

Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

DECEMBER 2013

STATUS OF THE GRF

HIGHLIGHTS

– Ross Miller, Chief Economist, 614-644-7768

Several GRF taxes were below estimate in November, such that total GRF tax revenue was \$14.5 million below estimate despite positive variances from both the income tax and the nonauto sales tax. Overall, GRF tax revenues continued to track very closely to the Office of Budget and Management estimate; for the first five months of FY 2014 they were \$8.1 million (0.1%) above estimate.

Ohio's unemployment rate rose from 7.3% in August to 7.5% in October. Payroll employment rose by 2,400 (less than 0.1%) from September to October, and has changed little since June. Nationally, inflation-adjusted gross domestic product grew 3.6% in the third quarter, but nearly half of the growth rate was due to the change in private inventories, which may limit growth in future quarters.

Through November 2013, GRF sources totaled \$12.22 billion:

- Revenue from the personal income tax was \$44.5 million above estimate;
- Commercial activity tax receipts were \$34.8 million below estimate.

Through November 2013, GRF uses totaled \$14.73 billion:

- Program expenditures as a whole were \$47.6 million below estimate, in spite of a positive variance of \$238.6 million in Primary and Secondary Education that was primarily timing-related.

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STATUS OF THE GRF

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	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	\$75,145	\$83,800	-\$8,655	-10.3%
Nonauto Sales and Use	\$660,575	\$651,000	\$9,575	1.5%
Total Sales and Use Taxes	\$735,720	\$734,800	\$920	0.1%
Personal Income	\$579,233	\$575,200	\$4,033	0.7%
Corporate Franchise	-\$11,173	\$0	-\$11,173	---
Financial Institutions	\$0	\$0	\$0	---
Public Utility	\$20,125	\$18,000	\$2,125	11.8%
Kilowatt Hour Excise	\$21,140	\$19,200	\$1,940	10.1%
Natural Gas Consumption (MCF)	\$4,643	\$4,600	\$43	0.9%
Commercial Activity Tax	\$165,638	\$170,600	-\$4,962	-2.9%
Foreign Insurance	\$171	\$700	-\$529	-75.6%
Domestic Insurance	\$1	\$0	\$1	---
Business and Property	\$414	\$0	\$414	---
Cigarette	\$59,881	\$62,900	-\$3,019	-4.8%
Alcoholic Beverage	\$2,279	\$4,200	-\$1,921	-45.7%
Liquor Gallonage	\$3,441	\$3,400	\$41	1.2%
Estate	\$3,575	\$6,000	-\$2,425	-40.4%
Total Tax Revenue	\$1,585,087	\$1,599,600	-\$14,513	-0.9%
NONTAX REVENUE				
Earnings on Investments	\$3	\$0	\$3	---
Licenses and Fees	\$516	\$6,000	-\$5,484	-91.4%
Other Revenue	\$12,357	\$3,625	\$8,732	240.9%
Total Nontax Revenue	\$12,876	\$9,625	\$3,251	33.8%
TRANSFERS				
Liquor Transfers**	\$0	\$0	\$0	---
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers In	\$40,131	\$200	\$39,931	19965.6%
Total Transfers In	\$40,131	\$200	\$39,931	19965.6%
TOTAL STATE SOURCES	\$1,638,095	\$1,609,425	\$28,670	1.8%
Federal Grants	\$632,779	\$690,788	-\$58,009	-8.4%
TOTAL GRF SOURCES	\$2,270,874	\$2,300,213	-\$29,339	-1.3%

* Estimates of the Office of Budget and Management as of September 2013.
Detail may not sum to total due to rounding.

	Actual	Estimate*	Variance	Percent	FY 2013	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	\$492,086	\$476,800	\$15,286	3.2%	\$454,940	8.2%
Nonauto Sales and Use	\$3,186,184	\$3,195,900	-\$9,716	-0.3%	\$2,993,517	6.4%
Total Sales and Use Taxes	\$3,678,270	\$3,672,700	\$5,570	0.2%	\$3,448,457	6.7%
Personal Income	\$3,480,924	\$3,436,400	\$44,524	1.3%	\$3,457,679	0.7%
Corporate Franchise	-\$10,447	\$0	-\$10,447	---	\$53,298	-119.6%
Financial Institutions	\$0	\$0	\$0	---	\$0	---
Public Utility	\$48,085	\$46,300	\$1,785	3.9%	\$43,968	9.4%
Kilowatt Hour Excise	\$127,083	\$137,150	-\$10,067	-7.3%	\$137,046	-7.3%
Natural Gas Consumption (MCF)	\$18,694	\$17,000	\$1,694	10.0%	\$15,189	23.1%
Commercial Activity Tax	\$384,091	\$418,939	-\$34,848	-8.3%	\$393,749	-2.5%
Foreign Insurance	\$147,076	\$142,500	\$4,576	3.2%	\$142,754	3.0%
Domestic Insurance	\$103	\$1,000	-\$897	-89.7%	\$4,764	-97.8%
Business and Property	\$455	\$0	\$455	---	\$346	31.7%
Cigarette	\$295,900	\$295,900	\$0	0.0%	\$301,692	-1.9%
Alcoholic Beverage	\$21,423	\$23,700	-\$2,277	-9.6%	\$23,679	-9.5%
Liquor Gallonage	\$17,349	\$17,000	\$349	2.1%	\$16,809	3.2%
Estate	\$27,589	\$19,900	\$7,689	38.6%	\$68,262	-59.6%
Total Tax Revenue	\$8,236,594	\$8,228,489	\$8,105	0.1%	\$8,107,692	1.6%
NONTAX REVENUE						
Earnings on Investments	\$3,761	\$3,000	\$761	25.4%	\$2,279	65.0%
Licenses and Fees	\$10,401	\$30,000	-\$19,599	-65.3%	\$10,916	-4.7%
Other Revenue	\$15,840	\$18,125	-\$2,285	-12.6%	\$15,873	-0.2%
Total Nontax Revenue	\$30,002	\$51,125	-\$21,123	-41.3%	\$29,068	3.2%
TRANSFERS						
Liquor Transfers**	\$0	\$0	\$0	---	\$65,500	-100.0%
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers In	\$52,730	\$6,000	\$46,730	778.8%	\$5,372	881.6%
Total Transfers In	\$52,730	\$6,000	\$46,730	778.8%	\$70,872	-25.6%
TOTAL STATE SOURCES	\$8,319,327	\$8,285,614	\$33,713	0.4%	\$8,207,632	1.4%
Federal Grants	\$3,905,038	\$3,815,853	\$89,185	2.3%	\$3,288,124	18.8%
TOTAL GRF SOURCES	\$12,224,365	\$12,101,467	\$122,897	1.0%	\$11,495,756	6.3%

* Estimates of the Office of Budget and Management as of September 2013.
Detail may not sum to total due to rounding.

REVENUES

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

Overview

GRF sources¹ totaled \$2.27 billion in November 2013. These sources were \$29.3 million below the estimate released by the Office of Budget and Management (OBM) in September 2013. Both federal grants and tax sources were below projected revenues, respectively, by \$58.0 million and \$14.5 million. Those shortfalls were partly offset by a positive variance of \$43.2 million in nontax revenues and transfers in. The negative variance for federal grants in November reduced the positive year-to-date variance for this GRF source to \$89.2 million, down from \$147.2 million for the first four months of FY 2014. Similarly, the monthly negative variance of GRF tax revenue decreased this category's year-to-date positive variance to \$8.1 million down from \$22.6 million at the end of October. State-source nontax revenue came in \$21.1 million below its year-to-date estimate, while transfers in were above its year-to-date estimate by \$46.7 million. Overall, state source receipts were \$33.7 million above projected receipts through November. Tables 1 and 2 show GRF sources for the month of November and for FY 2014 through November, respectively.

