



February 10, 2011

MEMORANDUM TO: The Honorable John R. Kasich, Governor
The Honorable Mary Taylor, Lt. Governor

FROM: Timothy S. Keen, Director **TK**

SUBJECT: Monthly Financial Report

ECONOMIC SUMMARY

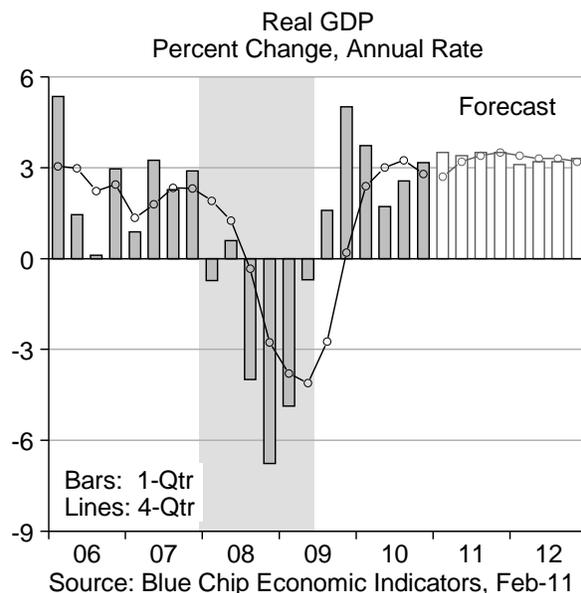
Economic Performance Overview

- Real GDP increased by 3.2% in the fourth quarter after a lull in the middle two quarters of the year. Continued acceleration in consumer spending accounted for nearly all of the growth. The consensus is that the economy will continue to expand at the recent pace throughout 2011.
- U.S. employment was weaker than widely expected again in January, although severe winter weather complicates interpretation of the data. The unemployment rate fell to 9.0%, reflecting modest growth in jobs and a large decline in the labor force.
- Ohio employment decreased by 9,100 in December to 4,500 jobs below the December 2009 level. The unemployment rate decreased for the ninth month in a row to 9.6 percent.
- Leading economic indicators remain consistent with continuing economic recovery both nationally and in Ohio, but point to a moderate rate of growth.

Economic Growth

Economic activity accelerated during the fourth quarter, thanks to a surge in consumer spending. Real GDP increased 3.2% at an annual rate, up from 1.7% in the second quarter and 2.6% in the third quarter. The level of real GDP just exceeded the level reached just before the recession, marking the transition from the recovery to the expansion phase of the business cycle.

Compared with a year earlier, real GDP increased 2.8% – the fastest increase during a 4-quarter span since the 3.0% rise in the third quarter of 2006. Growth during 2010



essentially matched the December 2009 and March 2010 projections by the Governor's Council of Economic Advisors of 2.7%, but remained below the long-run trend rate of approximately 3¼ percent.

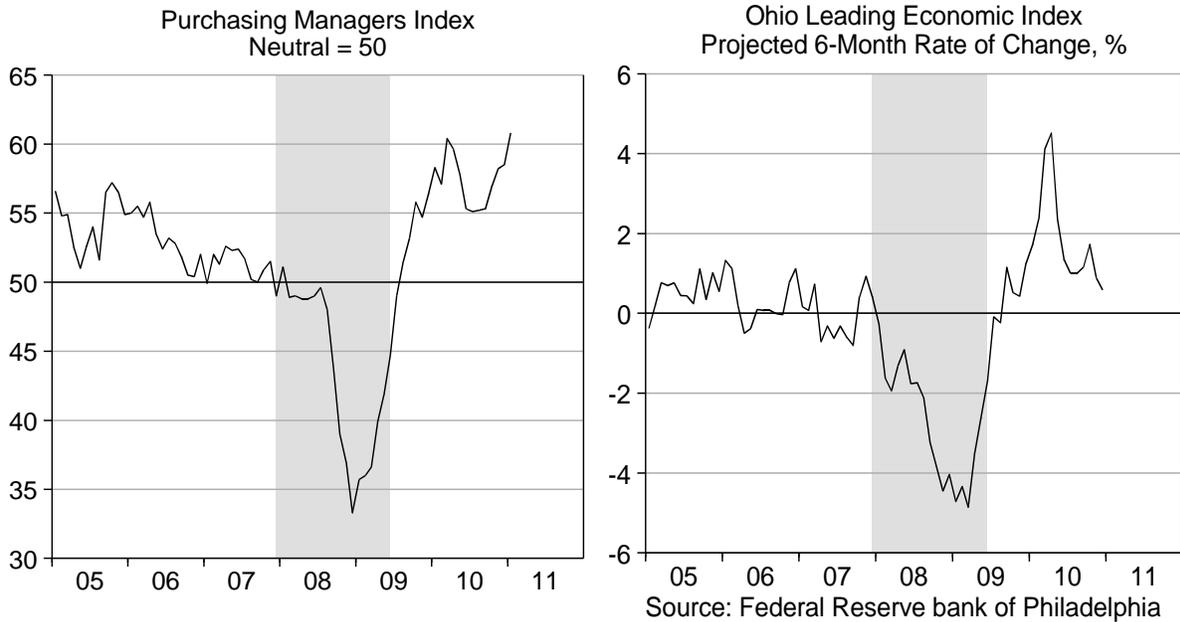
Personal consumption expenditures increased 4.4%, contributing just over 3 percentage points of the 3.2% increase in real GDP. Each major category of consumer spending increased, reflecting strong growth in income and an improvement in confidence corresponding to the pending temporary reduction in payroll taxes and the strong rise in stock prices. Personal income increased 4.1% at an annual rate, which exceeded growth in wage and salary disbursements of 3.6% annualized. The saving rate decreased for the second quarter in a row to 5.4 percent.

Outside of exports, which contributed 1 percentage point to real GDP growth, no other major category made a significant contribution to growth. Exports increased 8.5%, but growth in investment in plant and equipment slowed to 4.4% from 10.0% in the third quarter and 17.2% in the second quarter. Investment in residential structures increased 3.4%, following a decrease of 27.3% in the third quarter that took the level to its lowest mark since the early 1980s.

After a record accumulation of inventories during the summer, businesses added to inventories only modestly in the fourth quarter. The slowdown in inventory accumulation subtracted 3.7 percentage points from real GDP growth during the quarter. In part the slowdown might have been related to the suspension by China of export subsidies for a wide range of goods that took place in July, prompting businesses in China to accelerate shipments to the U.S. from the fourth quarter to the third quarter. The pattern in inventories closely matched the pattern in U.S. imports of goods, which increased 40.5% in the second quarter and 17.4% in the third quarter before falling 15.5% in the fourth quarter.

Economic growth in the fourth quarter appears to have carried over into the first quarter. **Purchasing managers** reported the most widespread improvement in conditions during January since the heart of the 2001-07 expansion. The **Leading Economic Index** increased for the sixth consecutive month in January, having gained 1.1% in December and 1.0% in January. The **Weekly Leading Index** accelerated to 3.2% in the final week of January.

Forecasters have revised projections for real GDP in 2011 moderately higher since late summer. The February Blue Chip Economic Indicators consensus is for real GDP growth of 3.5% in the first quarter and 3.5% from the fourth quarter of 2010 to the fourth quarter of 2011. The December Blue Chip forecast for real GDP growth from the fourth quarter of 2010 to the fourth quarter of 2011 was 2.9 percent. Forecasters expect inflation to remain low and unemployment to remain high (but decline moderately) during the year.



The **Ohio Coincident Economic Index**, compiled by the Federal Reserve Bank of Philadelphia, increased 0.1% in December for the sixteenth straight monthly gain. Even so, the 6-month smoothed rate of change slipped for the sixth month in a row to 3.2% from the peak for this cycle of 5.3% reached in June. A **leading index for Ohio**, also compiled by the Federal Reserve Bank of Philadelphia, increased for sixteen consecutive months ending in December, but indicated that activity was losing momentum in November and December.

Employment

Labor markets remained on the same lackluster trajectory in January as during much of 2010. Severe winter storms complicate interpretation of the data, but the absence of broad-based strength was evident. **Total nonfarm payroll employment** increased by just 36,000 jobs. Growth in the two previous months was revised up by a total of 75,000 jobs. The unemployment rate decreased by 0.4 percentage points to 9.0 percent.

