Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

OCTOBER 2012

STATUS OF THE GRF

HIGHLIGHTS

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

Total nonfarm payroll employment nationwide rose in September, and the unemployment rate declined to 7.8%, the lowest since January 2009. In Ohio, total nonfarm payroll employment fell slightly in August compared with July, but the unemployment rate was 7.2%, unchanged from July, and down from 8.8% a year earlier.

Through September, GRF tax sources were above projected receipts by $65.0 million. The two major tax sources had mixed performances. While the personal income tax had a solid first quarter, the sales and use tax was weak. The corporate franchise tax, nearly $52 million above estimate, also had a strong first quarter.

Through September 2012, GRF sources totaled $7.06 billion:

- Revenue from the personal income tax was $43.9 million above estimate;
- Sales and use tax receipts were $16.2 million below estimate.

Through September 2012, GRF uses totaled $8.25 billion:

- Public Assistance and Medicaid expenditures were $90.5 million below estimate;
- Expenditures for Primary, Secondary, and Other Education were $85.2 million below estimate;
- Tax Relief and Other expenditures were above estimate by $55.8 million due mainly to timing.

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STATUS OF THE GRF

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Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of September 2012
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on October 4, 2012)

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$88,285	$87,000	$1,285	1.5%
Nonauto Sales and Use	$561,265	$571,300	-$10,035	-1.8%
Total Sales and Use Taxes	$649,550	$658,300	-$8,750	-1.3%
Personal Income	$885,644	$855,960	$29,684	3.5%
Corporate Franchise	$28,299	-$2,000	$30,299	1514.9%
Public Utility	$0	$100	-$100	-100.0%
Kilowatt Hour Excise	$33,484	$39,500	-$6,016	-15.2%
Natural Gas Consumption (MCF)	$0	$0	$0	---
Commercial Activity Tax	$6,692	$5,500	$1,192	21.7%
Foreign Insurance	$2,958	$6,800	-$3,842	-56.5%
Domestic Insurance	$4,533	-$200	$4,733	2366.6%
Business and Property	$1	-$1,300	$1,301	100.1%
Cigarette	$68,908	$74,200	-$5,292	-7.1%
Alcoholic Beverage	$4,019	$5,300	-$1,281	-24.2%
Liquor Gallonage	$3,514	$3,300	$214	6.5%
Estate	$204	$3,300	-$3,096	-93.8%
Total Tax Revenue	**$1,687,806**	**$1,648,760**	**$39,046**	**2.4%**
NONTAX REVENUE				
Earnings on Investments	$2	$0	$2	---
Licenses and Fees	$2,106	$6,388	-$4,282	-67.0%
Other Revenue	$576	$5,410	-$4,834	-89.3%
Total Nontax Revenue	**$2,685**	**$11,798**	**-$9,114**	**-77.2%**
TRANSFERS				
Liquor Transfers**	$10,000	$10,000	$0	0.0%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$0	$0	$0	---
Total Transfers In	**$10,000**	**$10,000**	**$0**	**0.0%**
TOTAL STATE SOURCES	**$1,700,491**	**$1,670,558**	**$29,933**	**1.8%**
Federal Grants	$656,370	$744,033	-$87,663	-11.8%
TOTAL GRF SOURCES	**$2,356,861**	**$2,414,591**	**-$57,731**	**-2.4%**

*Estimates of the Office of Budget and Management as of August 2012.
**Liquor Transfers based on a report run in OAKS as of October 2, 2012, 2012.
Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Actual vs. Estimate
FY 2013 as of September 30, 2012
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on October 4, 2012)

	Actual	Estimate*	Variance	Percent	FY 2012	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$282,786	$283,500	-$714	-0.3%	$275,146	2.8%
Nonauto Sales and Use	$1,811,450	$1,826,900	-$15,450	-0.8%	$1,718,241	5.4%
Total Sales and Use Taxes	$2,094,237	$2,110,400	-$16,163	-0.8%	$1,993,387	5.1%
Personal Income	$2,135,331	$2,091,420	$43,911	2.1%	$1,957,278	9.1%
Corporate Franchise	$46,701	-$5,000	$51,701	1034.0%	-$4,288	1189.0%
Public Utility	$25,060	$27,800	-$2,740	-9.9%	$33,172	-24.5%
Kilowatt Hour Excise	$90,714	$97,800	-$7,086	-7.2%	$88,561	2.4%
Natural Gas Consumption (MCF)	$10,216	$13,200	-$2,984	-22.6%	$13,227	-22.8%
Commercial Activity Tax	$202,605	$202,700	-$95	0.0%	$96,973	108.9%
Foreign Insurance	$4,318	$6,300	-$1,982	-31.5%	$6,470	-33.3%
Domestic Insurance	$4,753	-$100	$4,853	4852.9%	$38	12432.8%
Business and Property	$216	-$1,200	$1,416	118.0%	-$1,792	112.1%
Cigarette	$162,075	$165,800	-$3,725	-2.2%	$175,012	-7.4%
Alcoholic Beverage	$15,197	$16,000	-$803	-5.0%	$15,771	-3.6%
Liquor Gallonage	$10,341	$10,100	$241	2.4%	$9,894	4.5%
Estate	$1,827	$3,400	-$1,573	-46.3%	$2,959	-38.3%
Total Tax Revenue	**$4,803,591**	**$4,738,620**	**$64,971**	**1.4%**	**$4,386,661**	**9.5%**
NONTAX REVENUE						
Earnings on Investments	$11	$0	$11	---	$10	6.5%
Licenses and Fees	$9,812	$10,051	-$239	-2.4%	$11,874	-17.4%
Other Revenue	$2,448	$11,547	-$9,099	-78.8%	$7,432	-67.1%
Total Nontax Revenue	**$12,270**	**$21,598**	**-$9,328**	**-43.2%**	**$19,316**	**-36.5%**
TRANSFERS						
Liquor Transfers**	$41,500	$38,000	$3,500	9.2%	$35,132	18.1%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$5,372	$5,166	$206	4.0%	$47,858	-88.8%
Total Transfers In	**$46,872**	**$43,166**	**$3,706**	**8.6%**	**$82,990**	**-43.5%**
TOTAL STATE SOURCES	**$4,862,733**	**$4,803,384**	**$59,349**	**1.2%**	**$4,488,967**	**8.3%**
Federal Grants	$2,196,100	$2,291,024	-$94,924	-4.1%	$2,135,038	2.9%
TOTAL GRF SOURCES	**$7,058,833**	**$7,094,408**	**-$35,576**	**-0.5%**	**$6,624,005**	**6.6%**

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

**Liquor Transfers based on a report run in OAKS as of October 2, 2012, 2012.

Detail may not sum to total due to rounding.

First-quarter GRF tax receipts in FY 2013 were $65.0 million above estimate.

Through September FY 2013 GRF sources were $35.6 million below estimate.

REVENUES

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

Overview

GRF sources totaled $2.36 billion in September 2012. These sources were $57.7 million below the estimate released by the Office of Budget and Management (OBM) in August 2012, largely due to a shortfall of $87.7 million in federal grants. GRF tax sources posted a positive variance of $39.0 million for the month. Tables 1 and 2 show GRF sources for the month of September and for FY 2013 through September, respectively. GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants, which are federal reimbursements for human service programs such as Medicaid that receive federal funding. Thus, the year-to-date negative variance of $98.9 million in federal grants is mainly due to lower-than-expected spending for certain human services programs.

