12.2%

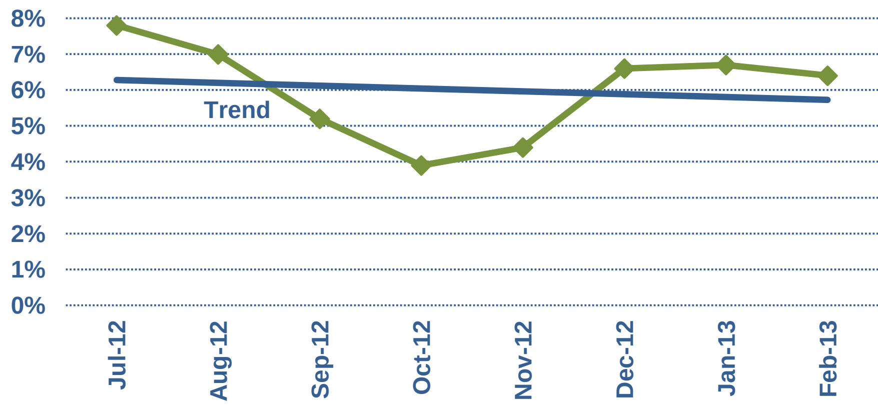
FY 2013 GRF receipts from the income tax were $628.1 million (12.2%) above receipts in the corresponding period in FY 2012. Growth in income tax receipts has been largely due to gains in employer

[3] Quarterly estimated payments are due from taxpayers who expect to be underwithheld by more than 10% and who expect to have less withheld than their taxes owed in the prior year. Payments are generally 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.

[4] The Internal Revenue Service started accepting most tax returns on January 30, 2013, after a delay necessitated by tax legislation passed January 2, 2013 to deal with the "fiscal cliff."

withholding and quarterly estimated payments, and reduced distributions to the LGF. Through February, revenues from employer withholding in FY 2013 were $306.2 million (6.0%) above receipts in this category in FY 2012, and quarterly estimated payments increased $114.0 million (14.3%). Chart 2, below, which illustrates the trend in employer withholding receipts in FY 2013, shows that year-over-year growth has been between 6% and 7% in recent months. Distributions to the LGF were $161.2 million (40.8%) below amounts in that category through February in FY 2012, due to H.B. 153 which reduced revenue sharing of state tax revenues with local governments.[5]

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



Sales and Use Tax

February GRF receipts from the sales and use tax of $618.5 million were $29.6 million (5.0%) above estimate and $41.2 million (7.1%) above receipts in February 2012. Through February, FY 2013 GRF sales and use tax receipts totaled $5.60 billion, $16.2 million (0.3%) below estimate, but $226.0 million (4.2%) above receipts in FY 2012. For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[6] generally arise from the sale

Through February, FY 2013 sales and use tax receipts were $16.2 million below OBM's August 2012 estimate.

[5] Whereas LGF distributions are debited from personal income tax receipts, Public Library Fund distributions are debited from the kilowatt hour tax (50%) and the nonauto sales and use tax (50%). Thus, H.B. 153 also enhances GRF receipts to the latter two tax sources.

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

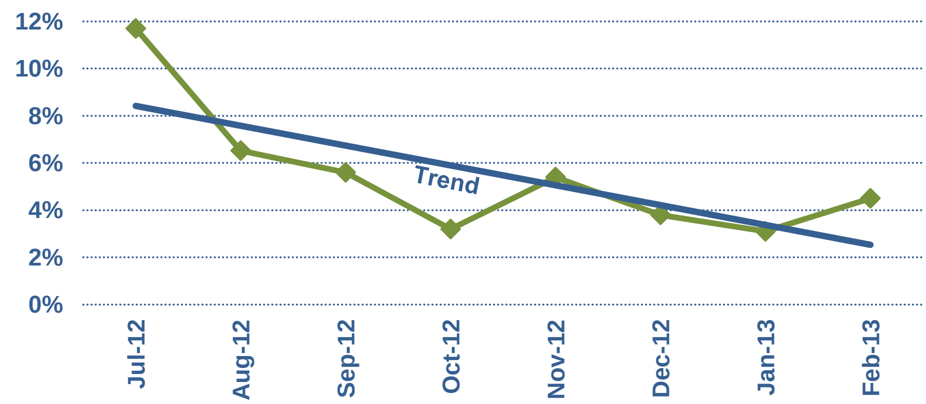
Through February, FY 2013 nonauto sales and use tax receipts were $26.6 million below OBM's August 2012 estimate.

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 February, the auto sales tax was above projections while the nonauto sales tax was lagging anticipated receipts.

Nonauto Sales and Use Tax

February GRF receipts from the nonauto sales and use tax were $547.3 million, $22.8 million (4.3%) above estimate. Year to date, GRF nonauto sales and use tax receipts were $4.91 billion for FY 2013, $26.6 million (0.5%) below estimate, but $205.5 million (4.4%) above receipts through February in FY 2012. Chart 3, below, shows the trend in FY 2013 nonauto sales and use tax monthly receipts against prior year receipts in the same month. As seen from the chart, the tax base is still growing, though at a lower rate of growth than earlier in the fiscal year.

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

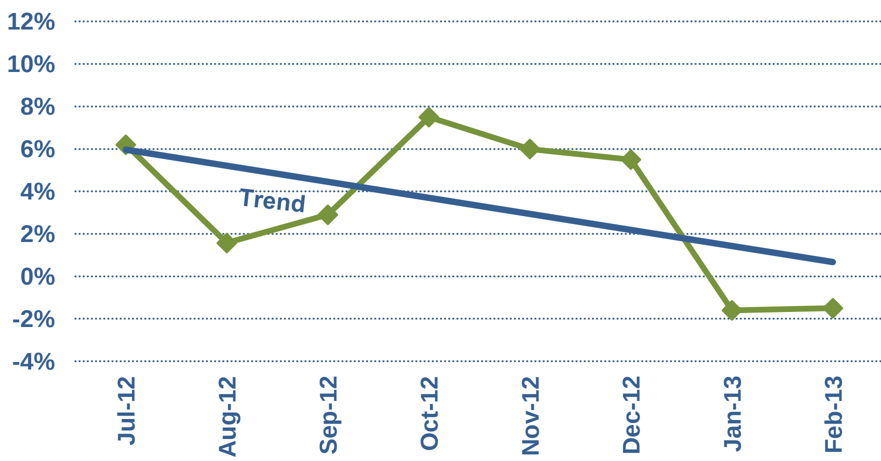


Through February, FY 2013 auto sales and use tax receipts were $10.4 million above OBM's August 2012 estimate.