The only sector exhibiting much strength was manufacturing, where employment increased by 49,000 jobs. Employment decreased in construction (-32,000), transportation (-38,000) and temporary help services (-11,000), probably reflecting the severe weather in much of the country. The gain in manufacturing employment was widespread, with 69.1% of industries reporting higher employment. This is in line with word from purchasing managers in manufacturing, who reported the most widespread employment gains since January 1973.

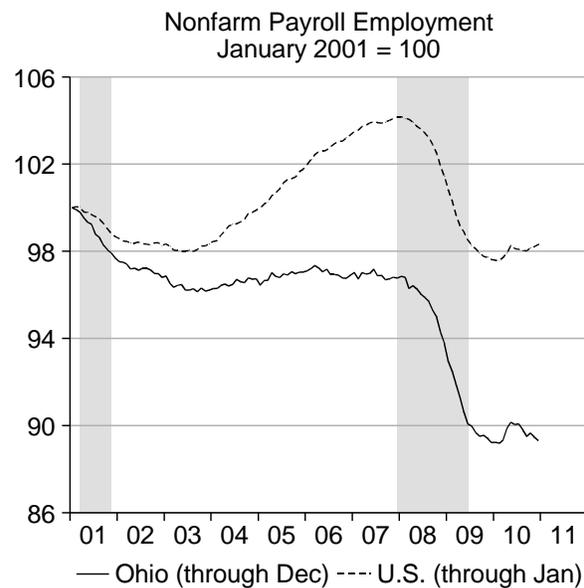
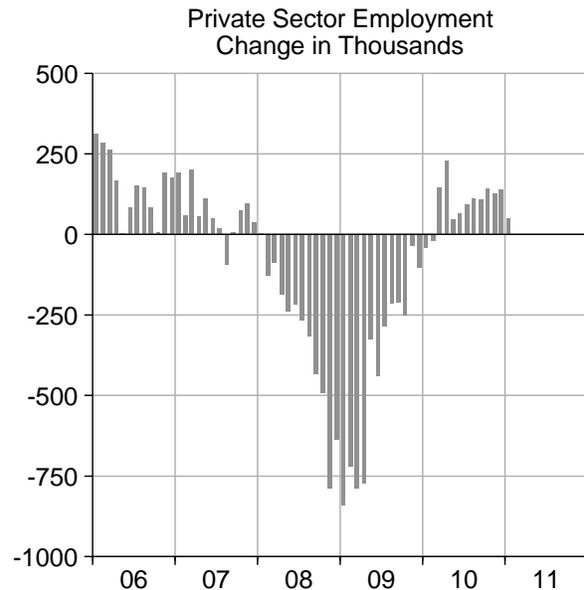
An estimated 900,000 people were unable to work during January due to the weather – about twice the average for the month of January. The return of workers sidelined by weather will add significantly to the change in employment in February.

The recent pattern of **initial jobless claims** is consistent with ongoing improvement in labor market conditions. Initial claims fluctuated just above 450,000 per week during most of 2010, falling convincingly below that level late in the year. It is likely that the pace of layoffs has started to trend lower, but also evident that the pace of hiring has yet to pick up. The result is that the **unemployment rate** remains high, despite decreasing from 9.5% last summer to 9.0% in January. Much of the decline resulted from people suspending their job searches and leaving the labor force.

The severity of unemployment also remained high. The average duration of unemployment increased to a record length of 36.9 weeks. The broadest measure of unemployment, which includes people who have given up seeking a job because they do not expect to find one and people working part-time because they cannot find a full-time job, improved again in January but was still 16.1%. In addition, the percentage of unemployed people who are not on temporary layoff was 52.0% in January, still close to the all-time high of 54.0 percent. Prior to the 2007-09 recession, the percentage had never been higher than 45 percent.

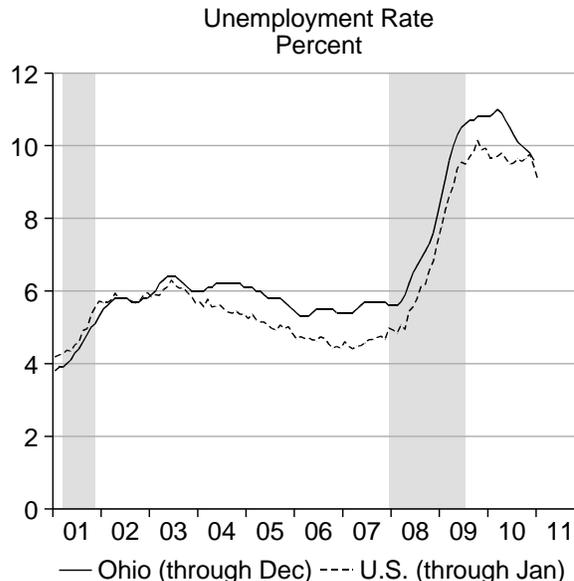
Ohio employment decreased by 9,100 in December following a 10,100 job decline in November. For the year Ohio employment increased by 4,500 jobs, rising during the winter and spring and falling through year end. Ohio employment remains 450,400 jobs below the pre-recession peak reached in March 2006.

Changes in employment during 2010 were mixed across sectors. Declines in employment were concentrated in financial activities (-10,000), construction (-7,800), trade, transportation and utilities (-7,700), government (-7,600) and information (-3,600). The largest increases occurred in manufacturing (+12,000) and professional business services (+15,000), education and health services (+9,700) and leisure and hospitality (+5,800).



The **Ohio unemployment rate** fell again in December to 9.6% from the high for the cycle of 11.0% in March – the ninth consecutive monthly decline and the third consecutive reading below 10.0 percent. The unemployment rate had reached a cyclical low of 5.3% in April 2006.

The pattern of employment in nearby states this year has been similar to that in Ohio – some strength in the spring followed by weakness over the summer. During the twelve months ending in December, employment increased in each of the **contiguous states** to Ohio except for Michigan. On a year-over-year basis, employment increased 1.2% in Pennsylvania, 1.1% in West Virginia, 0.9% in Indiana, 0.7% in Kentucky and 0.1% in Ohio. Employment declined by 0.3% in Michigan, compared with the year earlier level.



For the Ohio and contiguous state region, employment increased 0.5% during the most recent twelve months, compared with a 0.7% increase for all states outside the region combined. The year-over-year change in employment in Ohio and the contiguous states had exceeded growth outside the region during the six months from April through September. The last time employment in the region grew faster than in the rest of the nation for as long as six months was February 1993.

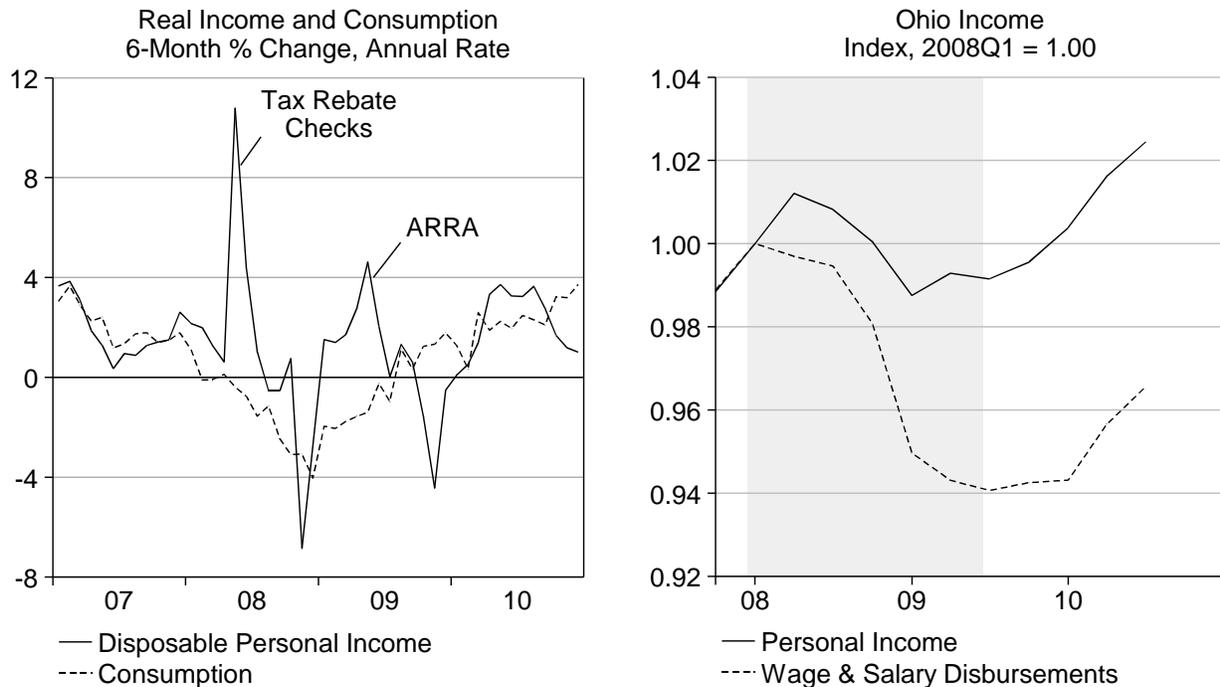
Consumer Income and Consumption

Consumer income advanced solidly in the fourth quarter, fueling additional gains in consumption. **Personal income** increased 0.4% in December to 3.8% above the year earlier level after similar-size gains in the two previous months. Wage and salary disbursements, which comprise more than one half of total personal income, increased 0.3% – the sixth straight monthly gain. Real disposable personal income increased just 0.1% in December to 2.1% above a year ago. Real wage and salary disbursements were unchanged for the second month in a row in December and were 2.3% above a year ago.

