Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION NOVEMBER 2012

STATUS OF THE GRF

HIGHLIGHTS

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

The economy continues to expand gradually. Employers continue to add to payrolls, but at a pace that has brought unemployment down only gradually. U.S. total nonfarm payroll employment rose by 0.1% in October, but unemployment also rose from 7.8% in September to 7.9%, from more people seeking work. Ohio's unemployment rate fell to 7.0% in September, the lowest in four years. However, employment in September also fell 0.2% from August although it was 1.7% higher than a year earlier.

Through October, FY 2013 GRF tax sources were nearly $78 million above estimate, largely due to strong performances from the corporate franchise tax ($61 million) and the estate tax ($35 million). GRF sources as a whole, however, were almost $70 million below estimate. On the expenditure side, total GRF uses were about $234 million below estimate in the first four months of the fiscal year.

Through October 2012, GRF sources totaled $9.39 billion:

- Receipts from the personal income tax were $26.3 million above estimate; and
- Receipts from the sales and use tax were $36.1 million below estimate.

Through October 2012, GRF uses totaled $10.88 billion:

- Public Assistance and Medicaid expenditures were $165.5 million below estimate; and
- Expenditures for Primary, Secondary, and Other Education were $58.9 million below estimate.

VOLUME 36, NUMBER 3

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

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Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of October 2012
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on November 6, 2012)

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$94,120	$88,100	$6,020	6.8%
Nonauto Sales and Use	$575,980	$601,900	-$25,920	-4.3%
Total Sales and Use Taxes	$670,100	$690,000	-$19,900	-2.9%
Personal Income	$681,650	$699,286	-$17,635	-2.5%
Corporate Franchise	$16,507	$7,000	$9,507	135.8%
Public Utility	$2,003	$1,900	$103	5.4%
Kilowatt Hour Excise	$25,571	$27,500	-$1,929	-7.0%
Natural Gas Consumption (MCF)	$486	$500	-$14	-2.9%
Commercial Activity Tax	$22,594	$22,200	$394	1.8%
Foreign Insurance	$136,760	$131,100	$5,660	4.3%
Domestic Insurance	$0	-$400	$400	100.0%
Business and Property	$0	$0	$0	---
Cigarette	$72,503	$71,700	$803	1.1%
Alcoholic Beverage	$3,929	$5,100	-$1,171	-23.0%
Liquor Gallonage	$3,148	$3,200	-$52	-1.6%
Estate	$54,798	$18,200	$36,598	201.1%
Total Tax Revenue	**$1,690,049**	**$1,677,286**	**$12,764**	**0.8%**
NONTAX REVENUE				
Earnings on Investments	$2,269	$1,500	$769	51.3%
Licenses and Fees	$665	$1,412	-$747	-52.9%
Other Revenue	$1,188	$2,350	-$1,162	-49.4%
Total Nontax Revenue	**$4,122**	**$5,261**	**-$1,139**	**-21.7%**
TRANSFERS				
Liquor Transfers**	$13,000	$13,000	$0	0.0%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$0	$0	$0	---
Total Transfers In	**$13,000**	**$13,000**	**$0**	**0.0%**
TOTAL STATE SOURCES	**$1,707,171**	**$1,695,547**	**$11,625**	**0.7%**
Federal Grants	$626,100	$671,636	-$45,536	-6.8%
TOTAL GRF SOURCES	**$2,333,271**	**$2,367,183**	**-$33,912**	**-1.4%**

*Estimates of the Office of Budget and Management as of August 2012.
**Liquor Transfers based on a report run in OAKS as of October 30, 2012.
Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Actual vs. Estimate
FY 2013 as of October 31, 2012
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on November 6, 2012)

	Actual	Estimate*	Variance	Percent	FY 2012	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$376,907	$371,600	$5,307	1.4%	$351,388	7.3%
Nonauto Sales and Use	$2,387,430	$2,428,800	-$41,370	-1.7%	$2,281,992	4.6%
Total Sales and Use Taxes	$2,764,337	$2,800,400	-$36,063	-1.3%	$2,633,380	5.0%
Personal Income	$2,816,981	$2,790,705	$26,276	0.9%	$2,582,949	9.1%
Corporate Franchise	$63,208	$2,000	$61,208	3060.4%	$8,602	634.8%
Public Utility	$27,063	$29,700	-$2,637	-8.9%	$35,157	-23.0%
Kilowatt Hour Excise	$116,285	$125,300	-$9,015	-7.2%	$114,198	1.8%
Natural Gas Consumption (MCF)	$10,702	$13,700	-$2,998	-21.9%	$13,710	-21.9%
Commercial Activity Tax	$225,198	$224,900	$298	0.1%	$107,588	109.3%
Foreign Insurance	$141,078	$137,400	$3,678	2.7%	$133,794	5.4%
Domestic Insurance	$4,753	-$500	$5,253	1050.6%	$58	8165.0%
Business and Property	$216	-$1,200	$1,416	118.0%	-$1,788	112.1%
Cigarette	$234,579	$237,500	-$2,921	-1.2%	$238,053	-1.5%
Alcoholic Beverage	$19,127	$21,100	-$1,973	-9.4%	$20,921	-8.6%
Liquor Gallonage	$13,488	$13,300	$188	1.4%	$13,132	2.7%
Estate	$56,625	$21,600	$35,025	162.2%	$26,370	114.7%
Total Tax Revenue	**$6,493,640**	**$6,415,905**	**$77,735**	**1.2%**	**$5,926,125**	**9.6%**
NONTAX REVENUE						
Earnings on Investments	$2,280	$1,500	$780	52.0%	$1,199	90.1%
Licenses and Fees	$10,476	$11,463	-$986	-8.6%	$13,401	-21.8%
Other Revenue	$3,636	$13,897	-$10,261	-73.8%	$9,017	-59.7%
Total Nontax Revenue	**$16,392**	**$26,859**	**-$10,467**	**-39.0%**	**$23,617**	**-30.6%**
TRANSFERS						
Liquor Transfers**	$54,500	$51,000	$3,500	6.9%	$35,132	55.1%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$5,372	$5,166	$206	4.0%	$47,858	-88.8%
Total Transfers In	**$59,872**	**$56,166**	**$3,706**	**6.6%**	**$82,990**	**-27.9%**
TOTAL STATE SOURCES	**$6,569,904**	**$6,498,931**	**$70,974**	**1.1%**	**$6,032,733**	**8.9%**
Federal Grants	$2,822,200	$2,962,660	-$140,460	-4.7%	$2,805,459	0.6%
TOTAL GRF SOURCES	**$9,392,104**	**$9,461,591**	**-$69,488**	**-0.7%**	**$8,838,191**	**6.3%**

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

**Liquor Transfers based on a report run in OAKS as of October 30, 2012.

Detail may not sum to total due to rounding.

Through October, GRF tax receipts in FY 2013 were $77.7 million above estimate.

Through October, FY 2013 GRF sources were $69.5 million below estimate.

REVENUES

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

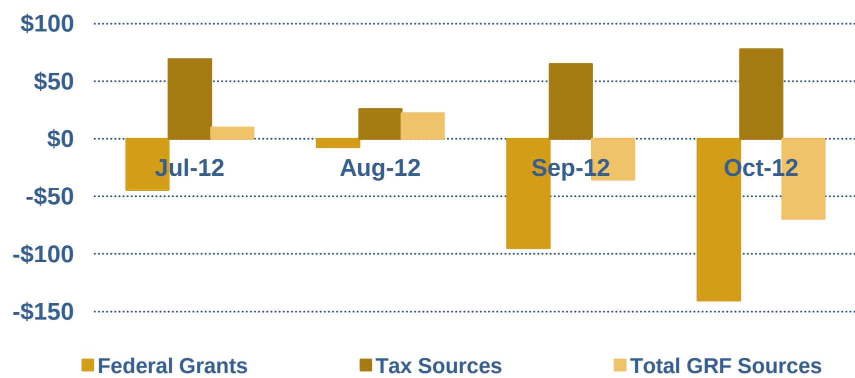
Overview

GRF sources totaled $2.33 billion in October 2012. These sources were $33.9 million below the estimate released by the Office of Budget and Management (OBM) in August 2012, due to a shortfall of $45.5 million in federal grants. That shortfall was partially offset by a positive variance of $12.8 million in GRF tax sources, which benefited from a strong performance from the estate tax; this tax source ended the month with a positive variance of $36.6 million. Tables 1 and 2 show GRF sources for the month of October and for FY 2013 through October, 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. Federal grants have been below estimates every month this fiscal year, mainly due to continued lower-than-expected spending for Medicaid. October's negative variance raised the year-to-date's shortfall of federal grants to $140.5 million, up from $94.9 million through September.