Auto Sales and Use Tax

GRF receipts from the auto sales and use tax totaled $71.2 million in February. Those receipts were $6.8 million (10.6%) above estimate, but $1.3 million (1.8%) below February 2012 receipts. Through February, FY 2013 GRF receipts from the auto sales and use tax of $688.8 million were $10.4 million (1.5%) above estimate and $20.6 million (3.1%) above receipts for the corresponding period in FY 2012. Chart 4 compares FY 2013 monthly auto sales and use tax receipts with year-ago receipts in the same period. Auto sales tax revenue growth weakened considerably in the last few months, and though total receipts are ahead of FY 2012 results, monthly receipts in the last few months have been below receipts in the corresponding periods of the last fiscal year.

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



Commercial Activity Tax

The third payment of the fiscal year from CAT taxpayers who pay quarterly produced receipts of $173.9 million in February 2013. Those receipts were $11.8 million (6.3%) below estimate but $85.1 million (95.7%) above February 2012 revenue.

Through February, FY 2013 CAT receipts to the GRF totaled $604.2 million, $18.5 million (3.0%) below estimate, but were $306.2 million (102.7%) above receipts in the corresponding period in FY 2012. The revenue increase compared to FY 2012 is largely due to H.B. 153 which increased the share of receipts distributed to the GRF from the CAT with corresponding decreases to local government funds that share revenues from those tax sources. The GRF share of CAT receipts doubled to 50% in FY 2013, up from 25% in FY 2012. Through February, all-fund CAT receipts were $1.22 billion, $17.9 million (1.5%) above revenue through February in FY 2012. However, growth in CAT receipts has lost momentum in the last five months. Most of the year-to-date positive variance was achieved in the first quarter of FY 2013, and the last two payments (November and February) from taxpayers who pay quarterly[7] were below receipts in the corresponding periods last year. CAT receipts that are deposited into the local government funds are used to reimburse school districts and other units of local government for lost revenues from the phase-out and reductions in tangible personal property taxes.

Through February, FY 2013 GRF CAT receipts were $18.5 million below OBM's August 2012 estimate.

[7] CAT receipts in August, November, February, and May generally total 80% to 90% of yearly all-fund receipts.

Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax of $56.9 million in February 2013 were $3.5 million (6.5%) above estimate and $2.8 million (4.6%) below receipts in the same month in FY 2012. Through February, FY 2013 receipts of $495.3 million were $2.5 million (0.5%) above estimate. Receipts from cigarette sales were $460.2 million, and sales of products other than cigarettes provided $35.1 million. Compared to the first eight months of FY 2012, total receipts from the tax were $9.1 million (1.8%) lower. Receipts from the sale of cigarettes and other tobacco products decreased by $7.9 million; revenue from the other tobacco products decreased $1.2 million.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of February 2013
($ in thousands)
(Actual based on OAKS reports run March 6, 2013)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary, Secondary, and Other Education	$631,578	$592,061	$39,516	6.7%
Higher Education	$197,202	$190,521	$6,681	3.5%
Total Education	$828,780	$782,582	$46,198	5.9%
Public Assistance and Medicaid	$1,134,094	$1,075,671	$58,422	5.4%
Health and Human Services	$67,016	$62,806	$4,210	6.7%
Total Welfare and Human Services	$1,201,110	$1,138,477	$62,632	5.5%
Justice and Public Protection	$117,961	$129,466	-$11,505	-8.9%
Environment and Natural Resources	$3,038	$3,043	-$5	-0.2%
Transportation	$460	$748	-$288	-38.6%
General Government	$14,318	$14,978	-$660	-4.4%
Community and Economic Development	$4,063	$5,292	-$1,230	-23.2%
Capital	$0	$0	$0	---
Total Government Operations	$139,840	$153,528	-$13,688	-8.9%
Tax Relief and Other	-$45	$11	-$56	-502.4%
Debt Service	$35,388	$45,228	-$9,840	-21.8%
Total Other Expenditures	$35,343	$45,239	-$9,896	-21.9%
Total Program Expenditures	**$2,205,072**	**$2,119,826**	**$85,246**	**4.0%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$4	$8,621	-$8,617	-100.0%
Total Transfers Out	$4	$8,621	-$8,617	-100.0%
TOTAL GRF USES	**$2,205,076**	**$2,128,448**	**$76,629**	**3.6%**

* August 2012 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

Table 4: General Revenue Fund Uses
Actual vs. Estimate
FY 2013 as of February 28, 2013
($ in thousands)
(Actual based on OAKS reports run March 6, 2013)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2012**	**Percent Change**
Primary, Secondary, and Other Education	$4,523,537	$4,486,864	$36,673	0.8%	$4,392,729	3.0%
Higher Education	$1,440,899	$1,448,703	-$7,804	-0.5%	$1,440,698	0.0%
Total Education	$5,964,436	$5,935,567	$28,869	0.5%	$5,833,428	2.2%
Public Assistance and Medicaid	$9,304,530	$9,397,499	-$92,969	-1.0%	$8,810,930	5.6%
Health and Human Services	$680,399	$700,720	-$20,320	-2.9%	$709,023	-4.0%
Total Welfare and Human Services	$9,984,929	$10,098,218	-$113,290	-1.1%	$9,519,953	4.9%
Justice and Public Protection	$1,305,600	$1,351,957	-$46,357	-3.4%	$1,242,708	5.1%
Environment and Natural Resources	$50,298	$52,206	-$1,908	-3.7%	$51,142	-1.7%
Transportation	$6,792	$7,157	-$365	-5.1%	$6,628	2.5%
General Government	$208,780	$232,589	-$23,809	-10.2%	$192,404	8.5%
Community and Economic Development	$61,629	$66,490	-$4,861	-7.3%	$63,756	-3.3%
Capital	$137	$0	$137	---	$120	14.4%
Total Government Operations	$1,633,237	$1,710,400	-$77,162	-4.5%	$1,556,758	4.9%
Tax Relief and Other	$886,736	$879,295	$7,440	0.8%	$870,045	1.9%
Debt Service	$568,175	$591,136	-$22,961	-3.9%	$264,230	115.0%
Total Other Expenditures	$1,454,910	$1,470,431	-$15,521	-1.1%	$1,134,275	28.3%
Total Program Expenditures	**$19,037,512**	**$19,214,616**	**-$177,104**	**-0.9%**	**$18,044,414**	**5.5%**
TRANSFERS						
Budget Stabilization	$235,096	$235,096	$0	0.0%	$246,899	-4.8%
Other Transfers Out	$97,167	$102,835	-$5,668	-5.5%	$481,171	-79.8%
Total Transfers Out	$332,263	$337,931	-$5,668	-1.7%	$728,070	-54.4%
TOTAL GRF USES	**$19,369,775**	**$19,552,547**	**-$182,771**	**-0.9%**	**$18,772,484**	**3.2%**

* August 2012 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

Table 5: FY 2013 Medicaid Expenditures
($ in thousands)
(Actuals based on OAKS report run on March 6, 2013)