The gap between year-over-year growth in wage and salary disbursements and personal income reflects strong growth in **federal transfer payments**. Personal transfers increased 0.2% in December to 5.8% above a year earlier. Transfers have accounted for a record 18.3% of total personal income for the past year, providing temporary support to consumer spending.

Ohio personal income accelerated in the second and third quarters of 2010. After falling far more sharply than personal income and beginning to recover much more slowly, Ohio wage and salary disbursements have also accelerated. Personal income increased 3.3% at an annual rate in

the third quarter for the fourth quarterly increase in a row. Personal income in Ohio has increased 3.3% from the third quarter of 2009, in line with the 3.5% increase across the country. **Wage and salary disbursements** advanced 3.8% at an annual rate in the third quarter, also for the fourth quarterly increase in a row. The year-over-year change was 2.7%, in line with the 2.8% increase across the country.



Consumer spending accelerated in the fourth quarter, fueled by faster growth in income and possibly supported by the surge in stock prices, the repeal of pending federal tax increases and the temporary reduction in payroll tax rates. **Personal consumption expenditures** increased by 0.7%, or 0.4% after inflation in December. Compared with a year earlier, consumption was up 4.1% in December, or 2.8% in real terms.

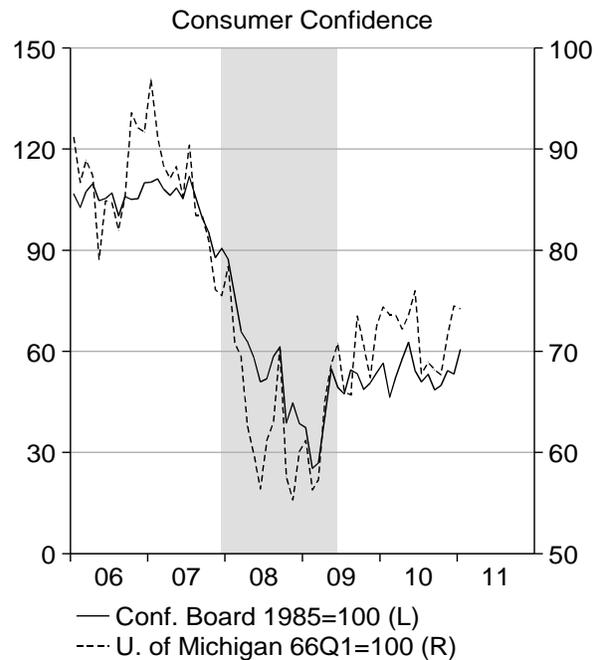
Retail sales increased 0.6% in December after large gains in each of the five previous months. Excluding purchases of cars and gas, retail sales increased 0.4% – the fifth strong monthly gain in a row. Sales of light motor vehicles increased marginally in January to 17.1% above the year earlier level. The 12.6 million unit annual pace of sales was the best – other than during the cash-for-clunkers program – since August 2008.

The holiday shopping season was the strongest since 2004, with holiday retail sales rising 5.7% from a year ago. **Chain store sales** increased 2.0% from December to January and 4.8% from the year earlier, according to the International Council of Shopping Centers. Comparable chain-store sales finally surpassed the pre-recession level. Apparel chains and wholesale clubs reported strong sales. Department and discount stores reported weaker sales. Severe weather likely suppressed sales for a second consecutive month.

Recent increases in consumer spending reflected improvements in **consumer confidence** that carried over into January. The Conference Board index of Consumer Confidence increased sharply in January to its second highest level since just before the financial crisis struck in 2008. Despite the increase, the level of confidence remains below the average level observed in recessions in the past due to depressed assessments of current conditions.

Manufacturing

Manufacturing activity picked up steam, according to a variety of measures, as 2010 drew to a close. **Industrial production** increased 0.8% in December on top of a 0.3% increase in November. Utility output surged 4.3%. For the year, production increased 5.9%. Manufacturing production was up 0.4%, and capacity utilization increased to 76.0% – the highest since before the financial crisis hit in the summer of 2008. Production in key Ohio industries, except for primary metals was weak.



Reports from **purchasing managers** in manufacturing were positive again in January, reflecting the most widespread improvement across the sector since May 2004. Reports of improvement in new orders were the most widespread since January 2004. All other sub-components reflected widespread improvements in conditions.

Midwest manufacturing output increased 0.3% in December, according to the Chicago Federal Reserve Bank. Production decreased 0.2% in the auto sector, but increased in the steel (+1.2%), machinery (+0.5%) and resource (+0.3%) sectors. Compared with a year earlier, Midwest manufacturing production was up by 8.3%, compared with a peak so far for this cycle of 14.0% in May. The level of Midwest production in December was 16.3% above the low in June 2009 but still 19.0% below the peak in January 2008.

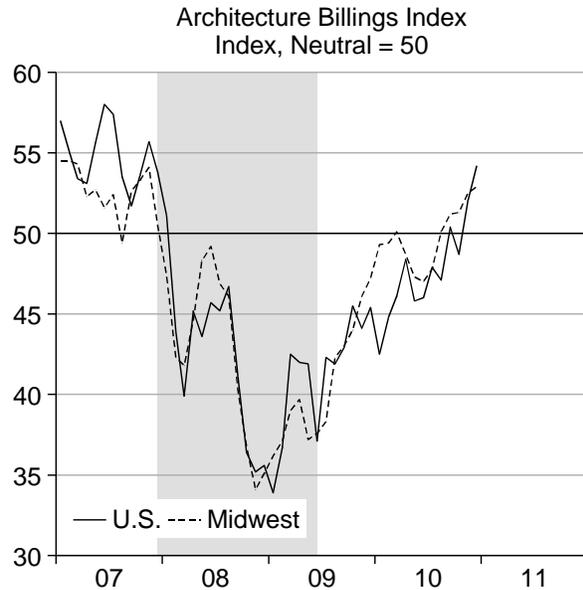
Construction

Total **construction put-in-place** decreased 2.5% in December due to the severe weather.



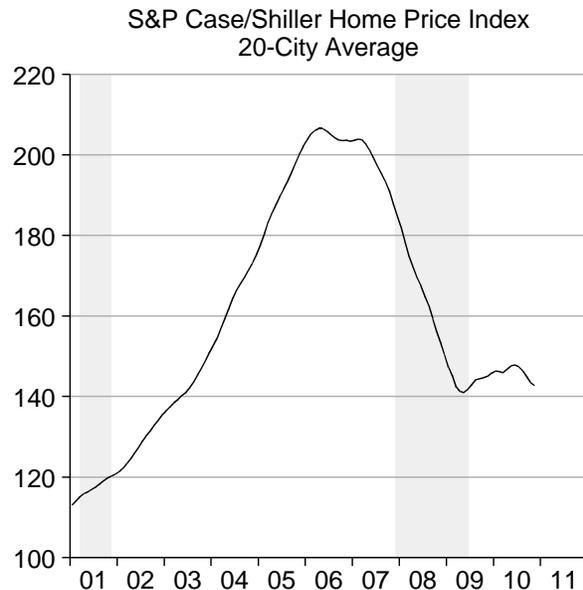
According to the National Climatic Data Center, December was among the coldest on record in the South, among the wettest ever in the West and among the snowiest in the Midwest and East. Despite the considerable adjustments made to property prices and building activity in recent years, there remains no convincing evidence that construction has reached a trough.