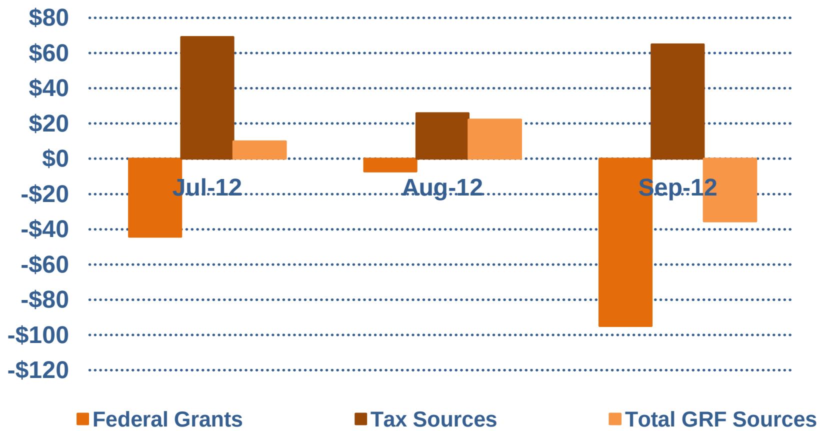
September receipts from the personal income tax and the corporate franchise tax (CFT) were above anticipated receipts by, respectively, $29.7 million and $30.3 million. CFT receipts concluded the quarter $51.7 million above estimate, probably as consequence of taxpayers settling prior year's tax issues.[1] Though the domestic insurance tax was above projected receipts by $4.7 million in September, most other tax sources were below estimate, including the sales and use tax, the kilowatt hour excise tax, and the cigarette tax. The monthly deficit for those three sources was, respectively, $8.8 million, $6.0 million, and $5.3 million. The performance of tax sources this month increased the year-to-date positive variance to $65.0 million, up from $25.9 million at the end of August. However, the shortfall in federal grants in September reversed a surplus of $22.2 million through August in total GRF sources, resulting in an overall negative variance of $35.6 million in GRF sources for the quarter. Chart 1 below shows the cumulative variances against estimate for federal grants, tax sources, and total GRF sources.

Compared to the first quarter last year, FY 2013 total GRF sources increased $434.8 million, due to increases of $416.9 million in tax revenues and $61.1 million in federal grants. These gains were reduced by decreases of $43.2 million in nontax revenue and transfers in. Receipts from the personal income tax grew $178.1 million, while those from the

[1] CFT receipts for the fiscal year are due in three monthly installments in the second half of the fiscal year (January, March, and May).

commercial activity tax (CAT) and the sales and use tax increased $105.6 million and $100.9 million, respectively. Growth in GRF receipts from the income tax and from the CAT was due in part to changes that H.B. 153 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

September GRF receipts from the personal income tax of $885.6 million were $29.7 million (3.5%) above estimate and $27.6 million (3.2%) above receipts in September 2011. 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,[2] trust payments, payments associated with annual returns, and miscellaneous payments.

The largest two revenue components of this tax source were above estimates for the month. Monthly employer withholding was above estimate by $20.1 million (3.4%), and FY 2013 first quarterly estimated payments were $12.3 million (4.6%) above projections. For the fiscal year, the GRF received $2.14 billion from the personal income tax, $43.9 million (2.1%) above estimates. The table below summarizes year-to-date FY 2013 income tax revenue variances from estimates and annual changes by component. All components, except for receipts from annual tax returns, were above estimates.

Through September, FY 2013 GRF income tax receipts were $43.9 million above estimate.

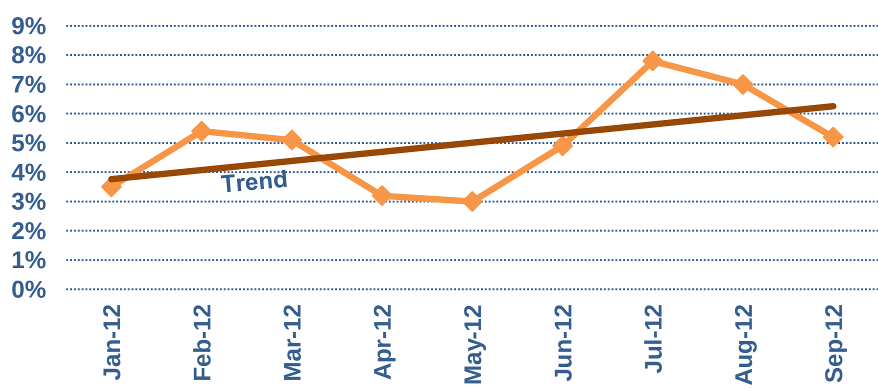
[2] Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than $500. Payments are due on or before April 15, June 15, and September 15 of the tax year and January 15 of the following year. Most estimated payments are made by high-income taxpayers.

Through September, FY 2013 withholding tax receipts were $26.3 million above 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	$26.3	1.4%	$92.3	5.1%
Quarterly Estimated Payments	$16.1	5.5%	$16.1	5.4%
Trust Payments	$5.1	67.4%	$5.1	67.9%
Annual Return Payments	-$0.7	-1.4%	-$0.7	-1.4%
Miscellaneous Payments	$1.8	8.9%	$1.9	9.0%
Gross Collections	$48.7	2.2%	$114.7	5.3%
Less Refunds	$2.8	3.9%	$2.8	3.8%
Less Local Government Fund Distribution	$1.9	2.4%	-$66.1	-44.4%
Income Tax Revenue	$43.9	2.1%	$178.1	9.1%

First-quarter GRF receipts from the income tax were $178.1 million (9.1%) above receipts in the corresponding period in FY 2012. Growth in receipts was mostly due to a gain in employer withholding and reduced distributions to the LGF. Through September, FY 2013 revenues from employer withholding were $92.3 million (5.1%) above receipts in this category in FY 2012. Chart 2 illustrates the trend in employer withholding receipts in 2012. Distributions to the LGF were $66.1 million (44.4%) below amounts in that category in the first quarter of FY 2012, due to H.B. 153 which reduced revenue sharing of state tax revenues with local governments.[3]

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



[3] Though 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.

Sales and Use Tax

September GRF receipts from the sales and use tax of $649.6 million were $8.8 million (1.3%) below estimate. However, they were $47.2 million (7.8%) above receipts in September 2011. In the first quarter of FY 2013, GRF sales and use tax receipts totaled $2.09 billion, $16.2 million (0.8%) below estimate, but $100.9 million (5.1%) 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[4] generally arise from the sale of motor vehicles while nonauto sales and use tax collections arise from other sales. However, auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax instead of the auto tax. Both sales tax sources were below estimates in the first quarter of the fiscal year.

Through September, FY 2013 sales and use tax receipts were $16.2 million below estimate.

Nonauto Sales and Use Tax

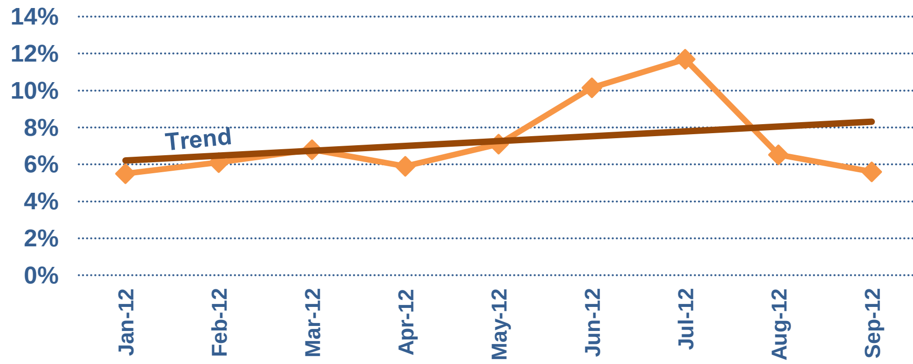
Monthly GRF receipts from the nonauto sales and use tax were $561.3 million in September, $10.0 million (1.8%) below estimate but $50.2 million (9.8%) above September 2011 receipts. Year-to-date GRF nonauto sales and use tax receipts were $1.81 billion for FY 2013, $15.5 million (0.8%) below estimate, although they were $93.2 million (5.4%) above first-quarter receipts in FY 2012. FY 2013 year-to-date receipts include $97.3 million in tax payments by Medicaid health insuring corporations; those receipts were up by $22.3 million (29.7%) compared to the corresponding period in FY 2012.

Through September, FY 2013 nonauto sales and use tax receipts were $15.5 million below estimate.

Chart 3 shows increases in FY 2013 nonauto sales and use tax monthly receipts against prior-year receipts in the same month, though the rate of growth has decreased in the latest months. The underlying trend growth of the taxable base was somewhat weaker than that shown in the graph, as this tax source received a boost from reductions in revenue sharing of state tax receipts with local governments in the first half of 2012. Persistently high gasoline prices may be weighing on nonauto sales and use tax receipts. Additional spending on gasoline, which is not in the tax base, reduces spending in other items. With back-to-school shopping over and holiday shopping not yet begun, nationwide sales somewhat weakened in September. Retailers reported monthly sales growth of just 0.8% for stores opened at least a year, after a 4.8% rise in July and a 6.1% gain in August.

