Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION SEPTEMBER 2012

STATUS OF THE GRF

HIGHLIGHTS

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

The U.S. economy continues to expand at a slow rate. Inflation-adjusted gross domestic product (real GDP) grew at a 1.7% annual rate in the second quarter. In August, total nonfarm payroll employment nationwide rose by 96,000, continuing the gradual recovery underway since early 2010, and the unemployment rate fell to 8.1%. In Ohio, the unemployment rate in July was 7.2%, with the pace of employment growth picking up this year compared to that of the last two.

At the start of FY 2013, the state budget appears to be on solid footing. In the first two months, tax revenues were $25.9 million above estimate. GRF sources as a whole were $22.2 million above estimate through August.

Through August 2012, GRF sources totaled $4.70 billion:

- Revenue from the personal income tax was $14.2 million above estimate;
- Sales and use tax receipts were $7.4 million below estimate.

Through August 2012, GRF uses totaled $5.50 billion:

- Expenditures for Primary, Secondary, and Other Education, Public Assistance and Medicaid, and Justice and Public Protection were below estimates by $71.6 million, $28.8 million, and $25.2 million, respectively.
- Expenditures for Tax Relief and Other were $64.3 million above estimate.

VOLUME 36, NUMBER 1

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

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

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$99,264	$100,900	-$1,636	-1.6%
Nonauto Sales and Use	$585,536	$613,900	-$28,364	-4.6%
Total Sales and Use Taxes	$684,800	$714,800	-$30,000	-4.2%
Personal Income	$656,170	$667,883	-$11,713	-1.8%
Corporate Franchise	$11,950	-$1,000	$12,950	1295.0%
Public Utility	$25,051	$27,700	-$2,649	-9.6%
Kilowatt Hour Excise	$33,133	$35,000	-$1,867	-5.3%
Natural Gas Consumption (MCF)	$9,323	$11,900	-$2,577	-21.7%
Commercial Activity Tax	$170,679	$178,900	-$8,221	-4.6%
Foreign Insurance	$1,349	-$300	$1,649	549.8%
Domestic Insurance	$0	$0	$0	---
Business and Property	$8	$0	$8	---
Cigarette	$77,272	$78,600	-$1,328	-1.7%
Alcoholic Beverage	$5,441	$5,800	-$359	-6.2%
Liquor Gallonage	$3,382	$3,500	-$118	-3.4%
Estate	$1,020	$0	$1,020	---
Total Tax Revenue	**$1,679,579**	**$1,722,783**	**-$43,204**	**-2.5%**
NONTAX REVENUE				
Earnings on Investments	$4	$0	$4	---
Licenses and Fees	$7,309	$3,266	$4,043	123.8%
Other Revenue	$582	$4,843	-$4,261	-88.0%
Total Nontax Revenue	**$7,895**	**$8,109**	**-$214**	**-2.6%**
TRANSFERS				
Liquor Transfers**	$31,000	$13,000	$18,000	138.5%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$706	$0	$706	---
Total Transfers In	**$31,706**	**$13,000**	**$18,706**	**143.9%**
TOTAL STATE SOURCES	**$1,719,179**	**$1,743,891**	**-$24,712**	**-1.4%**
Federal Grants	$823,281	$786,224	$37,057	4.7%
TOTAL GRF SOURCES	**$2,542,460**	**$2,530,115**	**$12,345**	**0.5%**

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

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

	Actual	Estimate*	Variance	Percent	FY 2012	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$194,502	$196,500	-$1,998	-1.0%	$183,863	5.8%
Nonauto Sales and Use	$1,250,185	$1,255,600	-$5,415	-0.4%	$1,207,219	3.6%
Total Sales and Use Taxes	$1,444,687	$1,452,100	-$7,413	-0.5%	$1,391,082	3.9%
Personal Income	$1,249,687	$1,235,460	$14,228	1.2%	$1,099,277	13.7%
Corporate Franchise	$18,402	-$3,000	$21,402	713.4%	-$2,540	824.4%
Public Utility	$25,060	$27,700	-$2,640	-9.5%	$33,032	-24.1%
Kilowatt Hour Excise	$57,230	$58,300	-$1,070	-1.8%	$51,923	10.2%
Natural Gas Consumption (MCF)	$10,216	$13,200	-$2,984	-22.6%	$13,222	-22.7%
Commercial Activity Tax	$195,912	$197,200	-$1,288	-0.7%	$94,588	107.1%
Foreign Insurance	$1,360	-$500	$1,860	372.0%	-$888	253.2%
Domestic Insurance	$220	$100	$120	119.6%	$15	1407.3%
Business and Property	$215	$100	$115	115.0%	$160	34.1%
Cigarette	$93,167	$91,600	$1,567	1.7%	$90,401	3.1%
Alcoholic Beverage	$11,178	$10,700	$478	4.5%	$10,396	7.5%
Liquor Gallonage	$6,827	$6,800	$27	0.4%	$6,659	2.5%
Estate	$1,623	$100	$1,523	1522.9%	$105	1450.9%
Total Tax Revenue	**$3,115,784**	**$3,089,860**	**$25,925**	**0.8%**	**$2,787,432**	**11.8%**
NONTAX REVENUE						
Earnings on Investments	$9	$0	$9	---	$6	32.0%
Licenses and Fees	$7,706	$3,663	$4,043	110.4%	$4,096	88.1%
Other Revenue	$1,871	$6,137	-$4,266	-69.5%	$5,758	-67.5%
Total Nontax Revenue	**$9,586**	**$9,800**	**-$214**	**-2.2%**	**$9,861**	**-2.8%**
TRANSFERS						
Liquor Transfers**	$31,500	$28,000	$3,500	12.5%	$25,000	26.0%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$5,372	$5,166	$206	4.0%	$10,653	-49.6%
Total Transfers In	**$36,872**	**$33,166**	**$3,706**	**11.2%**	**$35,653**	**3.4%**
TOTAL STATE SOURCES	**$3,162,242**	**$3,132,825**	**$29,416**	**0.9%**	**$2,832,946**	**11.6%**
Federal Grants	$1,539,731	$1,546,991	-$7,261	-0.5%	$1,380,534	11.5%
TOTAL GRF SOURCES	**$4,701,972**	**$4,679,817**	**$22,155**	**0.5%**	**$4,213,480**	**11.6%**

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

Revenues

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

Overview

August GRF sources were $12.3 million above estimate.

For the month of August, GRF sources totaled $2.54 billion. These sources were $12.3 million above the estimate released by the Office of Budget and Management (OBM) in August 2012. Federal grants and total transfers in were $37.1 million and $18.7 million, respectively, above estimates. Those positive variances were partly offset by a shortfall of $43.2 million in tax revenues. Tables 1 and 2 show GRF sources for the month of August and for FY 2013 through August, 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.

August tax receipts were $43.2 million below estimate.

All the major tax sources were below estimate in August. The personal income tax, the sales and use tax, and the cigarette tax, were below anticipated receipts by, respectively, $11.7 million, $30.0 million, and $1.3 million. Also below projected receipts were the commercial activity tax (CAT), by $8.2 million, and utility-related taxes (public utility, kilowatt hour, and natural gas consumption) by a total of $7.1 million. In contrast, receipts from the corporate franchise tax were $11.9 million in August when net refunds of $1.0 million were expected, increasing the year-to-date positive variance for that tax source to $21.4 million. The August performance reduced the year-to-date positive variance of tax sources to $25.9 million, down from $69.1 million in July. However, the overall positive variance in total GRF sources increased from $9.8 million at the end of July to $22.2 million at the end of August.

Through August, FY 2013 GRF tax receipts were $25.9 million above estimate.

Compared to the corresponding two-month period last year, FY 2013 total GRF sources increased $488.5 million, due to increases of $328.4 million in tax revenues and $159.2 million in federal grants. Large increases in receipts from the personal income tax ($150.4 million), the CAT ($101.3 million), and the sales and use tax ($53.6 million), contributed to the tax revenue gain.

Personal Income Tax

August GRF receipts from the personal income tax of $656.2 million were $11.7 million (1.8%) below estimate. However, they were $51.8 million (8.6%) above receipts in August 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,[1] trust payments, payments associated with annual returns, and miscellaneous payments.

Employer withholding receipts were below estimate by $15.8 million (2.3%) in August, partly reversing the positive variance of $20.9 million recorded in July and resulting in a net positive year-to-date variance of $5.2 million. For the fiscal year, the GRF received $1.25 billion from the personal income tax, $14.2 million (1.2%) above estimates. The table below summarizes year-to-date FY 2013 income tax revenue variances from estimates and annual changes by component. Except for receipts from trusts, all income tax components fared well in the first two months of FY 2013, resulting in gross collections above estimate by $18.5 million through August.