The **Architecture Billings Index** from the American Institute of Architects increased to 54.2 in December (50 is neutral) – the highest mark since November 2007. The **Inquiries for New Work Index** rebounded to the highest level since July 2007. The **Billings Index for the Midwest** increased marginally, but also reached its highest mark since November 2007. The Billings Index is considered a leading indicator of nonresidential construction activity.



Housing starts decreased across all regions in December, presumably because of the severe weather. Housing permits in Ohio fell to the lowest level on record dating back to 1990 on a 3-month moving average basis. **Sales of new homes** increased 17.5% in December, but without the surge in sales in the West that was probably related to the expiration of a tax break for first-time homebuyers in California, sales edged up only 1.4 percent. **Sales of existing homes** increased by double-digits across the country and in each region. Both prices and inventory of unsold homes continued to decline. Substantial further adjustment is necessary before the housing sector will return to normal.

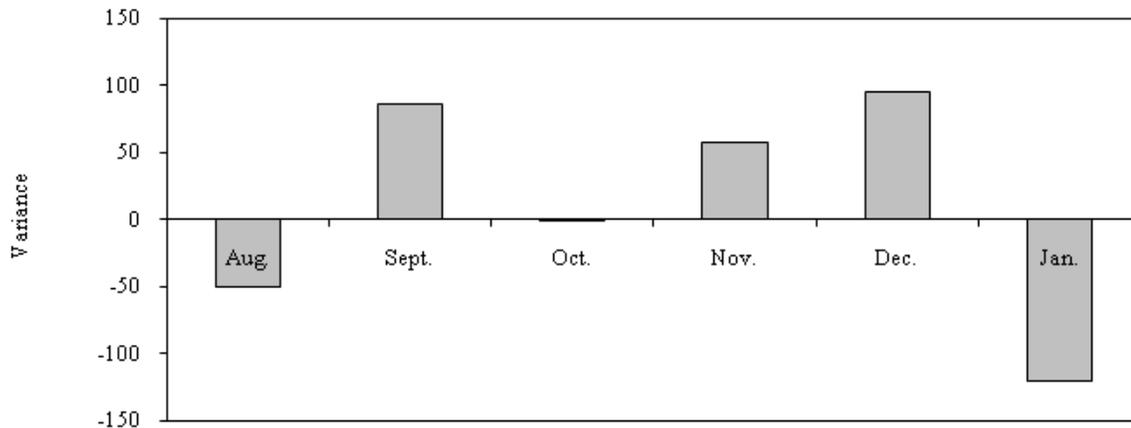
Home prices have turned lower in recent months after a modest bounce off of the cyclical trough reached in early 2009. Prices decreased for the fifth straight month in November, according to the S&P/Case-Shiller house price index for twenty large metro areas. The price indexes for eleven of the twenty metro areas established new lows in October. A return to large, sustained declines in home prices would put renewed pressures on capital positions of financial institutions and already strained balance sheets of households.



REVENUES

During the month of January, **GRF receipts totaled \$2,461.2 million** which was \$120.7 million (4.7%) below the estimate. This overall negative performance relative to estimate was the result of a timing of the receipt of federal grants that were \$239.7 million under estimate and masked another month of higher than expected tax receipts and transfers. For the month, tax receipts totaled \$1,775.4 million and were \$149.1 million (9.2%) above the estimate, while non-tax receipts totaled \$635.2 million and were \$270.1 million (29.8%) below the estimate. Transfers totaled \$50.6 million and were \$0.3 million (0.5%) above the estimate.

**GRF - Variance of All Revenue Sources by Month
(\$ in millions)**

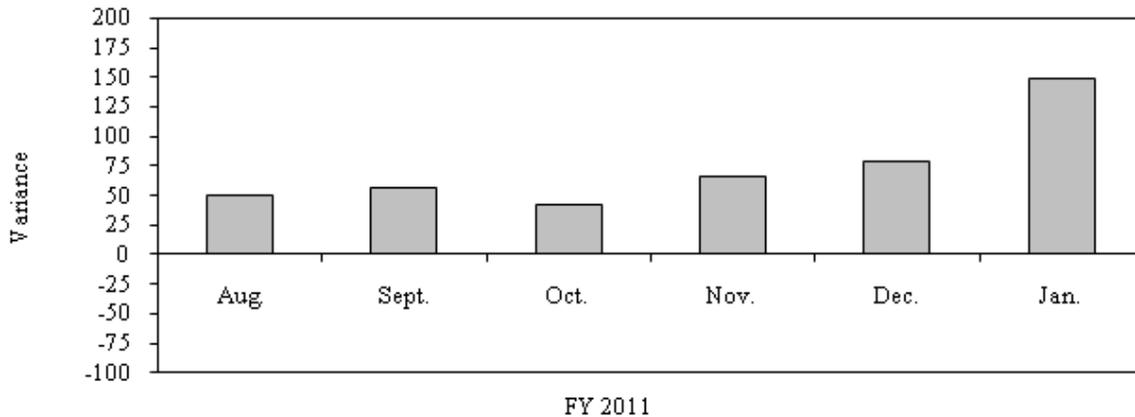


FY 2011

Category	Includes:	YTD Variance	% Variance
Tax receipts	Sales & use, personal income, corporate franchise, public utility, kilowatt hour, foreign & domestic insurance, other business & property taxes, cigarette, soft drink, alcoholic beverage, liquor gallonage, estate & horse racing	\$443.0 million	4.7%
Non-tax receipts	Federal grants, earnings on investments, licenses & fees, other income, intrastate transfers	(\$461.6 million)	(8.2%)
Transfers	Budget stabilization, liquor transfers, capital reserve, other	\$63.6 million	14.9%
TOTAL REVENUE VARIANCE:		\$44.9 million	0.3%

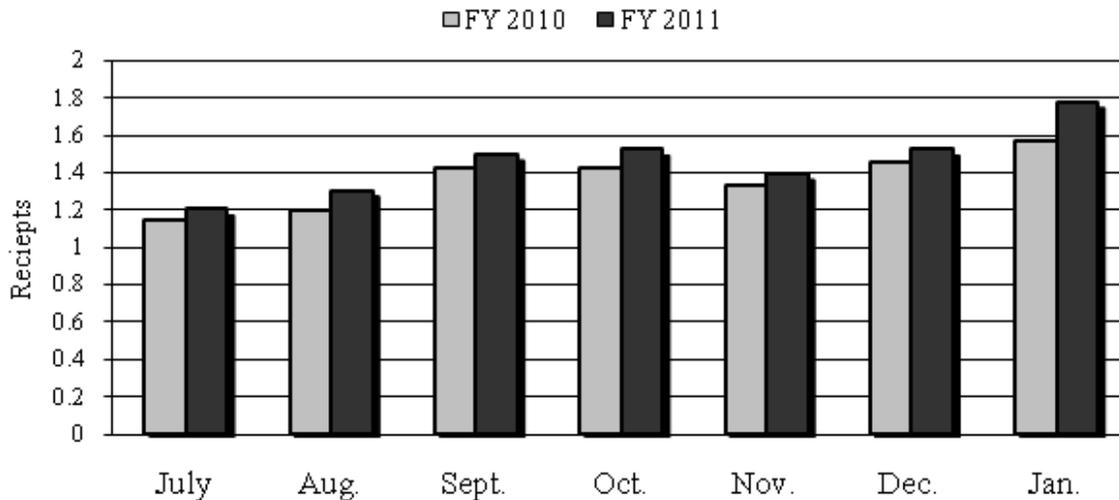
A sixth consecutive month of better-than-expected receipts across most tax sources resulted in a January performance that exceeded estimates by \$149.1 million (9.2%). Combined with the positive August through December variances, tax receipts through the first seven months of the fiscal year are now \$443.0 million (4.7%) above the estimate. On a year-over-year basis, total tax receipts for January were \$207.4 million (13.2%) greater than they were in January 2010. For the year-to-date, tax collections in fiscal year 2011 are \$718.5 million (7.8%) higher than for the same period a year ago. The largest contributors to this year-over-year growth are the non-auto sales tax and personal income tax receipts. Personal income tax receipt growth was driven by strong performance in both the withholding and the estimated payment components, which are \$274.1 million (6.8%) and \$98.8 million (16.0%) above those at the same point in fiscal year 2010.