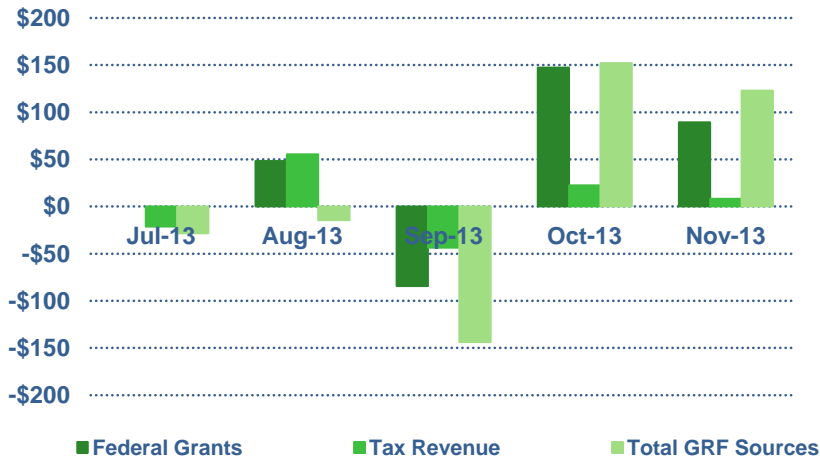
The personal income tax and the sales and use tax were above anticipated receipts by, respectively, \$4.0 million and \$0.9 million in November. Also, the public utility tax and the kilowatt-hour tax were above estimates, by \$2.1 million and \$1.9 million, respectively. On the other hand, most of the other tax sources fell below anticipated revenues: the shortfalls were \$5.0 million for the commercial activity tax (CAT), \$3.0 million for the cigarette tax, \$2.4 million for the estate tax, and \$1.9 million for the alcoholic beverage tax. In addition, net refunds totaling \$11.2 million were returned to taxpayers under the corporate franchise tax (CFT) in November. Transfers in were \$39.9 million above estimate, nearly \$36 million of which were transfers from the Commercial Activity Tax Motor Fuel Receipts Fund to the GRF.

Chart 1 below shows FY 2014 cumulative variances against estimate for federal grants, tax sources, and total GRF sources. GRF sources as a whole were \$122.9 million above estimate. Regarding tax revenue, as shown in Table 2, through November 2013, the personal

¹ GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants, which are federal reimbursements for Medicaid and certain other human service programs.

income tax, the auto sales, and the estate tax had the largest positive variances while the CAT, the CFT, and the kilowatt-hour tax, had the largest negative variances.

**Chart 1: Cumulative Variances of GRF Sources in FY 2014
(Variance from Estimates, in millions)**



Compared to FY 2013, FY 2014 total GRF sources increased \$728.6 million. Increases of \$616.9 million, \$128.9 million, and \$0.9 million, respectively, in federal grants, tax revenues, and nontax revenues were reduced by a decrease of \$18.1 million in transfers in. Beginning in FY 2014, the GRF no longer receives transfers from liquor profits due to the leasing of the state's liquor enterprise to JobsOhio, so liquor transfers will show a decrease from FY 2013 for the remainder of FY 2014.

Receipts from the personal income tax grew \$23.2 million, while those from the sales and use tax increased \$229.8 million. On the other hand, CFT and estate tax receipts declined \$63.7 million and \$40.7 million, respectively, primarily from recent tax law changes. As stated in previous issues of *Budget Footnotes*, the sharp decline in CFT receipts is due to both unusually strong collections from this tax in FY 2013, and its elimination by H.B. 510 of the 129th General Assembly. Similarly, H.B. 153 of the 129th General Assembly eliminated the estate tax starting with dates of death on or after January 1, 2013. While the GRF may continue to receive some revenue from this tax from settlements occurring in FY 2014, the amount received in FY 2014 will be well below the amount received in FY 2013.

Personal Income Tax

November GRF receipts from the personal income tax of \$579.2 million were \$4.0 million (0.7%) above estimate, but \$61.5 million

Through November, FY 2014 GRF sources were \$728.6 million above GRF sources in FY 2013.

(9.6%) below receipts in the same month a year ago. The performance of this tax source has improved in the latest months after a poor start to the fiscal year. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the Local Government Fund (LGF). Gross collections are the sum of employer withholding, quarterly estimated payments,² trust payments, payments associated with annual returns, and miscellaneous payments.

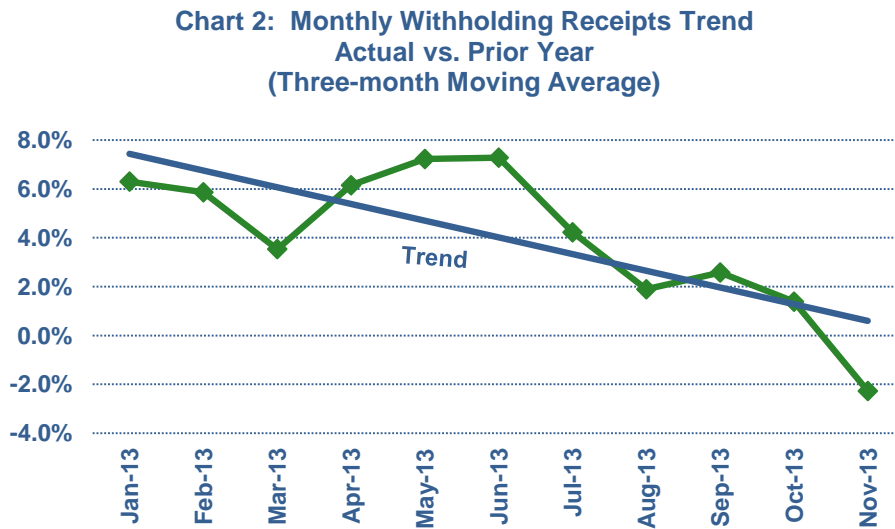
In November, monthly employer withholding was \$19.2 million below estimate. However, refunds were \$22.7 million below the projected level, and tax payments with annual returns were \$3.8 million above estimate. For the fiscal year through November, the GRF has received \$3.48 billion from the personal income tax, \$44.5 million (1.3%) above estimate. The table below summarizes year-to-date FY 2014 income tax revenue variances from estimates and annual changes by component. As seen from the table, the positive year-to-date variance is mostly due to lower than expected refunds. Employer withholding was above estimate by \$22.0 million, but that positive variance was more than offset by a shortfall of \$23.7 million in quarterly estimated payments.

Through
November,
FY 2014
GRF income
tax receipts
were
\$44.5 million
above
estimate.

FY 2014 Year-to-Date Income Tax Revenue Variances and Changes by Component				
Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2013	
	Amount (\$ in millions)	Percentage (%)	Amount (\$ in millions)	Percentage (%)
Withholding	\$22.0	0.7%	-\$10.2	-0.3%
Quarterly Estimated Payments	-\$23.7	-6.1%	\$16.9	4.8%
Trust Payments	-\$0.7	-5.3%	-\$3.0	-20.5%
Annual Return Payments	\$9.3	6.8%	\$29.3	25.1%
Miscellaneous Payments	-\$9.8	-20.1%	-\$9.3	-19.3%
Gross Collections	-\$2.9	-0.1%	\$23.7	0.6%
Less Refunds	-\$48.4	-23.4%	-\$1.1	-0.7%
Less LGF Distribution	\$0.9	0.6%	\$1.5	1.1%
Income Tax Revenue	\$44.5	1.3%	\$23.2	0.7%

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

FY 2014 GRF receipts from the income tax were \$23.2 million (0.7%) above receipts in the corresponding period in FY 2013. Growth in receipts was mostly due to gains in payments with annual returns and quarterly estimated payments. However, those gains were partly offset by a decline in receipts from employer withholding. Through November, FY 2014 revenues from employer withholding were \$10.2 million (0.3%) below receipts in this category in FY 2013, mostly as a result of a 9% reduction in the withholding rate that went into effect for payrolls that ended on or after September 1, 2013.³ In contrast, annual return payments increased \$29.3 million (25.1%), and quarterly estimated payments grew \$16.9 million (4.8%). Chart 2 illustrates the trend in employer withholding receipts in 2013.



Sales and Use Tax

November GRF receipts from the sales and use tax of \$735.7 million were \$0.9 million (0.1%) above estimate, and also \$51.6 million (7.5%) above receipts in November 2012. Year to date, FY 2014 GRF sales and use tax receipts totaled \$3.68 billion, \$5.6 million (0.2%) above estimate, and \$229.8 million (6.7%) above receipts in FY 2013. November was the third month for which the sales tax rate was at the 5.75% rate enacted by H.B. 59, up from 5.5%. For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax

Through November, FY 2014 sales and use tax receipts were \$5.6 million above estimate.