Through August, FY 2013 GRF income tax receipts were $14.2 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	$5.2	0.4%	$90.8	7.6%
Quarterly Estimated Payments	$3.8	13.6%	$3.8	13.3%
Trust Payments	-$0.2	-15.5%	-$0.2	-15.7%
Annual Return Payments	$4.8	23.8%	$4.8	23.5%
Miscellaneous Payments	$4.8	35.9%	$4.8	36.0%
Gross Collections	$18.5	1.4%	$104.0	8.3%
Less Refunds	$2.6	4.7%	$2.5	4.6%
Less Local Government Fund Distribution	$1.7	3.0%	-$48.9	-46.1%
Income Tax Revenue	$14.2	1.2%	$150.4	13.7%

Year-to-date GRF receipts from the income tax were $150.4 million (13.7%) above receipts through August in FY 2012, largely due to growing receipts from employer withholding and reduced distributions to the LGF. Through August, FY 2013 revenues from employer withholding were $90.8 million (7.6%) above receipts in this category in FY 2012. Total nonfarm payroll employment in Ohio is continuing the upturn underway since December 2009, though it is still short of the level prior to the

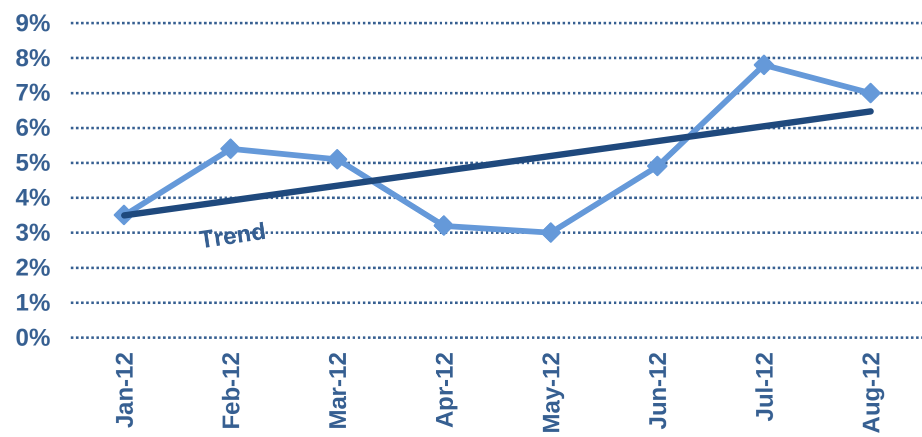
Through August, FY 2013 withholding receipts were $5.2 million above estimate.

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

2007-2009 recession. Chart 1 illustrates the trend in employer withholding receipts in 2012. Distributions to the Local Government Fund were $48.9 million (46.1%) below amounts in that category in the first two months of FY 2012. H.B. 153, the main operating budget act for the current biennium, reduced revenue sharing of state tax revenues with local governments.

Through August, FY 2013 sales and use tax receipts were $7.4 million below estimate.

Chart 1: Monthly Withholding Receipts Trend
Actual vs. Prior Year
(Three-month Moving Average)



Sales and Use Tax

August GRF receipts from the sales and use tax of $684.8 million were $30.0 million (4.2%) below estimate and also $11.8 million (1.7%) below receipts in August 2011. Through August, FY 2013 GRF sales and use tax receipts totaled $1.44 billion, $7.4 million (0.5%) below estimate but $53.6 million (3.9%) 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[2] generally arise from the sale of motor vehicles while nonauto sales and use tax collections arise from other sales. However, auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax instead of the auto tax. Both sales tax sources were below estimates in the first two months of the fiscal year.

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

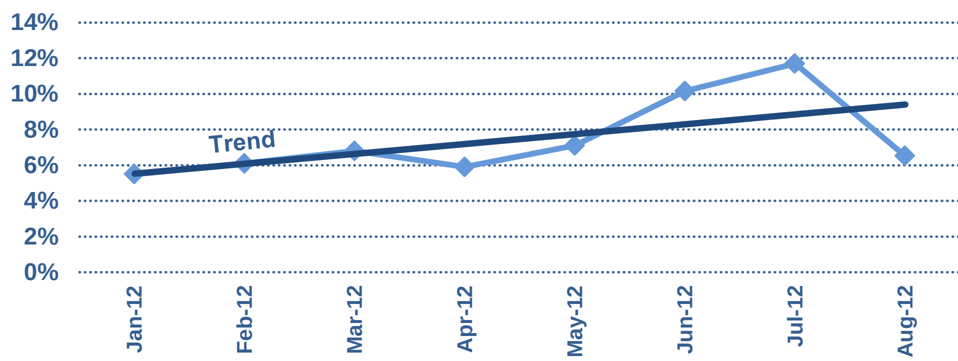
Nonauto Sales and Use Tax

Monthly GRF receipts from the nonauto sales and use tax were $585.5 million in August, $28.4 million (4.6%) below estimate and also $14.0 million (2.3%) below August 2011 receipts, probably due to a shortfall in receipts from Medicaid health insuring corporations. Year-to-date GRF nonauto sales and use tax receipts were $1.25 billion for FY 2013, $5.4 million (0.4%) below estimate. However, those receipts were $43.0 million (3.6%) above receipts through August in FY 2012. FY 2013 year-to-date receipts include $64.0 million in tax payments by Medicaid health insuring corporations; those receipts were down $17.1 million (21.1%) compared to the corresponding two-month period in FY 2012. Chart 2 shows an increase in FY 2013 nonauto sales tax monthly receipts against prior-year receipts in the same month, though the rate of growth has decreased in the latest months.

Through August, FY 2013 nonauto sales and use tax receipts were $5.4 million below estimate.

Auto Sales and Use Tax

Chart 2: Nonauto Sales and Use Tax Receipts Trend
Actual vs. Prior Year
(Three-month Moving Average)

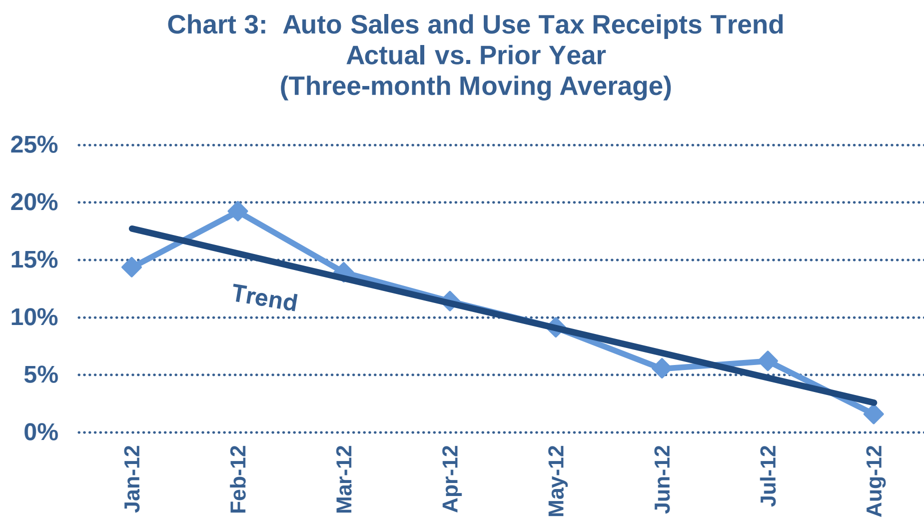


GRF receipts from the auto sales and use tax totaled $99.3 million in August. Those receipts were $1.6 million (1.6%) below estimate. However, they were $2.3 million (2.3%) above August 2011 receipts. For the fiscal year through August, the auto sales and use tax provided $194.5 million, $2.0 million (1.0%) below estimate but $10.6 million (5.8%) above receipts in FY 2012. Chart 3 below compares FY 2013 monthly auto sales and use tax receipts with year-ago receipts in the same period. The growth of the auto sales and use tax base has ebbed considerably, as expected, from the higher levels at the beginning of the calendar year. After several years of reduced light vehicle sales, sales soared in early 2012 as consumers replaced aging vehicles. That process has slowed in the last few months, resulting in decreasing growth rates of the auto taxable base.

Through August, FY 2013 auto sales and use tax receipts were $2.0 million below estimate.

Through August, FY 2013 cigarette tax receipts were $1.6 million above estimate.

On a seasonally adjusted annualized basis, nationwide autos and light truck sales jumped to 14.5 million units in August, up from 14.0 million units in July. Sales were about 16.5% higher than in August 2011.



Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax of $77.3 million in August 2012 were $1.3 million (1.7%) below estimate and $2.9 million (3.6%) below receipts in the same month in FY 2012. In the first two months of FY 2013, total receipts of $93.2 million were $1.6 million (1.7%) above estimate. Receipts from cigarette sales were $82.9 million, and sales of products other than cigarettes provided $10.3 million. Compared to FY 2012, total receipts were $2.8 million (3.1%) higher. Receipts from the sale of cigarettes increased $1.2 million and those from the sale of other tobacco products rose $1.6 million.

Through August, GRF CAT receipts were $1.3 million below estimate.

Commercial Activity Tax

August GRF receipts from the CAT of $170.7 million were $8.2 million (4.6%) below estimate and $85.1 million (99.4%) above August 2011 revenue. Through August, FY 2013 CAT receipts to the GRF totaled $195.9 million, $1.3 million (0.7%) below estimate, and $101.3 million (107.1%) above receipts in the corresponding period in FY 2012. The revenue increase is largely due to H.B. 153 which increased the shares 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 for 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 $98.0 million. Overall, year-to-date all funds CAT receipts of $407.6 million for FY 2013 were $25.1 million (6.6%) above receipts through August in FY 2012.