GRF - Variance of Tax Sources by Month
(\$ in millions)



<u>Individual Sources Above Estimate</u>		<u>Individual Sources Below Estimate</u>	
Non-Auto Sales Tax	\$18.9	Kilowatt Hour Tax	(\$1.1)
Auto Sales Tax	\$7.6	Federal Grants	(\$239.7)
Personal Income Tax	\$109.3	Earnings on Investments	(\$19.5)
Corporate Franchise Tax	\$12.0	License and Fees	(\$3.9)
Cigarette Tax	\$2.4	Other Income	(\$4.5)
Other Sources Above Estimate	\$1.2	ISTV's	(\$2.5)
		Other Sources Below Estimate	(\$0.9)
Total above	\$151.4	Total below	(\$272.1)

**FY 2010 - FY 2011 Tax Revenue Year Over
(\$ in billions)**



Non-Auto Sales and Use Tax

January was another strong month for the non-auto sales tax, as receipts totaled \$638.1 million, exceeding the estimate by \$18.9 million (3.0%). Year-to-date receipts now total \$3,991.2 million and are \$118.1 million (3.0%) above the estimate. On a year-over-year basis, this tax was \$21.8 million (3.5%) above collections for the same month a year ago, with baseline growth in the tax increasing by approximately 4.6 percent. Year-to-date collections exceed those of fiscal year 2010 by \$249.0 million (6.7%) with baseline growth of 5.4 percent.

Auto Sales Tax

January was also another positive month for the auto sales tax as receipts totaled \$73.3 million, which was \$7.6 million (11.5%) above the estimate. For the year-to-date, auto sales tax receipts now total \$550.0 million and are \$43.2 million (8.5%) above estimate. On a year-over-year basis, this tax source experienced an increase of \$11.9 million (19.5%) over the receipts for the same month a year ago, while year to date collections exceed those of fiscal year 2010 by \$51.4 million, driven in good part by year-over-year growth of 16.7% for the months of December and January combined. This growth is a result of continued higher-than-expected unit sales.

Personal Income Tax

Personal income tax receipts totaled \$911.4 million in January 2011, exceeding the estimate by \$109.3 million (13.6%). Quarterly estimated payments accounted for more than half of this overage, with a positive variance of \$57.8 million (21.3%). Withholding was the second highest contributor this month with a positive variance of \$45.4 million (6.9%).

Compared to January 2010, the current month's withholding is higher by \$84.4 million (13.6%). Two factors contributed significantly to the strong withholding growth. First, January 2011 had one extra pay-in day compared to January 2010, which added to the higher collections this month. Second, last year's withholding included a transfer to the corporate franchise tax reflecting withholding against corporate shareholder's of pass-through-entities. Since the corporate franchise tax was phased-out after 2009, no transfer occurred this year. The combination of these two items added an estimated \$37.7 million to the growth for January 2011. However, even after excluding the two factors, withholding still grew by a healthy 7.9% for the month.

On a year-over-year basis, personal income tax collections through the first seven months of fiscal year 2011 were \$362.1 million (8.7%) over the corresponding period in FY 2010. Employer withholding accounted for more than two-thirds of this growth with \$274.1 million (6.8%) increase during this period. Quarterly estimated payments added the second highest amount of \$98.8 million (16.0%) to this growth.

FY2011 PERSONAL INCOME TAX RECEIPTS BY COMPONENT (\$ in millions)						
	ESTIMATE	ACTUAL	\$ VAR	ESTIMATE	ACTUAL	\$ VAR
	JAN	JAN	JAN	Y-T-D	Y-T-D	Y-T-D
Withholding	\$657.9	\$703.3	\$45.4	\$4,137.4	\$4,291.6	\$154.2
Quarterly Est.	\$270.6	\$328.4	\$57.8	\$634.4	\$715.1	\$80.7
Trust Payments	\$4.5	\$7.4	\$2.9	\$16.2	\$16.2	\$0.0
Annual Returns & 40 P	\$12.3	\$15.0	\$2.7	\$137.2	\$126.7	(\$10.5)
Other	\$3.8	\$7.8	\$4.0	\$46.8	\$58.1	\$11.3
Less: Refunds	(\$88.6)	(\$91.0)	(\$2.4)	(\$281.4)	(\$274.6)	\$6.8
Local Distr.	(\$58.4)	(\$59.5)	(\$1.1)	(\$373.8)	(\$386.1)	(\$12.3)
Net to GRF	\$802.1	\$911.4	\$109.3	\$4,316.8	\$4,546.9	\$230.1

Corporate Franchise Tax

Corporate franchise tax receipts for the month of January exceeded the estimate by \$12.0 million (24.6%) in January, with receipts of \$61.0 million. For the year-to-date, total receipts are now \$57.0 million and are \$45.6 million (400.0%) above the estimate.

Commercial Activity Tax

In fiscal year 2011, receipts from the commercial activity tax (CAT) will continue to be distributed to non-GRF funds to reimburse school districts and local governments for the phase-out of the tangible personal property tax. During the month of January, CAT receipts totaled \$37.1 million, an amount that was \$2.1 million (5.6%) below the monthly estimate of \$39.3 million. While January's payments were slightly less than estimated, this may be due to the fact that certain February payments, which were expected to be received in late January, may not be deposited until closer to the February 15th due date. In light of this, we will have to review January and February's total collections in order to properly gauge the performance of the tax.

Kilowatt Hour Tax

Kilowatt hour tax receipts during the month of January totaled \$12.5 million and were \$1.1 million (8.3%) below the estimate of \$13.6 million for the month. As with December, the cause of this variance (\$3.5 million) were credits granted to certain tax payers that had overpaid this tax in previous years and thus were permitted to pay a reduced amount in January. Had it not been for these credits (which will not occur after January), along with a larger-than-estimated Public Library Fund allocation, due to higher than estimated December GRF tax receipts, the tax would have been over estimate by about \$0.4 million.

Cigarette Tax

Cigarette tax receipts experienced another positive month in January as receipts totaled \$70.4 million, which was \$2.4 million (3.5%) above the monthly estimate. As a result of this monthly positive variance, this tax is now \$31.7 million (7.4%) above estimate through the first seven months of the fiscal year. On a year-over-year basis, cigarette tax receipts were \$2.0 million (2.8%) lower than the same month a year ago, while year-to-date collections have decreased by \$18.7 million (3.9%).

GRF non-tax receipts totaled \$635.2 million in January, with the performance coming in \$270.1 million (4.8%) below estimate. Most of that variance was due to federal grants being lower than estimated as a result of a delay in spending state fiscal stabilization funds appropriations in the Department of Corrections as well as lower-than-expected Medicaid spending from the General Revenue Fund. Both of those factors resulted in lower-than-expected federal grants to support anticipated expenditures. Earnings on investments also contributed to the negative variance in non-tax receipts, and they will continue to be well below estimate as a result of historically low interest rates continuing in place for much longer than was originally estimated. **GRF transfers** during the month of January totaled \$50.6 million and were only marginally higher than the estimate of \$50.3 million.

Table 1
GENERAL REVENUE FUND RECEIPTS
ACTUAL FY 2011 VS ESTIMATE FY 2011
(\$ in thousands)