³ The withholding rate was reduced due to the reduction in income tax rates enacted by H.B. 59.

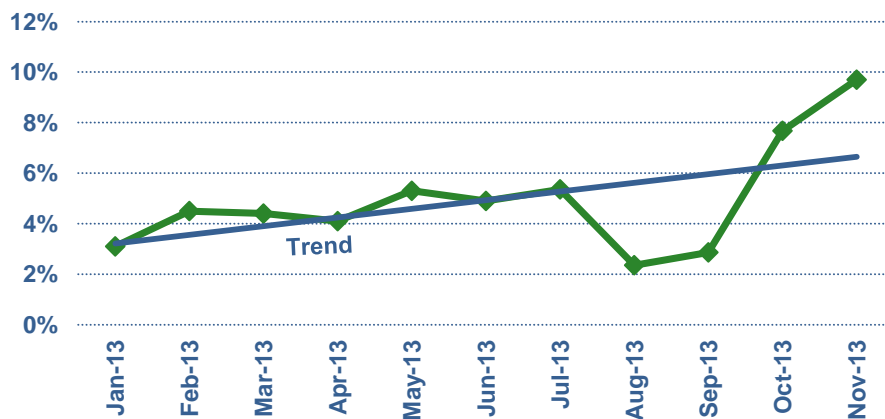
collections⁴ generally arise from the sale of motor vehicles while nonauto sales and use tax collections arise from other sales. However, auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax instead of the auto tax. In November, the positive revenue variance in nonauto sales and use tax more than offset the negative variance created by the auto tax.

Nonauto Sales and Use Tax

For a second consecutive month, monthly nonauto sales and use tax receipts were above estimate, after negative monthly variances totaling \$32.8 million in the first quarter of FY 2014. November GRF receipts from the tax were \$660.6 million, \$9.6 million (1.5%) above estimate, reducing the year-to-date negative variance of this GRF source to \$9.7 million (0.3%), from a shortfall of \$19.3 million through October. Total nonauto sales and use tax receipts of \$3.19 billion through November 2013 were \$192.7 million (6.4%) above revenue in the corresponding period in FY 2013. FY 2014 year-to-date receipts include \$176.0 million in tax payments by Medicaid health insuring corporations; those receipts rose \$14.7 million (9.1%) compared to the year-ago period. Chart 3 shows increases in nonauto sales and use tax monthly receipts against prior year receipts in the same month. As illustrated in the chart, the rate of growth increased in the latest two months, boosted by the recent rate increase.

Through November, FY 2014 nonauto sales and use tax receipts were \$9.7 million below estimate.

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



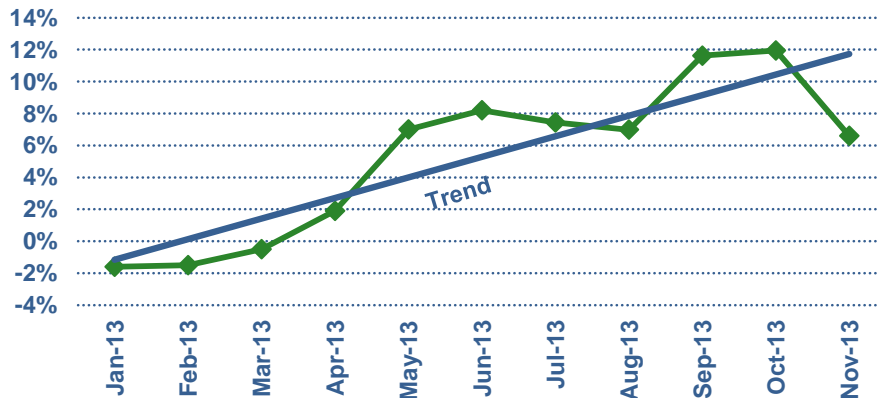
⁴ The clerks of court generally make auto sales and use tax payments on Monday for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled. Therefore, auto sales and use tax receipts largely reflect vehicles sold and titled during the month.

Auto Sales and Use Tax

In contrast to the nonauto sales and use tax's poor start to the fiscal year, the monthly performance of the auto sales and use tax GRF receipts had been strong through October. However, November GRF receipts of \$75.1 million for this component were \$8.7 million (10.3%) below estimate and \$2.9 million (3.7%) below November 2012 receipts. For the fiscal year through November, revenue from the auto sales and use tax was \$492.1 million, \$15.3 million (3.2%) above estimate, and revenue from the tax was \$37.1 million (8.2%) above receipts in FY 2013. Chart 4 below compares FY 2014 monthly auto sales and use tax receipts with year-ago receipts in the same period. Ohio auto sales and use tax receipts this month diverged from the trend in nationwide light vehicle (auto and light truck) sales in November. The demand for U.S. light vehicles surged and sales ran at their strongest pace in more than six years. Light vehicle sales of 1.24 million for the month was up 9% from a year ago, lifting the annualized pace to 16.3 million units per year.

Through November, FY 2014 auto sales and use tax receipts were \$15.3 million above estimate.

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



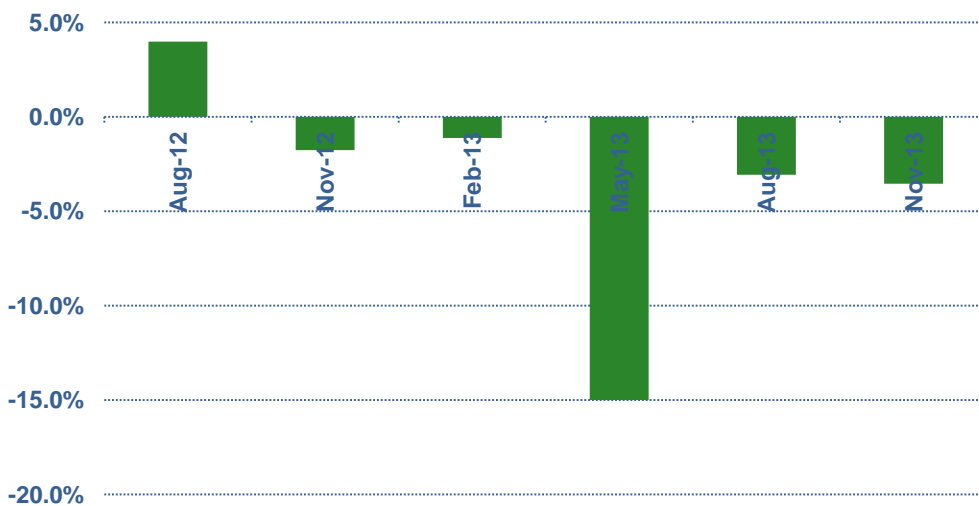
Through November, FY 2014 GRF CAT receipts were \$34.9 million below estimate.

Commercial Activity Tax

November GRF receipts from the CAT were \$165.6 million, \$5.0 million (2.9%) below estimate and \$2.9 million (1.7%) below November 2012 revenue. Through November, FY 2014 CAT receipts to the GRF totaled \$384.1 million, \$34.9 million (8.3%) below estimate, and \$9.7 million (2.5%) below receipts in the corresponding period in FY 2013. Through November, FY 2014 all-funds CAT receipts were \$781.7 million, \$23.0 million (2.9%) below revenue in the corresponding period last year. November results have confirmed the weakness of this tax source. Calendar quarter taxpayers pay the tax in four installments each fiscal year (August, November, February, and May), and they provide the bulk

of CAT revenue (about 85% of total fiscal year revenue). Revenue from these taxpayers has been below revenue in the corresponding year-earlier month in the last five quarters, as shown in Chart 5 below, including a large decrease in May 2013. Data are all-funds CAT revenues from OAKS. The outsized drop in receipts in May 2013 was due to larger than expected refunds, and a one-time large decrease in revenue from a provision in H.B. 508 of the 129th General Assembly.⁵ Even after excluding the impact of H.B. 508, revenue from the tax has failed to keep with the general improvement in the economy over the past year.