Medicaid (600525) Payments by Service Category	February Actual	February Estimate	February Variance	February Percent Variance	Year to Date Actual thru Feb	Year to Date Estimate thru Feb	Year to Date Variance	Year to Date Percent Variance
Managed Care Plans	$588,551	$670,721	-$82,170	-12.3%	$4,679,769	$4,977,864	-$298,095	-6.0%
Nursing Facilities	$206,084	$209,360	-$3,276	-1.6%	$1,652,696	$1,653,941	-$1,245	-0.1%
Hospitals	$116,120	$110,421	$5,699	5.2%	$879,739	$913,550	-$33,811	-3.7%
Aging Waivers	$44,306	$55,342	-$11,036	-19.9%	$366,434	$438,198	-$71,764	-16.4%
Prescription Drugs	$38,027	$40,964	-$2,937	-7.2%	$313,168	$345,514	-$32,346	-9.4%
Physicians	$30,125	$33,639	-$3,514	-10.4%	$210,696	$222,251	-$11,555	-5.2%
ODJFS Waivers	$19,036	$20,120	-$1,084	-5.4%	$167,954	$178,360	-$10,406	-5.8%
All Other	$214,227	$198,993	$15,234	7.7%	$1,545,787	$1,554,401	-$8,614	-0.6%
Total Payments	$1,256,476	$1,339,560	-$83,084	-6.2%	$9,816,243	$10,284,079	-$467,836	-4.5%
Total Offsets (non-GRF)	-$190,861	-$333,369	$142,508	-42.7%	-$1,193,800	-$1,624,469	$430,669	-26.5%
Total 600525 (net of offsets)	$1,065,615	$1,006,191	$59,424	5.9%	$8,622,443	$8,659,610	-$37,167	-0.4%
Medicare Part D (600526)	$25,263	$22,937	$2,326	10.1%	$191,889	$185,466	$6,423	3.5%
Total GRF	**$1,090,878**	**$1,029,128**	**$61,750**	**6.0%**	**$8,814,332**	**$8,845,076**	**-$30,744**	**-0.3%**
Total All Funds	**$1,281,739**	**$1,362,497**	**-$80,758**	**-5.9%**	**$10,008,132**	**$10,469,545**	**-$461,413**	**-4.4%**

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

Year-to-date GRF uses were $182.8 million below OBM's August 2012 estimate.

Year-to-date Medicaid GRF expenditures were $30.7 million below OBM's August 2012 estimate.

Expenditures

– Russ Keller, Economist, 614-644-1751

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

Overview

Through February, FY 2013 GRF uses totaled $19.37 billion. These uses were $182.8 million below the estimate released by the Office of Budget and Management (OBM) in August 2012.[8] GRF uses consist mainly of program expenditures but also include transfers out. Tables 3 and 4 show GRF uses for the month of February and for FY 2013 through February, respectively. For the first eight months of FY 2013, GRF program expenditures totaled $19.04 billion, which were $177.1 million below estimate. During the same period, GRF transfers out totaled $332.3 million, which were $5.7 million below estimate.

Public Assistance and Medicaid had the largest negative year-to-date variance at $93.0 million, followed by Justice and Public Protection ($46.4 million), General Government ($23.8 million), Debt Service ($23.0 million), and Health and Human Services ($20.3 million). Primary, Secondary, and Other Education, on the other hand, registered a positive year-to-date variance of $36.7 million. Overall, these six program categories had a net negative year-to-date variance of $169.7 million. The variances in these six program categories are briefly discussed below.

Public Assistance and Medicaid

Year-to-date GRF expenditures for the Public Assistance and Medicaid program category totaled $9.30 billion, $93.0 million (1.0%) below estimate. Medicaid, including both state and federal shares, accounts for about 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. Through February, FY 2013 Medicaid GRF expenditures totaled $8.81 billion, which was $30.7 million (0.3%) below estimate. The federal share of Medicaid expenditures is about 64% and the state's share is about 36%. Across all funds, year-to-date Medicaid expenditures

[8] In February 2013, as part of the executive budget process, OBM revised GRF expenditure estimates, mainly Medicaid, for FY 2013 as a whole. However, for purposes of this report, the variance analysis will continue to be based on OBM's August 2012 estimate. According to OBM, the monthly GRF expenditure estimates for the remaining months of FY 2013 will not be revised.

amounted to $10.0 billion, which was $461.4 million (4.4%) below estimate.

According to the Ohio Department of Job and Services (ODJFS), in recent months more GRF dollars than non-GRF dollars have been used for Medicaid expenditures due to a delay in collecting hospital assessment revenue (the assessment amount for FY 2013 has not yet been finalized). This accounted for the lower negative year-to-date variance in GRF expenditures ($30.7 million) compared to that in all funds expenditures ($461.4 million). Until the assessment is collected, ODJFS anticipates that expenditures from non-GRF funds will be about $141 million below estimate each month. For example, Medicaid expenditures were $80.8 million (5.9%) below estimate across all funds in February. However, GRF expenditures for the month were $61.8 million (6.0%) above estimate due to the fact that February expenditures from non-GRF funds were $142.5 million (42.7%) below estimate.

Across all funds, year-to-date Medicaid expenditures were $461.4 million below OBM's August 2012 estimate.

As seen from Table 5, Medicaid expenditures were below their year-to-date estimates for all but one category. The Managed Care Plans category had the largest variance at $298.1 million (6.0%), primarily due to lower than expected caseloads and capitated rates. The Aging Waivers category had the next largest negative variance of $71.8 million (16.4%), due partially to the timing of payments and partially to lower than estimated service costs per member. The Hospitals category had a negative variance of $33.8 million (3.7%) due largely to lower than expected expenditures from prior year encumbrances. Prescription Drugs had a negative variance of $32.3 million, or 9.4%.

Justice and Public Protection

Through February, FY 2013 GRF expenditures from the Justice and Public Protection program category totaled $1.31 billion. These expenditures were $46.4 million (3.4%) below estimate, of which $11.5 million occurred in the month of February. The Department of Rehabilitation and Correction (DRC) accounted for $32.7 million of this program category's negative year-to-date variance. As was the case in prior months, DRC's main operating line item 501321, Institutional Operations, continued to be the main source of DRC's variance. This item's year-to-date expenditures were $36.1 million below estimate. Year-to-date expenditures for item 502321, Mental Health Services, were also $4.6 million below estimate. These negative variances were partially offset by positive year-to-date variances of $4.1 million and $3.6 million, respectively, in item 505321, Institution Medical Services, and item 506321, Institution Education Services. In addition to DRC, the Department of

Year-to-date expenditures from Justice and Public Protection were $46.4 million below OBM's August 2012 estimate.

Youth Services (DYS) contributed $7.6 million to the Justice and Public Protection program category's negative year-to-date variance. Year-to-date expenditures for the largest line item in the DYS budget, 470401, RECLAIM Ohio, were $6.4 million below estimate.

General Government

Through February, FY 2013 GRF expenditures from the General Government program category total $208.8 million. These expenditures were $23.8 million (10.2%) below estimate. As in prior months, the Department of Administrative Services (DAS) had the largest negative year-to-date variance within this category at $12.2 million. The remaining variance occurred across several other agencies included in the General Government program category.