REVENUE SOURCE	Month				Year-to-Date			
	ACTUAL	ESTIMATE	\$ VAR	% VAR	ACTUAL	ESTIMATE	\$ VAR	% VAR
	JANUARY	JANUARY			Y-T-D	Y-T-D		
TAX RECEIPTS								
Non-Auto Sales & Use	638,064	619,200	18,864	3.0%	3,991,189	3,873,100	118,089	3.0%
Auto Sales & Use	73,280	65,700	7,580	11.5%	550,044	506,800	43,244	8.5%
Subtotal Sales & Use	711,344	684,900	26,444	3.9%	4,541,233	4,379,900	161,333	3.7%
Personal Income	911,381	802,100	109,282	13.6%	4,546,910	4,316,800	230,110	5.3%
Corporate Franchise	61,048	49,000	12,048	24.6%	57,005	11,400	45,605	400.0%
Commercial Activity Tax	0	0	0	N/A	0	0	0	N/A
Public Utility	0	600	(600)	N/A	56,416	75,100	(18,684)	-24.9%
Kilowatt Hour	12,473	13,600	(1,127)	-8.3%	93,751	97,700	(3,950)	-4.0%
Foreign Insurance	70	(0)	70	N/A	132,300	132,750	(450)	-0.3%
Domestic Insurance	0	0	0	N/A	(1,023)	134	(1,157)	-863.2%
Other Business & Property Tax	0	0	0	N/A	(1,006)	126	(1,132)	-898.5%
Cigarette	70,377	68,000	2,377	3.5%	458,477	426,800	31,677	7.4%
Alcoholic Beverage	4,568	4,300	268	6.2%	33,041	33,400	(359)	-1.1%
Liquor Gallonage	4,009	3,800	209	5.5%	22,661	21,700	961	4.4%
Estate	166	0	166	N/A	27,436	28,400	(964)	-3.4%
Horse Racing	0	0	0	N/A	0	0	0	N/A
Total Tax Receipts	1,775,435	1,626,299	149,136	9.2%	9,967,201	9,524,210	442,991	4.7%
NON-TAX RECEIPTS								
Federal Grants	624,867	864,598	(239,731)	-27.7%	4,994,147	5,387,434	(393,287)	-7.3%
Earnings on Investments	1,523	21,000	(19,477)	N/A	4,664	41,500	(36,836)	-88.8%
License & Fees	8,369	12,230	(3,861)	-31.6%	24,302	34,991	(10,689)	-30.5%
Other Income	402	4,920	(4,518)	-91.8%	140,203	163,099	(22,896)	-14.0%
ISTVS	5	2,500	(2,495)	-99.8%	11,139	9,051	2,088	23.1%
Total Non-Tax Receipts	635,165	905,248	(270,083)	-29.8%	5,174,455	5,636,076	(461,621)	-8.2%
TOTAL REVENUES	2,410,600	2,531,548	(120,948)	-4.8%	15,141,656	15,160,285	(18,629)	-0.1%
TRANSFERS								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Liquor Transfers	8,000	11,300	(3,300)	-29.2%	85,000	83,300	1,700	2.0%
Transfers In - Capital Reserve	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	3,563	0	3,563	N/A	22,963	6,106	16,857	276.1%
Temporary Transfers In	39,000	39,000	0	0.0%	383,000	338,000	45,000	13.3%
Total Transfers	50,563	50,300	263	0.5%	490,963	427,406	63,557	14.9%
TOTAL SOURCES	2,461,163	2,581,848	(120,685)	-4.7%	15,632,619	15,587,691	44,928	0.3%

Table 2
GENERAL REVENUE FUND RECEIPTS
ACTUAL - FY 2011 VERSUS FY 2010
(\$ in thousands)

REVENUE SOURCE	Month				Year-to-Date			
	JANUARY	JANUARY	\$	%	ACTUAL	ACTUAL	\$	%
	FY 2011	FY 2010	VAR	VAR	FY 2011	FY 2010	VAR	VAR
TAX RECEIPTS								
Non-Auto Sales & Use	638,064	616,266	21,798	3.5%	3,991,189	3,742,165	249,024	6.7%
Auto Sales & Use	73,280	61,340	11,940	19.5%	550,044	498,678	51,366	10.3%
Subtotal Sales & Use	711,344	677,606	33,738	5.0%	4,541,233	4,240,843	300,390	7.1%
Personal Income	911,381	754,379	157,003	20.8%	4,546,910	4,184,777	362,133	8.7%
Corporate Franchise	61,048	42,481	18,567	43.7%	57,005	(16,545)	73,551	444.5%
Commercial Activity Tax	0	0	0	N/A	0	0	0	N/A
Public Utility	0	257	(257)	-100.0%	56,416	57,163	(747)	-1.3%
Kilowatt Hour	12,473	12,864	(391)	-3.0%	93,751	90,392	3,359	3.7%
Foreign Insurance	70	50	19	38.6%	132,300	132,847	(546)	-0.4%
Domestic Insurance	0	6	(6)	-100.0%	(1,023)	1,242	(2,265)	-182.3%
Other Business & Property Tax	0	46	(46)	-100.0%	(1,006)	226	(1,233)	-544.3%
Cigarette	70,377	72,385	(2,008)	-2.8%	458,477	477,140	(18,663)	-3.9%
Alcoholic Beverage	4,568	4,051	518	12.8%	33,041	32,647	394	1.2%
Liquor Gallonage	4,009	3,920	88	2.3%	22,661	22,092	569	2.6%
Estate	166	0	166	N/A	27,436	25,909	1,527	5.9%
Horse Racing	0	0	0	N/A	0	0	0	N/A
Total Tax Receipts	1,775,435	1,568,043	207,392	13.2%	9,967,201	9,248,731	718,470	7.8%
NON-TAX RECEIPTS								
Federal Grants	624,867	599,259	25,607	4.3%	4,994,147	4,487,891	506,256	11.3%
Earnings on Investments	1,523	9,820	(8,297)	N/A	4,664	21,355	(16,691)	-78.2%
License & Fee	8,369	18,100	(9,731)	-53.8%	24,302	38,603	(14,301)	-37.0%
Other Income	402	843	(441)	-52.3%	140,203	152,371	(12,168)	-8.0%
ISTVS	5	3,552	(3,548)	N/A	11,139	6,985	4,154	59.5%
Total Non-Tax Receipts	635,165	631,574	3,591	0.6%	5,174,455	4,707,204	467,251	9.9%
TOTAL REVENUES	2,410,600	2,199,617	210,983	9.6%	15,141,656	13,955,936	1,185,720	8.5%
TRANSFERS								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Liquor Transfers	8,000	9,000	(1,000)	-11.1%	85,000	94,000	(9,000)	-9.6%
Transfers In - Capital Reserve	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	3,563	6	3,557	N/A	22,963	20,951	2,012	9.6%
Temporary Transfers In	39,000	38,187	813	2.1%	383,000	359,941	23,059	6.4%
Total Transfers	50,563	47,193	3,370	7.1%	490,963	474,893	16,070	3.4%
TOTAL SOURCES	2,461,163	2,246,810	214,353	9.5%	15,632,619	14,430,829	1,201,790	8.3%

DISBURSEMENTS

January 2011 GRF disbursements, across all fund uses, total \$2,467.4 million. This was \$254.9 million (9.4%) below the estimate for the month. On a year-to-date basis, total GRF disbursements are \$17,112.5 million and are \$20.9 million (0.1%) below the estimate. Year-to-date disbursements by category are provided in the following table (\$ in millions).

Category	Description	YTD Disbursements	YTD Variance
Expenditures and transfers between agencies (ISTVs)	State agency operations, subsidies, tax relief, debt service payments, and pending payroll (if applicable)	\$16,117.4	(\$112.4)
Transfers	Temporary or permanent transfers out of the GRF that are not agency expenditures	\$995.1	\$91.5
TOTAL GRF DISBURSEMENTS:		\$17,112.5	(\$20.9)

GRF disbursements are reported according to functional categories. This section contains information describing spending and variances within each of these categories.

Primary, Secondary and Other Education

This category includes expenditures made by the Department of Education, E-tech, the Ohio State School for the Blind, and the School for the Deaf. January disbursements in this category \$826.5 million, and are \$1.3 million (0.2%) over the estimate for the month.

Disbursements for the Department of Education alone totaled \$822.7 million. This amount is \$3.7 million (0.5 %) above the monthly estimate. Year-to-date disbursements totaled \$4,239.5 million, representing a variance of \$28.8 million (0.7%) above the estimate for the year. The year-to-date variance will be equalized over the next few months as the payment system gradually accounts for the amounts that are owed by districts.

Higher Education

January disbursements for Higher Education were \$185.2 million, representing a variance of \$10.0 million (5.1%) below the estimate for the month. Year-to-date disbursements were \$1,440.9 million, representing a variance of \$1.5 million (0.1%) above the estimate.

Public Assistance and Medicaid

January expenditures in this category, which include all GRF expenditures by the Department of Job and Family Services (ODJFS), were \$1,029.9 million and were \$243.3 million (19.1%) below the estimate for the month. Year-to-date expenditures total \$7,023.4 million, which is \$110.0 million (1.5%) below the estimate.

The following discussion of spending and variances to date addresses Public Assistance and Non-Medicaid programs separate from Medicaid.

Medicaid

This sub-category includes expenditures by the Department of Job and Family Services for Medicaid services contained primarily in the 600525 line item. Please note that administrative costs related to the ODJFS program are included in the previous sub-category.

Expenditures

GRF disbursements year-to-date for the Medicaid program are \$6,519.1 million, which is \$73.5 million (1.1%) below estimate, and \$663.8 million (11.3%) above the same point in time in the previous fiscal year. Disbursements for the month of January were \$936.0 million, which was \$215.2 million (18.7%) below estimate and \$257.0 million (37.8%) above the same period in the previous fiscal year.

All funds disbursements year-to-date are \$8,096.4 million, which is \$197.0 million (2.4%) below estimate, and \$617.3 million (7.6%) above disbursements for the same point in the previous fiscal year. Disbursements for January were \$1,244.0 million, which was \$42.3 million (3.3%) below projected expenditures and \$269.9 million (21.7%) above the same period in the previous fiscal year.