Chart 5: Growth in Revenue from Quarterly Calendar Taxpayers vs. Year-Ago



Through November, FY 2014 cigarette tax receipts were in line with estimate.

Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax of \$59.9 million in November 2013 were \$3.0 million (4.8%) below estimate and \$7.2 million (10.8%) below receipts in the same month in FY 2013. Through November, FY 2014 receipts of \$295.9 million were in line with estimate. Receipts from cigarette sales were \$272.8 million, and sales of products other than cigarettes provided \$23.1 million. Compared to

⁵ H.B. 508 required CAT quarterly taxpayers to apply the full \$1 million exclusion from gross receipts to the first quarter of a calendar year, and allowed them to carry forward unused exclusion amounts to subsequent quarters within the same year. Under previous law, such taxpayers could apply \$250,000 of the exclusion amount to each calendar quarter and carry forward unused amounts to three subsequent quarters, regardless of whether the subsequent quarter was in the same calendar year

FY 2013, total receipts were \$5.8 million (1.9%) lower. Receipts from the sale of other tobacco products decreased \$6.3 million, while revenue from cigarette sales experienced an increase of \$0.5 million.

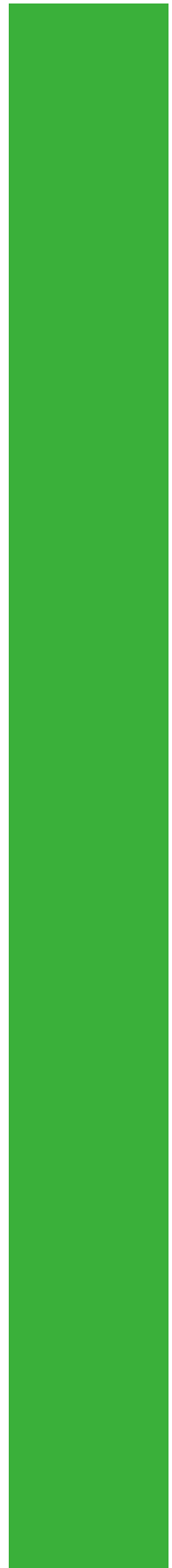


Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of November 2013
(\$ in thousands)
(Actual based on OAKS reports run December 9, 2013)

<i>PROGRAM</i>	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	\$972,872	\$809,040	\$163,832	20.3%
Higher Education	\$177,665	\$179,566	-\$1,901	-1.1%
Other Education	\$2,837	\$2,748	\$89	3.3%
Total Education	\$1,153,374	\$991,354	\$162,020	16.3%
Medicaid	\$1,066,496	\$1,083,855	-\$17,359	-1.6%
Health and Human Services	\$133,703	\$95,655	\$38,048	39.8%
Total Welfare and Human Services	\$1,200,199	\$1,179,511	\$20,689	1.8%
Justice and Public Protection	\$131,478	\$131,118	\$360	0.3%
General Government	\$27,990	\$31,663	-\$3,673	-11.6%
Total Government Operations	\$159,468	\$162,781	-\$3,313	-2.0%
Property Tax Reimbursements	\$371,784	\$223,386	\$148,398	66.4%
Capital Outlay	\$0	\$0	\$0	---
Debt Service	\$25,753	\$25,755	-\$3	0.0%
Total Other Expenditures	\$397,536	\$249,141	\$148,396	59.6%
Total Program Expenditures	\$2,910,578	\$2,582,786	\$327,792	12.7%
TRANSFERS				
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers Out	\$5,516	\$0	\$5,516	---
Total Transfers Out	\$5,516	\$0	\$5,516	---
TOTAL GRF USES	\$2,916,094	\$2,582,786	\$333,308	12.9%
* September 2013 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 2014 as of November 30, 2013
(\$ in thousands)
(Actual based on OAKS reports run December 9, 2013)

PROGRAM	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	\$3,295,194	\$3,056,591	\$238,603	7.8%
Higher Education	\$842,063	\$876,864	-\$34,800	-4.0%
Other Education	\$24,707	\$28,995	-\$4,288	-14.8%
Total Education	\$4,161,965	\$3,962,450	\$199,515	5.0%
Medicaid	\$6,183,375	\$6,279,100	-\$95,725	-1.5%
Health and Human Services	\$555,649	\$654,815	-\$99,166	-15.1%
Total Welfare and Human Services	\$6,739,024	\$6,933,915	-\$194,891	-2.8%
Justice and Public Protection	\$803,599	\$825,038	-\$21,439	-2.6%
General Government	\$155,579	\$170,786	-\$15,207	-8.9%
Total Government Operations	\$959,177	\$995,824	-\$36,646	-3.7%
Property Tax Reimbursements	\$890,880	\$903,100	-\$12,220	-1.4%
Capital Outlay	\$0	\$0	\$0	---
Debt Service	\$771,897	\$775,275	-\$3,378	-0.4%
Total Other Expenditures	\$1,662,777	\$1,678,375	-\$15,598	-0.9%
Total Program Expenditures	\$13,522,943	\$13,570,564	-\$47,621	-0.4%
TRANSFERS				
Budget Stabilization	\$995,930	\$995,930	\$0	0.0%
Other Transfers Out	\$212,514	\$218,411	-\$5,898	-2.7%
Total Transfers Out	\$1,208,444	\$1,214,342	-\$5,898	-0.5%
TOTAL GRF USES	\$14,731,387	\$14,784,906	-\$53,518	-0.4%

* September 2013 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.



Table 5: All-Funds Medicaid Expenditures by Payment Category
Actual vs. Estimate
 (\$ in thousands)
 (Actuals based on OAKS report run on December 9, 2013)

Payment Category	November				Year to Date Through November			
	Actual	Estimate*	Variance	Percent	Actual	Estimate*	Variance	Percent
Managed Care	\$619,765	\$630,751	-\$10,986	-1.7%	\$3,107,364	\$3,132,777	-\$25,413	-0.8%
Nursing Facilities	\$209,342	\$212,159	-\$2,817	-1.3%	\$1,023,999	\$1,033,909	-\$9,910	-1.0%
DDD Services	\$176,091	\$173,960	\$2,130	1.2%	\$937,934	\$943,074	-\$5,141	-0.5%
Hospitals	\$94,126	\$101,695	-\$7,570	-7.4%	\$533,973	\$560,362	-\$26,389	-4.7%
Behavioral Health	\$64,803	\$72,430	-\$7,626	-10.5%	\$331,388	\$338,393	-\$7,005	-2.1%
Administration	\$81,603	\$95,128	-\$13,526	-14.2%	\$311,963	\$393,643	-\$81,679	-20.7%
Aging Waivers	\$46,182	\$52,290	-\$6,107	-11.7%	\$229,087	\$251,823	-\$22,736	-9.0%
Prescription Drugs	\$31,603	\$35,514	-\$3,911	-11.0%	\$163,963	\$196,718	-\$32,755	-16.7%
Medicare Buy-In	\$37,954	\$36,189	\$1,766	4.9%	\$179,938	\$179,429	\$509	0.3%
Physicians	\$123,769	\$96,297	\$27,472	28.5%	\$438,271	\$365,488	\$72,783	19.9%
Medicare Part D	\$25,549	\$26,492	-\$944	-3.6%	\$125,225	\$130,228	-\$5,003	-3.8%
Home Care Waivers	\$19,631	\$19,632	\$0	0.0%	\$105,709	\$107,329	-\$1,620	-1.5%
All Other	\$101,617	\$118,416	-\$16,799	-14.2%	\$529,959	\$603,595	-\$73,636	-12.2%
Total All Funds	\$1,632,035	\$1,670,952	-\$38,917	-2.3%	\$8,018,772	\$8,236,769	-\$217,997	-2.6%

* Estimates of the Office of Budget and Management as of September 2013
 Detail may not sum to total due to rounding.