Debt Service

GRF expenditures for debt service in the month of February were $35.4 million, which were $9.8 million (21.8%) below estimate. For the first eight months of FY 2013, GRF debt service expenditures totaled $568.2 million, $23.0 million (3.9%) below estimate. The Public Works Commission (PWC), which administers the State Capital Improvement Program and a portion of the Clean Ohio Conservation Program, was the main contributor of this program category's negative year-to-date variance. Expenditures from PWC's two GRF debt service line items were $14.5 million below their year-to-date estimates. The Development Services Agency (DSA) also contributed $5.2 million to this program category's negative year-to-date variance. GRF debt service funding for the Third Frontier Research and Job Ready Site Development programs is provided in the DSA budget. General obligation bonds issued for these programs are backed by the full faith and credit of the state. The state is obligated to fully fund any debt service payments required for those bonds.

Health and Human Services

Through February, FY 2013 GRF expenditures from the Health and Human Services program category total $680.4 million. These expenditures were $20.3 million below estimate. As reported in prior months of *Budget Footnotes*, the Department of Health (DOH) and the Department of Mental Health (DMH) were the main sources of this program category's negative year-to-date variance. DOH's year-to-date expenditures totaled $51.9 million, $11.9 million below estimate. DMH's year-to-date expenditures were $219.9 million, $6.3 million below estimate.

Primary, Secondary, and Other Education

GRF expenditures from the Primary, Secondary, and Other Education program category totaled $631.6 million in the month of February. These expenditures were $39.5 million (6.7%) above estimate. The February positive variance turned this program category's year-to-date variance from a negative $2.8 million (0.1%) at the end of January to a positive $36.7 million (0.8%) at the end of February. This positive year-to-date variance was entirely attributable to the Ohio Department of Education (ODE). Through February, ODE's GRF expenditures were $4.49 billion, $36.9 million above estimate. The school foundation program was the main source of this positive variance. Expenditures from ODE's line item 200550, Foundation Funding, were $36.4 million above estimate in February and $54.6 million above estimate through February. These positive variances were partially offset by smaller negative variances in several other ODE line items. School foundation payments are made twice per month. In the first payment of January, ODE started using the FY 2013 October average daily membership (ADM) count instead of estimated ADM for making school foundation payments. The FY 2013 ADM counts and school foundation payments for individual school districts and schools will be adjusted throughout the remainder of the fiscal year. Overall, school foundation payments for FY 2013 are subject to the limitation of total funding appropriated for this purpose.

In January, ODE started using the October 2012 ADM count for making school foundation payments for FY 2013.

ISSUE UPDATES

$5 Million Committed to Help Stabilize Children in Crisis

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

In January 2013, the Office of Health Transformation (OHT) announced that $5.0 million will be committed to develop strategies to help stabilize children in crisis who have a serious mental illness or a developmental disability and who present a threat to the community. The directors of Mental Health and Developmental Disabilities will coordinate efforts to implement intervention programming that will benefit those children and their families. While program details are still being developed, it is anticipated that these moneys could be used for things such as emergency treatment, medication, residential programs, and respite care to families. In emergency situations, it is also possible that inpatient treatment services might be provided.

The moneys to support these efforts are being provided through a performance bonus that Ohio received due to its efforts to enroll and retain children onto Medicaid. The performance bonuses were established under the Children's Health Insurance Program Reauthorization Act of 2009. Ohio has implemented several measures to increase enrollment and retention, including eliminating in-person interviews and establishing presumptive eligibility for children. Thus far, Ohio has received three performance bonuses – $17.9 million in 2012, $20.8 million in 2011, $13.1 million in 2010. Moneys the state receives have been used to fund a variety of health initiatives such as increasing early identification and intervention efforts for autism, providing additional community addiction treatment services, and expanding access to patient-centered medical homes.

Department of Commerce Awards Contract for Liquor Control IT Modernization Project

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

In December 2012, the Department of Commerce awarded a contract to Quick Solutions, Inc., a company based in Westerville, Ohio, to replace and modernize the Division of Liquor Control's information technology (IT), merchandising, and supply chain management system. This is the first major IT upgrade for the Division since 1985. In addition to improving the Division's internal operations, the project is expected to result in real-time inventory control. Furthermore, the Department expects the new system to significantly reduce paperwork and improve communication between the Division and the 480 designated state liquor agencies across the state.

The Department is set to pay Quick Solutions, Inc., approximately $4.0 million in FY 2013, with costs including equipment, software development, project management, as well as maintenance and support. This funding was approved by the Controlling Board at its December 3, 2012 meeting. According to the Department, it will take about 20 months to complete the project. The total cost of the project is estimated at about $15 million. The Department plans to seek Controlling Board's approval of the FY 2014 and FY 2015 portion of the project in July 2013.

Third Ohio School Building Reaches LEED's Platinum Status

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

In November 2012, the School Facilities Commission (SFC) announced that North College Hill Middle-High School (Hamilton County) became the third Ohio school building to reach Leadership in Energy and Environmental Design (LEED) platinum status. The project, which was designed with an emphasis on energy savings, includes high efficiency HVAC equipment, integrated natural light, and a solar panel array that will produce about 5% of its energy needs. The building was constructed with products and materials that are environmentally friendly, were regionally obtained, and contain recycled content. North College Hill joins London Middle School (Madison) and Taft Information Technology High School (Hamilton) as Ohio's three public school buildings reaching platinum status.

In September 2007, SFC launched its Green School Initiative by adopting the LEED for Schools rating system as part of its design standards. Since then, all schools receiving SFC funds have been required to attain at least silver certification. Created by the U.S. Green Building Council, LEED is a third-party certification program and a widely used benchmark for the design, construction, and operation of high-performance green buildings. LEED for Schools addresses school building issues such as classroom acoustics, master planning, mold prevention, and environmental site assessment. According to SFC, 58 Ohio school buildings were certified through December 2012 as follows: Platinum – 3 buildings, Gold – 26 buildings, Silver – 28 buildings, and Certified – 1 building.

ODE Releases First Annual Office of School Sponsorship Report

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

In December 2012, the Ohio Department of Education (ODE) released the 2012 Office of School Sponsorship (OSS) Annual Report. OSS was created under the

Ohio School Sponsorship Program in H.B. 153 of the 129th General Assembly.[9] Under this program, OSS may sponsor schools that apply for direct authorization. For each of five years, OSS may approve applications for up to five new start-up community schools and up to 15 existing community schools. In FY 2012, OSS received 11 applications from start-up schools and eight applications from existing schools. Five start-up applications were approved and two of those schools are currently operating under OSS. All eight applications from existing community schools were also approved, though only five are currently operating under OSS sponsorship. The table below lists the community schools sponsored by OSS under the Ohio School Sponsorship Program in FY 2012.