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

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

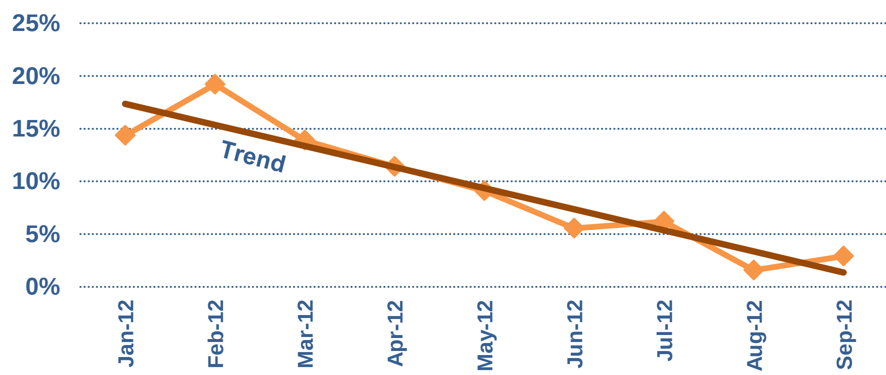


Through September, FY 2013 auto sales and use tax receipts were $0.7 million below estimate.

Auto Sales and Use Tax

GRF receipts from the auto sales and use tax totaled $88.3 million in September. Those receipts were $1.3 million (1.5%) above estimate. However, they were $3.0 million (3.3%) below September 2011 receipts. For the fiscal year through September, the auto sales and use tax provided $282.8 million, $0.7 million (0.3%) below estimate but $7.6 million (2.8%) above receipts in FY 2012. Chart 4 below compares FY 2013 monthly auto sales and use tax receipts with year-ago receipts in the same period.

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



Nationwide, autos and light truck sales reached 14.9 million units on a seasonally adjusted annualized basis in September. This was the best pace since early 2008. Sales are being driven by the release of pent-up demand, easing in access to credit, and increased manufacturer incentives designed to clear out inventories before the arrival of next year's models.

Commercial Activity Tax

September GRF receipts from the CAT of $6.7 million were $1.2 million (21.7%) above estimate and $4.3 million (180.6%) above September 2011 revenue. Through September, FY 2013 CAT receipts to the GRF totaled $202.6 million, nearly matching estimate, and were $105.6 million (108.9%) 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. (Those local government funds are used to reimburse local governments for lost revenues from the phase-out and reductions in tangible personal property taxes.) The GRF share of CAT receipts doubled to 50% in FY 2013, up from 25% in FY 2012. This change increased GRF tax receipts by $101.3 million. First-quarter all funds CAT receipts were $409.3 million, $16.6 million (4.2%) above revenue through September in FY 2012.

Through September, FY 2013 GRF CAT receipts almost matched projections.

Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax of $68.9 million in September 2012 were $5.3 million (7.1%) below estimate and $15.7 million (18.6%) below receipts in the same month in FY 2012. FY 2013 first-quarter receipts of $162.1 million were $3.7 million (2.2%) below estimate. Receipts from cigarette sales were $147.5 million, and sales of products other than cigarettes provided $14.6 million. Compared to FY 2012, total receipts were $12.9 million (7.4%) lower. Receipts from the sale of cigarettes decreased $13.0 million and those from the sale of other tobacco products increased $0.1 million

Through September, FY 2013 cigarette tax receipts were $3.7 million below estimate.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of September 2012
($ in thousands)
(Actual based on OAKS reports run October 9, 2012)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary, Secondary, and Other Education	$514,351	$527,922	-$13,570	-2.6%
Higher Education	$177,023	$177,719	-$696	-0.4%
Total Education	$691,374	$705,641	-$14,267	-2.0%
Public Assistance and Medicaid	$1,166,547	$1,228,189	-$61,642	-5.0%
Health and Human Services	$80,645	$76,758	$3,887	5.1%
Total Welfare and Human Services	$1,247,192	$1,304,946	-$57,755	-4.4%
Justice and Public Protection	$253,225	$251,336	$1,889	0.8%
Environment and Natural Resources	$5,243	$6,082	-$839	-13.8%
Transportation	$523	$1,420	-$898	-63.2%
General Government	$71,438	$74,780	-$3,342	-4.5%
Community and Economic Development	$23,869	$25,991	-$2,122	-8.2%
Capital	$69	$0	$69	---
Total Government Operations	$354,367	$359,608	-$5,242	-1.5%
Tax Relief and Other	$273,298	$281,817	-$8,519	-3.0%
Debt Service	$146,084	$148,642	-$2,558	-1.7%
Total Other Expenditures	$419,381	$430,459	-$11,078	-2.6%
Total Program Expenditures	**$2,712,314**	**$2,800,655**	**-$88,340**	**-3.2%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$31,068	$0	$31,068	---
Total Transfers Out	$31,068	$0	$31,068	---
TOTAL GRF USES	**$2,743,382**	**$2,800,655**	**-$57,273**	**-2.0%**

* 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 September 30, 2012
($ in thousands)
(Actual based on OAKS reports run October 9, 2012)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2012**	**Percent Change**
Primary, Secondary, and Other Education	$1,848,095	$1,933,302	-$85,207	-4.4%	$1,893,476	-2.4%
Higher Education	$550,338	$550,875	-$537	-0.1%	$536,287	2.6%
Total Education	$2,398,434	$2,484,178	-$85,744	-3.5%	$2,429,763	-1.3%
Public Assistance and Medicaid	$3,709,847	$3,800,311	-$90,464	-2.4%	$3,559,980	4.2%
Health and Human Services	$274,846	$281,218	-$6,372	-2.3%	$357,276	-23.1%
Total Welfare and Human Services	$3,984,693	$4,081,529	-$96,835	-2.4%	$3,917,257	1.7%
Justice and Public Protection	$608,013	$631,329	-$23,316	-3.7%	$494,371	23.0%
Environment and Natural Resources	$20,822	$21,549	-$728	-3.4%	$17,576	18.5%
Transportation	$1,933	$2,537	-$605	-23.8%	$1,500	28.9%
General Government	$129,250	$139,813	-$10,563	-7.6%	$109,349	18.2%
Community and Economic Development	$39,470	$36,666	$2,804	7.6%	$37,469	5.3%
Capital	$137	$0	$137	---	$120	14.4%
Total Government Operations	$799,624	$831,894	-$32,270	-3.9%	$660,385	21.1%
Tax Relief and Other	$391,090	$335,325	$55,765	16.6%	$409,549	-4.5%
Debt Service	$346,435	$355,401	-$8,966	-2.5%	$129,303	167.9%
Total Other Expenditures	$737,525	$690,726	$46,799	6.8%	$538,852	36.9%
Total Program Expenditures	**$7,920,276**	**$8,088,326**	**-$168,050**	**-2.1%**	**$7,546,257**	**5.0%**
TRANSFERS						
Budget Stabilization	$235,096	$235,096	$0	0.0%	$246,899	-4.8%
Other Transfers Out	$91,278	$68,766	$22,512	32.7%	$83,809	8.9%
Total Transfers Out	$326,374	$303,862	$22,512	7.4%	$330,708	-1.3%
TOTAL GRF USES	**$8,246,651**	**$8,392,189**	**-$145,538**	**-1.7%**	**$7,876,965**	**4.7%**

* 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 October 9, 2012)

Medicaid (600525) Payments by Service Category	September Actual	September Estimate	September Variance	September Percent Variance	Year to Date Actual thru Sept	Year to Date Estimate thru Sept	Year to Date Variance	Year to Date Percent Variance
Managed Care Plans	$594,947	$607,730	-$12,783	-2.1%	$1,792,235	$1,806,696	-$14,461	-0.8%
Nursing Facilities	$208,679	$209,837	-$1,158	-0.6%	$618,375	$618,077	$298	0.0%
Hospitals	$97,686	$108,909	-$11,223	-10.3%	$316,461	$335,256	-$18,795	-5.6%
Aging Waivers	$43,900	$53,865	-$9,965	-18.5%	$149,818	$164,399	-$14,581	-8.9%
Prescription Drugs	$35,516	$39,311	-$3,795	-9.7%	$113,650	$121,938	-$8,288	-6.8%
Physicians	$21,490	$23,899	-$2,409	-10.1%	$73,271	$76,345	-$3,074	-4.0%
ODJFS Waivers	$19,355	$20,673	-$1,318	-6.4%	$62,334	$66,702	-$4,368	-6.5%
All Other	$173,589	$184,937	-$11,348	-6.1%	$502,278	$512,539	-$10,261	-2.0%
Total Payments	$1,195,162	$1,249,161	-$53,999	-4.3%	$3,628,422	$3,701,952	-$73,530	-2.0%
Total Offsets (non-GRF)	-$93,693	-$96,981	$3,288	-3.4%	-$152,394	-$158,059	$5,665	-3.6%
Total 600525 (net of offsets)	$1,101,469	$1,152,180	-$50,711	-4.4%	$3,476,028	$3,543,893	-$67,865	-1.9%
Medicare Part D (600526)	$23,137	$22,595	$542	2.4%	$72,173	$71,044	$1,129	1.6%
Total GRF	**$1,124,606**	**$1,174,775**	**-$50,169**	**-4.3%**	**$3,548,201**	**$3,614,937**	**-$66,736**	**-1.8%**
Total All Funds	**$1,218,299**	**$1,271,756**	**-$53,457**	**-4.2%**	**$3,700,595**	**$3,772,996**	**-$72,401**	**-1.9%**