**Table 6: Medicaid Expenditures by Department
Actual vs. Estimate**

(\$ in thousands)

Actuals based on OAKS report run on December 9, 2013

Department	Month of November 2013				Year to Date Through November 2013			
	Actual	Estimate*	Variance	Percent	Actual	Estimate*	Variance	Percent
Medicaid	\$1,431,290	\$1,474,778	-\$43,488	-2.9%	\$6,985,446	\$7,170,579	-\$185,133	-2.6%
GRF	\$1,020,070	\$1,038,136	-\$18,066	-1.7%	\$5,961,156	\$6,053,255	-\$92,099	-1.5%
Non-GRF	\$411,219	\$436,641	-\$25,422	-5.8%	\$1,024,289	\$1,117,324	-\$93,035	-8.3%
Developmental Disabilities	\$184,921	\$177,186	\$7,735	4.4%	\$967,186	\$973,833	-\$6,647	-0.7%
GRF	\$39,085	\$38,642	\$444	1.1%	\$194,031	\$194,663	-\$631	-0.3%
Non-GRF	\$145,836	\$138,544	\$7,292	5.3%	\$773,154	\$779,170	-\$6,016	-0.8%
Job and Family Services	\$13,333	\$16,262	-\$2,929	-18.0%	\$52,557	\$78,370	-\$25,813	-32.9%
GRF	\$6,701	\$6,285	\$415	6.6%	\$24,559	\$26,955	-\$2,396	-8.9%
Non-GRF	\$6,632	\$9,977	-\$3,345	-33.5%	\$27,997	\$51,414	-\$23,417	-45.5%
Aging	\$523	\$760	-\$237	-31.2%	\$2,304	\$2,662	-\$358	-13.4%
GRF	\$223	\$394	-\$171	-43.5%	\$1,456	\$1,510	-\$54	-3.6%
Non-GRF	\$300	\$366	-\$66	-18.0%	\$848	\$1,153	-\$304	-26.4%
Health	\$1,427	\$1,502	-\$74	-5.0%	\$8,986	\$8,356	\$630	7.5%
GRF	\$335	\$258	\$77	29.8%	\$1,349	\$1,336	\$13	1.0%
Non-GRF	\$1,092	\$1,243	-\$151	-12.2%	\$7,637	\$7,020	\$617	8.8%
Mental Health and Addiction	\$542	\$465	\$77	16.5%	\$2,294	\$2,970	-\$676	-22.8%
GRF	\$82	\$140	-\$58	-41.6%	\$823	\$1,382	-\$559	-40.4%
Non-GRF	\$460	\$325	\$135	41.6%	\$1,471	\$1,589	-\$118	-7.4%
Total GRF	\$1,066,496	\$1,083,855	-\$17,359	-1.6%	\$6,183,375	\$6,279,100	-\$95,725	-1.5%
Total Non-GRF	\$565,539	\$587,097	-\$21,558	-3.7%	\$1,835,397	\$1,957,669	-\$122,272	-6.2%
Total All Funds	\$1,632,035	\$1,670,952	-\$38,917	-2.3%	\$8,018,772	\$8,236,769	-\$217,997	-2.6%

*Estimates of the Office of Budget and Management as of September 2013
Detail may not sum to total due to rounding.

EXPENDITURES

– Russ Keller, Economist, 614-644-1751

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Overview

Tables 3 and 4 show GRF uses for the month of November and for FY 2014 through November, respectively. GRF uses mainly consist of program expenditures but also include transfers out. Due largely to timing issues, GRF uses for the month of November were \$333.3 million above the estimate released by the Office of Budget and Management (OBM) in September 2013. The Primary and Secondary Education program category had the largest positive monthly variance at \$163.8 million, followed by Property Tax Reimbursements (\$148.4 million) and Health and Human Services (\$38.0 million).

Through November, GRF program expenditures were \$13.52 billion, \$47.6 million below estimate. Year-to-date GRF transfers out were \$1.21 billion, \$5.9 million below estimate. Year-to-date GRF uses as a whole were \$53.5 million below estimate. Primary and Secondary Education had the only positive year-to-date variance at \$238.6 million, and this was entirely offset by negative variances in other program categories. Health and Human Services had the largest negative year-to-date variance at \$99.2 million, followed by Medicaid (\$95.7 million), Higher Education (\$34.8 million), and Justice and Public Protection (\$21.4 million). The variances in these five program categories will be briefly discussed below, followed by a summary of the prior year encumbrance activity as of December 1, 2013.

Primary and Secondary Education

GRF expenditures from the Primary and Secondary Education program category were \$972.9 million for the month of November, \$163.8 million (20.3%) above estimate. This monthly variance increased the category's positive year-to-date variance from \$74.8 million (3.3%) at the end of October to \$238.6 million at the end of November (7.8%). School foundation payments are the main culprit behind these positive variances. Expenditures from the Ohio Department of Education's (ODE) GRF appropriation item 200550, Foundation Funding, the primary funding source of school foundation payments, were \$191.2 million above estimate in November and \$250.2 million above estimate for the year to date. This item's positive year-to-date variance was partially offset by a \$6.9 million negative year-to-date variance from item 200540,

For the first five months of FY 2014, GRF uses were \$53.5 million below estimate.

The large positive year-to-date variance in Primary and Secondary Education was due mainly to timing.

Special Education Enhancements, and by smaller negative year-to-date variances in several other items.

School foundation payments are made twice per month. The first December payment was made on December 6. To ensure a timely disbursement, the payment was processed and recorded in the state's accounting book, the Ohio Administrative Knowledge System (OAKS), against the month of November, resulting in a large positive monthly variance. Furthermore, as explained in the November issue of *Budget Footnotes*, it is not unusual to see variances in item 200550, especially in the early months of a fiscal year as various data needed for determining individual school foundation payments for FY 2014 have not yet been finalized. For the first quarter of FY 2014, schools were paid based largely on what they received last year. The funding formula enacted in H.B. 59 for the FY 2014-FY 2015 biennium became effective October 1. Schools have been paid under the new formula since then.

Health and Human Services

GRF expenditures from the Health and Human Services program category, which represents the non-Medicaid health and human service expenditures from various agencies, were \$133.7 million for the month of November, \$38.0 million (39.8%) above estimate. This positive variance narrowed the category's negative year-to-date variance from \$137.2 million (24.5%) at the end of October to \$99.2 million (15.1%) at the end of November. The Ohio Department of Job and Family Services (ODJFS) accounted for \$78.3 million of the category's negative year-to-date variance. As mentioned in the November issue of *Budget Footnotes*, ODJFS relied more upon federal dollars for child care subsidy payments in October because it was unclear whether GRF payments during the partial federal government shutdown would be counted toward the state's maintenance of effort requirement. ODJFS was planning on using more GRF dollars for child care payments in November and December. GRF funding for child care payments are made from items 600413, Child Care State/Maintenance of Effort, and 600535, Early Care and Education. The combined expenditures from these two items were \$16.4 million above estimate for the month of November. Overall, the negative year-to-date variance for ODJFS narrowed from \$94.3 million at the end of October to \$78.3 million at the end of November.

As expected, expenditures from items 335421, Continuum of Care Services, and 335507, Community Behavioral Health in the Ohio Department of Mental Health and Addiction Services (OMHAS) budget were above their estimates for the month of November, by \$14.7 million

and \$11.3 million, respectively. These two items mainly contain subsidy payments. Due to timing issues, their expenditures for the month of October were \$16.9 million and \$11.9 million, respectively, below estimates. Overall, OMHAS contributed another \$7.5 million to the Health and Human Services program category's negative year-to-date variance.

Medicaid

GRF expenditures from the Medicaid program category totaled \$1.07 billion for the month of November, \$17.4 million (1.6%) below estimate. Year-to-date GRF Medicaid expenditures totaled \$6.18 billion, \$95.7 million (1.5%) below estimate. Medicaid is a joint federal-state program. The federal share of Medicaid expenditures is about 64% and the state's share is about 36%. Medicaid is mainly funded by the GRF, but is also supported by various non-GRF funds. Across all funds, year-to-date Medicaid expenditures totaled \$8.02 billion, which was \$218.0 million (2.6%) below estimate.

Table 5 details Medicaid expenditures by payment category across all funds and agencies. As seen from Table 5, all-funds expenditures were below their year-to-date estimates for all but two payment categories. Categories with significant negative year-to-date variances include Administration (\$81.7 million, 20.7%), the All Other category (\$73.6 million, 12.2%), and Prescription Drugs (\$32.8 million, 16.7%). These negative variances were partially offset by a positive year-to-date variance of \$72.8 million (19.9%) in Physicians.