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

PROGRAM	Actual	Estimate*	Variance	Percent
Primary, Secondary, and Other Education	$487,903	$574,316	-$86,414	-15.0%
Higher Education	$168,369	$171,360	-$2,991	-1.7%
Total Education	$656,272	$745,676	-$89,405	-12.0%
Public Assistance and Medicaid	$1,202,138	$1,228,967	-$26,829	-2.2%
Health and Human Services	$68,964	$72,827	-$3,863	-5.3%
Total Welfare and Human Services	$1,271,102	$1,301,794	-$30,692	-2.4%
Justice and Public Protection	$141,935	$138,373	$3,563	2.6%
Environment and Natural Resources	$5,346	$5,234	$111	2.1%
Transportation	$467	$662	-$195	-29.4%
General Government	$26,607	$21,426	$5,181	24.2%
Community and Economic Development	$8,140	$5,491	$2,649	48.2%
Capital	$0	$0	$0	---
Total Government Operations	$182,494	$171,186	$11,309	6.6%
Tax Relief and Other	$113,912	$46,892	$67,020	142.9%
Debt Service	$48,120	$48,126	-$6	0.0%
Total Other Expenditures	$162,032	$95,018	$67,014	70.5%
Total Program Expenditures	**$2,271,900**	**$2,313,674**	**-$41,774**	**-1.8%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$452	$9,421	-$8,969	-95.2%
Total Transfers Out	$452	$9,421	-$8,969	-95.2%
TOTAL GRF USES	**$2,272,352**	**$2,323,095**	**-$50,743**	**-2.2%**

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

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2012**	**Percent Change**
Primary, Secondary, and Other Education	$1,333,744	$1,405,380	-$71,636	-5.1%	$1,377,097	-3.1%
Higher Education	$373,315	$373,156	$159	0.0%	$369,883	0.9%
Total Education	$1,707,059	$1,778,537	-$71,477	-4.0%	$1,746,980	-2.3%
Public Assistance and Medicaid	$2,543,300	$2,572,122	-$28,822	-1.1%	$2,440,145	4.2%
Health and Human Services	$194,201	$204,460	-$10,259	-5.0%	$241,483	-19.6%
Total Welfare and Human Services	$2,737,501	$2,776,582	-$39,081	-1.4%	$2,681,627	2.1%
Justice and Public Protection	$354,788	$379,993	-$25,205	-6.6%	$346,195	2.5%
Environment and Natural Resources	$15,578	$15,468	$111	0.7%	$12,809	21.6%
Transportation	$1,410	$1,117	$293	26.2%	$1,031	36.7%
General Government	$57,812	$65,033	-$7,221	-11.1%	$59,696	-3.2%
Community and Economic Development	$15,601	$10,675	$4,926	46.1%	$15,983	-2.4%
Capital	$69	$0	$69	---	$0	---
Total Government Operations	$445,258	$472,286	-$27,028	-5.7%	$435,715	2.2%
Tax Relief and Other	$117,792	$53,508	$64,284	120.1%	$72,708	62.0%
Debt Service	$200,351	$206,759	-$6,407	-3.1%	$87,988	127.7%
Total Other Expenditures	$318,144	$260,267	$57,876	22.2%	$160,696	98.0%
Total Program Expenditures	**$5,207,962**	**$5,287,672**	**-$79,710**	**-1.5%**	**$5,025,017**	**3.6%**
TRANSFERS						
Budget Stabilization	$235,096	$235,096	$0	0.0%	$246,899	-4.8%
Other Transfers Out	$60,210	$68,766	-$8,555	-12.4%	$83,809	-28.2%
Total Transfers Out	$295,307	$303,862	-$8,555	-2.8%	$330,708	-10.7%
TOTAL GRF USES	**$5,503,269**	**$5,591,534**	**-$88,265**	**-1.6%**	**$5,355,725**	**2.8%**

* 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 September 5, 2012)

Medicaid (600525) Payments by Service Category	August Actual	August Estimate	August Variance	August Percent Variance	Year to Date Actual thru Aug	Year to Date Estimate thru Aug	Year to Date Variance	Year to Date Percent Variance
Managed Care Plans	$599,633	$598,424	$1,209	0.2%	$1,197,288	$1,198,966	-$1,678	-0.1%
Nursing Facilities	$215,022	$208,858	$6,164	3.0%	$412,018	$408,240	$3,778	0.9%
Hospitals	$97,904	$104,954	-$7,050	-6.7%	$218,738	$226,346	-$7,608	-3.4%
Aging Waivers	$39,219	$46,837	-$7,618	-16.3%	$105,732	$110,534	-$4,802	-4.3%
Prescription Drugs	$34,512	$38,472	-$3,960	-10.3%	$78,166	$82,627	-$4,461	-5.4%
Physicians	$22,625	$23,599	-$974	-4.1%	$50,920	$52,446	-$1,526	-2.9%
ODJFS Waivers	$19,116	$20,847	-$1,731	-8.3%	$42,835	$46,029	-$3,194	-6.9%
All Other	$165,070	$169,175	-$4,105	-2.4%	$326,232	$327,602	-$1,370	-0.4%
Total Payments	$1,193,101	$1,211,166	-$18,065	-1.5%	$2,431,929	$2,452,790	-$20,861	-0.9%
Total Offsets (non-GRF)	-$58,142	-$59,827	$1,685	-2.8%	-$58,564	-$61,078	$2,514	-4.1%
Total 600525 (net of offsets)	$1,134,959	$1,151,339	-$16,380	-1.4%	$2,373,365	$2,391,712	-$18,347	-0.8%
Medicare Part D (600526)	$23,135	$22,406	$729	3.3%	$49,036	$48,449	$587	1.2%
Total GRF	**$1,158,094**	**$1,173,745**	**-$15,651**	**-1.3%**	**$2,422,401**	**$2,440,161**	**-$17,760**	**-0.7%**
Total All Funds	**$1,216,236**	**$1,233,572**	**-$17,336**	**-1.4%**	**$2,480,965**	**$2,501,239**	**-$20,274**	**-0.8%**

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 August and for FY 2013 through August, respectively. GRF uses primarily consist of program expenditures but also include transfers out. For the first two months of FY 2013, GRF program expenditures amounted to $5.21 billion. These expenditures were $79.7 million below the estimate released by the Office of Budget and Management (OBM) in August 2012. Program categories with significant year-to-date negative variances include Primary, Secondary, and Other Education ($71.6 million), Public Assistance and Medicaid ($28.8 million), and Justice and Public Protection ($25.2 million). The negative variances in these three program categories were partially offset by a positive variance of $64.3 million in Tax Relief and Other.

Year-to-date GRF program expenditures were $79.7 million below estimate.

Year-to-date GRF transfers out totaled $295.3 million. The largest single transfer out occurred in the month of July when $235.1 million was transferred from the GRF to the Budget Stabilization Fund. Including both program expenditures and transfers out, GRF uses totaled $5.50 billion for the first two months of FY 2013. These uses were $88.3 million below estimate. The remainder of this report first briefly discusses the variances in the four program categories mentioned above and then provides a brief overview of the OBM estimate for GRF uses for FY 2013 as a whole.

GRF uses totaled $5.50 billion for the first two months of FY 2013.

Significant Year-to-date Variances

Year-to-date GRF expenditures for Primary, Secondary, and Other Education totaled $1.33 billion, $71.6 million (5.1%) below estimate. Almost the entire amount of this variance was attributable to the Ohio Department of Education (ODE). ODE's actual expenditures were $71.5 million below estimate through the first two months of the year. The largest GRF appropriation item within the ODE budget – item 200550, Foundation Funding – was below its two month estimate by $65.1 million. This item provides the vast majority of the state's subsidy to local school districts.

Year-to-date GRF expenditures for Public Assistance and Medicaid totaled $2.54 billion, $28.8 million (1.1%) below estimate. Medicaid, including both state and federal shares, accounts for about 95% of expenditures in this program category. The federal share of Medicaid

There are three changes to the Medicaid service categories listed in Table 5.

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. Through August, FY 2013 Medicaid GRF expenditures totaled $2.42 billion, which was $17.8 million (0.7%) below estimate. Across all funds, year-to-date Medicaid expenditures amounted to $2.48 billion, which was $20.3 million (0.8%) below estimate. Table 5 details Medicaid GRF expenditures by service category and also summarizes Medicaid expenditures across all funds.

Some of the service categories listed in Table 5 have changed since the July issue of *Budget Footnotes*. The service category Intermediate Care Facilities for the Mentally Retarded (ICF/MR) is no longer included in the table. Beginning in FY 2013, Medicaid payments for ICF/MR services are made by the Ohio Department of Developmental Disabilities (ODODD) instead of by the Ohio Department of Job and Family Services (ODJFS). The service category ODJFS Waivers, which in previous fiscal years included three waiver programs, now includes two. The category had included the Ohio Home Care Waiver, the Transitions Aging Waiver, and the Transitions DD Waiver. Payments for the Transitions DD Waiver are now made by ODODD. All three waivers provide home and community-based services to individuals that do not require institutional care; the Transitions DD Waiver provides services to individuals who have developmental disabilities. Finally, the service category All Other now includes Medicaid payments for behavioral health services, which consists of mental health services as well as treatment services for alcohol and drug addiction. In previous fiscal years, payments for these services were made by the departments of Mental Health and Alcohol and Drug Addiction Services.

Year-to-date GRF expenditures for Justice and Public Protection amounted to $354.8 million, $25.2 million (6.6%) below estimate. The Department of Rehabilitation and Correction (DRC) accounted for $23.2 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 two month estimates, by $26.0 million and $2.0 million, respectively. On the other hand, item 505321, Institution Medical Services, was above its estimate by $4.4 million.

Year-to-date GRF expenditures for Tax Relief and Other totaled $117.8 million, $64.3 million (120.1%) above estimate. This positive year-to-date variance was entirely due to a positive variance of $67.0 million (142.9%) in the month of August. The main cause of the August variance was the timing of reimbursement payments for the 10% rollback, the

2.5% rollback, and the Homestead exemption. All of the reimbursements for the August real property tax settlements are generally complete before the end of the calendar year. The year-to-date variance for this program category is expected to narrow by the end of December. Property tax relief reimbursement payments for school districts and other local governments are made twice per year, one based on the August real property settlements and one based on the February settlements.