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

Tables 3 and 4 show GRF uses for the month of September and for FY 2013 through September, respectively. GRF uses primarily consist of program expenditures but also include transfers out. For the month of September, GRF program expenditures of $2.71 billion were $88.3 million below the estimate published by the Office of Budget and Management (OBM) in August 2012. Through September, FY 2013 GRF program expenditures of $7.92 billion were $168.1 million below estimate. Four program categories had significant variances through the first quarter of FY 2013. Actual expenditures for Public Assistance and Medicaid; Primary, Secondary, and Other Education; and Justice and Public Protection were below their year-to-date estimates by $90.5 million, $85.2 million, and $23.3 million, respectively. These negative variances were partially offset by a positive variance of $55.8 million in Tax Relief and Other. The variances in these four program categories are briefly discussed after this overview.

For the first quarter of FY 2013, GRF program expenditures were $168.1 million below estimate.

GRF transfers out for the year totaled $326.4 million, which was largely attributable to a $235.1 million transfer to the Budget Stabilization Fund made in early July. Including both program expenditures and transfers out, GRF uses totaled $8.25 billion for the first quarter of FY 2013. These uses were $145.5 million below estimate.

Significant Year-to-Date Variances

Year-to-date GRF expenditures for Public Assistance and Medicaid totaled $3.71 billion, $90.5 million (2.4%) below estimate. Medicaid, including both state and federal shares, accounts for about 96% of expenditures in this program category. Through September, FY 2013 Medicaid GRF expenditures totaled $3.55 billion, which was $66.7 million (1.8%) below estimate. The federal share of Medicaid expenditures is about 64% and the state's share is about 36%. 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 $3.70 billion, which was $72.4 million (1.9%) below estimate. Table 5 details Medicaid GRF expenditures by service category and also summarizes Medicaid expenditures across all funds. As seen from Table 5, GRF expenditures were below their year-to-date estimates for all but two categories. Categories with significant negative year-to-date variances include

Year-to-date GRF Medicaid expenditures were $66.7 million below estimate.

Hospitals ($18.8 million, 5.6%), Aging Waivers ($14.6 million, 8.9%), Managed Care Plans ($14.5 million, 0.8%), and All Other ($10.3 million, 2.0%).

GRF Expenditures for Primary, Secondary, and Other Education were $514.4 million in the month of September, $13.6 million (2.6%) below estimate. This category's year-to-date expenditures totaled $1.85 billion, $85.2 million (4.4%) below estimate. The entire amount of this variance was attributable to the Ohio Department of Education (ODE). ODE's actual expenditures were $85.3 million below estimate through September. The largest GRF appropriation item within the ODE budget – item 200550, Foundation Funding – was below its three-month estimate by $73.7 million. This item provides the vast majority of the state's subsidy to public schools. ODE generally makes individual school subsidy payments based on estimates at the beginning of a fiscal year and then adjusts those payments when enrollment and other various data needed for determining actual subsidy payments become available.

Year-to-date GRF expenditures for Justice and Public Protection amounted to $608.0 million, $23.3 million (3.7%) below estimate. The Department of Rehabilitation and Correction (DRC) accounted for $19.4 million of this program category's total negative variance. Within the DRC budget, GRF appropriation items 501321, Institutional Operations, and 502321, Mental Health Services, were both below their three-month estimates, by $22.4 million and $2.6 million, respectively. The negative variances in these two line items were partially offset by a $4.9 million year-to-date positive variance in item 505321, Institution Medical Services.

Year-to-date GRF expenditures for Tax Relief and Other totaled $391.1 million. This program category's expenditures were $8.5 million below its monthly estimate in September, which reduced the category's positive year-to-date variance from $64.3 million at the end of August to $55.8 million (16.6%) at the end of September. This category's positive year-to-date variance should further decrease in the coming months. The primary cause of the variance was the timing of reimbursement payments for the 10% rollback, the 2.5% rollback, and the Homestead exemption; many more payments than expected were completed in August. As of the close of September, 51 counties received full reimbursements for the August real property tax settlements, and the remaining 37 should be complete before the end of the calendar year. Property tax relief reimbursement payments for school districts and other local governments are made twice per year, one based on the August real property settlements and one based on the February settlements.

Issue Updates

State Board of Education Adopts Reading Proficiency Cut Scores for Third Grade Reading Guarantee

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

On September 11, 2012, the State Board of Education voted to establish the cut scores students need to achieve on the third grade reading assessment this school year and next to be promoted to the fourth grade. For the current 2012-2013 school year, third graders will need to score 390 or higher on the reading assessment in order to be promoted. In the following school year, the cut score for third graders increases to 392. Both cut scores fall within the "basic" range of achievement, which is between "limited" (the lowest level, representing scores under 385) and "proficient" (representing scores between 400 and 414). The cut score designations are the result of a provision in S.B. 316 of the 129th General Assembly that requires the State Board to determine the cut score for each school year and, in doing so, adjust the score upward each year until the retention requirement applies to students who do not receive at least a "proficient" score. The cut scores set by the State Board are above those designated under prior law, which made students scoring in the "limited" range subject to retention.

According to the Ohio Department of Education (ODE), a cut score of 390 on the third grade reading assessment could result in up to 8,900 students who may be subject to retention based on test scores from the 2010-2011 school year, representing 6.6% of the third graders that took the reading assessment that year. A cut score of 392 increases that number to about 10,000 (or 7.4%). Although a greater number of students may be subject to retention under the higher State Board-defined cut score in the 2012-2013 school year, current law provides an exemption if the student's principal and reading teacher agree that the student is academically prepared for fourth grade or the student will receive intervention services in that grade. These exemptions, which were carried forward from the law prior to S.B. 316, apply only to the current school year. Beginning with the 2013-2014 school year, retention in third grade will be required generally for students that do not achieve the designated cut score, with more narrow exceptions for students in specific circumstances. Among other requirements, students retained in the third grade must be provided intense remediation services until the child is able to read at grade level, at which point the student may be promoted.

Students to Receive Internet Safety Training in 2012-2013 School Year

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

In the 2012-2013 school year, students in grades K-12 at public school districts and chartered nonpublic schools will begin receiving Internet safety training through Learning.com. Learning.com has entered into a contract with the eTech Ohio Commission for $395,000 to provide the online curriculum. The Controlling Board approved a waiver of competitive selection for the contract on September 10.

Ohio schools participating in the federal E-Rate Program – which provides discounts for telephone, Internet, and internal connections in schools and libraries – are now required to provide students with Internet training due to a 2011 amendment to the federal Children's Internet Protection Act (CIPA). The amendment requires these schools to educate students about appropriate behaviors related to social networking web sites, chat rooms, and cyberbullying. Schools participating in E-Rate are already required under CIPA to maintain Internet safety policies as well as technological protection measures that prevent users from viewing obscene or harmful online content. According to eTech, Learning.com will make the curriculum available to all Ohio public and chartered nonpublic schools regardless of whether they receive an E-Rate discount. This will relieve schools of the need to use their own funds for developing and implementing the training curricula.

ODH Issues Report on Results of Student BMI Screenings

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

In late July, the Ohio Department of Health (ODH) issued a report showing results from body mass index (BMI) screenings conducted in schools during the 2010-2011 school year.[5] Some of the findings stated in the report are:

- More than one in three (35%) participating students were overweight (16%) or obese (19%);
- Ninth graders were found to have the highest percentage of students assessed as overweight or obese (38%);
- Kindergarteners represented the highest percentage of students assessed as underweight (4%).