Table 6 details the GRF and non-GRF portions of Medicaid expenditures from each of the six agencies that take part in administering Medicaid. The Ohio Department of Medicaid (ODM), the largest agency within this program category, also had the largest year-to-date variance. Year-to-date GRF expenditures for ODM totaled \$5.96 billion, which was \$92.1 million (1.5%) below estimate. ODM's GRF Medicaid expenditures are funded through three GRF appropriation items: 651525, Medicaid/Health Care Services; 651526, Medicare Part D; and 651425, Medicaid Program Support – State. Expenditures from item 651525, which provides the majority of funding for Medicaid, were \$78.9 million below their year-to-date estimate. Expenditures for item 651425 and 651526 were also below estimate by \$8.2 million and \$5.0 million respectively.

ODM's non-GRF Medicaid expenditures totaled \$1.02 billion, which was \$93.0 million (8.3%) below their year-to-date estimate. Items with significant negative year-to-date variances include 651624, Medicaid

Year-to-date

GRF

Medicaid

spending

was

\$95.7 million

below

estimate

while all-

funds

spending

was

\$218.0 million

below

estimate.

Program Support – Federal (\$55.8 million); 651623, Medicaid Services Federal (\$48.6 million); and 651654, Medicaid Program Support (\$11.6 million). These negative variances were partially offset by a positive year-to-date variance of \$20.1 million in item 651603, Medicaid Health Information Technology. Across all funds, ODM's year-to-date expenditures totaled \$6.99 billion, which was \$185.1 million (2.6%) below estimate.

Higher Education

GRF expenditures from the Board of Regents (BOR), the only agency within the Higher Education program category, were \$1.9 million below estimate (1.1%) for the month of November. For the year to date, BOR's expenditures were \$34.8 million (4.0%) below estimate. According to the Office of Budget and Management (OBM), BOR instituted a new subsidy distribution and monitoring system beginning in FY 2014, resulting in a slower-than-expected subsidy distribution process. Items with the largest negative year-to-date variances include 235535, Ohio Agricultural Research and Development Center (\$14.2 million); 235536, The Ohio State University Clinical Teaching (\$4.0 million); 235538, University of Toledo Clinical Teaching (\$2.6 million); and 235507, OhioLINK (\$2.5 million).

Justice and Public Protection

GRF expenditures from the Justice and Public Protection program category were essentially on target for the month of November. This category's negative year-to-date variance narrowed slightly from \$21.8 million (3.1%) at the end of October to \$21.4 million (2.6%) at the end of November. The three largest agencies included in this program category are the Department of Rehabilitation and Correction (DRC), the Department of Youth Services (DYS), and the Judiciary/Supreme Court (JSC). Expenditures from DRC were \$9.3 million below its year-to-date estimate through November. Year-to-date expenditures for DYS and JSC were \$5.5 million and \$4.3 million, respectively, below estimate.

Prior Year Encumbrances

As reported in the July issue of *Budget Footnotes*, state agencies carried into FY 2014 approximately \$361 million in encumbered GRF funds that were originally appropriated for fiscal years prior to FY 2014. An agency generally has five months to spend prior year encumbrances for operating expenses. Any unspent operating expense encumbrances will lapse at the end of the five-month period and will become part of the GRF cash balance once OBM cancels the encumbrances. Subject to the

approval of the Director of Budget and Management, an agency may carry funds encumbered for purposes other than operating expenses beyond the five-month period. Encumbrances for some grant and aid payments may be carried for several months or even years.

As of
December 1,
2013, prior
year GRF
encumbrances
totaled
\$120.7 million.

Prior Year GRF Encumbrances by Agency (\$ in millions)				
Agency	Prior Year Encumbrances as of July 1, 2013	Amount Expended	Outstanding Encumbrances as of December 1, 2013	Amount Lapsed
Education	\$101.4	\$56.1	\$42.5	\$2.8
Development Services	\$38.2	\$15.2	\$20.3	\$2.7
Job & Family Services	\$84.1	\$22.3	\$19.0	\$42.8
Regents	\$23.2	\$6.3	\$16.7	\$0.2
Developmental Disabilities	\$11.9	\$0.2	\$11.6	\$0.1
Rehabilitation and Correction	\$59.0	\$50.7	\$5.5	\$2.8
Transportation	\$7.1	\$3.2	\$3.9	\$0.0
All Other Agencies	\$36.7	\$31.1	\$1.2	\$4.4
Total	\$361.5	\$185.2	\$120.7	\$55.6

Detail may not sum to total due to rounding.

As shown in the table above, as of December 1, 2013, \$185.2 million (51.2%) of the \$361.5 million in total encumbrances was expended, \$120.7 million was still outstanding, and the remaining \$55.6 million lapsed. ODE had the largest share (35.2%) of the total outstanding encumbrances, followed by the Development Services Agency (DSA) at 16.9%, ODJFS at 15.7%, and BOR at 13.9%. Together, these four agencies had \$98.5 million (81.6%) of the \$120.7 million in total outstanding prior year encumbrances.

Items 200550, Foundation Funding, and 200540, Special Education Enhancements, accounted for \$31.9 million (75.1%) and \$8.4 million (19.8%), respectively, of ODE's total \$42.5 million in outstanding encumbrances as of December 1, 2013. These encumbrances will be used for making any necessary subsidy payment adjustments for schools and county boards of developmental disabilities.

The vast majority of DSA's outstanding encumbrances were for various economic development grants. Many of these grant programs are operated on a reimbursement basis, under which grantees have to carry out the programs and certify that certain requirements or objectives have been met before they are reimbursed by the state. Depending on the scope of a project, the grantee may not actually receive the award until several years after the award was originally made.

ODJFS had \$19.0 million in outstanding encumbrances as of December 1, 2013. Item 600525, Health Care/Medicaid, accounted for \$11.7 million (61.9%) of the total. Items, 600523, Children and Families Subsidy, and 600521, Family Assistance – Local, had outstanding encumbrances of \$3.4 million (17.7%) and \$2.0 million (10.7%), respectively.

Items 235438, Choose Ohio First Scholarship, and 235563, Ohio College Opportunity Grant, accounted for \$8.2 million (49.0%) and \$7.6 million (45.3%), respectively, of BOR's total \$16.7 million in outstanding encumbrances as of December 1, 2013. These encumbrances will be used for making any necessary subsidy payment adjustments for colleges and universities.

ISSUE UPDATES

Clean Ohio Council Awards Final Grants for Brownfield Revitalization Before Program Transitions to JobsOhio

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

On November 1, 2013, the Clean Ohio Council approved five grants to political subdivisions totaling \$6.5 million for brownfield assessment and cleanup costs. This was the final round of grants approved by the Clean Ohio Council, the body responsible for approving such awards under the Clean Ohio Program. Henceforth, JobsOhio, the state's nonprofit economic development corporation, will oversee the state's brownfield revitalization efforts, which have to date been administered by the Development Services Agency. The state agencies responsible for the conservation component of the Clean Ohio Program will continue to give awards under the initiative, including purchasing agricultural easements (Department of Agriculture), conserving green space (Public Works Commission), and creating or improving recreational trails (Department of Natural Resources).

The grants awarded by the Clean Ohio Council to assess and remediate brownfields are funded by bonds that were backed by liquor profits.⁶ Ohio voters approved \$200 million in bonding authority for Clean Ohio brownfield projects in 2000, and approved a further \$200 million in 2008. Of the amount authorized, about \$315 million in Clean Ohio Revitalization bonds have been issued. Including the final round of grants approved in November, the Clean Ohio Council has approved approximately \$414 million in grants for about 400 brownfield revitalization projects in 130 communities.⁷ The majority of the projects funded were located in the largest cities in Ohio.