Community Schools Sponsored by OSS under the Ohio School Sponsorship Program, FY 2012

School	District	County	Type
A+ Children's Academy	Columbus	Franklin	Start-up
Cincinnati State STEM Academy	Cincinnati	Hamilton	Start-up
Richard Allen Academy	Dayton	Montgomery	Existing
Richard Allen Academy II	Dayton	Montgomery	Existing
Richard Allen Academy III	Hamilton	Butler	Existing
Richard Allen Preparatory Academy	Dayton	Montgomery	Existing
Youngstown Academy of Excellence	Youngstown	Mahoning	Existing

The goals of OSS are to maintain high-quality sponsorship practices and to ensure that sponsored community schools are operating according to high academic and fiscal standards. The report states that all schools sponsored by OSS are in compliance with the laws governing community schools, though it is working with several schools that it sponsors to improve their academic performance and financial management. In addition to sponsoring the schools listed above, OSS is also permitted to temporarily sponsor community schools from which ODE has revoked the sponsor's sponsorship authority.[10] OSS currently sponsors six such schools, all of which were formerly sponsored by the Ashe Culture Center. As do other sponsors, ODE receives sponsorship fees of up to 3% of each school's state operating revenue to fund its sponsorship duties.

[9] R.C. 3314.029.

[10] R.C. 3314.015(C).

USDOE Releases Ohio's Second RttT Progress Report

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

On February 1, 2013, the U.S. Department of Education (USDOE) released the second report[11] on Ohio's progress in meeting its goals for the Race to the Top (RttT) grant program. As with the Year One review, the report assesses Ohio's Year Two RttT Program (corresponding to the 2011-2012 school year) by highlighting successes and accomplishments, identifying challenges, and providing lessons learned thus far from implementation. RttT focuses on comprehensive education reform in four areas: standards and assessments, data systems to support instruction, great teachers and leaders, and turning around the lowest-achieving schools.

Accomplishments noted in the report include progress in supporting educators in the transition to the Common Core State Standards through curricula resources and ongoing professional development, meeting a target of generating value-added reports for 60% of teachers statewide (representing 100% of eligible teachers participating in RttT), full implementation of teacher and principal evaluation systems being on-track for the 2013-2014 school year, and continuous communication and engagement with persistently low achieving (PLA) and early warning schools. Also, the report indicates some success with lowering achievement gaps among certain subgroups, particularly between English-speakers and limited English proficient students and between white and Hispanic students.

On the other hand, some achievement gaps grew slightly while the state did not meet most targets for student proficiency in reading and math. Among other challenges, the report also indicated a struggle in providing support to nontraditional PLAs such as community schools and e-schools, delay in the development of the state's Instructional Improvement System (a data system that will be used to track student progress and help teachers and principals make informed decisions about instruction and appropriate interventions), and the need for more specific and timely updates to local education agencies (LEAs) related to the next-generation assessment development.

Participation in RttT, which started with 538 Ohio LEAs, declined somewhat during year two, as 14 LEAs withdrew from the program. This reduced the total number of participating LEAs to 464 as of the end of June 2012. According to the report, low levels of funding and disagreements between LEA governing boards and teacher unions are the primary reasons why some LEAs decided to withdraw. Ohio was awarded a four-year RttT grant totaling $400 million. ODE plans for about half of the total to be used for statewide education reform work. The remaining half will be distributed as grants to participating LEAs. Through January 2013, a total of about

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[11]The full report is available on the U.S. Department of Education's web site at http://www2.ed.gov/programs/racetothetop/performance.html.

$148.8 million has been disbursed while another $41.8 million has been encumbered. About three-fourths of the amount disbursed ($113.8 million) has been distributed as subsidy to the LEAs.

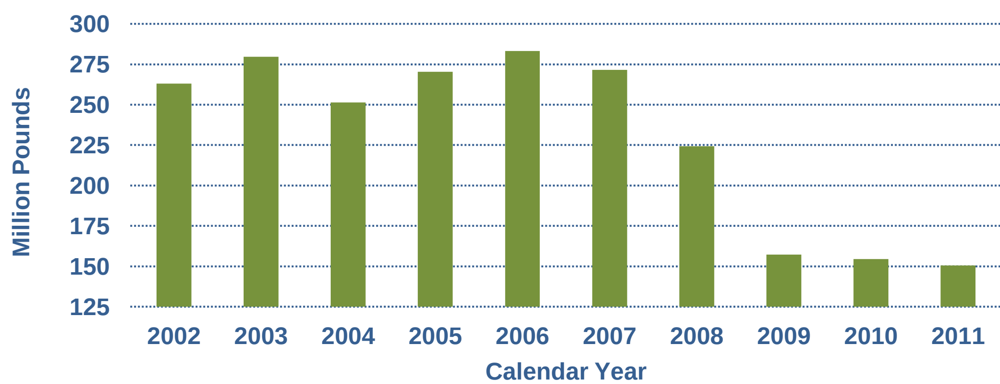
Ohio's Toxic Releases Decline 2.6% in 2011

– Matthew Stiffler, Budget Analyst, 614-466-5654.

According to the 2011 Toxic Release Inventory (TRI) report published by the U.S. Environmental Protection Agency in January 2013, Ohio's toxic releases decreased 2.6% in 2011, from 154.5 million pounds in 2010 to 150.5 million pounds. The report summarizes all chemicals disposed of on-site and off-site or otherwise released by all industries. This is Ohio's fifth such annual decrease in a row since the release of 283.8 million pounds in 2006 (see Chart 5 below). Three industries were responsible for a combined 78.8% of Ohio's 2011 releases: electric utilities (47.8 million pounds), chemicals (35.6 million pounds), and primary metals (35.1 million pounds).

Compared to other states, Ohio's was ranked fifth in 2011 TRI releases. Alaska was the top ranked state at 1,049 million pounds while Vermont was the bottom ranked state at 366,815 pounds. Ohio's 2011 TRI releases were higher than all of its neighboring states: Indiana (149.2 million pounds), Pennsylvania (100.9 million pounds), Kentucky (83.6 million pounds), Michigan (81.6 million pounds), and West Virginia (38.8 million pounds).

Chart 5: TRI Releases in Ohio, 2002-2011



The TRI report was established under the federal Emergency Planning and Community Right-to-Know Act of 1986 to promote planning for chemical emergencies and to provide information to the public about the presence and release of toxic and hazardous chemicals into their communities. The TRI program in Ohio is administered by the Ohio Environmental Protection Agency's Division of Air Pollution.