In general, the report suggests that district and school participation rates were too low to apply any of the findings to the statewide student population. According to

[5] To view the report, go to the Ohio Department of Health's web site (www.odh.oh.gov) and search for "Healthy Choices for Healthy Children Act Report."

the report, the results were representative of 91,674 students, or approximately 19% of all eligible students enrolled in the 2010-2011 school year.

S.B. 210 of the 128th General Assembly required that school districts, brick and mortar community schools, STEM (science, technology, engineering, and mathematics) schools, and charted nonpublic schools screen students enrolled in kindergarten, third, fifth, and ninth grades for BMI and weight status category (underweight, healthy weight, overweight, or obese) unless they requested a waiver of the requirement. ODE issued waivers for 686 districts and schools (284 school districts, 59 community schools, and 343 chartered nonpublic schools). S.B. 316 of the 129th General Assembly made the screenings optional.

PUCO Adds Safety Staff for New Shale Gas Pipelines

– Russ Keller, Economist, 614-644-1751

Beginning in November, the Gas Pipeline Safety (GPS) department within the Public Utilities Commission of Ohio (PUCO) will gain $150,000 in revenue from assessments to fund two additional compliance investigators. The funding increase was authorized by the Controlling Board in May 2012; the revenues are generated from assessments paid by gas pipeline operators. The two additional GPS compliance investigator positions will aid PUCO by ensuring safe construction and operation of gathering lines delivering gas from Ohio production wells tapping the Marcellus and Utica shale fields. The Controlling Board's action increased the FY 2013 appropriation for item 870617, Pipeline Safety-State, from $181,992 to $331,992.

As of May, GPS was aware of 172 permits issued by the Ohio Department of Natural Resources (ODNR) to drill wells into the Utica shale gas field. Moreover, ODNR was processing another 90 applications for the Utica field. Separately, the Marcellus shale gas field had 19 open drilling permits and another half dozen wells in service. PUCO sought additional staff because of the increased natural gas drilling activity. The GPS compliance investigators perform comprehensive audits, specialized audits, construction audits, incident investigations, and other investigations initiated by the general public. In doing so, the investigators ensure compliance with both state and federal laws, rules, and regulations.

Bureau of Workers' Compensation Awards More Than $265,000 in Safety Intervention Grants to Employers in Eight Ohio Counties

– Tom Wert, Budget Analyst, 614-466-0520

In July 2012, the Bureau of Workers' Compensation (BWC) awarded grants totaling more than $265,000 to employers in eight counties participating in the Safety Intervention Grants Program (see table below). Under the program, private or public employers covered under the State Insurance Fund may buy equipment that substantially reduces or eliminates workplace injuries or illnesses, with BWC matching the employer's share of the cost on a 2:1 basis up to a maximum award of $40,000. A total of $4.0 million is available for the program in FY 2013. Funding for the grants comes from the Safety and Hygiene Fund (Fund 8260), which consists of assessments charged to employers in conjunction with their premium payments and cash transfers from the State Insurance Fund.

Safety Intervention Grant Recipients, July 2012			
County	**Employer**	**Industry**	**Grant Amount**
Auglaize	Frost Roofing	Construction	$17,640
Erie	Auto Gate, Inc.	Manufacturing	$40,000
Geauga	Troy Innovative Instruments	Manufacturing	$40,000
Hamilton	Clearbrook Farms	Food Manufacturing	$7,345
Hamilton	SCS Construction Services	Construction	$39,795
Licking	Leonard Williams Masonry	Construction	$39,996
Lucas	Spring Meadows Extended Care	Health Care	$3,997
Mercer	Cheeseman, LLC	Transportation	$40,000
Tuscarawas	Oxford Township	Government	$36,634
		Total	**$265,406**

Grant recipients are required to submit quarterly data reports and a case study after one year containing information about workplace injuries and illnesses related to the equipment purchased. This information is used by BWC to evaluate the effectiveness of the Safety Intervention Grants Program and develop best practices for reducing occupational illness and injury that can be shared with other employers.

Auditor of State Releases Third Interim Report on ODOT Performance Audit

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

The Auditor of State, on September 19, 2012, released its third interim report on the performance audit of the Ohio Department of Transportation (ODOT). This report pertains to fleet management and aerial engineering, and follows an initial report on fleet management and rest areas and a second report on the use of biodiesel fuel. The following two tables summarize the financial impact of the recommendations contained in the three interim reports as estimated by the Auditor.

Table A shows the gain estimated by the Auditor from the sale of underutilized assets. This includes $5.2 million identified in the first interim report and $1.7 million identified in the third interim report for a total of almost $7.0 million.

Table A. One-Time Gain from Sale of Underutilized Assets	
Recommendations	**Amount**
Fleet Management Report 1	$5,213,000
Fleet Management Report 2	$1,737,000
Total One Time Gains	**$6,950,000**

Table B shows annual cost savings totaling $2.0 million including: the avoidance of maintenance costs on the assets recommended to be sold in the two fleet management reviews of over $400,000, the avoidance of almost $500,000 in operational costs for two rest areas recommended for closure, savings of approximately $800,000 from the recommended repeal of the mandated biodiesel fuel usage goals, and over $300,000 in savings from the recommended coordination of certain work through the Office of Aerial Engineering.

Table B. Annual Savings from Audit Recommendations	
Recommendations	**Amount**
Fleet Management Report 1	$309,800
Fleet Management Report 2	$96,100
Closure of Rest Areas	$492,000
Repeal of Biodiesel Mandate	$800,000
Coordination of Aerial Engineering Work	$335,000
Total Annual Savings	**$2,032,900**

S.B. 4 of the 129th General Assembly requires the Auditor of State to conduct performance audits of at least four state agencies each biennium. State agencies are required to pay for performance audits. To assist with this requirement, S.B. 4 created the Leverage for Efficiency, Accountability, and Performance Fund (Fund 5JZ0), a revolving loan fund that is used by the Auditor to issue loans to state agencies and political subdivisions to pay for the costs of performance audits. Repayment of the loans, including interest, is due one year from the completion date of the audit. ODOT did not apply for a loan to pay for its performance audit, which is estimated to cost approximately $321,000.

Number of Unclaimed Funds Claims Increased by 27.5% in FY 2012

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

In FY 2012, the Division of Unclaimed Funds paid 58,953 claims to the found owners of the funds, a 27.5% increase from the 46,222 claims paid in FY 2011. However, the total of $61.1 million paid in FY 2012 was nearly equivalent to the $60.9 million paid FY 2011. The Division credits the increase in the number of claims paid to two developments over

FY 2012: (1) a more aggressive outreach campaign in advertising to the media and (2) a new customer service feature on the Internet used to search for unclaimed funds and initiate the claims process. Approximately 84% of claims initiated in FY 2012 were made through the Division's "Online Treasure Hunt" web page.

Funds may come to the state from sources such as dormant bank accounts, rent or utility deposits, uncashed checks, undelivered stock, or uncashed insurance policies. The Division holds the funds in the state's Unclaimed Funds Trust Fund (Fund 5430) until the rightful owners can be found. Other than paying unclaimed funds to owners, the cash in Fund 5430 also supports economic development projects under the Development Services Agency's Legacy Projects Grant Program. For this purpose, transfers of $43.6 million to the Job Development Initiatives Fund (Fund 5AD0) are authorized over the FY 2012-FY 2013 biennium.

ODJFS Increases Medicaid Quality Incentive Payments to Nursing Facilities

– Ivy Chen, Principal Economist, 614-644-7764

On July 1, 2012, the Ohio Department of Job and Family Services (ODJFS) increased Medicaid quality incentive payments to nursing facilities (NFs). The maximum payment is increased, as required in H.B. 153, from $3.03 per bed per day to $16.44 per bed per day. H.B. 153 allocates $295 million to fund the quality incentive payments in FY 2013; however, the bill does not specify how quality is to be measured.

A subsequent bill, S.B. 264 of the 129th General Assembly, establishes 23 accountability measures. These include resident satisfaction, rates of medical complications, environmental concerns, and the number of nurses on staff. Furthermore, they include measures that address nursing home residents' freedom to make their own choices, such as when they bathe or get up in the morning, how and when they take meals, and whether they have the chance to discuss their goals of care and their end-of-life preferences. S.B. 264 directs ODJFS to award a facility one point for each accountability measure the facility meets. The quality incentive payment is to be $3.29 per bed per day multiplied by the number of points a NF is awarded. No quality incentive payment is to exceed $16.44 per bed per day.