October receipts from the two largest tax sources, the personal income tax and the sales and use tax, were below anticipated receipts by, respectively, $17.6 million and $19.9 million. Also below projected revenues were the alcoholic beverage tax, by $1.2 million, and the kilowatt hour excise tax, by $1.9 million. On the other hand, in addition to the estate tax, the corporate franchise tax also continued its strong performance in October, $9.5 million above estimate for the month and $61.2 million above anticipated revenues through October. Furthermore, the foreign insurance tax was above projected receipts in October by $5.7 million. The overall year-to-date positive variance in GRF tax sources increased to $77.7 million, up from $65.0 million in the first quarter. However, the fiscal year's negative variance in total GRF sources also increased to $69.5 million, up from $35.6 million in the first quarter, due primarily to the shortfall in federal grants. Chart 1 below shows the cumulative variances against estimate for federal grants, tax sources, and total GRF sources.

Compared to FY 2012, FY 2013 total GRF sources increased $553.9 million. Gains of $567.5 million and $16.7 million, respectively, in tax revenues and in federal grants, were reduced by decreases of $30.3 million in nontax revenue and transfers in. Receipts from the personal income tax grew $234.0 million, while those from the sales and use tax and the commercial activity tax (CAT) increased $131.0 million and $117.6 million, respectively. Growth in GRF receipts from the income tax and the CAT was due in part to changes that H.B. 153 (the current operating budget act) made to revenue sharing with local governments.

Chart 1: Cumulative Variances of GRF Sources in FY 2013 (Variance from Estimates, in millions)



Personal Income Tax

October GRF receipts from the personal income tax of $681.6 million were $17.6 million (2.5%) below estimate, but $56.0 million (8.9%) above receipts in October 2011. The negative variance from the estimate was due to poor employer withholding receipts and refunds being larger than expected. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the Local Government Fund (LGF). Gross collections are the sum of employer withholding, quarterly estimated payments,[1] trust payments, payments associated with annual returns, and miscellaneous payments.

Through October, FY 2013 GRF income tax receipts were $26.3 million above estimate.

Monthly employer withholding was below estimate by $12.7 million, and actual refunds were higher than estimate by $10.8 million in October 2012. For the fiscal year to date, the GRF received $2.82 billion from the personal income tax. Yearly receipts were $26.3 million (0.9%) above estimate. However, the monthly revenue performance has been uneven with two of the last four months below projections. The table below summarizes year-to-date FY 2013 income tax revenue variances from estimates and annual changes by component. All

[1] Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than $500. Payments are generally due on or before April 15, June 15, and October 15 of the tax year and January 15 of the following year. Most estimated payments are made by high-income taxpayers.

Through October, FY 2013 withholding tax receipts were $13.8 million above estimate.

components, except for receipts from annual tax returns, were above estimates.

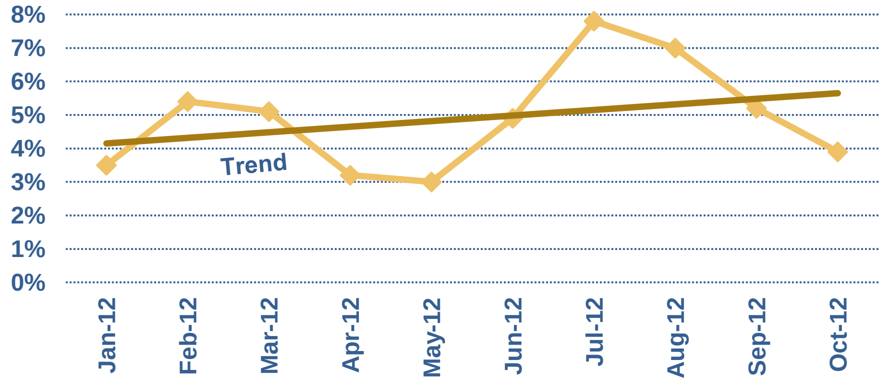
FY 2013 Year-to-Date Income Tax Revenue Variances and Changes by Component

Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2012	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	$13.8	0.5%	$133.4	5.5%
Quarterly Estimated Payments	$20.5	6.5%	$20.5	6.5%
Trust Payments	$5.6	65.2%	$5.6	65.9%
Annual Return Payments	-$2.3	-2.0%	-$2.3	-2.0%
Miscellaneous Payments	$6.1	19.7%	$6.1	20.1%
Gross Collections	$43.7	1.4%	$163.5	5.6%
Less Refunds	$13.7	11.8%	$13.6	11.7%
Less LGF Distribution	$3.8	3.4%	-$84.2	-42.4%
Income Tax Revenue	$26.3	0.9%	$234.0	9.1%

FY 2013 GRF receipts from the income tax were $234.0 million (9.1%) above receipts in the corresponding period in FY 2012. As in previous months, growth in receipts was mostly due to gains in employer withholding and quarterly estimated payments, and reduced distributions to the LGF. Through October, FY 2013 revenues from employer withholding were $133.4 million (5.5%) above receipts in this category in FY 2012, and quarterly estimated payments increased $20.5 million (6.5%). Chart 2 illustrates the trend in employer withholding receipts in 2012, which indicates slower growth in recent months. Nonfarm payroll employment grew nearly 2% in the July to September period, compared to the corresponding period in 2011; thus the withholding tax base continues to expand. Distributions to the LGF were $84.2 million (42.4%) below amounts in that category in the first four months of FY 2012, due to H.B. 153 which reduced revenue sharing of state tax revenues with local governments.[2]

[2] 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.

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



Sales and Use Tax

October GRF receipts from the sales and use tax of $670.1 million were $19.9 million (2.9%) below estimate, as a result of a weak performance of the nonauto sales and use tax. However, they were $30.1 million (4.7%) above receipts in October 2011. Year to date through October, FY 2013 GRF sales and use tax receipts totaled $2.76 billion, $36.1 million (1.3%) below estimate, but $131.0 million (5.0%) 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[3] 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 October, FY 2013 sales and use tax receipts were $36.1 million below estimate.

Nonauto Sales and Use Tax

For the third consecutive month, the nonauto sales and use tax failed to meet projected revenues. October GRF receipts from the nonauto sales and use tax were $576.0 million, $25.9 million (4.3%) below estimate. In August and September, the shortfalls were, respectively, $28.4 million and $10.0 million. Year-to-date, GRF nonauto sales and use tax receipts were $2.39 billion for FY 2013, $41.4 million (1.7%) below estimate, but $105.4 million (4.6%) above receipts through October in FY 2012. FY 2013 year-to-date receipts include $108.0 million in tax payments by Medicaid

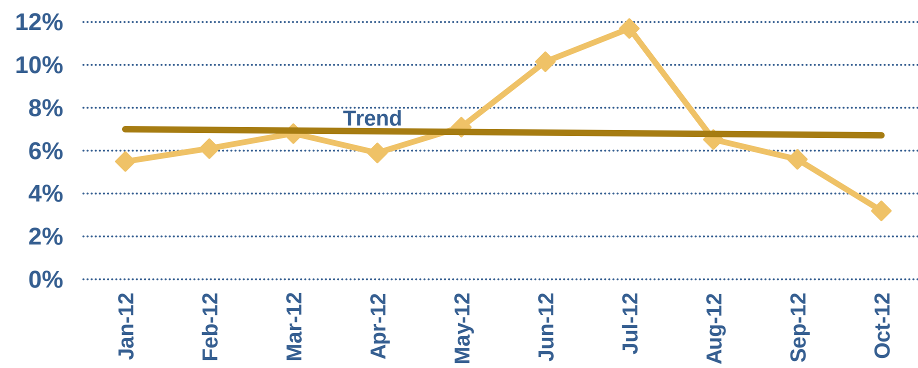
Through October, FY 2013 nonauto sales and use tax receipts were $41.4 million below estimate.

[3] 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.

health insuring corporations; those receipts were up by $15.6 million (16.9%) compared to the corresponding period in FY 2012.