GRF program expenditures are expected to total $28.57 billion in FY 2013.

Summary of OBM Estimate for GRF Uses for FY 2012

The table below shows the estimate made by OBM in August 2012 for GRF uses for FY 2013. As seen from the table, GRF program expenditures are estimated to total $28.57 billion in FY 2013. Of this amount, $13.73 billion will go to Public Assistance and Medicaid and $6.61 billion will go to Primary, Secondary, and Other Education. Together, these two program categories will account for 71.2% of the total program expenditures. In addition, OBM anticipates $393.0 million in GRF transfers out and $236.8 million in year-end encumbrances. After accounting for program expenditures, transfers out, and encumbrances, GRF uses are expected to total $29.20 billion in FY 2013.

GRF uses are estimated to total $29.20 billion in FY 2013.

OBM Estimate for GRF Uses for FY 2013 by Program Area
($ in thousands)

Program Categories	Expenditures	As a % of Total Program Expenditures
Public Assistance and Medicaid	$13,728,227	48.04%
Primary, Secondary, and Other Education	$6,613,951	23.15%
Higher Education	$2,127,182	7.44%
Justice and Public Protection	$2,002,853	7.01%
Tax Relief and Other	$1,779,512	6.23%
Health and Human Services	$965,238	3.38%
Debt Service	$840,557	2.94%
General Government	$338,171	1.18%
Community and Economic Development	$97,008	0.34%
Environment and Natural Resources	$70,291	0.25%
Transportation	$11,001	0.04%
Capital	$20	0.00%
Total Program Expenditures	**$28,574,011**	**100.00%**
Transfers Out	$392,981	--
Year-end Encumbrances	$236,790	--
Total GRF Uses	**$29,203,782**	**--**

ISSUE UPDATES

FY 2012 Operating and Capital Expenditures Total $57.92 billion

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

In FY 2012, the state of Ohio incurred a total of $57.92 billion in operating and capital expenditures. As seen from Table A, $52.86 billion (91.3%) of the total expenditures were authorized in the main operating budget. The transportation and capital budgets accounted for $3.70 billion (6.4%) and $1.05 billion (1.8%), respectively, of the total. The remaining $310.1 million (0.5%) was authorized in the Bureau of Workers' Compensation and Industrial Commission budgets.

Table A. FY 2012 Operating and Capital Expenditures by Budget

Budget	Amount ($ in millions)	% of Total
Main Operating	$52,855.0	91.3%
Transportation	$3,704.8	6.4%
Capital	$1,051.2	1.8%
Workers' Compensation System	$310.1	0.5%
Total	$57,921.2	100.0%

Detail may not add up to total due to rounding.

Table B shows FY 2012 operating budget expenditures by the account categories used in the state's accounting system. As seen from Table 2, Subsidies and Shared Revenue is the largest spending area. In FY 2012, 87.4% ($23.07 billion) of total GRF expenditures were distributed as subsidies to schools, colleges and universities, local governments, and various other entities. Across all funds, this category's expenditures totaled $38.28 billion (67.3%). The vast majority of the expenditures incurred under the Capital Item category – $2.25 billion (3.9%) across all funds – supported the construction and maintenance of roads and bridges in the state as well as the construction and renovation of public K-12 schools and colleges and universities. Capital Item expenditures are mainly funded by bond proceeds. FY 2012 debt service payments totaled $303.4 million (1.1%) for the GRF and $1.10 billion (1.9%) across all funds.

For FY 2012, state payroll costs (including both salaries and fringe benefits) amounted to $4.26 billion across all funds, of which $1.82 billion was supported by the GRF. In addition to Payroll, what commonly is referred to as the state government's operating expenses also include expenditures incurred under the Purchased Personal Services and Other, Supplies and Maintenance, and Equipment categories. For FY 2012, the state government's operating expenses totaled $6.90 billion across all funds, of which $2.53 billion came from the GRF. In percentage terms, these amounts represent 12.1% and 9.6% of the respective totals.

Table B. FY 2012 Operating Budget Expenditures by Account Category				
Account Category	GRF Only	% of Total	All Funds	% of Total
500 - Payroll	$1,818.3	6.9%	$4,264.9	7.5%
510 - Purchased Personal Services & Other	$244.1	0.9%	$1,021.4	1.8%
520 - Supplies and Maintenance	$436.8	1.7%	$1,433.8	2.5%
530 - Equipment	$29.7	0.1%	$175.1	0.3%
550 - Subsidies and Shared Revenue	$23,073.6	87.4%	$38,281.9	67.3%
560 - Goods and Services for Resale	$0.0	0.0%	$559.9	1.0%
570 - Capital Items	$0.2	0.0%	$2,245.5	3.9%
590 - Judgments, Settlements, & Bonds	$2.9	0.0%	$18.5	0.0%
591 - Debt Service	$303.4	1.1%	$1,104.3	1.9%
595 - Transfers & Non-expense	$485.7	1.8%	$7,764.8	13.7%
Total	**$26,394.6**	**100.0%**	**$56,870.0**	**100.0%**

Detail may not add up to total due to rounding.

Ohio Department of Education Awards 1,352 Jon Peterson Special Needs Scholarships for 2012-2013 School Year

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

During the first application period of the Jon Peterson Special Needs Scholarship Program, the Ohio Department of Education (ODE) awarded 1,352 state-funded scholarships to students with disabilities to attend special education programs offered through alternative public and private providers. The scholarship program, which was established by H.B. 153, is available to students who have an identified disability and who have received an individualized education program (IEP) from their resident district. As of August 2012, students may attend any of 188 approved providers through the program.

To fund the scholarship program, students are first counted in their resident district's average daily membership for funding purposes. The amount of the scholarship is then deducted from the district's state aid allocation and transferred to the alternative provider. The value of each scholarship is the least of (1) tuition and fees charged by the alternative provider, (2) the sum of the FY 2009 formula amount ($5,732) plus base funding supplements and $5,732 multiplied by an applicable special education weight, and (3) $20,000. Depending on the special education weight applied to each student, scholarship amounts can range from $7,196 to $20,000. ODE will administer a second application period ending on November 15, 2012 for scholarships that will be awarded for the second half of the school year.

State Facilities Funding for a STEM School Approved for the First Time

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

In July, the Controlling Board, for the first time, approved facilities funding for a STEM (science, technology, engineering, and mathematics) school pursuant to H.B. 153. The School Facilities Commission (SFC) will provide $4.3 million, or 50% of the total $8.6 million project cost, to the Dayton Regional STEM School to renovate its facility. H.B. 153 authorized SFC, with Controlling Board approval, to provide funding, up to 50% of the total project cost, to any STEM school that is not governed by a single school district board for constructing, reconstructing, repairing, or making additions to classroom facilities for the school. The Dayton Regional STEM School serves 540 students in grades 6 through 12 primarily from Clark, Green, and Montgomery counties, which include 30 different school districts. The school is governed by a partnership that includes Wright State University, the Dayton Area Chamber of Commerce, and the nonprofit Education First. According to SFC, the school has already obtained its $4.3 million share and will proceed with the project.

School Districts Receive Small Increase in State Formula Aid for FY 2013

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

In July 2012, school districts began to receive a small increase in funding under the bridge formula, which the Ohio Department of Education (ODE) is using to allocate state formula aid in FY 2012 and FY 2013. Overall, appropriations of state formula aid amount to $6.33 billion for FY 2013, which is $47.1 million (0.75%) more than the $6.28 billion appropriated for FY 2012. The small increase in state formula aid appropriations for FY 2013 has allowed for a reduction in the statewide per pupil adjustment amount, an aspect of the bridge formula designed to limit the total statewide formula aid obligation to the aggregate amount appropriated. For FY 2013, ODE initially set the statewide per pupil adjustment amount at $130,[3] which is $18 less than the $148 amount in effect at the end of FY 2012. To put the per pupil adjustment amount into perspective, FY 2011 state formula aid per pupil (the basis of the bridge formula allocations) averaged about $4,016 statewide, though some school districts receive substantially higher or lower amounts.

[3] The statewide per pupil adjustment amount is subject to change during and after the fiscal year. For example, in March 2012 the FY 2012 per pupil adjustment amount was reduced from $159 to $148 due to lower than anticipated enrollment. The FY 2013 amount will be revisited once updated enrollment counts are ready for use, likely sometime in December or January, and again after the end of the fiscal year to finalize state formula aid payments.

The actual per pupil adjustment amount for a school district will vary based on how it measures on a scale of relative property wealth within the bridge formula called the charge-off valuation index, a feature designed to lessen the impact of the loss in federal stimulus funding on lower wealth districts. The charge-off valuation index results in higher wealth districts tending to have larger than average reductions and lower wealth districts tending to have lower than average reductions. Overall, the bridge formula guarantees each district the same amount of state aid received in FY 2011 minus the portion of that allocation supported with federal stimulus funding.