The funding arrangement for brownfield revitalization is different under JobsOhio. Beginning in late calendar year 2013, JobsOhio will use up to \$43 million annually to revitalize sites and prepare them for end-users that support future job creation opportunities in the state. The funding for these projects is derived from the proceeds of JobsOhio's 25-year franchise of the state's wholesale liquor enterprise. According to JobsOhio's 2012 Annual Report and 2013 Strategic Plan, applications will be accepted year-round from both public and private entities seeking to clean up and redevelop sites across Ohio. JobsOhio will prioritize their revitalization funding on

⁶ As part of the state liquor enterprise transfer, JobsOhio provided the state with funds to pay off these bonds.

⁷ Not all the funds awarded have actually been used by the grantees. Funds that were not actually used were subsequently allocated to other projects.

projects that create jobs, and will likely provide more of their assistance in the form of loans, but may approve grants as well.

OOD Begins Training Employment First Counselors

– *Jacquelyn Schroeder, LSC Fellow, 614-466-3279*

In October 2013, the Opportunities for Ohioans with Disabilities Agency (OOD) began training 15 counselors for the Employment First Pilot Program. The pilot program is a partnership between OOD and the Department of Developmental Disabilities (DODD) that aims to expand employment opportunities in the community for 1,500 individuals with developmental disabilities. H.B. 59 provides \$3 million in GRF funding for both FY 2014 and FY 2015 in DODD's budget to support the pilot program. DODD is to transfer up to \$1.7 million each fiscal year to OOD to be used for training counselors and other related activities. State moneys expended by OOD for the pilot program can be counted toward the state matching funds required for obtaining federal vocational rehabilitation grant dollars for the pilot program.

Each of the newly hired counselors will have an average caseload of 60 individuals and will serve a total of 100 individuals in a year. The counselors will be members of each individual's service planning team. They will coordinate activities for each individual, including career planning as well as job matching and coaching. OOD counselors may close a case once an individual is stabilized in their community employment position. The county board of developmental disabilities will then provide long-term job retention support to the individual. The Employment First initiative was originally created by Executive Order 2012-05K, which established community employment as a priority and preferred outcome for individuals with disabilities. The initiative receives its initial funding in H.B. 59.

ODOT Dedicates \$120 Million in Federal Funding for Bridge Partnership Program

– *Brian Hoffmeister, Senior Budget Analyst, 614-644-0089*

The Ohio Department of Transportation (ODOT) is dedicating \$120 million in federal funds to establish a Bridge Partnership Program to repair and replace county and municipal bridges around the state. The \$120 million will be spread over three years and will be used to fully fund the repair or replacement of approximately 200 local bridges. Of the total amount, \$110 million will be used for county bridges and the remaining \$10 million will be used for municipal bridges. Construction on the first round of 40 bridges to be repaired or replaced is expected to begin in the spring of 2014. The first round includes 30 county and 10 municipal bridges (see table below). In order to be selected for the program, a bridge (1) must meet the federal definition of a bridge

and be more than 20 feet long, (2) must be currently open to traffic, and (3) must be designated as "structurally deficient."

As a condition for receiving federal aid, ODOT must spend at least 15% of its federal allocations on bridges that are not part of the National Highway System. Spending on the Bridge Partnership Program will be counted toward that requirement. Of the \$120 million in total funding for the program, \$100 million will be supported by the proceeds of federal grant anticipation revenue vehicle (GARVEE) bonds and \$20 million will be traditional federal highway assistance. In order to fund the program entirely with federal dollars, ODOT intends to apply toll credits from the Ohio Turnpike. The Federal Highway Administration allows states to credit toll revenues from tolled federal-aid highways (such as the Ohio Turnpike) toward the 20% state match required for most federal highway assistance.

Local Bridges Included in First Round of ODOT Bridge Partnership Program			
County Bridges			
County	Number	County	Number
Allen	3	Morrow	6
Ashland	2	Muskingum	3
Coshocton	1	Pickaway	2
Highland	1	Preble	1
Huron	1	Richland	3
Meigs	1	Wood	5
Monroe	1	County Bridge Total – 30	
Municipal Bridges			
County	Municipalities	County	Municipalities
Butler	Monroe	Muskingum	Zanesville
Franklin	Whitehall	Sandusky	Clyde
Licking	Heath Newark	Stark	Massillon North Canton
Montgomery	Clayton	Warren	Carlisle
		Municipal Bridge Total – 10	

Board of Nursing Awards \$2.3 Million in Grants to Nursing Education Programs

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

The Ohio Board of Nursing awarded 13 grants totaling \$2.3 million to nursing education programs for the period of September 1, 2013 to August 31, 2015. The Board provides two-year grants to nursing education programs that partner with health care facilities, community health agencies, or other education programs in order to help

increase nursing student enrollment capacity. Grants are awarded to pre-licensure registered nurse and licensed practical nurse programs and to post-graduate programs. The table below lists the grant recipients and awards for the current grant period.

Nursing Education Grant Awards, September 1, 2013 to August 31, 2015	
Program Name	Award
Pre-licensure Registered Nurse Programs	\$1,338,638
Marion Technical College, Nursing Department	\$200,000
Lourdes University	\$195,383
Xavier University, BSN Program	\$194,383
Mercy College of Ohio, Associate of Science in Nursing	\$193,200
College of Mt. St. Joseph, Department of Graduate Nursing	\$177,740
Kent State University, Associate Degree in Nursing	\$159,580
Firelands Regional Medical Center School of Nursing	\$133,746
North Central State College, ADN Program	\$84,606
Post-Graduate Programs	\$593,713
Xavier University, Master of Science in Nursing	\$200,000
University of Cincinnati, College of Nursing	\$198,330
Lourdes University	\$195,383
Pre-licensure Practical Nurse Programs	\$358,816
Tri-Rivers Center for Adult Education	\$200,000
Robert T. White School of Practical Nursing	\$158,816
Total	\$2,291,167

Nursing education programs may apply for funding in each grant period and typically receive funds quarterly. A grant recipient may not receive more than \$200,000 in each grant cycle. Funds can be used for clinical faculty, instructional personnel, educational equipment, and any approved activities that may support an increase in enrollment. The program requires grant recipients to submit annual reports to the Board. The program is funded by \$10 of each nursing license renewal fee, which is deposited into the Nurse Education Grant Program Fund (Fund 5AC0).

NCES Releases 2013 Results of the National Assessment of Education Progress in Mathematics and Reading

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

In November, the National Center for Education Statistics (NCES) released the results of the 2013 National Assessment of Education Progress (NAEP) in 4th and 8th grade mathematics and reading. NAEP is a standardized test that is given to a nationally representative sample of students in the United States. H.B. 59 requires Ohio schools selected for the sample to participate in the assessment. Although Ohio's scores

in the four subject/grade level areas did not change significantly since the last assessment in 2011, Ohio continues to have a larger percentage of public school students at or above proficient than the nation as a whole in each area. These percentages are shown in the following table.

Percentage of Students at or Above Proficient on NAEP, 2013		
Subject/Grade Level	Ohio	Nation
Mathematics 4th Grade	48%	41%
Mathematics 8th Grade	40%	34%
Reading 4th Grade	37%	34%
Reading 8th Grade	39%	34%

NAEP also measures achievement gaps between white and black and between white and Hispanic students. In Ohio, the 2013 achievement gap between white and black 4th grade students widened when compared to 2011 and was wider than the national gap in both mathematics and reading. The 2013 achievement gap between white and Hispanic 8th grade students in reading, however, narrowed when compared to 2011 and was narrower than the national gap, as was the white-Hispanic reading gap for 4th grade students. NAEP results are available at: www.nationsreportcard.gov.

Attorney General Rolls Out New Portable Training Facilities

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

On October 29, 2013, the Attorney General rolled out three new portable training facilities (PTFs) as part of the ongoing development of the Ohio Peace Officer Training Academy's Mobile Academy. The PTFs, which feature collapsible wall panels that can be reassembled to simulate the interior structure of a home or building, will be used primarily to train patrol officers in techniques for responding to active shooter situations or unknown disturbances and conducting a building search. Their total cost was \$44,400: \$38,700 for the PTFs plus \$5,700 to purchase firearms and ammunition. These costs were paid for with the portion of Ohio's casino taxes distributed from the Ohio Law Enforcement Training Fund (Fund 5JN0).