GRF disbursements are significantly below projections for the month of January due primarily to a “catch-up” expenditure of Tobacco Use Prevention and Control (TUPAC) during the month. These funds were unavailable to the state prior to the favorable Supreme Court ruling in December, meaning expected expenditures from this source were covered by the GRF. With the funds now available, the program expended the projected year-to-date amount in the month of January, thereby making the monthly GRF expenditures lower than the projections by a similar total.

The chart below shows the current month’s disbursement variance by funding source:

	January Projection	January Actual	Variance	Variance %
GRF	\$ 1,151,268,651	\$ 936,022,606	\$ (215,246,045)	-18.7%
Non-GRF	\$ 135,050,526	\$ 308,013,302	\$ 172,962,776	128.1%
All Funds	\$ 1,286,319,178	\$ 1,244,035,908	\$ (42,283,270)	-3.3%

Specific variances across all funding sources include:

Prescription Drug – Disbursements for the month of January for the Prescription Drug category were \$163.4 million, which was \$33.7 million (17.1%) below the estimate. As in previous months, this is primarily due to a lower-than-expected per member per month cost.

Inpatient Hospital– Disbursements for the Inpatient Hospital category in January were \$99.1 million, which was \$7.9 million (7.4%) below estimate. This is due primarily to lower-than-expected member months and per member per month costs.

Caseload

Total caseload for the month of December, the most recent month available, was 2.15 million covered persons, which was a decrease of 1,605 persons over the month of November. This number, which includes select non-Medicaid programs such as the Medicare premium assistance programs, represents the second consecutive month of decline following 34 months of sustained growth. Total Medicaid caseload for the month as of the month of November was 20,930 (0.98%) covered lives over the estimate.

The Covered Families and Children (CFC) category decreased by 2,512 persons to a December total of 1.63 million persons. The Aged, Blind and Disabled (ABD) program decreased by 728 people to a November total of 406.8 thousand covered lives. The Premium Assistance category increased by 1,582 persons to a December total of 100.6 thousand covered lives.

Total enrollment for the same period last year was 2.04 million covered persons, including 1.55 million persons in the CFC program, 390.7 thousand people in the ABD category, and 89,771 in the Other Non-Medicaid program, including Premium Assistance. This represents total program growth over the last twelve months of 109.8 thousand covered lives.

CFC showed a decrease of 2,512 persons to 1.63 million covered lives. Enrollment in this category was 1,840 (0.1%) below total projected enrollment. December saw a decrease of caseload in the Healthy Families category, the core eligibility group, and the Healthy Families Expansion group, accounting for 1,264 of the total CFC decrease. The remainder of the decreases occurred primarily in the State Children's Health Insurance Plan (SCHIP) categories.

The ABD program showed a decrease of 728 people to a total of 406.8 thousand covered lives. Enrollment was 9,574 persons (2.4%) over total projected enrollment for this category.

Public Assistance and Non-Medicaid

JFS, non-Medicaid, General Revenue Fund (GRF) disbursements totaled \$93.8 million for the month of January. In the aggregate, GRF actual spending was \$28.0 million (23.0%) lower than disbursement estimates for the month. Major variances within individual line items were attributable to the following:

- Early Care and Education, ALI 600535, disbursements were \$30.5 million lower than the original estimates. Due to lower than expected Temporary Aid to Needy Families (TANF) federal funds caused by the Federal Continuing Resolution process, December 2010 experienced higher-than-expected child care subsidy payments paid within this line item. These subsidy payments were shifted back to federal grants for the month.
- Administration – Local, ALI 600502, expenditures were \$1.1 million below the original estimates due to lower-than-anticipated county subsidy spending within the line item.
- Child and Families Services, ALI 600503, payments were \$3.9 million above agency estimates. ODJFS increased State Child Protective Allocation and Feisel county

disbursements for the month due to overall under-spending within the line item during the fiscal year.

- Child, Family, and Adult Community & Protective Services, ALI 600533, subsidy payments were \$1.5 million below agency estimates due to lower-than-anticipated county payments made within the line item.
- Computer Projects, ALI 600416, disbursements were \$1.4 million above agency estimates mainly due to higher-than-expected Department of Administrative Services computer usage invoice payments.
- Over/under-spending across remaining GRF line items also contributed to the variance.

Health and Human Services

This category includes GRF expenditures for the following state agencies: Health, Aging, Mental Health, Developmental Disabilities, and ODADAS. Examples of expenditures in this category include: administration of the state's psychiatric hospitals; operating subsidies to county boards of developmental disabilities; various immunization programs; and Ohio's long term care ombudsman program. To the extent that these agencies spend GRF to support Medicaid services, that spending is reflected in this category instead of the previous category.

Department of Health year-to-date disbursements total \$48.8 million, which is under estimate by \$15.5 million (24.1%).

- January 2011 disbursements for the Department of Health totaled \$3.8 million. When compared to January 2011 estimates, actual disbursements were \$10.2 million (72.6%) below estimate. This is primarily attributable to the following:
 - The Mothers and Children Safety Net Services line item (440-416) was under estimate by \$0.6 million due to payments being made in March which were originally scheduled for January.
 - The Help Me Grow line item (440-459) was below estimate by \$8.6 million. This was due to vendor payments that will be made in February and March instead of January.
 - The Federally Qualified Health Centers line item (440-465) was under estimate by \$0.7 million due to contracts being amended which delayed the processing of purchase orders. The payments will be made by the end of the 3rd quarter of the fiscal year.

Department of Aging year-to-date disbursements total \$93.5 million, which is under estimate by \$0.2 million (0.2%).

- January 2011 disbursements for the Department of Aging totaled \$12.6 million. When compared to January 2011 estimates, actual disbursements were on target for the month, with no significant line item differences.

The Department of Mental Health disbursed \$73.1 million in the month of January, which is \$2.6 million (3.7%) above the estimate. The variance occurred in the Community and Hospital Mental Health Services category and is attributable to bed-day reconciliations with the county boards.

The Department of Developmental Disabilities disbursed \$38.3 million in the month of January, which is \$1.2 million (3.1%) below the estimate. This variance is primarily attributable to lower-than-expected spending in the Martin Settlement and ICF/MR Franchise Fee categories. Due to the enhanced federal Medicaid reimbursement rate made available through the American Recovery and Reinvestment Act (ARRA), the department was able to shift additional funding for the Martin waivers off of the GRF and on to federal resources. The ICF/MR franchise fee payment of \$1.9 million to the Department of Job and Family Services was planned for January, but will now be paid later in the quarter. Offsetting the variance is above estimate spending of \$1.7 million occurred in the Developmental Center Operations. Funding for the developmental centers primarily comes from the GRF and from federal Medicaid reimbursement. In January, the Department shifted less funding off the GRF and on to federal funding than was estimated in the beginning of the fiscal year.

Justice and Public Protection

Disbursements in the Corrections category totaled \$200.8 million in the month of January, which was \$2.9 million (1.5%) more than the \$197.9 million estimate for the month.

The Department of Rehabilitation and Correction (DRC) disbursed \$158.6 million in the month of January, which was \$2.2 million (1.4%) more than the \$156.4 million estimate for the month.

The Department of Youth Services (DYS) disbursed \$27.5 million in the month of January, which was \$2.2 million (8.7%) more than the \$25.3 million estimate for the month. This variance can be attributed to the timing of Targeted RECLAIM payments.

General Government

For January, General Government disbursements were \$18.6 million and were \$0.6 million (3.7%) above the estimate for the month. Year-to-date actual expenditures are \$172.9 million and are \$11.7 million (6.3%) below the estimate. Notable items include:

- In January, the Department of Administrative Services (DAS) disbursed \$4.5 million, which was \$3.7 million (504.7%) more than expected for the month. This occurred because the state received invoices for OAKS and STARS lease rental payments in the middle of the month, and the payments estimated for February posted before the end of January. OAKS is the state's enterprise resource planning system, and STARS is the state's integrated tax collection and audit system. Since these payments posted in January, February spending for those two line items will be under the estimate by similar amounts.

Community and Economic Development

For the month of January, disbursements in this category were \$5.2 million and were \$1.5 million (22.7%) below the monthly estimate. Year-to-date community and economic development disbursements total \$61.1 million and are \$10.0 million (14.0%) below the estimate. Notable items include:

- The Department of Development disbursed \$4.1 million in GRF during the month of January, which is \$1.6 million (27.0%) below the estimate. This amount was distributed fairly evenly over the department's GRF lines. The lower-than-anticipated disbursements were due to the nature of the department's grants, which are reimbursement-based. Therefore, grantees must incur and pay costs prior to seeking reimbursement under their respective grants. Because grantees operate on their own schedules, disbursements are often difficult to accurately project.