ODE Revises History Standards and Curriculum Pursuant to S.B. 165

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

In July, the Ohio Department of Education (ODE) announced that it had revised state academic standards and the high school model curriculum for American history and government pursuant to S.B. 165 of the 129th General Assembly. Specifically, S.B. 165 required the State Board of Education, no later than July 1, 2012, to incorporate into the state social studies standards for grades 4 through 12 academic content regarding the original texts of the Declaration of Independence, the Northwest Ordinance, the United States Constitution and its amendments, with emphasis on the Bill of the Rights, and the Ohio Constitution of 1851. The State Board also had to revise the state model curriculum to reflect the additional academic content. According to ODE, the most substantive revisions that needed to be made as a result of S.B. 165 were made to the high school course syllabi for American history and American government.[4]

State Received $25 million from Scioto Downs to Operate Video Lottery Terminals

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

Scioto Downs, located near Columbus, paid the state a total of $25 million in VLT license fees in FY 2012 to start video lottery terminal (VLT) sales in June 2012. The company will owe another $25 million in FY 2013. To become video lottery sales agents, authorized to offer VLTs, horse racing permit holders must each pay a

[4] To view the syllabi, content standards, and model curriculum revised as a result of S.B. 165, go to ODE's web site – scroll over "Teaching" and click on "Instruction" – select "Social Studies" and choose "College and Career Ready (Ohio Revised) Standards in Social Studies."

$50 million licensing fee.[5] When the permit holder submits a completed application for the license, $10 million of the fee is due. A payment of $15 million is owed when VLT sales start. The remaining $25 million is payable one year later. These fees are deposited into the State Lottery Fund (Fund 7044).

Most of the other six permit holders are at various stages in the application process. Payments of $100 million or more in each of FY 2013 and FY 2014 are anticipated, depending on the timing of submission of completed applications and of VLT startups. The last of these payments might not be received until FY 2015 for VLTs at tracks that relocate. Proposed Racing Commission rules governing track relocations are expected to become effective in the fourth calendar quarter of 2012. Payments for VLT licenses are expected to total $350 million. Tracks that relocate, with the exception of Lebanon Raceway,[6] will be subject to additional fees to do so. After the VLTs are operating, including those at new racetracks, revenue will accrue to the state from wagers placed on these devices.

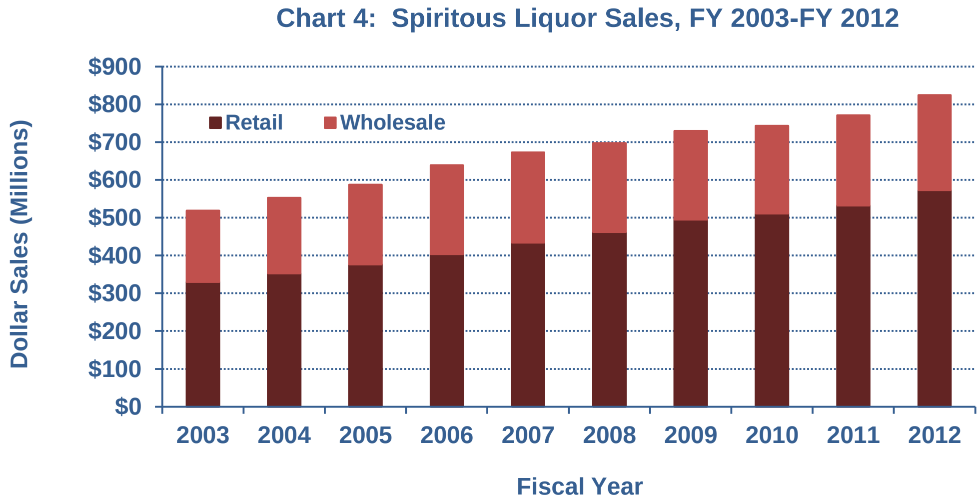
Total Liquor Sales Increased 7.0% in FY 2012

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

Total spirituous liquor sales amounted to $824.5 million in FY 2012, which was an increase of 7.0% ($53.8 million) over FY 2011 sales of $770.7 million. The 7.0% growth rate was higher than the 3.8% registered in FY 2011, and the rate was also above the ten-year average of 5.2%. As the chart below shows, increases in total liquor sales over the past decade have been driven primarily by growth in retail sales (sales made by contract liquor agencies directly to consumers). Since FY 2003 retail sales have increased every year, to $572.7 million in FY 2012, which was $40.4 million (7.6%) over the $532.3 million in sales recorded in FY 2011. Wholesale sales (sales made by contract liquor stores to restaurants and bars) decreased three (FY 2008-FY 2010) out of the last ten years. They totaled $251.9 million in FY 2012, which was an increase of $13.4 million (5.6%) over the $238.5 million in wholesale receipts in FY 2011.

[5] The Ohio Administrative Code (3770:2-2) requires that video lottery sales agents, authorized to sell games through VLTs, be holders of permits from the State Racing Commission to conduct live horse racing with pari-mutuel wagering. The Revised Code (3770.21) limits VLTs to facilities owned by holders of such permits.

[6] H.B. 386 of the 129th General Assembly precludes an application fee to relocate for the permit holders at Lebanon Raceway if the move is less than 20 miles, and authorizes sale of a specified state-owned property to these permit holders that satisfies this restriction.



The proceeds of liquor sales have been used to pay for the operating expenses of the Department of Commerce's Division of Liquor Control, retire certain economic development and Clean Ohio revitalization bonds, and fund state liquor law enforcement and alcoholism treatment. Profits remaining after these expenses have been paid are transferred to the GRF. In FY 2012, the transfers to the GRF from the Liquor Control Fund (Fund 7043) amounted to $92.5 million.

Rehabilitation and Correction's Leasing Revenues Up 35% in FY 2012

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

In FY 2012, revenue generated from the use or leasing of property and facilities under the jurisdiction of the Department of Rehabilitation and Correction (DRC) totaled $215,149, an increase of $55,784, or 35%, from the prior three-year average of $159,365. The FY 2012 increase stemmed from a two-year contract with the Fairfield County Sheriff's Office to lease Camp Reams, a vacant former boot camp facility outside the main perimeter fence on the grounds of the Southeastern Correctional Institution near Lancaster, Ohio. DRC received $75,000 in FY 2012 from the lease agreement, and expects to receive $120,000 in FY 2013. This leased space is being operated as the Fairfield County Jail Annex and houses up to 92 nonviolent minimum security prisoners.

FY 2012 was the first year that DRC was statutorily authorized to enter into an agreement with a state agency, political subdivision, or private entity to lease DRC property and facilities not being used by the Department. All money collected from such use or lease agreements is deposited in the state's Property Receipts Fund (Fund 4830). The money is to be used for any expenses resulting from the use or leasing of DRC property and facilities, including construction, maintenance, repair, or demolition.

Department of Youth Services Implements Free Bus Transportation Service for Family Visitations

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

In May 2012, the Department of Youth Services began implementation of its new C.L.O.S.E. (Connecting Loved Ones Sooner than Expected) to Home Project, a free bus service designed to promote family visits to youth in custody at one of the Department's juvenile correctional facilities. Since then, the Department has provided transportation services to a total of 161 family members. In order to access the free transportation services, family members must be on the youth's approved visitation list and contact the Department to reserve a bus seat. The number of visitors allowed per youth ranges from a maximum of three to four depending on the security level of the facility and the youth's behavior.

The Department has allocated $18,640 for the C.L.O.S.E. to Home Project in 2012. This project is one of three components of the Department's Family Engagement Initiative that supports family involvement in a youth's rehabilitation and subsequent reentry into the community. The other two components are Family Finding, which aids in the location of previously unknown family members of youth, and Family Training, which expands the effective practices in community supervision model to allow parole officers to work with families while the youth is still in the Department's custody. The initiative is being funded by a $58,500 federal Edward Byrne Memorial Justice Assistance Grant plus a $19,500 required state match for a total funding of $78,000.

Federal Highway Act Provides $2.6 billion for Ohio Over the Next Two Years

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

The Moving Ahead for Progress in the 21st Century Act (MAP-21), passed by Congress in June, provides Ohio with approximately $2.6 billion over the next two federal fiscal years for federal highway, transit, and transportation planning programs. MAP-21 also contained the final short-term extension of the previous transportation authorization, known as SAFETEA-LU. According to the estimated apportionments issued by the Federal Highway Administration (FHWA), under this extension, Ohio's final apportionment for federal fiscal year (FFY) 2012, which ends September 30, will be $1,298.4 million, which is $92.6 million (6.7%) less than Ohio's actual FFY 2011 apportionment of $1,391.0 million. Ohio's FFY 2013 apportionment is expected to be the same as in FFY 2012, with a modest increase of about $11.1 million (0.9%) in FFY 2014. The table below compares Ohio's FFY 2011 apportionment to the expected amounts in FFY 2012 through FFY 2014 under MAP-21.

Expected Federal Highway Apportionment for Ohio, FFY 2011-FFY 2014				
	SAFETEA-LU Extensions		MAP-21	
	FFY 2011 (Actual)	FFY 2012	FFY 2013	FFY 2014
Amount	$1,390,981,421	$1,298,370,814	$1,298,370,814	$1,309,497,990
% Change	--	-6.7%	0.0%	0.9%

Among other actions, MAP-21 consolidates several federal highway programs into four core programs administered by FHWA. These are the National Highway System Performance Program, the Surface Transportation Program, the Congestion Mitigation and Air Quality Improvement Program, and the Highway Safety Improvement Program. Additionally, three existing nonhighway programs (the Transportation Enhancements, Safe Routes to School, and Recreational Trails programs) are consolidated into the new Transportation Alternatives Program. Federal funding to states beginning in FFY 2013, which starts on October 1, 2012, will be apportioned based on these programs instead of the existing FHWA program structure. Of Ohio's total expected FFY 2013 and FFY 2014 apportionments of about $2.6 billion under MAP-21, the majority (about $1.5 billion, or 57.3%) will be allocated to the National Highway Performance Program, just over one-quarter ($687.1 million, or 26.3%) will be allocated to the Surface Transportation Program, and the remainder will be split across the other programs.