Chart 3 shows the trend in 2012 nonauto sales and use tax monthly receipts against prior-year receipts in the same month. As seen from the chart, the rate of growth has decreased in the latest months.

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

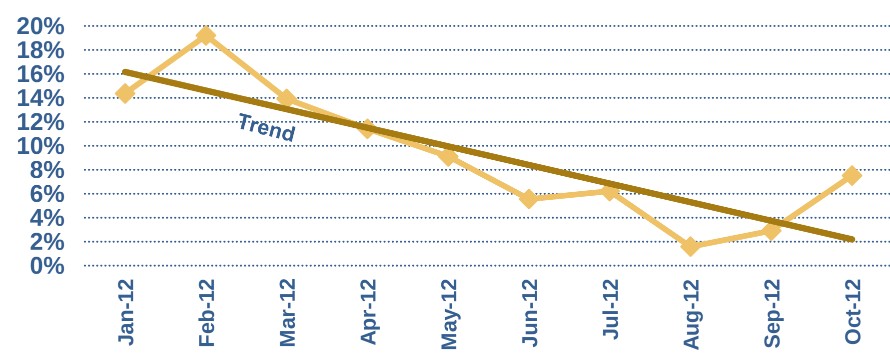


Through October, FY 2013 auto sales and use tax receipts were $5.3 million above estimate.

Auto Sales and Use Tax

GRF receipts from the auto sales and use tax totaled $94.1 million in October. Those receipts were $6.0 million (6.8%) above estimate and $17.9 million (23.4%) above October 2011 receipts. For the fiscal year through October, the auto sales and use tax provided $376.9 million, $5.3 million (1.4%) above estimate and $25.5 million (7.3%) above receipts for the corresponding period in FY 2012. Chart 4 below compares 2012 monthly auto sales and use tax receipts with year-ago receipts in the same period. As seen from the chart, on a year-ago basis, the rate of growth in auto sales and use tax has increased in recent months.

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



Nationwide, autos and light truck sales were 14.23 million units on a seasonally adjusted annualized basis in October, a 0.6 million decline from the previous month, in part due to Hurricane Sandy, and in part, to strong sales in September 2012. The month of September registered the strongest sales in autos and light trucks since the economic recovery started.

Commercial Activity Tax

October GRF receipts from the CAT of $22.6 million were $0.4 million (1.8%) above estimate and $12.0 million (112.9%) above October 2011 revenue. Through October, FY 2013 CAT receipts to the GRF totaled $225.2 million, $0.3 million (0.1%) above estimate, and were $117.6 million (109.3%) above receipts in the corresponding period in FY 2012. The revenue increase 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 October, all-fund CAT receipts were $460.0 million, $18.7 million (4.2%) above revenue through October in FY 2012. 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 October, FY 2013 GRF CAT receipts were $0.3 million above estimate.

Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax of $72.5 million in October 2012 were $0.8 million (1.1%) above estimate and $9.5 million (15.0%) above receipts in the same month in FY 2012. Through October, FY 2013 receipts of $234.6 million were $2.9 million (1.2%) below estimate. Receipts from cigarette sales were $217.0 million, and sales of products other than cigarettes provided $17.6 million. Compared to FY 2012, total receipts were $3.5 million (1.5%) lower. Receipts from the sale of cigarettes and other tobacco products decreased, respectively, by $3.4 million and $0.1 million.

Through October, FY 2013 cigarette tax receipts were $2.9 million below estimate.

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

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary, Secondary, and Other Education	$577,853	$551,521	$26,333	4.8%
Higher Education	$174,866	$178,980	-$4,113	-2.3%
Total Education	$752,719	$730,500	$22,219	3.0%
Public Assistance and Medicaid	$1,205,432	$1,280,427	-$74,996	-5.9%
Health and Human Services	$103,526	$111,709	-$8,182	-7.3%
Total Welfare and Human Services	$1,308,958	$1,392,136	-$83,178	-6.0%
Justice and Public Protection	$164,670	$157,704	$6,966	4.4%
Environment and Natural Resources	$3,925	$3,782	$144	3.8%
Transportation	$619	$1,576	-$957	-60.7%
General Government	$12,228	$20,000	-$7,773	-38.9%
Community and Economic Development	$3,675	$6,987	-$3,312	-47.4%
Capital	$0	$0	$0	---
Total Government Operations	$185,117	$190,049	-$4,932	-2.6%
Tax Relief and Other	$312,015	$325,646	-$13,631	-4.2%
Debt Service	$75,400	$75,402	-$2	0.0%
Total Other Expenditures	$387,415	$401,048	-$13,633	-3.4%
Total Program Expenditures	**$2,634,210**	**$2,713,734**	**-$79,524**	**-2.9%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$834	$10,236	-$9,402	-91.9%
Total Transfers Out	$834	$10,236	-$9,402	-91.9%
TOTAL GRF USES	**$2,635,044**	**$2,723,970**	**-$88,926**	**-3.3%**

* 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 October 31, 2012
($ in thousands)
(Actual based on OAKS reports run November 6, 2012)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2012**	**Percent Change**
Primary, Secondary, and Other Education	$2,425,949	$2,484,823	-$58,874	-2.4%	$2,451,751	-1.1%
Higher Education	$725,204	$729,855	-$4,651	-0.6%	$711,553	1.9%
Total Education	$3,151,153	$3,214,678	-$63,525	-2.0%	$3,163,304	-0.4%
Public Assistance and Medicaid	$4,915,279	$5,080,738	-$165,459	-3.3%	$4,849,359	1.4%
Health and Human Services	$378,373	$392,927	-$14,554	-3.7%	$453,349	-16.5%
Total Welfare and Human Services	$5,293,652	$5,473,665	-$180,013	-3.3%	$5,302,708	-0.2%
Justice and Public Protection	$772,683	$789,033	-$16,349	-2.1%	$701,685	10.1%
Environment and Natural Resources	$24,747	$25,331	-$584	-2.3%	$24,241	2.1%
Transportation	$2,552	$4,113	-$1,562	-38.0%	$3,718	-31.4%
General Government	$141,478	$159,813	-$18,335	-11.5%	$125,680	12.6%
Community and Economic Development	$43,144	$43,653	-$509	-1.2%	$43,112	0.1%
Capital	$137	$0	$137	---	$120	14.4%
Total Government Operations	$984,742	$1,021,943	-$37,202	-3.6%	$898,555	9.6%
Tax Relief and Other	$703,105	$660,971	$42,134	6.4%	$623,577	12.8%
Debt Service	$421,835	$430,803	-$8,968	-2.1%	$172,167	145.0%
Total Other Expenditures	$1,124,940	$1,091,774	$33,166	3.0%	$795,744	41.4%
Total Program Expenditures	**$10,554,486**	**$10,802,060**	**-$247,574**	**-2.3%**	**$10,160,312**	**3.9%**
TRANSFERS						
Budget Stabilization	$235,096	$235,096	$0	0.0%	$246,899	-4.8%
Other Transfers Out	$92,112	$79,002	$13,110	16.6%	$84,937	8.4%
Total Transfers Out	$327,208	$314,098	$13,110	4.2%	$331,836	-1.4%
TOTAL GRF USES	**$10,881,695**	**$11,116,158**	**-$234,464**	**-2.1%**	**$10,492,147**	**3.7%**

* 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 November 5, 2012)