According to Kaiser Health News, seven other states have programs like Ohio, but Ohio's financial incentive is the largest. Colorado, Georgia, Kansas, Nevada, Oklahoma, Utah, and Vermont award quality bonuses ranging from 60 cents to $6.16 per bed per day if facilities achieve various standards.

ODMH Awards $1.8 million to Cuyahoga County to Develop 72-Hour Treatment Units

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

In September 2012, the Ohio Department of Mental Health (ODMH) announced that $1.8 million will be awarded to Cuyahoga County to develop one or more 72-hour treatment units to stabilize individuals in psychiatric or substance abuse crisis. ODMH will develop these units in partnership with hospitals and the alcohol, drug addiction and mental health services board in Cuyahoga County. All hospitals in Cuyahoga County will have access to the units. Currently, individuals in crisis often seek treatment in emergency rooms, where the cost of providing care can be expensive and follow-up with the patient after discharge can be difficult. The 72-hour treatment units will provide more time to evaluate an individual's needs to better determine what setting and level of care is most appropriate. Additionally, the units will connect the individual to community services to ensure continuity of care following discharge.

This initiative will be funded using money from federal performance bonuses Ohio received for successfully enrolling more children into the Medicaid program. Ohio received $21.0 million and $12.4 million in performance bonuses in federal fiscal year (FFY) 2011 and FFY 2010, respectively. These funds are being used to implement Medicaid modernization strategies and health care reform related programs.

Crime Victim Compensation Fund Created to Better Meet Federal Reporting Requirements

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

On August 6, 2012, the Controlling Board approved the Office of the Attorney General's request to create the Crime Victim Compensation Fund (Fund 3FV0). This fund receives its revenues through the federal Crime Victim Compensation formula grant program (CFDA 16.576). Currently, this grant is deposited to the credit of the Reparations Fund (Fund 4020) and is used to help support Ohio's victims of crime program. Creation of the new fund will effectively allow the Office to further segregate the two primary revenue sources for the program (state and federal moneys) and will create greater efficiencies in meeting federal reporting requirements. Fund 4020 will continue to derive its funding from state sources of revenue, primarily through court costs and driver license reinstatement fees.[6]

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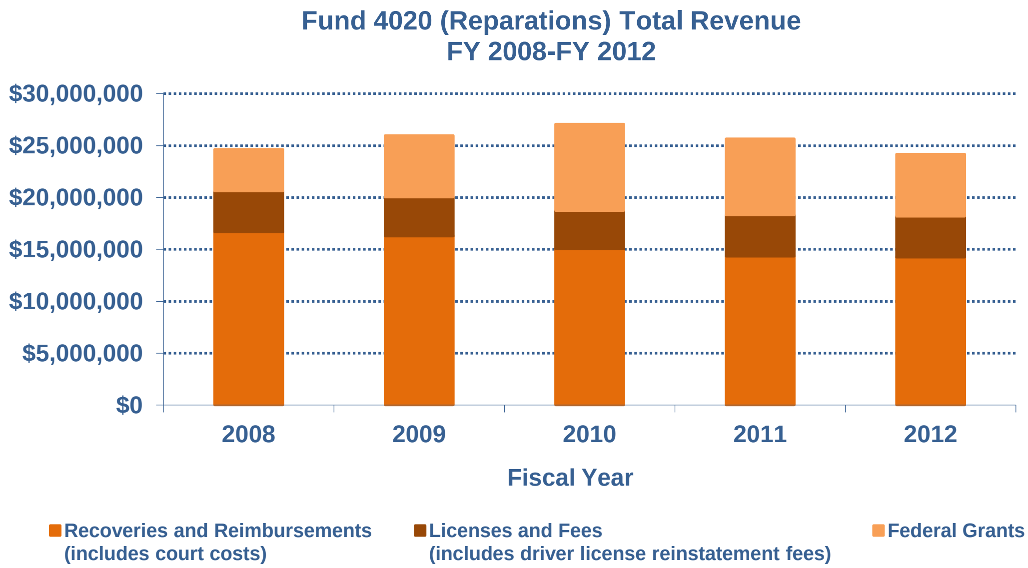
[6] These state special revenue sources include court costs of $30 and $9 imposed upon an offender convicted of or pleading guilty to a felony or misdemeanor, respectively, and $75 of the $475 fee collected for the reinstatement of a driver license that was suspended for operating a motor vehicle while under the influence of alcohol or drugs.

The victims of crime program not only provides compensation for crime victims but is also used to reimburse hospitals for certain services, provide aid to victim assistance programs, perform DNA analysis, supervise certain sex offenders, and cover administrative costs for the program. Over the past five years, total revenue for Fund 4020 has ranged from $24.1 million to $27.1 million annually. Revenues from court costs and driver license reinstatement fees has declined slightly in recent years, but largely remains stable. During this same time period, revenue from federal grants has ranged from $4.0 million to $8.2 million annually.



Public Defender Awarded Wrongful Conviction Grant

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

In August 2012, the Ohio Public Defender Commission was awarded a two-year grant, in the amount of $249,648, from the U.S. Department of Justice's Wrongful Conviction Review Program. The grant is awarded to help states: (1) provide quality representation to individuals claiming wrongful conviction for crimes they did not commit, (2) reduce the burdens placed on the criminal justice system through costly post-conviction litigation, and (3) identify wherever possible the actual perpetrator of the crime.

The agency will use the federal grant to fund the Wrongful Conviction Project that was launched in the fall of 2009 and has been operating with assistance from The Ohio State University Moritz College of Law and Capital University Law School. The specific uses of money include the continuing employment of an attorney that works exclusively on non-DNA innocence claims, and the hiring of a full-time investigator and two part-time legal interns to assist the attorney. Funds will also be used to pay for ongoing training critical to this type of legal work. In order to expend these federal funds, the Commission requested, and the Controlling Board approved on September 10, 2012, the creation of the Wrongful Conviction Program Fund (Fund 3FX0), and established a FY 2013 appropriation in the amount of $129,712. The remainder of the grant is likely to be disbursed in FY 2014.

Public Safety Awards Over $475,000 in Residential Substance Abuse Treatment Program Grants

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

In August 2012, the Department of Public Safety's Office of Criminal Justice Services awarded more than $475,000 in federal grants for 12 residential substance abuse treatment projects in seven counties.[7] These grants assist in the development and implementation of substance abuse treatment programs in state and local correctional and detention facilities. The table below summarizes the local grant awards by county.

County	# of Projects	Amount
Ashtabula	1	$30,000
Butler	1	$59,000
Franklin	2	$93,992
Jefferson	2	$87,763
Montgomery	2	$72,000
Sandusky	2	$53,810
Trumbull	2	$80,340
Total	**12**	**$476.905**

[7] A complete list of funded projects can be found at: http://www.ocjs.ohio.gov/FY2012_RSATFundingDecisions.pdf.

TRACKING THE ECONOMY

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

Overview

The economy continues its sluggish recovery.

The economy continues its sluggish recovery. Uncertainties remain regarding (1) the near-term course of U.S. fiscal policy ahead of the "fiscal cliff" at year-end, (2) the downturns or slower growth abroad, and (3) the financial strains in the Eurozone. Inflation is low except for higher fuels and grains prices.

U.S. inflation-adjusted gross domestic product (real GDP) rose again in the second quarter but only slowly. Total nonfarm payroll employment nationwide increased through September, and unemployment fell to 7.8% of the labor force, lowest in more than three years. In Ohio, nonfarm payrolls fell slightly in August after rising earlier in the year, and the statewide average unemployment rate was unchanged at 7.2%. U.S. industrial production and factory orders fell in August, but the declines appear attributable in part to transitory factors. Manufacturing as well as nonmanufacturing activity appear to have picked up in September, based on purchasing managers' reports. Slow growth of consumers' incomes and spending continued through August, but light vehicle sales in September were the highest in over four years. Housing markets continue to recover, though starts and sales remain weak compared with levels for many years prior to the 2007-2009 recession. Private nonresidential construction appears to be slowing and public construction remains weak.

Following its meeting in September, the central bank's policy-setting Federal Open Market Committee (FOMC) announced an easing of monetary policy. The central bank will purchase $40 billion of federal agency mortgage-backed securities each month. In contrast with previous programs of longer-term securities purchases, this program is open-ended, to continue until labor market conditions improve substantially. The FOMC also noted that highly accommodative monetary policy will be appropriate for a considerable time after the economy strengthens, and extended through mid-2015 the period when it expects to maintain exceptionally low levels for the federal funds rate, its target short-term interest rate. Post-meeting statements previously projected that this period would extend through late 2014. Other programs of monetary accommodation already in place were continued.