Ohio Receives $18 million in Federal Workforce Innovation Funds

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

In June, the U.S. Department of Labor announced that Ohio was awarded $18 million in federal workforce innovation funds. Funds are designated to help states develop and test new approaches to workforce training activities. Of the $18 million, $12 million was awarded to the Ohio Department of Job and Family Services (ODJFS) and $6 million was awarded to Ohio's workforce investment board that covers Stark and Tuscarawas counties (Area 6).

ODJFS plans to use the $12 million grant over the next year to expand the Ohio Means Jobs web site to include personal career folders and facilitate electronic career counseling services. According to ODJFS, about $8 million of the grant will be used for software development, hardware to facilitate larger storage space, network equipment, and assessment tools. The remaining $4 million will be used for project evaluation, outreach materials, staff, and maintenance. Some of the work will be performed under contract. ODJFS expects that the new online components will be available in the latter part of 2013.

Ohio's Area 6 workforce investment board plans to use the $6 million grant to expand an employer outreach initiative. The initiative will be launched through an existing employer network, called the Ohio Business Resource Network, which provides businesses with a single contact point to access public workforce and economic development services. Though received by the Area 6 board, the grant is planned to be used in 16 counties that include five other boards. The boards and counties are listed in the table below.

WIA Areas and Counties Affected by Area 6 Grant	
Area	**Counties**
1	Adams, Brown, Pike, and Scioto
6	Stark and Tuscarawas
16	Belmont, Carroll, Harrison, and Jefferson
17	Columbiana and Mahoning
18	Trumbull
19	Ashtabula, Geauga, and Portage

Adult Care Facility Critical Repair Grant Recipients Announced

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

In July 2012, the Ohio Department of Mental Health (ODMH) announced the recipients of a $1 million Adult Care Facility (ACF) Critical Repair Grant. A total of 115 grant awards ranging from $2,000 to $10,000 each were made to 94 ACFs. The awards will be used to repair structural, heating, and plumbing defects, eliminate electrical hazards, and install or repair safety features. As shown in the table below, Cuyahoga, Hamilton, and Lucas counties received the largest number of awards.

Number of Critical Repair Award Recipient Adult Care Facilities by County				
Butler (1)	Guernsey (1)	Lawrence (1)	Montgomery (7)	Stark (5)
Cuyahoga (24)	Hamilton (22)	Lorain (1)	Pickaway (1)	Summit (2)
Fairfield (1)	Hocking (1)	Lucas (16)	Ross (2)	Wayne (1)
Franklin (2)	Lake (3)	Mahoning (2)	Seneca (1)	--

There are about 700 licensed ACFs in Ohio. ACFs provide room, board, and personal care for adults who reside in the community who need assistance with daily living. Individuals residing in ACFs may have a variety of disabilities, including mental illness.

ODMH will maintain a prioritized waiting list of repair projects that were eligible for funds but did not receive an award. Any unused funds from the current grant awards will be reallocated to fund projects on the waiting list.

BOR Task Force Proposes Plan to Increase Commercialization at Ohio Universities

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

In response to a statutory requirement, the Ohio Board of Regents (BOR), on June 27, 2012, published its fifth report on the Condition of Education in Ohio.[7] This report, entitled "Advancing Ohio's Innovation Economy," concentrates on the findings of BOR's Commercialization Task Force. The task force analyzed the ability of Ohio's research universities to commercialize and profit from their innovations and discoveries. The task force made the following eight recommendations that are explained in the report:

1. Remove barriers that restrict commercialization;
2. Build ecosystems that support commercialization, involving a quality primary and secondary education system, affordable housing, well maintained infrastructure and sustainable environment, vibrant culture and recreational environment, economic opportunity, and quality health care delivery system;
3. Promote greater collaboration between higher education, government, industry, and nongovernmental organizations;
4. Create an environment that promotes entrepreneurial activity within higher education institutions;
5. Facilitate cooperation between higher education and industry researchers;
6. Develop initiatives that provide the necessary capital resources to promote the growth of new industry;
7. Plan for the future workforce by identifying current and future requisite jobs skills and proficiency; and
8. Identify and track metrics that measure Ohio's progress.

The report identified two current metrics that informed some of the task force's work. First, the Milken Institute's 2010 *State Technology and Science Index*, on which Ohio's rank among the states was 20th in research and development and 29th overall. Second, the Ewing Marian Kauffman Foundation's 2010 *State New Economy Index* on which Ohio's rank among the states was 25th overall, but 38th on economic dynamism. BOR indicates that in FY 2011, Ohio's colleges and universities recorded over 984 inventions, filed 592 patent applications, executed 197 new technology licenses, and formed 34 startup businesses. Total annual higher education research expenditures in Ohio were over $2 billion in FY 2010, including funding from the Ohio Third Frontier Program, federal grant programs, and private industry grants.

[7] The report is available at www.ohiohighered.org/board/condition-report.

TRACKING THE ECONOMY

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

Overview

The U.S. economy continues to expand at a slow rate.

The U.S. economy continues to expand at a slow rate. Inflation-adjusted gross domestic product (real GDP) grew at a 1.7% annual rate in the second quarter. In August, total nonfarm payroll employment nationwide rose by 96,000, continuing the gradual recovery underway since early 2010, and the unemployment rate fell to 8.1%. In Ohio, the unemployment rate in July (latest available) was 7.2%. U.S. factory production, shipments, and orders rose in July, but the manufacturing sector appears to have weakened in August, based on a nationwide survey of purchasing managers. Consumer spending growth picked up in July, and early reports for August indicate further expansion. Residential building activity and sales have increased, but are still far below levels prior to the weakness of recent years. Inflation measures, overall, remain low, though this summer's heat wave is exerting upward pressures on food prices, and gasoline prices have climbed.

Downside risks for continued U.S. economic expansion include recession in parts of Europe and slower growth in Asia, which raise concerns about the strength of demand for U.S. exports. Worsening of Europe's financial difficulties could adversely affect U.S. financial markets. Federal tax cuts scheduled to expire at the end of this calendar year and automatic spending cuts required by current law (the so-called "fiscal cliff") would, if allowed to take place, shrink the U.S. budget deficit by nearly $500 billion from federal fiscal year 2012 to 2013, and result in a fall in real GDP in the first half of next year at an annual rate of 2.9%, according to a Congressional Budget Office projection.[8]

Following its latest meeting on July 31-August 1, the central bank's main policy-setting group, the Federal Open Market Committee (FOMC), indicated that it was keeping its short-term interest rate target, for federal funds, at zero to 0.25%, and said it expected the rate to stay exceptionally low at least through late 2014. It also continued programs to exert downward pressure on interest rates on longer-term U.S. Treasury securities, and to reinvest principal payments on mortgage-backed and

[8] These projections are in Congressional Budget Office, *An Update to the Budget and Economic Outlook: Fiscal Years 2012 to 2022*, August 2012.

related securities in other mortgage-backed securities to help support the housing market.

On August 31, Federal Reserve Chairman Bernanke said that the central bank will give further monetary support "as needed" for economic recovery and labor market improvement while maintaining price stability. He did not comment directly on whether such added stimulus was expected or appeared likely, but strongly defended the Fed's use of "nontraditional tools" after reducing its short-term interest rate target in December 2008 to its "effective lower bound" of zero to 0.25%. The FOMC next meets on September 12-13.

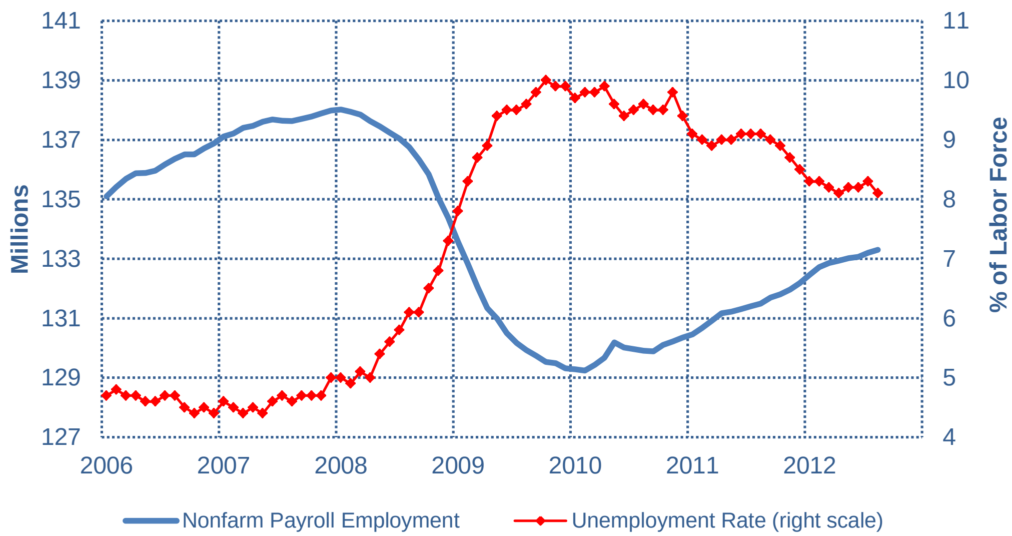
The National Economy

Employment and Unemployment

Total nonfarm payroll employment in the U.S. rose by 96,000 (0.1%) in August. The number of persons counted as unemployed (without jobs and actively seeking work, or on temporary layoff) totaled 12.5 million, 8.1% of the labor force. Payroll employment and the unemployment rate nationwide are shown in Chart 5.