Medicaid (600525) Payments by Service Category	October Actual	October Estimate	October Variance	October Percent Variance	Year to Date Actual thru Oct	Year to Date Estimate thru Oct	Year to Date Variance	Year to Date Percent Variance
Managed Care Plans	$581,741	$609,936	-$28,195	-4.6%	$2,373,977	$2,416,631	-$42,654	-1.8%
Nursing Facilities	$209,043	$203,019	$6,024	3.0%	$826,735	$821,096	$5,639	0.7%
Hospitals	$124,712	$133,216	-$8,504	-6.4%	$441,252	$468,471	-$27,219	-5.8%
Aging Waivers	$45,518	$54,170	-$8,652	-16.0%	$195,694	$218,569	-$22,875	-10.5%
Prescription Drugs	$45,135	$49,710	-$4,575	-9.2%	$158,719	$171,648	-$12,929	-7.5%
Physicians	$29,407	$29,950	-$543	-1.8%	$103,399	$106,295	-$2,896	-2.7%
ODJFS Waivers	$24,008	$25,481	-$1,473	-5.8%	$86,541	$92,183	-$5,642	-6.1%
All Other	$221,045	$225,971	-$4,926	-2.2%	$723,340	$738,510	-$15,170	-2.1%
Total Payments	$1,280,609	$1,331,453	-$50,844	-3.8%	$4,909,657	$5,033,403	-$123,746	-2.5%
Total Offsets (non-GRF)	-$206,035	-$205,694	-$341	0.2%	-$358,421	-$363,753	$5,332	-1.5%
Total 600525 (net of offsets)	$1,074,574	$1,125,759	-$51,185	-4.5%	$4,551,236	$4,669,650	-$118,414	-2.5%
Medicare Part D (600526)	$23,752	$22,581	$1,171	5.2%	$95,925	$93,625	$2,300	2.5%
Total GRF	**$1,098,326**	**$1,148,340**	**-$50,014**	**-4.4%**	**$4,647,161**	**$4,763,275**	**-$116,114**	**-2.4%**
Total All Funds	**$1,304,361**	**$1,354,034**	**-$49,673**	**-3.7%**	**$5,005,582**	**$5,127,028**	**-$121,446**	**-2.4%**

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

Expenditures

– Russ Keller, Economist, 614-644-1751

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

Overview

Through October, FY 2013 GRF program expenditures totaled $10.55 billion. These expenditures were $247.6 million below the estimate published by the Office of Budget and Management (OBM) in August 2012. GRF transfers out amounted to $327.2 million, $13.1 million above estimate. The largest single transfer out occurred in the month of July when $235.1 million cash was transferred from the GRF to the Budget Stabilization Fund. Including both program expenditures and transfers out, GRF uses totaled $10.88 billion for the first four months of FY 2013. These uses were $234.5 million below estimate. Tables 3 and 4 show GRF uses for the month of October and for FY 2013 through October, respectively.

For the first four months of FY 2013, GRF uses were $234.5 million below estimate.

Public Assistance and Medicaid registered the largest negative year-to-date variance at $165.5 million, followed by Primary, Secondary, and Other Education ($58.9 million); General Government ($18.3 million); and Justice and Public Protection ($16.3 million). These negative variances were partially offset by a positive year-to-date variance of $42.1 million in Tax Relief and Other. The variances in these five program categories are briefly discussed below.

Public Assistance and Medicaid

Year-to-date GRF expenditures for Public Assistance and Medicaid totaled $4.92 billion. These expenditures were $165.5 million (3.3%) below estimate, of which $75.0 million (45.3%) occurred in the month of October. Medicaid, including both state and federal shares, accounts for about 94.5% of expenditures in this program category. In FY 2013, the federal share of Medicaid expenditures is about 64% and the state's share is about 36%.

Year-to-date GRF Medicaid expenditures were $116.1 million below estimate.

For the first four months of FY 2013, Medicaid GRF expenditures totaled $4.65 billion, which was $116.1 million (2.4%) below estimate. Medicaid is mainly funded by the GRF, but is also supported by various non-GRF funds. Across all funds, year-to-date Medicaid expenditures amounted to $5.01 billion, which was $121.4 million (2.4%) below estimate. Table 5 details Medicaid GRF expenditures by service category and also summarizes Medicaid expenditures across all funds.

Managed Care Plans had the largest negative year-to-date variance of $42.7 million.

As seen from Table 5, GRF expenditures were below their year-to-date estimates for all but two categories. Managed Care Plans had the largest negative variance of $42.7 million (1.8%), of which $28.2 million occurred in October. According to the Ohio Department of Job and Family Services, the variance in this category was due to slightly lower than estimated capitated payments for the Covered Families and Children population as well as to lower than estimated managed care caseloads in the Aged, Blind, and Disabled (ABD) population. In September (the latest month for which data are available), ABD managed care caseloads were about 5,200 (4.0%) below estimate.

The Hospitals category had the next largest negative year-to-date variance of $27.2 million (5.8%). The estimate for this category assumed that some hospital claims from FY 2012 might be paid in FY 2013. However, thus far such claims have not occurred. Other significant negative variances include Aging Waivers ($22.9 million, 10.5%), All Other ($15.2 million, 2.1%), and Prescription Drugs ($12.9 million, 7.5%)

Primary, Secondary, and Other Education

Year-to-date GRF expenditures for Primary, Secondary, and Other Education were $58.9 million below estimate.

GRF expenditures for Primary, Secondary, and Other Education were $26.3 million (4.8%) above estimate in the month of October, which narrowed this category's year-to-date negative variance from $85.2 million (4.4%) at the end of September to $58.9 million (2.4%) at the end of October. As mentioned in the prior issue of *Budget Footnotes*, the largest GRF appropriation item within the Ohio Department of Education (ODE) budget – item 200550, Foundation Funding – continued to be the main source of this variance. This item provides the majority of funding for the state's subsidy for public schools.

Through October, expenditures for item 200550 were $44.3 million below its year-to-date estimate. ODE adjusts the bimonthly subsidy payments to individual school districts throughout the year as updated enrollment and other relevant data becomes available. It is not uncommon to see this item experiencing relatively large variances from time to time. Often, an individual district's subsidy payment for a given fiscal year will not be finalized until the following fiscal year. Funds are encumbered for the adjustment payments. The year-to-date estimate for item 200550 included anticipated expenditures of $35.0 million from prior year encumbrances for making FY 2012 school subsidy adjustment payments in September. These adjustments did not actually occur as originally planned, however. When ODE makes the FY 2012 subsidy adjustment payments in the coming months, the variance in item 200550 should narrow somewhat.

General Government

Year-to-date GRF expenditures for General Government were $18.3 million (11.5%) below estimate. Of this total, $12.8 million (69.9%) occurred in the Department of Administrative Services (DAS). The remaining variance occurred across several other agencies included in this program category.

Timing might have played a role in some of the variances in DAS. For the month of October, DAS expended $5.3 million less than estimated. While the estimate anticipated expenditures of $2.6 million in October from prior year encumbrances under GRF appropriation item 100418, Web Sites and Business Gateway, only $1,590 was actually expended.[4] Likewise, only $32,222 of the anticipated payment of $2.0 million from item 100449, DAS–Building Operating Payment, was actually made in October. Furthermore, the estimate anticipated a payment of $5.0 million each in August and September from item 100448, OBA–Building Operating Payments. So far, only one payment of $4.5 million actually occurred in September from the item.

Year-to-date GRF expenditures for General Government were below estimate by $18.3 million.

Justice and Public Protection

Year-to-date GRF expenditures for Justice and Public Protection were $16.3 million (2.1%) below estimate. The Department of Rehabilitation and Correction (DRC) was the primary source of this variance with year-to-date expenditures being $10.9 million below estimate. Other major contributors were the Department of Youth Services ($3.2 million) and the Judiciary/Supreme Court ($2.2 million).

Within the DRC budget, GRF appropriation item 501321, Institutional Operations, was $18.5 million below its year-to-date estimate. This was largely due to lower than expected expenditures from prior encumbrances. The year-to-date estimate for item 501321 included expenditures of $50.9 million from prior year encumbrances. Generally, agencies have until the end of November to expend prior year encumbrances for operating expenses. Any unexpended operating expense encumbrances may be cancelled and become part of the GRF fund balance. Expenditures for DRC's item 505321, Institution Medical

Year-to-date GRF expenditures for Justice and Public Protection were below estimate by $16.3 million.

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[4] Item 100418 helped fund development and maintenance costs of the Ohio Portal (the state's home page on the Internet), the Ohio Business Gateway (a web-based application enables businesses to file and pay various taxes and fees in one location), and Digital Government initiatives. H.B. 487 of the 129th General Assembly consolidated funding for these purposes in FY 2013 under item 100456, State IT Services.

Services, were $8.9 million above its year-to-date estimate, which partially offset the negative variance in item 501321.

Year-to-date GRF expenditures for Tax Relief and Other were above estimate by $42.1 million.