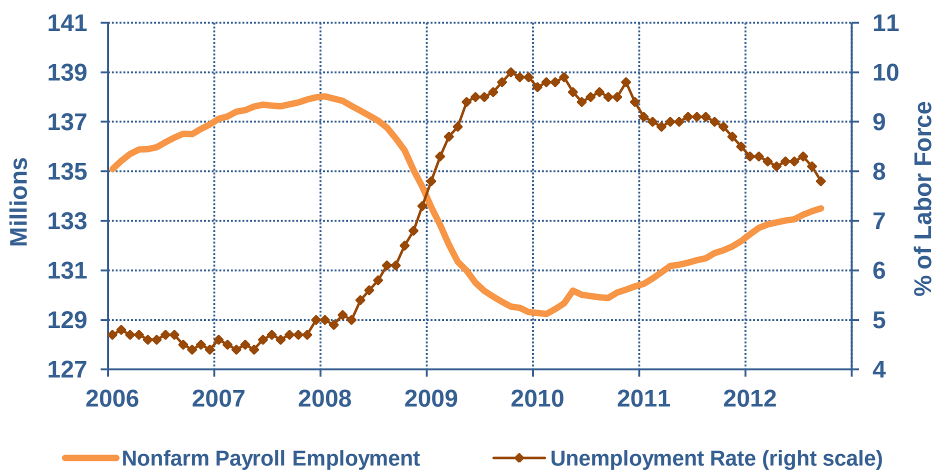
The National Economy

Employment and Unemployment

Total nonfarm payroll employment nationwide rose by 114,000 (0.1%) in September, and the total for August was revised upward by 86,000. The number of people counted as unemployed in the U.S. fell to 12.1 million in September, and the unemployment rate declined to 7.8%, lowest since January 2009. Trends in nonfarm payroll employment and the unemployment rate are shown in Chart 5.

Total nonfarm payroll employment nationwide rose by 114,000 in September.

Chart 5: U.S. Employment and Unemployment



Payroll employment rose in September in health care, transportation and warehousing, and finance, and fell in manufacturing. Government employment, at the federal, state, and local levels, has begun to edge higher in recent months. In 2012 through September, total nonfarm payrolls have increased by 146,000 per month on average. In 2011, month-to-month job gains averaged 153,000. Employment in September was 1.4% higher than a year earlier.

Unemployment fell in September as employment, measured in the survey of households on which the unemployment figures are based, rose by 873,000 (0.6%) after little change in the preceding three months. The number of part-time workers who would have preferred full-time jobs rose by 582,000 (7%) in September. The number of persons out of work for more than six months fell to 4.8 million, the fewest since 2009, though still far above pre-recession levels.

Figures from the household survey are more variable from one month to the next than the payroll employment numbers, derived from a separate survey of employers. The U.S. Bureau of Labor Statistics (BLS), the source of these numbers, released an estimate of household survey employment adjusted to be more similar in concept and definition to payroll survey employment. These adjustments include subtracting agricultural workers and self-employed persons from household survey employment, adding nonagricultural wage and salary multiple jobholders, and adjusting for other differences between the two series. The adjusted version of household survey employment rose 294,000 in September.[8]

BLS, as usual at this time of the year, released an initial estimate of the revision that it anticipates making to the number of employees on nonfarm payrolls as of March 2012. The number published earlier this year is expected to be revised upward by 386,000 (0.3%). Figures for other months will also be revised. According to BLS, the preliminary estimate of this year's revision is within the range of revisions made in the past ten years. Employment numbers released monthly are based on a large sample, but once a year, BLS revises these estimates using a comprehensive count of employment in March from state unemployment insurance records, and other information sources. The final figure for this year's revision will be released on February 1, 2013.

Production, Shipments, and Inventories

Real GDP grew in this year's second quarter at a 1.3% annual rate.

Real GDP grew in this year's second quarter at a 1.3% annual rate, after growing at a 2.0% rate in the first quarter and by 1.8% in all of 2011. The second quarter estimate was revised based on more complete data. In this year's first half, consumer spending, residential and nonresidential fixed investment, and exports grew. Businesses added to inventories, though the rate of inventory accumulation slowed. Government spending contracted in the first two quarters, continuing a decline underway since 2010. State and local government spending has fallen every quarter since 2009.

Industrial production fell 1.2% in August after rising in most months since mid-2009. The index was 2.8% higher in August than a year earlier. The Federal Reserve, which publishes the industrial production statistics, estimated that Hurricane Isaac accounted for 0.3 percentage point of the month-to-month decline in the total index. Manufacturing production fell 0.7% in August. The largest decline among manufacturing industries was in motor vehicle and parts production, down 4.0% following increases of 2.0% in June and 2.7% in July. The fluctuations in this seasonally adjusted variable may in part reflect difficulties in satisfactorily adjusting around the model

[8] Further details are published on the Bureau's Internet web site at http://www.bls.gov/web/empsit/ces_cps_trends.pdf.

changeover shutdowns in July. Declines in factory production in August were widespread among other industries. The hurricane led to shutdowns of Gulf of Mexico oil and natural gas rigs, contributing to a 1.8% decline in mining output in August. Utility output fell 3.6% in the month.

Purchasing managers generally were more upbeat in September, in surveys by the Institute for Supply Management. More purchasing managers with manufacturing firms reported higher new orders than said new orders were lower, after net declines in July and August. Production declined, seasonally adjusted, in August and September, the first declines since 2009; cutbacks were less widespread in September than in August. Order backlogs fell for the sixth consecutive month. More purchasing managers said that the prices they paid rose than said they fell, for the second consecutive month after three months of declines. Among survey respondents with nonmanufacturing organizations, reports of gains in business activity and new orders were more widespread than in August, along with more frequent reports of higher prices paid, but order backlogs fell.

Manufacturers' new orders declined 5.2% in August, as new orders for durable goods dropped 13.2%. Excluding transportation, however, new orders rose 0.7%. Most of the plunge in new orders for transportation equipment was accounted for by nondefense aircraft and parts, which are volatile from month to month. On a year-to-date basis, this industry's new orders were higher by 11.9% than in the year-earlier period. New orders for motor vehicle bodies, parts, and trailers were also lower in August after rising in July. Factory shipments in August fell 0.3% after increasing 1.9% in July. Unfilled orders at manufacturers fell 1.7% in August after a 0.7% rise in July. Reduced order backlogs at makers of nondefense aircraft and parts accounted for more than half of the decline in August. Factory inventories rose 0.6% in both July and August.

Consumer Spending

Growth of consumers' incomes was slow again in August, as personal income rose 0.1%, the same as in July. Wages and salaries continued to grow but only slowly in both months. Interest income fell in July and August. Transfer payments to persons declined in August as unemployment insurance payments fell again. After adjustment for more rapid price increases, disposable personal income fell in August. Consumer spending rose slightly from July to August, on an inflation-adjusted basis. Growth of consumer spending in the first two months of the third quarter, compared with the second quarter, was at less than a 2% annual rate.

Growth of consumers' incomes was slow again in August.

In September, sales of light motor vehicles rose to a 14.9 million unit rate, strongest since early 2008.

In September, sales of light motor vehicles rose to a 14.9 million unit seasonally adjusted annual rate, the strongest monthly sales pace since early 2008. Light vehicle unit sales averaged a 14.5 million unit rate in the third quarter, up from a 14.1 million unit rate in the second quarter. Car sales rose more strongly than sales of light trucks in the latest month and quarter. The uptrend in sales appears to reflect pent-up demand following years of reduced sales. Sales of light vehicles totaled about 12.7 million units last year, and averaged less than 12 million units annually from 2008 through 2011, after exceeding 16 million units each year from 1999 through 2007.

Sales at large retailers that report results monthly were 3.9% higher in September than a year earlier, in a compilation by the International Council of Shopping Centers (ICSC). This figure excludes drug stores, and is on a comparable store basis, including only store locations open in both the latest and year-earlier months. The strongest gains were at wholesale clubs, by 6.0%, and at apparel retailers, by 5.0%. ICSC characterized September's sales as healthy, though the increase for the industry was below the 6.0% rise in August.