Department of Rehabilitation and Correction Issues Report on Inmate Assaults

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

In December 2012, the Department of Rehabilitation and Correction (DRC) issued a report summarizing the findings of its study of inmate assaults in Ohio prisons. This report was issued to fulfill a requirement in H.B. 86 of the 129th General Assembly that DRC conduct an empirical study of assaults by inmates. The report covers incidents that occurred from January 1, 2007 through September 2012. According to the report, DRC used 2007 as the baseline year because its reliable electronic record keeping started in that year. Some of the trends highlighted in the report are:

- The inmate-on-staff assault rate, as measured by the number of assaults per 1,000 inmates, increased from 22.53 in 2007 to 23.13 in 2008 before decreasing to 18.91 in 2010. The rate increased again after 2010 and is estimated to be 20.91 in 2012. Inmate-on-staff assaults are projected to total 1,040 in 2012 compared with 1,112 assaults in 2007. About 50% of inmate-on-staff assaults involved harassment and about 40% involved physical assaults. The number of serious physical assaults on staff increased from 19 in 2007 to 40 in 2010 and 2011. This number is expected to stay at 40 in 2012.
- The inmate-on-inmate assault rate increased from 20.72 in 2007 to 25.54 in 2009. It decreased to 24.90 in 2010 before increasing to 29.44 in 2011. The rate for 2012 is estimated at 29.05 with 1,445 assaults. In 2007 inmate-on-inmate assaults totaled 1,023. About 70% of inmate-on-inmate assaults were categorized as physical assaults and about 25% involved harassment. The number of serious physical assaults on inmates doubled from 120 in 2007 to 248 in 2011. This number is expected to drop to 181 in 2012.

The report also recommended administrative and legislative actions intended to reduce assaults, including: (1) continued improvements in the classification and reorganization initiatives to determine the appropriate security level for each inmate to more effectively control the most violent and disruptive inmates, (2) implementation of unit management system wide to facilitate more direct forms of inmate supervision, and (3) finding legal mechanisms for increasing prison time for inmates who assault and seriously injure staff or other inmates.

TRACKING THE ECONOMY

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

Overview

In February, total nonfarm employment increased by 236,000, while the unemployment rate decreased to 7.7%.

In the first months of 2013, the economy showed some signs of growth but also of slowing. In February, total nonfarm employment increased by 236,000, while the unemployment rate decreased to 7.7%. The expiration of the payroll tax "holiday," which restored the tax rate for employees to 6.2% from 4.2% (in effect in 2011 and 2012), decreased disposable personal income in January and is expected to affect consumer spending, especially of lower income households. In January, overall construction activity decreased as did housing starts for multifamily units; housing starts for single family units grew by less than 1%. Mortgage rates remain low but have increased since last year. Consumer prices overall remained flat over December and January, while gas prices have been increasing.

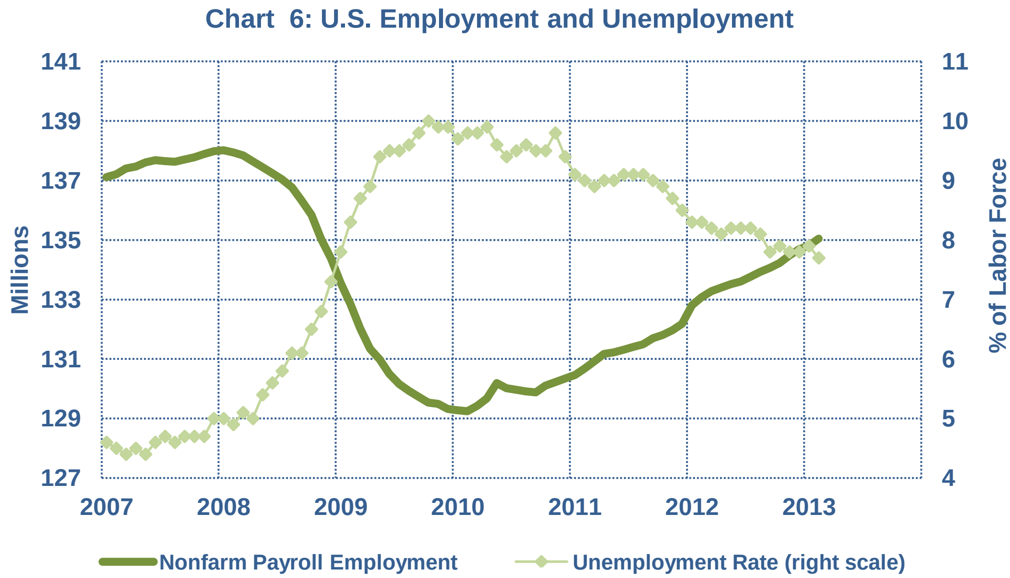
There remains uncertainty on the economic impact of automatic federal spending reductions, referred to as sequestration, which went into effect March 1. Sequestration would require federal spending reductions of about $85 billion over the remainder of the federal fiscal year (through the end of September) for defense and nondefense programs. Some programs such as Medicaid and the Supplemental Nutrition Assistance Program (or "Food Stamps") are exempt from sequestration.

In its Monetary Policy Report to Congress (February 26, 2013), the Federal Open Market Committee (FOMC) of the Federal Reserve indicated that it would continue with the existing asset purchase programs in order to help lower borrowing costs. Despite strains in global financial markets and uncertainty over U.S. fiscal policy, over the next few years, FOMC expects the U.S. economy to expand at a moderate pace with the unemployment rate gradually falling and with inflation at or below 2.0% per year.

The National Economy

Employment and Unemployment

U.S. total nonfarm employment rose by 236,000 (0.2%) in February from January's revised total. Unemployment decreased to 7.7% of the labor force from 7.9% in January. Trends in nationwide employment and unemployment are shown in Chart 6 below.



The largest gains in employment in January among major industries were in professional and business services (73,000), construction (48,000), particularly in specialty trade contractors, health care (32,000), with the largest gain in ambulatory health care services, retail trade (24,000), and the information industry (20,000) due to gains in the motion picture and sound recording sectors. Most other industries registered either small gains or remained fairly level. There was a decrease in government employment (10,000), which occurred at the federal (not counting the U.S. postal service), state, and local levels.

The Bureau of Labor Statistics revised U.S. nonfarm employment estimates for 2012. Employment estimates were revised upward by an average of about 494,000 each month. The prior estimates showed employment at 132.5 million in January 2012, increasing to 134.0 million by December, with average monthly growth of 142,000. The revised estimates show employment at 132.8 million in January 2012, increasing to 134.7 million by December, with average monthly growth of 169,000.

The growth of job openings slowed in 2012 compared to the previous two years. Over 2012, total nonfarm job openings grew about 4% from 3.5 million in January to 3.6 million in December. Job openings grew at rates of 6% and 24% in 2010 and 2011, respectively (from January to December of each year).

The growth of job openings slowed in 2012 compared to the previous two years.

In January, the number of unemployed individuals looking for work totaled about 12.3 million. This number has fallen 20% since peak unemployment of about 15.4 million in October 2009. In January, the number of individuals working part time for economic reasons was

8.0 million, a decrease from 8.2 million in January 2012 but higher than 7.9 million in December 2012.