Tax Relief and Other

GRF expenditures for Tax Relief and Other were below the monthly estimate by $13.6 million (4.2%) in October, which continued to narrow this category's year-to-date positive variance to $42.1 million (6.4%). The primary cause of the variance in this program category was the timing of reimbursement payments for the 10% rollback, the 2.5% rollback, and the Homestead exemption. The timing of reimbursement payments depends on when counties submit their requests. Many more payments than expected were made in August. As of the close of October, 83 counties received full reimbursements based on the August 2012 real property tax settlements. The remaining five counties, including Cuyahoga and Mahoning, will be paid by the end of November. As a result, the positive variance in this program category should continue to narrow in the next two months. Reimbursement payments based on the February 2013 property tax settlements should begin in early 2013 and be completed by the end of June 2013.

ISSUE UPDATES

Ohio Historical Society Gains Over $150,000 from New Tax Check-off to Support Competitive Grants for Local Historical Preservation

– Brian D. Hoffmeister, Senior Budget Analyst, 614-644-0089

The Ohio Historical Society (OHS) has received over $150,000 from the new Ohio History Tax Check-off, which was created to allow Ohio taxpayers to donate a portion of their refunds to OHS. The check-off was created in H.B. 153, the main operating budget for FY 2012 and FY 2013, and the first collections occurred during FY 2012 for tax year (TY) 2011. The Controlling Board approved a request by OHS on October 29, 2012 for a total FY 2013 appropriation of $300,000 to the Ohio History Fund (Fund 5KL0) in order to spend the $151,327 received from TY 2011 donations, plus the check-off contributions it expects to receive in TY 2012.

OHS will direct the funds toward a grant program to assist local historic preservation efforts, although OHS is permitted under statute to use the proceeds of the check-off for any public functions it performs on behalf of the state. OHS's Local History Office will administer the grant program, which will offer three categories of funding to local history organizations. These are: (1) Organizational Development, which will assist organizations with activities such as training staff and volunteers, developing strategic plans, or improving governance, (2) Programs and Collections, which will fund exhibits, the acquisition and preservation of artifacts and materials, historical and archaeological surveys, and other such activities, and (3) Bricks and Mortar, which will support the rehabilitation and protection of historic sites and structures or the construction of new facilities dedicated to historic preservation. Organizational Development grants may range from $1,000 to $4,000, while grants in the other two categories may range from $2,000 to $20,000. All awards under the program must meet funding criteria developed by OHS and be approved by the History Fund Advisory Committee. The application period for the first round of History Fund grants closed on October 29. OHS expects to announce the recipients of these awards in February of 2013.

Department of Agriculture Receives Almost $5.0 million in Federal Funding to Eradicate Asian Longhorned Beetle in Clermont County

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

On October 15, 2012, the Controlling Board approved a request by the Ohio Department of Agriculture (ODA) to spend almost $5.0 million in federal funds awarded by the U.S. Department of Agriculture (USDA) for the location and eradication of Asian Longhorned Beetles infesting trees in Clermont County. This federal grant is the result of a cooperative contract between ODA and the USDA to survey the extent of beetle infestation and remove affected trees. According to the cooperative contract, between September 1, 2012, and August 31, 2014, USDA will provide a total of $9.8 million in federal funding for the state's eradication program.

Of the almost $5.0 million approved by the Controlling Board, $4,560,000 will be deposited into the Federal Plant Industry Fund (Fund 3R20). This funding will be used to hire ten new employees, obtain professional services, buy supplies for pest survey work, and remove infested trees in a quarantine area within Clermont County. A portion of the funding will also be targeted toward prevention efforts, such as education, outreach, and enforcement. The remaining $400,000 will be deposited into the Indirect Cost Fund (Fund 3J40) according to federal guidelines that apply to overhead expenses associated with federal grants. The federal funding requires state matching funds, which are to be paid from the state Plant Pest Program Fund (Fund 5FC0). The state's matching share for FY 2013 is $157,305.

The Asian Longhorned Beetle grows, reproduces in, and kills deciduous hardwood trees such as maple, birch, horse chestnut, poplar, willow, elm, and ash. Ohio is the fifth state where infestations have been confirmed, along with Illinois, Massachusetts, New Jersey, and New York. The beetle was first discovered in Ohio on June 9, 2011, in Clermont County. As of October 18, 2012, ODA has quarantined 61 square miles of infested acreage and has removed almost 8,800 infested trees in the county since November 2011.

Ohio Legal Rights Service Completes Transition to Nonprofit Organization

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

On October 1, 2012, the Ohio Legal Rights Service (OLRS) completed the transition to a nonprofit organization. The new organization is called the Ohio Disability Rights Law and Policy Center, Inc., doing business as Disability Rights Ohio. The transition was conducted in accordance with H.B. 153, which required that a new nonprofit entity be formed by December 31, 2011, and that OLRS fully transition to a nonprofit organization by October 1, 2012. Disability Rights Ohio will continue to provide protection and advocacy (P&A) services for individuals with disabilities and will continue to be funded mainly through federal P&A grants. The nonprofit status of the organization will also allow it to seek private grants to supplement its budget.

H.B. 153 appropriated GRF funding to OLRS totaling about $300,000 for FY 2012 and the first quarter of FY 2013 and allowed OLRS to use these appropriations to support the costs of transitioning to a nonprofit organization. Of the $241,242 in GRF expended by OLRS in FY 2012 and the first quarter of FY 2013, $157,212 was used to support the costs of transitioning. Transition costs included conveying assets and property and making adjustments to bookkeeping, accounting, and other administrative functions. Federal grants received for P&A cases were not allowed to be used for the direct costs of the transition. According to the executive director, 41 of the 48 employees that worked at OLRS at the beginning of 2012 transitioned to the new nonprofit; others retired or left for other employment.

Attorney General's Medicaid Fraud Control Unit Generated $55.2 million in Criminal Restitution Orders and Civil Settlements in FY 2012

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

According to its FY 2012 annual report, the Attorney General's Medicaid Fraud Control Unit (MFCU) generated a total of $55.2 million in criminal restitution orders and civil settlements in that year.[5] The MFCU is charged with the investigation and prosecution of Medicaid provider fraud and neglect or abuse of Medicaid-eligible patients in health care facilities. As shown in the table below, the orders and settlements for FY 2012 included 124 criminal convictions involving fraud, nine criminal convictions involving patient abuse or neglect, and the settlement of 26 civil cases. Roughly 50% of the investigations opened or completed in FY 2012 involved home health care providers.

In FY 2012, it cost approximately $6.0 million to fund the MFCU, including the payroll expenses of around 60 staff. Seventy-five percent of this funding came from an annual formula grant awarded by the U.S. Department of Health and Human Services, which was deposited into the Medicaid Fraud Control Fund (Fund 3060). The remainder consists of the required 25% state match drawn from the General Reimbursement Fund (Fund 1060), which is used by the Attorney General to provide legal and other services on behalf of the state.

In addition to FY 2012 statistics, the table below shows the MFCU's performance statistics from FY 2008 to FY 2011. Over the past five years, the total value of criminal restitution orders and settlements ranged from a low $53.9 million in FY 2008 to a high

[5] The MFCU's annual reports are available on the "Publications" page of the Attorney General's web site (www.ohioattorneygeneral.gov) under the Health Care Fraud Publications heading.

of $101.8 million in FY 2011. While the total number of criminal convictions increased steadily from 78 in FY 2008 to 133 in FY 2012, the total number of civil settlements decreased from 52 in FY 2008 to 26 in FY 2012. Overall, the combined number of criminal convictions and civil settlements increased from 130 in FY 2008 to 159 in FY 2012, an increase of 22.3%.

Medicaid Fraud Unit Performance Statistics, FY 2008-FY 2012				
		Number of Criminal Convictions		
Fiscal Year	Total Value of Orders & Settlements	Fraud	Patient Abuse or Neglect	Number of Civil Settlements
2012	$55,198,149	124	9	26
2011	$101,794,703	114	7	29
2010	$58,689,502	90	14	26
2009	$68,593,865	68	19	21
2008	$53,908,473	63	15	52

ODMH Begins Phase I of Medicaid Health Home Initiative

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

On October 1, 2012, the Ohio Department of Mental Health (ODMH) began Phase I of the Medicaid Health Home Initiative authorized in H.B. 153. Phase I is being implemented in five counties: Adams, Butler, Lawrence, Lucas, and Scioto. The purpose of the initiative is to improve integration of physical and behavioral health services for individuals with severe and persistent mental illness (SPMI). Individuals with SPMI commonly experience additional chronic physical health problems such as diabetes and heart disease. The Home Health Initiative aims to improve their care and health outcomes by providing comprehensive care management and coordination, referrals to community and social support services, and comprehensive transitional care. These services are expected to lower the rates of hospital emergency department use, reduce hospital admissions and readmissions, and decrease reliance on long-term care facilities, all of which could reduce health care costs.