Total nonfarm payroll employment in the U.S. rose by 96,000 (0.1%) in August.

Chart 5: U.S. Employment and Unemployment



Gains in U.S. payroll employment in August were reported in food services and drinking places, professional and technical services, and health care. Factory employment was reported to have fallen during the month, seasonally adjusted, in part because fewer auto workers than usual were laid off during July model changeovers, so fewer were called back in August. Abstracting from these month-to-month fluctuations, employment in manufacturing has grown only slowly in the past five months.

From the post-recession low point for nonfarm payrolls nationwide in February 2010, employment rose by about 4.1 million (3.1%) through August, or about 135,000 a month on average. Total nonfarm payroll employment remains 4.7 million below its all-time peak in January 2008. At recent rates of additions to total payroll employment, another three to four years would be required for employment to recover to its previous peak.

The U.S. unemployment rate has fluctuated in a range from 8.1% to 8.3% throughout this year's first eight months. As of August, about five million of the unemployed had been out of work for more than six months. Another eight million were working part-time jobs because of slack work or business conditions, or because they could only find part-time work. The share of the population age 16 and over that was either employed or actively seeking work fell in August to the lowest rate (63.5%) since 1981.

Production, Shipments, and Inventories

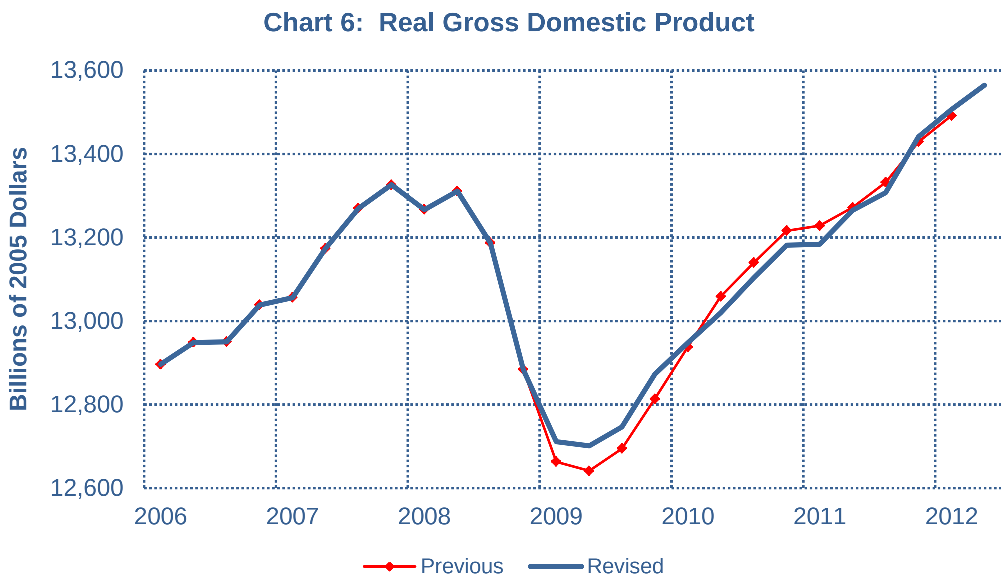
Real GDP growth continued in the second quarter but remained slow, at a 1.7% annual rate.

Real GDP growth continued in the second quarter but remained slow, at a 1.7% annual rate after a 2.0% rate of increase in the first quarter and a 1.8% increase in all of 2011. In the second quarter, real consumer spending increased at a 1.7% annual rate, the tenth consecutive quarter of rising consumer outlays. Residential and nonresidential fixed investment grew in the second quarter, as did exports. Business inventories increased. But government spending contracted at both the federal and the state and local levels. Total government spending has fallen for eight consecutive quarters, and state and local government spending has fallen for 11 straight quarters.

With the release of the second quarter GDP estimates in July, the U.S. Bureau of Economic Analysis (BEA), the source agency for these numbers, also released revised figures for earlier periods starting with 2009. Revisions going back three or more years are published once each year, based on more extensive information than was available earlier. The revised figures still show a peak for U.S. real GDP in the fourth quarter of 2007, and an economic trough in the second quarter of 2009. But the peak-to-trough decline now is somewhat shallower, with real GDP falling 4.7% in the recession instead of 5.1%. This is still the largest decline in the post-World War II quarterly history that starts in 1947.[9] The smaller decline in real GDP in 2009 mainly reflects an upward revision to estimated economic activity at state and local governments in

[9] A larger decline in real GDP occurred in 1946, based on annual data, as the U.S. economy was adjusting from wartime to peacetime production.

that year. The revised real GDP numbers show a recovery from the 2009 low point that was less rapid than previously indicated. Slower expansion in 2010 mainly resulted from less robust growth of business investment in equipment and software than shown prior to the revision. Real GDP rose above the 2007 peak in 2011, and is at a new all-time high level in 2012. BEA's previous and revised estimates for real GDP are shown in Chart 6.



Industrial production rose 0.6% in July, its strongest gain since April. Manufacturing production rose 0.5% in July, the same as the increase in June, and was 5.0% higher than a year earlier. Factory output is about 75% of the total industrial production index. Growth of factory output in the past year has been mainly in motor vehicles and other durable goods, both for business and consumers. Mining output rose 1.2% in July, to 6.0% above its year-earlier level with crude oil extraction accounting for the largest gains. Output of electric and natural gas utilities, which varies from month to month mainly with fluctuations in average temperatures, also rose in July. Recovery in total industrial production since the recession low point in 2009 has raised the index to within 3% of the 2007 peak. The index fell 17% during the recession.

Industrial production rose 0.6% in July, its strongest gain since April.

The dollar value of new orders for manufactured goods rose 2.8% in July. In the first seven months of 2012, factory orders were 4.7% higher than a year earlier. Manufacturers' shipments rose 2.0% in July, and year-to-date shipments were 5.3% higher than in the year-earlier period. Order backlogs at the end of July were 0.8% higher than a month earlier, and 7.9% above the year-ago level. Inventories were 2.9% higher at the end of July than a year earlier.

In August, U.S. manufacturing activity appears to have contracted, based on a survey of purchasing managers by the Institute for Supply Management (ISM). More survey respondents said production contracted from July to August than said it increased. Adjusted for seasonality, production fell for the first time since May 2009. New orders contracted for the third consecutive month. Order backlogs shrank for the fifth straight month. Inventories rose, as did average prices paid. Comments from survey respondents indicated a slowdown in orders and demand, and concern about the global economy.

In contrast, a comparable ISM survey of purchasing managers with organizations other than manufacturers noted growing business activity and new orders. The nonmanufacturing survey also indicated rising inventories and more widespread increases in prices paid.

Consumer Spending

Inflation-adjusted consumer spending rose 0.4% in July, the largest increase since February.

Inflation-adjusted consumer spending rose 0.4% in July, the largest increase since February, as spending on goods as well as services picked up. The rise in spending on services in July appears to be in part increased spending on utilities, likely in response to the hot weather during the month. Personal income growth has remained slow. Private wages and salaries continue to trend upward, while wages and salaries from employment with governments have been little changed for the last two years. Growth of transfer payments to persons has been restrained as receipts from unemployment insurance have been falling, and growth of Medicaid benefits has slowed sharply. After-tax inflation-adjusted incomes this year have been up from those last year at less than a 2% annual rate, as was the case last year and the year before.

Car and light truck sales rose in August to a 14.5 million unit seasonally adjusted annual rate, up from a 14.0 million unit rate in July. August light vehicle sales were at the highest rate since early 2008, except for August 2009 when sales were boosted by the federal "Cash for Clunkers" program. Year-to-date car and light truck sales in calendar year 2012 are 15% higher than in the same period in 2011. Car sales are up more than those of light trucks, driven perhaps by efforts of buyers to purchase more fuel efficient vehicles in response to the higher gasoline prices. Also, after four years of reduced new vehicle sales, consumers likely have stepped up buying of new cars and light trucks to deal with deferred replacement needs.

Sales at large retailers that publish their results monthly were 6.0% higher in August than a year earlier, in a report from the International Council of Shopping Centers (ICSC). This figure is on a comparable store basis, including only locations open in both the latest and year-earlier months, and does not include drug stores. The year-over-year sales gain was up from 4.6% in July and was the largest since March. ICSC noted the strong back-to-school spending in the month, as well as sales tax holidays in multiple states and retailer promotions.

Total household debt fell again in the second quarter, and has been trending downward since the peak in the third quarter of 2008, reflecting declines in mortgage and home equity loans. Excluding loans secured by real estate, the amount of consumer credit outstanding rose in June, and has been growing since reaching a post-recession low in August 2010. The growth since 2010 is accounted for by nonrevolving credit, which includes education loans, car loans, and other types of fixed-payment credit. Nonrevolving credit outstanding reached a new all-time high in June. Revolving credit, mostly credit cards, has been increasing since last year, but is still far below its 2008 peak.

Construction and Real Estate

Housing starts nationwide in July were 21% higher than a year earlier; year-to-date starts were 26% higher. Starts on units in structures with five or more units were 41% higher in the first seven months of 2012 than a year earlier. Issuance of permits for new housing construction, which tend to lead starts, were 31% higher for seven months than a year ago, and permits for units in structures with five or more units were 58% higher. Even with the strong upturn in single family housing this year, and in new apartments beginning last year, starts and permits remain well below the pace at the peak seven years ago.