Tax Relief and Other

January disbursements for the tax relief totaled \$5.0 million and were \$0.3 million (0.6%) above the monthly estimate. For the year-to-date, total tax relief payments have totaled \$846.7 million and are \$45.4 million (5.7%) above the estimate. These payments are made to local governments and school districts to reimburse for revenues foregone as a result of the 10 percent and 2.5 percent rollback, as well as the homestead exemption. Based on current expenditure trends, the line item appropriation for this purpose is likely insufficient, so there could be a need to rely on temporary law which authorizes automatic increases in appropriation necessary to cover reimbursement costs.

Debt Service

Debt service in January was \$1.4 million (3.1%) below the estimate as a result of continued low interest rates on the state's variable rate debt. Year-to-date debt service spending is \$5.8 million (1.7%) below estimate.

American Recovery and Reinvestment Act (ARRA) State Fiscal Stabilization Fund (SFSF)

The State of Ohio has been awarded approximately \$1,789.4 million in SFSF. Of this amount, approximately \$1,463.7 million is from the Education Stabilization Fund (ESF) and approximately \$325.7 million is from the Government Services Fund (GSF). January SFSF disbursements were \$81.3 million (\$55.5 million from the Department of Education (ESF) and \$25.7 million from the Board of Regents (ESF)). For the program to date, the state has disbursed a total of \$1,272.0 million in SFSF (71.1% of the total award amount). \$700.8 million has been disbursed from the Department of Education (ESF), \$461.2 million from the Board of Regents (GSF/ESF) and \$110.0 million from the Department of Rehabilitation and Correction (GSF).

Table 3
GENERAL REVENUE FUND DISBURSEMENTS
ACTUAL FY 2011 VS ESTIMATE FY 2011
(\$ in thousands)

Functional Reporting Categories Description	MONTH				YEAR-TO-DATE			
	ACTUAL	ESTIMATED	\$	%	YTD	YTD	\$	%
	JANUARY	JANUARY	VAR	VAR	ACTUAL	ESTIMATE	VAR	VAR
Primary, Secondary and Other Education	826,501	825,228	1,273	0.2%	4,275,318	4,247,867	27,451	0.6%
Higher Education	185,161	195,162	(10,001)	-5.1%	1,440,910	1,439,405	1,505	0.1%
Public Assistance and Medicaid	1,029,851	1,273,126	(243,276)	-19.1%	7,023,410	7,133,382	(109,972)	-1.5%
Health and Human Services	138,447	148,622	(10,176)	-6.8%	712,454	740,823	(28,369)	-3.8%
Justice and Public Protection	200,784	197,865	2,919	1.5%	1,200,264	1,220,619	(20,355)	-1.7%
Environmental Protection and Natural Resources	5,942	6,244	(302)	-4.8%	48,540	49,301	(761)	-1.5%
Transportation	1,004	1,191	(187)	-15.7%	9,916	9,633	283	2.9%
General Government	18,642	17,978	664	3.7%	172,854	184,564	(11,710)	-6.3%
Community and Economic Development	5,242	6,782	(1,540)	-22.7%	61,077	71,040	(9,963)	-14.0%
Tax Relief and Other	5,028	5,000	28	0.6%	846,682	801,276	45,406	5.7%
Capital Outlay	0	43	(43)	N/A	24	213	(189)	-88.8%
Debt Service	43,360	44,743	(1,383)	-3.1%	325,909	331,682	(5,773)	-1.7%
Pending Payroll	0	0	0	N/A	0	0	0	N/A
Total Expenditures & ISTV's	2,459,962	2,721,984	(262,022)	-9.6%	16,117,358	16,229,806	(112,448)	-0.7%
Transfers Out:								
OPER TRF OUT-OTH	7,416	300	7,116	N/A	49,402	27,600	21,802	79.0%
OPER TRF OUT-TEMPORARY	0	0	0	N/A	945,711	876,000	69,711	8.0%
Total Transfers (Out)	7,416	300	7,116	N/A	995,113	903,600	91,513	10.1%
Total Fund Uses	2,467,378	2,722,284	(254,906)	-9.4%	17,112,471	17,133,406	(20,935)	-0.1%

Table 4
GENERAL REVENUE FUND DISBURSEMENTS
ACTUAL FY 2011 VS ACTUAL FY 2010
(\$ in thousands)

Functional Reporting Categories Description	MONTH				YEAR-TO-DATE			
	JANUARY	JANUARY	\$	%	ACTUAL	ACTUAL	\$	%
	FY 2011	FY 2010	VAR	VAR	FY 2011	FY 2010	VAR	VAR
Primary, Secondary and Other Education	826,501	769,295	57,206	7.4%	4,275,318	4,381,068	(105,749)	-2.4%
Higher Education	185,161	198,149	(12,988)	-6.6%	1,440,910	1,448,118	(7,208)	-0.5%
Public Assistance and Medicaid	1,029,851	737,991	291,860	39.5%	7,023,410	6,370,268	653,142	10.3%
Health and Human Services	138,447	142,651	(4,205)	-2.9%	712,454	682,607	29,847	4.4%
Justice and Public Protection	200,784	186,313	14,471	7.8%	1,200,264	1,214,226	(13,962)	-1.1%
Environmental Protection and Natural Resources	5,942	6,385	(443)	-6.9%	48,540	59,309	(10,769)	-18.2%
Transportation	1,004	1,535	(530)	-34.6%	9,916	11,178	(1,262)	-11.3%
General Government	18,642	22,863	(4,221)	-18.5%	172,854	182,156	(9,302)	-5.1%
Community and Economic Development	5,242	4,435	807	18.2%	61,077	62,885	(1,809)	-2.9%
Tax Relief and Other	5,028	5,573	(545)	-9.8%	846,682	891,875	(45,193)	-5.1%
Capital Outlay	0	75	(75)	N/A	24	330	(306)	-92.8%
Debt Service	43,360	46,451	(3,091)	-6.7%	325,909	252,971	72,938	28.8%
Pending Payroll	0	0	0	N/A	0	0	0	N/A
Total Expenditures & ISTV's	2,459,962	2,121,716	338,246	15.9%	16,117,358	15,556,989	560,368	3.6%
Transfers Out:								
OPER TRF OUT-BUD STABILIZATION	0	0	0	N/A	0	0	0	N/A
OPER TRF OUT-OTH	7,416	3,701	3,715	100.4%	49,402	53,690	(4,288)	-8.0%
OPER TRF OUT-TEMPORARY	0	0	0	N/A	945,711	971,337	(25,626)	-2.6%
Total Transfers (Out)	7,416	3,701	3,715	N/A	995,113	1,025,027	(29,915)	-2.9%
Total Fund Uses	2,467,378	2,125,417	341,961	16.1%	17,112,471	16,582,017	530,454	3.2%

FUND BALANCE

Table 5 describes the General Revenue Fund (GRF) ending fund balance for FY 2011. Based on the estimated revenue for FY 2011 and the estimated FY 2011 disbursements, transfers, and encumbrances, the current GRF ending fund balance for FY 2011 is an estimated \$153.9 million.

The GRF ending fund balance should not be considered as a balance available for expenditure in FY 2011 nor should it be considered as equivalent to the FY 2011 surplus calculation as defined in Section 131.44 of the Ohio Revised Code.

It is important to note that the GRF ending fund balance will be impacted by any GRF expenditures or transfers that may be authorized by the General Assembly or by the Controlling Board during the course of the fiscal year.

FUND BALANCE
GENERAL REVENUE FUND
FISCAL YEAR 2011
(\$ in thousands)

July 1, 2010 Beginning Cash Balance	\$ 510,401
Plus FY 2011 Estimated Revenues	17,090,500
Plus FY 2011 Estimated Federal Revenues	8,370,930
Plus FY 2011 Estimated Transfers to GRF	1,372,840
Total Sources Available for Expenditure & Transfer	27,344,671
Less FY 2011 Estimated Disbursements	25,997,497
Less FY 2011 Estimated Total Encumbrances as of June 30, 2010	278,465
Less FY 2011 Estimated Transfers Out	914,800
Total Estimated Uses	27,190,763
FY 2011 ENDING FUND BALANCE	153,908

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