Under the initiative, community behavioral health centers (CBHCs) may apply to ODMH to become Medicaid health homes. As health home providers, they are to deliver services through a multidisciplinary team of health care professionals and are responsible for notifying other treatment providers about the goals and types of health home services as well as encouraging participation in care coordination efforts. Services provided in the first six quarters of the Phase I implementation will be eligible for an enhanced federal Medicaid reimbursement rate of 90%.

Individuals with SPMI who are eligible for health home services will be notified by mail or other means regarding the availability of services in their geographic region.

Individuals currently being served at a CBHC selected to be a health home may opt out of health home services or receive the services from another participating CBHC. Individuals currently being served at a CBHC that is not a health home will have the option of receiving services at one of the CBHC health homes in their region. Individuals with SPMI admitted to the hospital emergency department, or as an inpatient, may be referred to a CBHC health home in their geographic area. Similarly, referrals to health homes may come from specialty providers, primary care providers, managed care plans, or other providers in the community.

Phase II of the Medicaid Health Home Initiative will include 30 more counties and is tentatively scheduled for April 2013. Phase III will include the remaining counties and is tentatively scheduled for July 2013. Actual implementation of Phase II and Phase III are subject to federal approval. ODMH anticipates that the enhanced federal Medicaid reimbursement rate of 90% will also apply to Phase II and Phase III for six quarters each.

Interagency Task Force on Mental Health and Juvenile Justice Releases Report and Recommendations

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

In September 2012, the Interagency Task Force on Mental Health and Juvenile Justice released its final report and recommendations.[6] This work reflected its charge under H.B. 86 of the 129th General Assembly to investigate and make recommendations on how to most effectively treat delinquent youth with serious behavioral health issues. The Task Force's overall finding was that there is a significant unmet need for behavioral health services among Ohio youth, as evidenced by a disproportionate number of youth with serious behavioral health issues being involved in the juvenile justice system. Principally recommended was that state and local juvenile justice, behavioral health, and child welfare agencies, as well as schools need to better share and link needs assessment, funding, and service delivery. Other major recommendations of the Task Force include:

- Develop a psychiatric residential treatment facility and related step down/transition program for youth confined by the Department of Youth Services (DYS);
- Expand ODMH's community linkages services and activities;
- Promote funding of cost-effective community-based programs;
- Fully leverage Medicaid funding for behavioral health services;

[6] The Task Force's complete report is available under the "Featured Links" tab at: www.dys.ohio.gov.

- Implement a statewide behavioral health screening instrument;
- Establish statewide collection and sharing of data on service needs and expenditures;
- Review and improve schools' behavior intervention and support services and activities; and
- Appoint an interdepartmental oversight committee to monitor implementation of the recommendations.

Department of Education Releases Preliminary FY 2012 School District Report Card Data

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

On October 17, 2012, the Ohio Department of Education (ODE) released preliminary school district report card data for FY 2012. The data are subject to change pending the outcome of the Auditor of State's attendance data investigation. Of the 610 Ohio school districts with report card data, 559 (91.6%) were rated "effective" or higher in FY 2012, slightly less than the 567 (93.1%) districts rated as such in FY 2011. Even so, 35 more districts received the "excellent" or "excellent with distinction" rating in FY 2012 than did so in FY 2011. While no district was in academic emergency in FY 2011, two districts received that rating in the preliminary data for FY 2012. The table below displays the number of school districts receiving each rating in both FY 2011 and FY 2012.

School District Report Card Ratings, FY 2011-FY 2012				
Rating	**FY 2011**	**Percent of Total**	**FY 2012 (Preliminary)**	**Percent of Total**
Excellent with Distinction	86	14.1%	138	22.6%
Excellent	266	43.7%	249	40.8%
Effective	214	35.1%	172	28.2%
Needs Continuous Improvement	37	6.1%	38	6.2%
Academic Watch	6	1.0%	11	1.8%
Academic Emergency	0	0.0%	2	0.3%
Total	**609**	**100.0%**	**610**	**100.0%**

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. The preliminary data indicate that the average school district met 22 out of a possible 26 academic standards, with the number of academic standards met ranging from zero to 26. The 26 possible standards include minimum proficiency rates on all 24 achievement assessments as well as minimum graduation and attendance rates. The performance index score for the average school district was 99.2 in FY 2012, with performance index scores ranging from 70.6 to 112.4. The performance index, ranging from zero to 120, is a composite measure of achievement of all students on all achievement assessments. AYP, a rating established by the federal No Child Left Behind Act, requires districts to meet annual performance goals for student subgroups. In FY 2012, 244 school districts (40.0%) met AYP, compared to 309 school districts (50.6%) in FY 2011. The value-added measure rates districts on how their students' academic growth compares to the expected growth standard set by the state. In FY 2012, 216 districts (35.4%) were above, 303 districts (49.7%) had met, and 91 districts (14.9%) were below the expected growth standard.

State Auditor Releases Interim Performance Audit Report for Department of Education

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

On October 8, 2012, the Auditor of State released an interim report based on the ongoing performance audit of ODE that was mandated by S.B. 4 of the 129th General Assembly. The report recommends that the General Assembly change state law to permit ODE to have access to student names, addresses, and Social Security numbers. Under current law, ODE contracts with a third-party vendor to store and manage this information in an external database. The vendor transmits data to ODE using a unique number assigned to each student called the Statewide Student Identifier (SSID). This produces additional costs as two databases must be maintained, one by the vendor and one by ODE.

The Auditor's office estimates that converting to a single comprehensive system within ODE would entail initial one-time costs of $638,000, but would ultimately result in annual operational savings of $432,000. In addition to transitioning to one system, the report cites several other potential advantages to ODE having access to student information, including more efficient reporting to the federal government, cost savings related to other ODE databases, improved audit capabilities at the state and school district levels, and benefits for other state agencies that share information with ODE. The report specifies that Ohio will continue to be in compliance with federal privacy protection laws if a single comprehensive data system is established within ODE.

Eight Selected to Participate in Dyslexia Pilot Project

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

In August 2012, ODE announced that seven school districts and one community school were selected to take part in the first year of a three-year dyslexia pilot project to begin in the 2012-2013 school year. The selected participants are listed in the table below. Each district and school will receive up to $40,000 in federal special education funds based on their budget submissions. According to ODE, they anticipate to add districts and schools in the second and third years of the pilot project.

H.B. 96 of the 129th General Assembly required ODE to establish the pilot project to test the delivery of early screening and intervention services for children with risk factors of dyslexia. ODE is to evaluate the pilot project and issue a report to the General Assembly suggesting whether the program should be continued, expanded, or changed by December 31, 2014.

Districts and Schools Selected for Dyslexia Pilot Project – First Year	
District/School	**County**
Celina City	Mercer
Cincinnati Public	Hamilton
Edison Local	Jefferson
Indian Creek Local	Jefferson
Medina City	Medina
Shawnee Local	Allen
Trimble Local	Athens
Cleveland Arts Social Science Academy	Cuyahoga

Universities Establish Three-Year Bachelor's Degree Options

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

In October 2012, all of Ohio's 13 universities offering bachelor's degrees reported options for earning a degree in only three academic years. H.B. 153 required, by October 15, 2012, universities to provide three-year options for at least 10% of all bachelor's degree programs offered. By 2014, H.B. 153 requires all of these universities to provide three-year options for 60% of their bachelor's degree programs. The three-year option requires the same number of credits for graduation as the four-year option. Generally, students will need to earn credits before enrolling. This may be done through Advanced Placement (AP) or International Baccalaureate (IB) credits, post-secondary enrollment (PSEO) courses, foreign language proficiency exam qualifications, and summer courses taken before the start of freshman year.