Construction and Real Estate

Housing starts nationwide rose 2% from July to August, and were 29% higher in August than in the year-earlier month. Year-to-date starts were 26% above the number in the first eight months of 2011. Single family starts were 21% higher, and starts on housing units in structures with five or more units were 40% higher. Although housing starts are well above their recession lows, they are at an annual rate only a little more than one-third of the 2005 peak, and about half of typical rates prior to that.[9] Permits for new housing construction in August were 1% lower than in July, but were 24% above a year earlier. Year-to-date permits were 31% higher than in January-August 2011, including a 22% increase in single-family permits and a 55% increase in permits to construct units in structures with five or more units in them.

New home sales were little changed from July to August, on average nationwide, at a rate 28% higher than in August 2011. Year-to-date home sales were 22% higher than a year earlier. The median and average prices at which homes sold in the U.S. jumped up in August, reflecting a shift in the mix of homes sold toward higher price ranges, with the median price rising to about $257,000, 17% higher than a year earlier, and the average price increasing to about $295,000, 14% higher than a year earlier.

[9] Data on housing starts as currently defined start in 1959.

Home sales reported by the National Association of Realtors (NAR), generally previously occupied homes, were 8% higher in August than in July, seasonally adjusted, and were 9% higher than in August 2011. Year-to-date sales were also 9% higher. Median and average selling prices in August were 9% and 7% higher, respectively, than a year earlier, in the NAR data. The share of sales that were distressed homes – either foreclosures or short sales – was 22% in August, down from 31% a year earlier, according to NAR. Median time on the market for homes sold in August was 70 days, down from 92 days in August 2011.

A price index for houses sold nationwide, published by the Federal Housing Finance Agency (FHFA), rose 0.2% in July and was 3.7% higher than a year earlier. The index remained well below its 2007 peak, and around its 2004 level. FHFA uses data on purchase prices of houses with mortgages owned or guaranteed by Fannie Mae or Freddie Mac to construct the index.

Mortgage interest rates fell, in the wake of the Federal Reserve's announcement of intensified support for mortgage markets. Freddie Mac reported that rates on fixed-rate loans declined to the lowest levels in the history of its weekly survey, begun in 1971. Contract interest rates on commitments for 30-year fixed-rate first mortgages averaged 3.36% nationwide in the October 4 week.

The dollar value of construction put in place in the U.S. in August declined 0.6%, seasonally adjusted, the second consecutive month of declining construction activity following earlier increases. The pace of private nonresidential construction slowed, as did public construction. The year-to-date value of construction activity, compared with a year earlier, was 9% higher. This total included private residential construction, 12% higher; private nonresidential construction, 19% higher; and public construction, 2% lower.

The dollar value of construction put in place in the U.S. in August declined 0.6%, the second consecutive monthly decline.

Inflation

The consumer price index (CPI) rose 0.6% in August, its largest one-month increase since 2009. Compared with its value a year earlier, the CPI was 1.7% higher. Most of the increase in the CPI from July to August resulted from higher gasoline prices, though other major energy price indexes also rose. The index for food prices was up 0.2% from the previous month, in line with increases earlier in the year. Prices for all items less food and energy averaged 0.1% higher in August than in July, and 1.9% higher than in August 2011.

The nationwide average price of regular gasoline rose to $3.88 per gallon on September 17, in the U.S. Energy Information Administration's weekly survey, up from a recent low of $3.36 per gallon on July 2. As of October 8, the average price was $3.85 per gallon. In Ohio, the average price peaked at $3.86 per gallon on September 17 and was $3.77 per gallon on October 8.

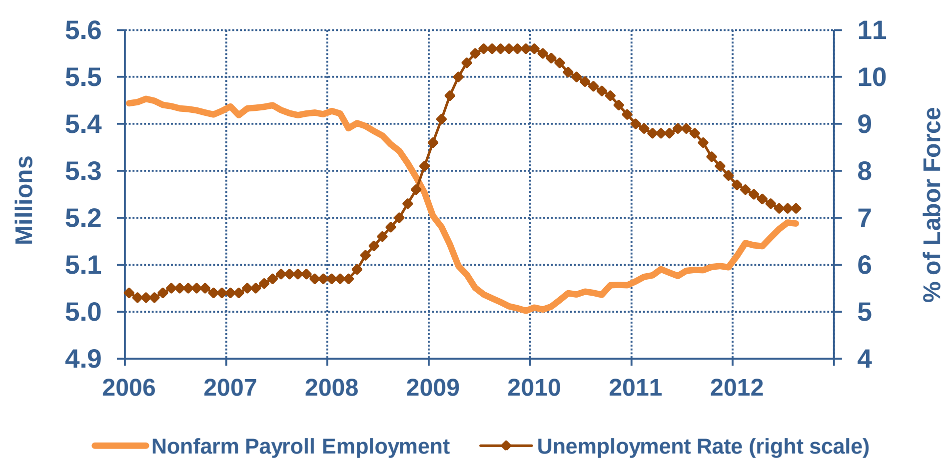
The producer price index (PPI) for finished goods rose 1.7% in August, the sharpest rise in this inflation measure since 2009. The PPI for finished goods registered small increases or declines in earlier months this year. The large price increase in August mainly resulted from higher energy prices, particularly for gasoline, and to a lesser extent from higher food prices. Price indexes for intermediate goods and crude materials also were up sharply in August, also mostly because of higher energy prices, particularly for diesel fuel and crude petroleum, respectively. Prices for foods and feeds were higher, notably for grains and prepared animal feeds.

Total nonfarm payroll employment in Ohio fell by 2,000 in August, but was higher by 98,300 than in August 2011.

The Ohio Economy

Total nonfarm payroll employment in Ohio fell by 2,000 (0.04%) in August, compared with July, but was higher by 98,300 (1.9%) than the year-earlier level. The number of persons out of work and actively seeking employment totaled 413,000 statewide, and the unemployment rate was unchanged from July at 7.2%, down from 8.8% a year earlier. These trends are shown in Chart 6.

Chart 6: Ohio Employment and Unemployment

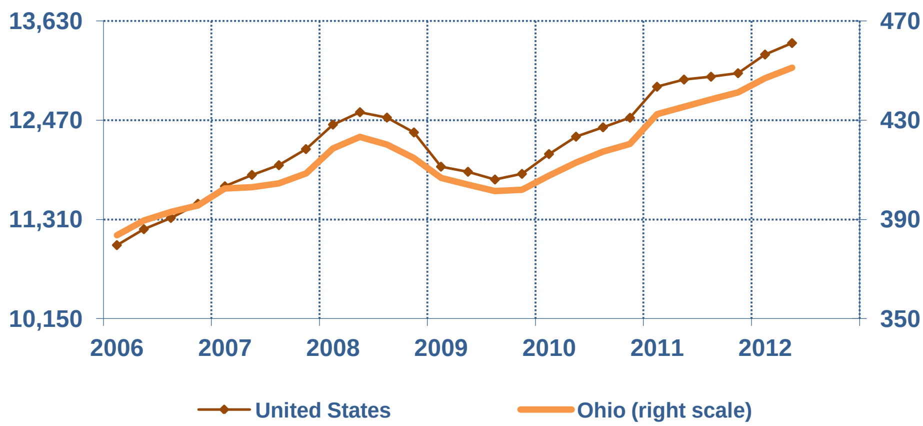


The decline in employment from July to August reflected an unusual drop in employment in health care and also declines at retailers, with smaller declines in a few other industries. The increase in employment during the past year was a result of widespread gains in the private sector, in both goods-producing and service-providing industries, partly offset by further cutbacks in government employment, particularly local governments.

Personal income in Ohio grew at a 3.9% annual rate in this year's second quarter, nearly matching growth of personal income nationwide at a 4.1% rate in the quarter. From the cyclical low point for personal income in the third quarter of 2009 to this year's second quarter, personal income rose by 12.4% in Ohio and 13.5% in the U.S. During this same period, average prices rose 6.2%, based on the consumer price index, or roughly half of the rise in the dollar amount of incomes. Personal income in Ohio accounted for 3.4% of total personal income for the nation in this year's second quarter. This share has remained stable since 2007, after declining since the 1950s. Trends in Ohio and U.S. personal income are shown in Chart 7.

Personal income in Ohio grew at a 3.9% annual rate in this year's second quarter, nearly matching growth of personal income nationwide at a 4.1% rate in the quarter.

Chart 7: Personal Income
Billions of Dollars



The Ohio Association of Realtors (OAR) reported that the number of housing units sold in Ohio in August was 13% more than in the year-earlier month. In the first eight months of this year, unit home sales were also 13% higher than in the year-earlier period. At about $135,300, the average selling price of homes in Ohio was 4% higher in this year's first eight months than a year earlier.