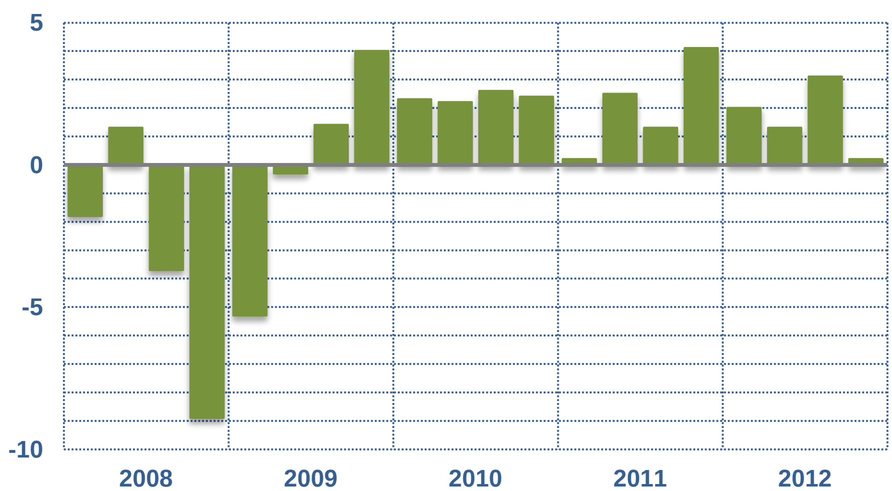
For the week ending January 19, 2013, nationwide unemployment benefit claims totaled 330,000 (seasonally adjusted) which was the lowest level of weekly claims since January 2008. Claims have since been somewhat higher; the number in the week ending March 2 was 340,000. Initial claims averaged about 372,200 per week in 2012, an 8% decrease from 405,800 average weekly claims in 2011, and a 34% decrease from peak average weekly claims in recent years of 566,600 in 2009.

Production

In 2012, inflation-adjusted gross domestic product (real GDP) grew 2.2%.

In January, the U.S. Bureau of Economic Analysis (BEA) released its initial estimate of the annualized growth rate in the economy for 2012. In 2012, inflation-adjusted gross domestic product (real GDP) grew 2.2%, higher than the rate of growth in 2011 of 1.8% and lower than the rate of growth in 2010 of 2.4%. The chart below shows annualized quarterly growth rates in real GDP over the past five years.

Chart 7: Inflation-adjusted Gross Domestic Product



In February, the BEA revised its estimate of annualized real GDP growth in the fourth quarter of 2012 to 0.1% from the initial estimate of -0.1%. This follows annualized growth rates of 2.0%, 1.3%, and 3.1% over the first three quarters of the year. The estimate for the fourth quarter will be revised again later this month based on more complete data.

The small increase in the fourth quarter was the result of decreases in federal spending offset by increases in other areas of the economy. Increases occurred in private fixed investment on residential structures (17.5%), personal consumption of durable goods (13.8%), and equipment and software investments (11.3%). Spending by the federal government decreased 14.8%, mainly due to a decrease in defense spending (-22.0%), which was the largest percentage decrease in federal defense spending in four decades.

Consumer Spending and Personal Incomes

From December to January, consumer spending grew by 0.2%, seasonally adjusted. The increase was led by purchases of services, which increased 0.4%. Purchases of goods decreased 0.3% overall and purchases of durable goods decreased by 0.8%. In February, the seasonally adjusted annualized rate of light vehicle sales increased to 15.3 million, from 15.2 million in January. This rate is below the rate of 15.5 million in November 2011, but remains higher than earlier rates since February 2008.

Real seasonally adjusted disposable personal income decreased by 4.0% in January following increases of 2.7% in December and 1.2% in November. The decrease in January was due to a few unique factors. One factor was the expiration of the payroll tax cut for employees. The employees' portion of the tax was reduced to 4.2% in 2011 and 2012 and increased back to 6.2% in January 2013, which reduced disposable income relative to December 2012. Another factor was the high level of bonuses provided to employees in late 2012. According to the BEA, when these factors are excluded, disposable personal income increased by 0.3% in January after increasing by the same percentage in December.

Real seasonally adjusted disposable personal income decreased by 4.0% in January.

Personal income increased 3.5% in 2012 compared with a year earlier, after an increase of 5.1% in 2011.

Construction and Real Estate

Housing Starts and Construction

From December to January, the seasonally adjusted annualized rate of housing starts decreased 8.5%, according to the U.S. Census Bureau, which was led by a decrease in starts on structures with five or more units (26.1%); single family starts increased by 0.8%. However, the annualized rate of starts of structures with five or more units was still up 34.7% over January of last year.

The seasonally adjusted annual rate of construction activity in January decreased 2.1% from the revised estimate in December, but was about 7.1% higher than in January of last year. The 12 month increase was largely driven by gains in private residential construction (22.0%), including new multifamily units (54.9%), as well as by gains in manufacturing (13.0%) and offices (26.2%). New single family housing construction was up 30.2% compared to January 2012. Public construction was down 3.0% compared to January of last year.

Home Sales, House Prices, Interest Rates

The seasonally adjusted annual rate of *new* single family home sales increased 15.6% from 378,000 in December to 437,000 in January, according to the U.S. Census Bureau. This rate is about 28.9% higher than the rate in January 2012. In January 2013, the average sales price of new houses sold was $286,300 and the median price was $226,400.

The seasonally adjusted annual rate of *existing* home sales (including single family and multi-unit homes) increased 0.4% from 4.90 million in December to 4.92 million in January, according to the National Association of Realtors (NAR). This rate is about 9.1% higher than the rate in January 2012. In January 2013, the national median sales price of existing homes sold was $173,600, which is 12.3% higher than in January 2012.

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In 2012, there were 4.66 million existing home sales, an increase of 9.4% over 2011, according to preliminary estimates made by NAR. Also, in 2012, the median existing-home price was $176,800, an increase of 6.4% over 2011 (preliminary estimate). In January, foreclosed homes and homes sold on short sales accounted for 23% of existing home sales, down from 35% of existing home sales in January 2012. According to NAR, the improvements in the housing sector are due to low interest rates on mortgages and pent-up demand for homes.

Interest rates on home loans have increased since the beginning of the year but still remain low. The 30-year fixed-rate mortgage interest rate averaged 3.34% nationwide in the Freddie Mac weekly survey for the period ending January 3, 2012, and increased to 3.51% for the period ending February 28, 2013. Since the series began in 1971, the lowest monthly average rates were recorded in November and December of 2012 at 3.35%. The average rate for February 2013 was 3.53%.

Inflation

Consumer Prices

Over 2012 (December to December), the consumer price index (CPI) rose 1.7% following an increase of 3.0% in 2011. Over the past ten years, December to December increases in the CPI have averaged 2.4%. Over 2012, the energy index increased just 0.5%, compared to increasing 6.6% in 2011. The energy index is affected by gasoline prices, which increased 1.7% in 2012 after increasing 9.9% in 2011. The food index in 2012 increased 1.8%, after increasing 4.7% in 2011. The index for all other items less food and energy (core index) increased 1.9% in 2012, which is the same as the average annual increase in the core index over the past ten years.