TRACKING THE ECONOMY

– Philip A. Cummins, Senior Economist, 614-387-1687

Overview

The economy continues to expand gradually. Inflation-adjusted gross domestic product (real GDP) rose at a 2% rate in the third quarter. Employers continue to add to payrolls, but at a pace that has brought unemployment down only slowly. Factory production, shipments, orders, and inventories rose in September, and purchasing managers' reports point to further growth in October, in manufacturing as well as in other parts of the economy. Consumer spending grew in September, but the pace of light vehicle sales fell back in October. Construction activity is recovering, albeit from low levels, with the upturn strongest in residential building. Housing prices appear to have bottomed last year and are rising, overall. Mortgage interest rates remain very low.

An uptick in inflation in August and September looks to be temporary, as it was driven by higher gasoline prices which have since fallen back. Pay increases remain modest. Monetary policy was held unchanged in October. The possibility of sharply higher federal taxes and spending cuts in 2013, as called for by current law (the so-called fiscal cliff), is a source of uncertainty in the economic outlook.

The National Economy

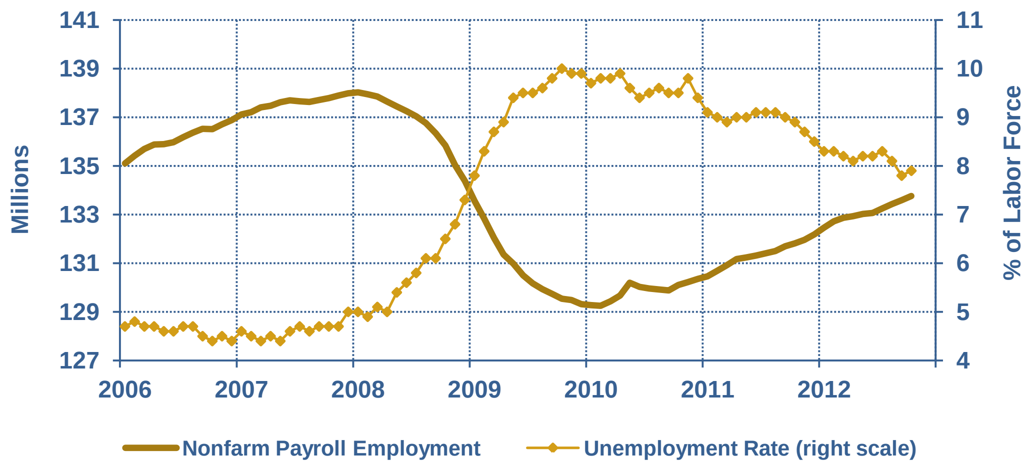
Employment and Unemployment

U.S. total nonfarm payroll employment rose by 171,000 (0.1%) in October and was revised upward in the previous two months. Unemployment rose slightly in October to 7.9% of the labor force. Trends in nationwide employment and unemployment are shown in Chart 5 below.

U.S. total nonfarm payroll employment rose by 171,000 (0.1%) in October.

The rise in payroll employment in October continued the uptrend underway from the post-recession low point in February 2010. Since then, total nonfarm payrolls rose by 4.5 million (3.5%). Private service-sector employment accounts for much of the gain, and employment in goods-producing industries also rose, while government employment fell.

Chart 5: U.S. Employment and Unemployment



The nationwide unemployment rate rose to 7.9% in October.

Payroll employment remains well short of the previous peak. During and after the last recession, nonfarm payrolls fell by 8.8 million (6.4%) from an all-time peak in January 2008 to February 2010. The shortfall from the previous peak is concentrated in goods-producing industries, particularly in construction but also in manufacturing. Government employment edged up from a low point in June, by 83,000 (0.4%), reflecting gains at the state and the local levels.

Data on employment from the survey of households show a broadly similar decline and partial recovery. From a peak in November 2007 to a low point in December 2009, total employment fell by 8.6 million. The household survey data indicate that full-time employment (35 hours or more per week) fell by 11.4 million during this 25-month period, while part-time employment rose by 2.7 million.

Since December 2009, through this October, total employment from the household survey increased by 5.4 million, including 5.0 million additional full-time workers and 0.5 million more part-time workers. The net result of these changes has been a shift toward more part-time employment, from 17% of total employment before the 2007-2009 recession to 19% in the latest month.

The nationwide unemployment rate rose to 7.9% in October from 7.8% in September, the lowest rate since January 2009. Between July and September, the U.S. unemployment rate fell by 0.5 percentage point, from 8.3%. People counted as unemployed in October totaled 12.3 million, of whom 5.0 million had been out of work and actively seeking jobs for more than six months. The number counted as in the labor force, either working or actively seeking work, was at an all-time peak in October, and in recent months has been above the previous peak in 2008.

Among the employed, those working 34 or fewer hours who wanted full-time work but were unable to find it for economic reasons declined by about 270,000 in October, after an unusually large increase of 580,000 in September. The number of these involuntary part-time workers, at 8.3 million, was lower by more than one million since a peak in September 2010, but remained far above levels prior to the last recession.

Production, Shipments, and Inventories

Real GDP rose at a 2.0% annual rate in the third quarter, according to the U.S. Bureau of Economic Analysis' initial estimate for the period. The rate of growth picked up from a 1.3% annual rate in the second quarter, and matched the rate of growth in this year's first quarter. The expansion in the third quarter reflected higher consumer spending, residential fixed investment, and federal outlays. The residential sector has been expanding for six consecutive quarters. Nonresidential fixed investment and exports fell in the third quarter. The decline in nonresidential fixed investment was the first drop in this sector in more than a year. The fall in exports was its first contraction in more than three years. State and local government spending was little changed (down 0.1% at an annual rate) in the third quarter, following declines for nearly three years. Inventory accumulation slowed in the quarter.

Real GDP rose at a 2.0% annual rate in the third quarter.

Hurricane Sandy's destructive impact on the East Coast in late October may reduce real GDP in the fourth quarter because of disruption of productive activity, but will also tend to increase real GDP later in the fourth quarter and into next year as structures and equipment are rebuilt or replaced. GDP is a measure of current production and is not directly affected by loss of property produced in previous periods.

The industrial production index rose 0.4% in September after a 1.4% decline in August. Part of the drop and subsequent upturn resulted from temporary cutbacks in Gulf of Mexico oil and gas production ahead of Hurricane Isaac in late August. Manufacturing production rose 0.2% in September after falling 0.9% in August. The pace of factory production in September remained below that in the second quarter. Production of consumer durable goods fell in September following a decline in August, while output in most other categories increased in the latest month.

The dollar value of factory shipments rose 0.9% in September. Year-to-date shipments were 4.6% higher than in the year-earlier period. Manufacturers' new orders rose 4.8% in September after falling 5.1% in August, but excluding transportation, factory new orders increased in both months. Year-to-date new orders were 3.3% higher than a year earlier. Manufacturers' unfilled orders rose 0.2% in September after a 1.7% drop in

August, and were 4.5% higher at the end of September than the year-earlier level. Factory inventories continued to climb through September, to a level 4.1% higher than a year earlier, and at an all-time high. (Peaks for total factory shipments, new orders, and unfilled orders were in 2008.)

Factory production may have increased again in October, as indicated by the results of a survey of purchasing managers by the Institute for Supply Management (ISM). Production and new orders increased during the month, after some earlier declines, based on seasonally adjusted indexes derived from the survey responses. However, order backlogs contracted for the seventh consecutive month. Exports fell for the fifth straight month. More purchasing managers reported paying higher prices than said they paid lower prices, for the third consecutive month. A comparable ISM survey of purchasing managers with nonmanufacturing organizations showed rising business activity, new orders, and prices paid in October, along with contraction in order backlogs and in export orders.

Consumer Spending

Growth in the dollar value of personal income and of consumer spending picked up in September. Income growth reflected continued increases in wages and salaries as well as in business owners' incomes. Interest income fell. After adjustment for higher consumer prices, mainly for gasoline, disposable personal income was about unchanged from August to September. Consumer spending growth at the end of the third quarter was strongest in durable goods, with higher outlays for recreational goods and vehicles and for household furnishings and equipment, as well as for motor vehicles.

Light vehicle sales started the fourth quarter below the seasonally adjusted rate in the third quarter. In October, sales of autos and light trucks slowed to a 14.2 million unit seasonally adjusted annual rate from a 14.9 million unit rate in September. Light vehicle sales remained stronger in October than in most months since early 2008.

Housing starts in September rose 15% to the highest level, seasonally adjusted, since 2008.