Housing starts nationwide in July were 21% higher than a year earlier.

New home sales in July were 25% higher than a year earlier, and year-to-date sales were 21% higher. As with housing starts, home sales remain far below the 2005 peak. Builders' inventories of completed homes were at all-time lows, in statistics kept since 1973, but the number of homes under construction had started to rise, from very low levels.

Home sales reported by the National Association of Realtors (NAR), generally previously occupied homes, were 10% higher in July than a year earlier. Year-to-date sales were 9% higher than in the first seven months of 2011. NAR indicated that limited inventories of homes listed with realtors, particularly in lower price ranges, as well as tight lending standards were constraining sales. Foreclosures and short sales were 24% of transactions in July, down from 29% a year earlier.

The NAR home sales data are for closings on transactions. NAR also publishes statistics on contract signings, its pending home sales index. Contracts for home purchases entered into in July were 12%

higher than in July 2011, as indicated by this index, the fifteenth consecutive monthly gain from a year earlier, according to NAR.

In July, the contract interest rates on commitments for 30-year fixed-rate first mortgages reached an all-time low, in a weekly survey conducted by Freddie Mac since 1971. The nationwide average rate was 3.49% in the last week of July, and was only up slightly, at 3.55%, in the first week of September.

Average prices of houses sold in the U.S. have turned higher in recent months, as indicated by a report from the Federal Housing Finance Agency (FHFA) based on information from Fannie Mae and Freddie Mac. A seasonally adjusted index of selling prices rose 5% from its March 2011 low point to June of this year, with much of the increase in the past four months. FHFA commented that "The strong appreciation may partially reflect fewer homes sold in distress." The rise returned the index to around its value in 2004, prior to the 2007 peak and subsequent price decline. An FHFA index of prices of housing sold in Ohio was 2% higher in the second quarter than a year earlier, and around the index values in 2001-2002. Another measure of nationwide home prices, from S&P/Case-Shiller, also showed a rising trend in home prices recently, with average home prices nationally back to around 2003 levels.

The value of construction put in place declined 0.9% in July from that in June, seasonally adjusted. Year-to-date construction spending, however, was up strongly from the year-earlier rate, by 9%, though building activity remains far below its pace around the peak in the middle of the last decade. Private residential construction spending was 10% higher in this year's first seven months than a year earlier, with work on new apartments 40% higher and new single family home construction 14% higher. Private nonresidential construction spending was 21% above last year's rate, with construction work on power projects 43% higher and factory construction up 31%. Public construction was 2% lower in the first seven months of 2012 than in the year-earlier period.

Inflation measured by the consumer price index (CPI) remains subdued.

Inflation

Inflation measured by the consumer price index (CPI) remains subdued. The CPI was unchanged in July, and was unchanged or declined in each of the latest four months. In each of these months, the CPI component for energy prices fell. Compared with a year earlier, the CPI for all items rose 1.4%, its smallest year-over-year increase since November 2010. The index for consumer prices excluding food and energy was 2.1% above its year-earlier level, the smallest rise in this CPI component since last October.

The producer price index (PPI) for finished goods rose 0.3% in July, its largest increase since February. The increase in July occurred despite the fifth consecutive monthly decline in the index for finished energy goods prices, and resulted from increases in average prices for foods and for goods other than foods and energy. In the latest 12 months, the PPI for finished goods rose only 0.5%. The PPIs for intermediate goods and for crude materials were both lower in July than year-earlier levels. However, from June to July, intermediate and crude foods prices rose, attributed mainly to higher prices for prepared animal feeds and for grains, respectively.

Gasoline prices nationwide have rebounded in recent weeks, after falling to a low point in July. On Monday, September 3, the price of regular gasoline averaged $3.84 per gallon, in the U.S. Energy Information Administration's weekly survey, up from a recent low of $3.36 per gallon in early July. In Ohio, regular gasoline averaged $3.85 per gallon on September 3, up from the recent low of $3.24 per gallon in early July.

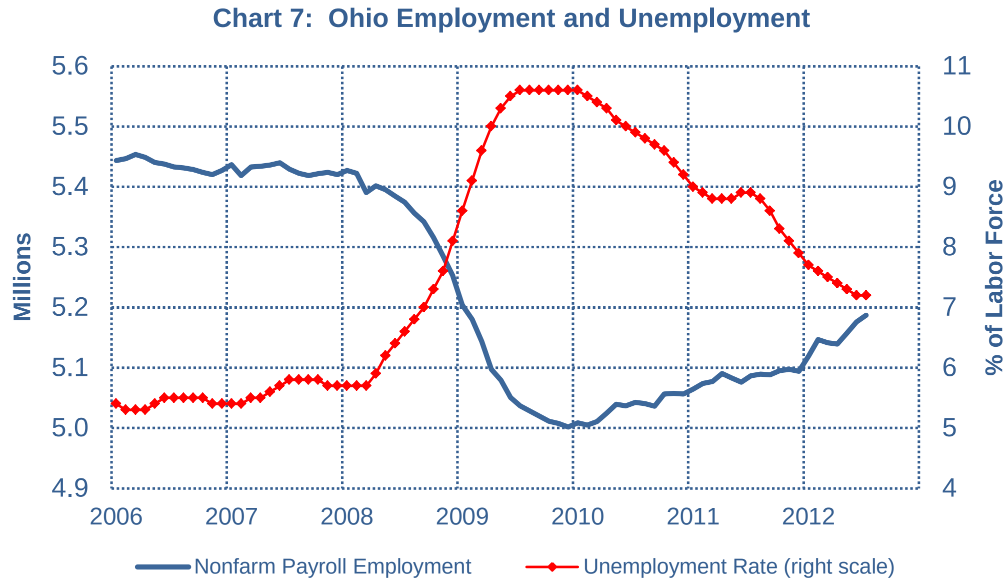
Growth of average pay and benefits remains low. An index of wages and salaries throughout private industry, based on rates of pay per hour, rose 1.8% in the year to June, up slightly from a 1.7% increase in the year to June 2011. The value of employer-provided benefits, also based on value per hour worked, was 1.9% higher in June than a year earlier, down from a 4.0% increase in the year to June 2011.[10] At state and local governments, average hourly pay rose 1.1% in the year to June. Employer-provided benefits per hour worked were 2.7% higher.

The Ohio Economy

Total nonfarm payroll employment in Ohio rose 11,000 (0.2%) in July, continuing the upturn underway since December 2009. The number of people counted as unemployed in the state in July totaled 418,000, and the statewide average unemployment rate was 7.2%, well below the 8.3% rate for the nation in July. Trends in Ohio total nonfarm payrolls and in the unemployment rate are shown in Chart 7.

Total nonfarm payroll employment in Ohio rose 11,000 (0.2%) in July, continuing the upturn underway since December 2009.

[10] These figures are from the Employment Cost Index, published quarterly by the U.S. Bureau of Labor Statistics and based on a survey.



The statewide average unemployment rate was 7.2% in July.

The number of employees on nonfarm payrolls in Ohio has increased 185,500 (3.7%) since the cyclical low point in December 2009. During this same period, total nonfarm payroll employment nationwide rose 3.0%. In Ohio, the rise returns total employment to its level at the beginning of 2009, still well short of levels prior to the 2007-2009 recession. The pace of employment growth in Ohio has picked up this year, compared with growth rates in both 2011 and 2010. In the latest 12 months, service-providing industries accounted for more than three-fourths of the increase in total employment, with sizable gains in educational and health services; trade, transportation, and utilities; and professional and business services. Goods-producing industries also added jobs, mostly at durable goods manufacturers but also in other sectors.

Unemployment in Ohio is down from a peak of 628,000 in 2009. Increased employment appears to account for only part of the decline in the number considered to be unemployed, that is, those persons who are without jobs and actively looking for work. The state's labor force – which includes both the employed and those actively seeking work – has declined since 2006 and in July was at its lowest level since 1999. In the 12 months to July, the working-age population in the state is estimated to have increased by 45,000 (0.5%), but the number of people in the labor force fell by 33,000 (0.6%) as the decline in the number unemployed was larger than the increase in employment.

The Ohio Association of Realtors reported that unit sales of homes continued to grow through July. In the first seven months of 2012, the number of units sold was 13% higher than in the year-earlier period. A federal tax credit for new homeowners in 2009 and 2010 boosted sales through mid-2010 at the expense of sales later in the year, and to the extent that sales were also shifted from early 2011 to take advantage of the temporary credit, comparisons of sales this year with a year earlier show larger gains than would otherwise be the case. Average transaction prices for Ohio homes sold this year were 4% higher than a year earlier.

A summary of economic developments in this region[11] published in late August indicates that the area's economy grew modestly in the preceding six weeks. Residential and nonresidential construction picked up, retail sales rose modestly, and demand for business credit increased. Factory output was slightly lower, overall, compared with production earlier this year, but mainly higher versus a year ago. The number of job openings at staffing firms declined. Wage pressures were generally contained, except that difficulties recruiting truck drivers resulted in some pressure on pay in that industry. A slowing of freight volume noted in the second quarter has flattened.

[11] These summary comments are based on the Federal Reserve Bank of Cleveland's section of the latest Beige Book, a Federal Reserve System publication containing information from business and other outside contacts gathered through August 20, 2012. The Cleveland bank reports on developments in Ohio as well as eastern Kentucky, western Pennsylvania, and northern West Virginia.