Going into 2013, the CPI, seasonally adjusted, did not change from December to January (nor did it change from November to December). In January, the decrease in the energy index (1.7%) offset the increase in the core index (0.3%); the index for food items remained level. The index for all items is 1.6% higher in January than January of 2012.

In February, nationwide average gasoline prices for regular unleaded fuel increased 6.8% from $3.54 on February 4 to $3.78 on February 25, based on the U.S. Energy Information Administration's (USEIA) weekly surveys. Ohio's average gasoline price for regular unleaded fuel increased 4.3% from $3.50 on February 4 to $3.65 on February 25.

Producer Prices

The producer price index (PPI) for finished goods increased in January by 0.2%, seasonally adjusted. The foods and core indexes increased by 0.7% and 0.2%, respectively, while the energy index decreased by 0.4%. The PPI for intermediate goods remained level. The PPI for crude goods increased 0.8%, which was mainly attributable to a price increase in crude petroleum of 8.1%.

The Ohio Economy

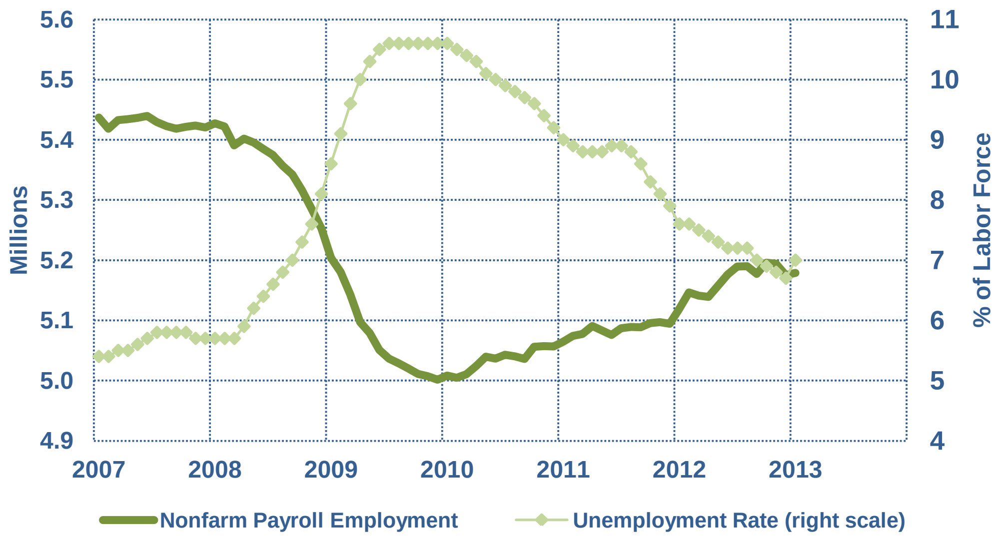
Employment and Unemployment

In January, Ohio's nonfarm payroll employment totaled about 5,178,800, an increase of 3,800 from December's downwardly revised total of 5,175,000, seasonally adjusted. Employment figures are derived from a survey of businesses and government agencies. Unemployment in Ohio rose to 7.0% of the labor force in January from 6.7% in December, seasonally adjusted. Unemployment rates for states are based on a survey of households.

Trends in Ohio employment and unemployment are shown in Chart 8 below.

Unemployment in Ohio rose to 7.0% of the labor force in January from 6.7% in December, seasonally adjusted.

Chart 8: Ohio Employment and Unemployment



Over the year, the seasonally adjusted unemployment rate fell from 7.6% in January to 6.7% in December.

The increase in employment of 3,800 from December to January was the result of increases in goods-producing industries, a smaller net increase in the private service sector, and a decrease in government employment. The goods-producing sector increased by 3,900, mainly in construction and manufacturing. The private service sector registered a net increase of 800, with the major increases occurring in education and health services and information. Decreases in the private service sector occurred in trade, transportation, and utilities; financial activities; and professional and business services. Government employment had a net decrease of 900 due to decreases in the state and federal government offsetting increases in local governments.

Over 2012, total nonfarm employment in Ohio increased from about 5,149,700 in January to about 5,175,000 in December, an increase of 25,300 or 0.5%. The greatest increases in employment in Ohio were in the service sector, mainly in leisure and hospitality (9,600, 2.0%), trade, transportation, and utilities (9,500, 1.0%), education and health services (9,000, 1.0%), and professional and business services (4,100, 0.6%). Employment also increased in manufacturing (7,700, 1.2%), in both durable and nondurable goods. Over 2012, decreases in employment occurred in government, construction, and information.

Over the year, the seasonally adjusted unemployment rate fell from 7.6% in January to 6.7% in December, and the number of unemployed individuals in Ohio decreased from about 447,170 to about 387,670, a decrease of 13.3%.

In 2012, Ohio's initial unemployment claims totaled about 632,800, a decrease of 10% from 701,200 initial claims in 2011, and a decrease of 45% from the peak level (in recent years) of 1,149,000 in 2009.

Business Filings and Capital Projects

In 2012, 88,068 new entities filed to do business in Ohio according to the Ohio Secretary of State. This represents a 16.5% increase in new business filings from 75,584 in 2009, and the third consecutive year of growth. From 2009 to 2012, new business filings grew on average 5.2% each year.

In addition, in 2012, Ohio placed second (behind Texas) as having the most qualified capital investment projects with 491. A project was counted if it met at least one of three criteria: there was an investment of at least $1 million, there were at least 50 new jobs, or if the new space was at least 20,000 square feet. The data is compiled by Site Selection magazine. In 2011, Ohio ranked first with 498 new projects.

Home Sales

Home sales in Ohio increased 12.7% to about 114,460 in 2012, from 101,560 in 2011, according to the Ohio Association of Realtors. Also, the average sales price of homes increased 5.5%, to about $134,950 in 2012, from $127,460 in 2011. In the fourth quarter of 2012, Ohio home sales totaled 27,800, which marks the sixth consecutive quarter of sales growth in the state. In addition, according to the Columbus Board of Realtors, home sales in the central Ohio region increased in 2012 for the first time since 2005 (the region includes Franklin, Delaware, Fayette, Licking, Madison, Morrow, Pickaway, and Union counties as well as parts of 12 other counties).

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Regional Economy

According to a report from the Federal Reserve Bank of Cleveland, economic activity expanded at a modest pace in this part of the country with gains in manufacturing orders, production, residential construction, and freight activity.[12] The report notes that payrolls in the shale gas industry are expanding in the region, while employment in conventional oil and gas firms remain level and employment in the coal sector is shrinking.

[12] This Federal Reserve Bank of Cleveland report is contained in the latest Beige Book, a Federal Reserve System publication that summarizes information gathered on or before February 22, 2013, from outside contacts. It is published about every six weeks. The Federal Reserve Bank of Cleveland's district includes all of Ohio and parts of Kentucky, Pennsylvania, and West Virginia.