Construction and Real Estate

Housing starts in September rose 15% to the highest level, seasonally adjusted, since 2008. Nevertheless, the annualized rate of starts in September remained below the total number of housing units started in any year from 1959 through 2008. Home and apartment building are recovering from low levels. In the first nine months of this year, starts on new housing were 27% higher than in the year-earlier period, including a 24% increase in single-family starts and a 34% rise in starts on multifamily housing.

Sales of new single-family homes rose 6% in September. Year-to-date sales were 22% higher than a year earlier. The pace of sales remains low compared with past sales in most years since 1963, when this series starts. New-home inventories are lean; completed homes for sale were at the lowest level in records kept since 1973.

Home sales reported by the National Association of Realtors (NAR), generally previously occupied homes, declined 2% from August to September but were 11% higher than a year earlier. Year-to-date home sales were 8% higher than in the year-earlier period. The number of homes listed for sale was 20% lower than a year earlier, and NAR noted that shortages of listings are holding down sales.

House prices rose 0.7% in August, based on an index published by the Federal Housing Finance Agency and calculated using data on home purchases nationwide from Fannie Mae and Freddie Mac. The house price index has climbed from a low point in March 2011, by a total of about 5%. House prices remain 16% lower than at the peak in 2007, as indicated by the index, and around the level in 2004.

Interest rates on home loans remain at exceptionally low levels. Thirty-year fixed-rate mortgage interest rates averaged 3.39% nationwide in the Freddie Mac weekly survey for the period ending November 1, 2012. The all-time low for this series, collected since 1971, was 3.36% in the period four weeks earlier.

The consumer price index (CPI) rose 0.6% in September.

Construction activity has been growing since last year, following five years of declines. Growth continued through September. The dollar value of construction put in place in January through September was about 9% higher than in the year-earlier period. In all of 2011, total construction spending fell by 3% from 2010, and was 33% lower than in 2006, the peak year. In this year's first nine months, spending on private residential construction was 14% higher than a year earlier, with particularly large gains in apartment construction. Private nonresidential building activity in January through September was 18% above year-ago levels, but slowed in the third quarter, seasonally adjusted. Public construction was 3% lower in the first nine months than in the year-earlier period.

Inflation

The consumer price index (CPI) rose 0.6% in September, its second consecutive monthly increase by that amount. The sizable rise in September as well as in August resulted mostly from higher gasoline prices, and also from increases in other energy costs. The price indexes for food, and for all items other than food and energy, rose 0.1%. Compared with a year earlier, the CPI for all items was 2.0% higher, after

Total nonfarm payroll employment in Ohio was 88,700 (1.7%) higher in September than a year earlier.

smaller year-over-year increases in the previous four months. The CPI for all items less food and energy was also 2.0% higher than a year earlier.

Prices for regular gasoline, in the U.S. Energy Information Administration's weekly survey, rose to a recent peak of $3.88 per gallon (nationwide average) on September 17. Prices fell in October and as of November 5 had fallen to $3.49 per gallon. In Ohio, the average price of regular gasoline rose to a near-term peak of $3.86 per gallon on September 17 and had fallen to $3.31 on November 5.

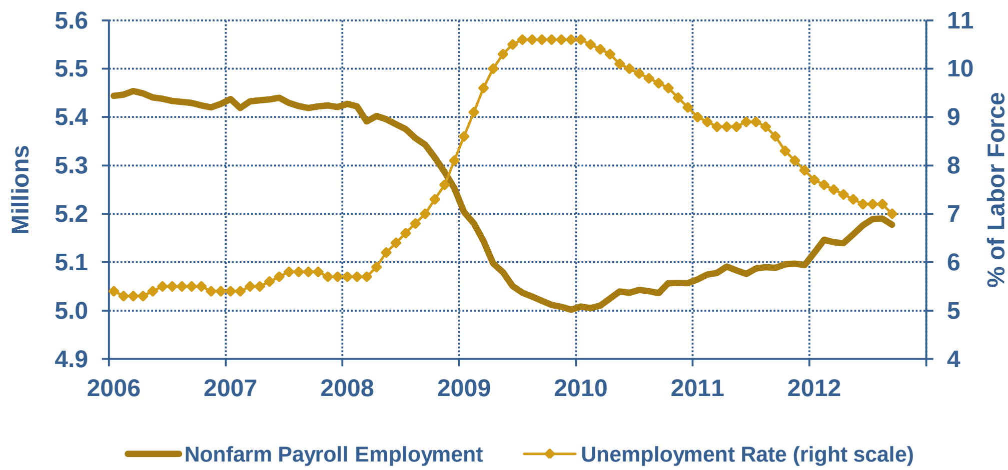
The producer price index for finished goods rose more rapidly in August and September, by 1.7% and 1.1% respectively, after smaller increases or declines in earlier months this year. The rise in the latest two months resulted from higher prices for finished energy goods, particularly gasoline. Finished food prices rose 0.2% in September after larger increases in the preceding three months. An index of prices of finished goods other than foods and energy was unchanged in September. Compared with a year earlier, the finished goods price index was 2.1% higher. At earlier stages in the production process, price indexes for intermediate goods and for crude materials also were up more rapidly in August and September, following smaller increases or declines earlier this year. Both indexes remained below year-earlier levels.

Increases in pay nationwide generally remain modest. Wages and salaries in private industry, measured on an hourly basis, rose 1.8% in the 12 months ending in September. These figures are in the employment cost index report from the U.S. Bureau of Labor Statistics. Wage and salary rates paid by state and local government rose 1.1% during the latest 12 months. Including the cost of employer-paid benefits, also stated on an hourly basis, total compensation in private industry rose 2.0% in the past year, and at state and local governments, total compensation rose 1.8%.

The Ohio Economy

Total nonfarm payroll employment in Ohio fell 12,800 (0.2%) from August to September, seasonally adjusted, but was 88,700 (1.7%) higher in September than a year earlier. Average hours worked and hourly earnings have also been climbing in the private sector in Ohio, adding to incomes. Unemployment in Ohio declined to 7.0% of the labor force, the lowest statewide average unemployment rate in four years. Trends in Ohio employment and unemployment are shown in Chart 6 below.

Chart 6: Ohio Employment and Unemployment



About 406,000 people were unemployed in Ohio in September.

The decline in the latest month in Ohio employment was one of the largest declines among the states, second only to Michigan. It was concentrated in goods-producing industries, particularly in durable goods manufacturing and also in construction. In the service sector, employment fell in arts, entertainment, and recreation; in educational services; in state government; and in transportation, warehousing, and utilities.

Employment increases compared with a year earlier were widespread among industries. Much of the increase was in private service-providing industries, with the largest increases in health care and social assistance, professional and business services, and retail trade. Goods-producing industries also added to employment, with most of the increases at manufacturers. Government employment declined over the year, with the largest declines at local governments.

About 406,000 people were counted as unemployed in Ohio in September. The number unemployed had declined 222,000 since the peak in July 2009. It remained about 67,000 higher than in December 2007, at the last business cycle peak. Employment as measured in the survey of households was about 260,000 lower statewide in September than in December 2007, and was only 43,000 higher than in July 2009. Consequently, the state's labor force, consisting of persons either working or actively seeking employment, has declined nearly 200,000 (3%) since December 2007, and most of the decline has taken place since July 2009.

Business activity expanded in this part of the country, according to a report from the Federal Reserve Bank of Cleveland, but the rate of growth remained modest.[7] Manufacturing activity rose, supported by demand from firms in construction, energy, and transportation. Auto dealers and other retailers noted modest improvement in sales in August and September. Nonresidential construction activity improved, reflecting projects in manufacturing, energy, education, healthcare, multifamily housing, and public works. Reports on residential building were mixed. Shale gas drilling and production are growing, while coal production is falling and operators are laying off miners. Freight transport volume is returning to normal after slowing in the second quarter.

The number of homes sold in Ohio in September was about 6% higher than a year earlier, according to a report from the Ohio Association of Realtors. Year-to-date unit sales through September were 12% higher than in the year-earlier period, at an average price of about $136,000, up 5% from a year ago.

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[7] This Federal Reserve Bank of Cleveland report is contained in the latest Beige Book, a Federal Reserve System publication that summarizes information on economic developments received from outside contacts on or before September 28. The Federal Reserve Bank of Cleveland's district includes all of Ohio and parts of Kentucky, Pennsylvania, and West Virginia.