The Mobile Academy, which became operational in 2012, was developed to bring training directly to the law enforcement community rather than requiring officers to travel to one of the centralized state training campuses in London (Madison County) or Richfield (Summit County). Currently, available mobile courses include: (1) firearms and use of force training simulators, (2) driving training simulators, (3) subject control training for instructors in use of force, takedowns, and weapons retention, and (4) half- and full-day regional trainings. Most courses are available at no cost to law enforcement agencies.

Ohio Law Enforcement Gateway Advisory Group Releases Report of Recommendations

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

On October 25, 2013, the Attorney General's Ohio Law Enforcement Gateway Advisory Group released a report of its recommendations on the policies and procedures for use of the Ohio Law Enforcement Gateway (OHLEG).⁸ OHLEG is a secure web-based electronic information network with more than 30,000 users that is operated by the Superintendent of the Bureau of Criminal Identification. It allows Ohio law enforcement to share criminal justice data, including criminal histories, evidence submissions, missing children, and protection orders. The Attorney General formed the nine-member advisory group in August to review existing protocols and safeguards to prevent misuse of OHLEG.

The report contains 18 specific recommendations that can be broadly summarized as follows:

- **Strategic Decisions.** Establish an OHLEG steering committee and related advisory group to review and develop policies and procedures on an ongoing basis.
- **User Access.** Limit use of certain system tools, databases, and applications by nonlaw enforcement agencies, and develop written access policies for juvenile records, out-of-state agencies, and researchers.
- **User Training.** Develop a standardized training program that includes mandatory initial training, ongoing user training, and a simulated training platform.
- **Monitoring Use.** Implement a network use monitoring program that includes random audits by OHLEG staff, designation by user agencies of one person to monitor the usage within an agency, and a model use policy.
- **Public Education.** Make public aware of the procedure through which their individual criminal histories can be obtained and corrected, and the purpose for which facial recognition technology is used.

⁸ A copy of the full report can be found at: www.ohioattorneygeneral.gov.

TRACKING THE ECONOMY

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

Overview

The national unemployment rate fell to 7.0% in November, its lowest level in five years.

The U.S. economy expanded early in the fourth quarter. Payroll employment increased by about 200,000 in October and 203,000 in November, while the national unemployment rate fell to 7.0% in November, its lowest level in five years. In October, manufacturing activity continued to expand, and U.S. exports of goods and services increased to a record high. Wage and salary income increased in October, as did consumer spending, led by an increase in spending for durable goods. In November, the pace of light vehicle sales rose to its highest level since May 2007. The rate of new home sales jumped in October back to levels registered in the first two quarters, after decreasing in the third quarter. The annualized rate of building permits for private housing units, a leading economic indicator, rose in October to its highest level in five years. Prices for homes continue to recover. Inflation, both at the consumer and wholesale levels, has remained low.

However, some economic reports suggest setbacks in growth in the fourth quarter. The rate of completed existing home sales decreased in October for the second straight month. The rate of private construction also decreased in October, for new homes and some types of nonresidential projects. Also in October, there were decreases in new orders for durable manufactured goods and nondefense capital goods, both of which are considered leading economic indicators; preliminary reports indicate advancement in new orders in November.

The economic effects of the temporary shutdown of part of the federal government in October remain uncertain. As noted in last month's issue of *Budget Footnotes*, Standard & Poor's estimated that lost total economic activity resulting from the shutdown would reduce the annualized gross domestic product (GDP) growth rate by at least 0.6 percentage point in the fourth quarter.⁹ More complete information on the shutdown's effects on the economy will be available in January when the federal government releases the first estimate of fourth quarter GDP growth.

⁹ Standard & Poor's, "Impact Of The Debt Ceiling Debate On The U.S. Economy--Getting Worse By The Day," October 16, 2013.

In the next few months, economic activity could again be affected by budget deliberations in Congress. As of the writing of this analysis, Congress has not finalized a budget for federal fiscal year 2014, and the Continuing Resolution that is currently funding some of the federal government is set to expire January 15, 2014. Funding for numerous federal programs is set to expire on that date unless extended by legislation. According to the Wall Street Journal, congressional leaders are working on a two-year "fiscal agreement" that would avoid any government shutdown in the immediate future and eliminate the need for Congress to have budget deliberations until after the 2014 elections.¹⁰ Congress will also need to address the suspension of the federal debt ceiling, which is set to expire in February.

Economic growth in some foreign economies appears to have improved, according to statements made in the minutes of the last meeting held by the Federal Open Market Committee (FOMC) of the Federal Reserve. In June, LSC noted in its forecast of economic conditions presented to the budget conference committee that issues such as a recession in the Eurozone and slower than expected growth in China could slow U.S. economic growth. Since then, according to the FOMC, stronger growth is estimated for China, growth increased in Canada and the United Kingdom in the third quarter, and Mexico's economy rebounded. Mild recovery continued in the Euro area. Growth in these markets could lead to higher demand for goods and services from the U.S., and more specifically from Ohio.

Growth in foreign markets could lead to higher demand for U.S. goods and services.

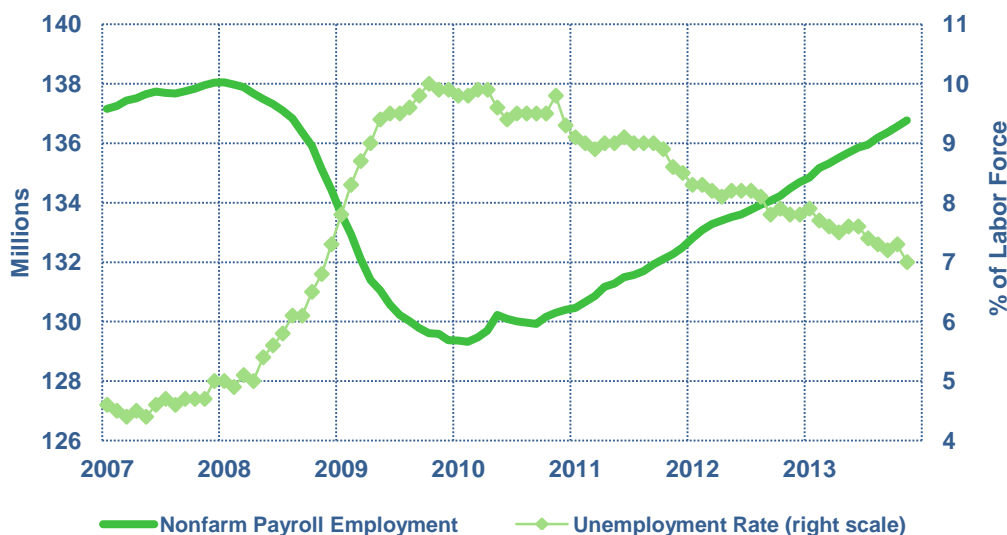
The National Economy

Employment and Unemployment

Employment increased by 203,000 in November, according to the Bureau of Labor Statistics (BLS), while the unemployment rate fell to 7.0%, as shown in Chart 6.

¹⁰ The Wall Street Journal, "Budget Pact Moves Closer," November 6, 2013.

Chart 6: U.S. Employment and Unemployment



In November, employment gains occurred in many industry groups.

In November, employment gains occurred in many industry groups, based on establishment survey data. The largest seasonally adjusted employment gains were in trade, transportation, and utilities (60,000) with large gains in transportation and warehousing as well as in retail trade; education and health services (40,000); professional and business services (35,000); manufacturing (27,000), particularly for motor vehicles and parts; and leisure and hospitality (17,000). Government employment increased (7,000), as increases at the local and state levels outweighed decreases at the federal level.

U.S. GDP rose at a 3.6% annual rate in the third quarter.

According to household survey data, the total number of individuals unemployed fell to 10.9 million in November from about 11.3 million in October, seasonally adjusted. The number of individuals reported working part-time (up to 34 hours per week) for economic reasons fell to 7.7 million, which is below the monthly average of about 8.0 million from January to October, but still well above levels prior to late 2008. However, the median number of weeks of unemployment ticked up to 17.0 in November from 16.3 in October and from 15.7 in July, the lowest in more than four years.

Production

U.S. GDP rose at a 3.6% annual rate in the third quarter, according to the second estimate released by the U.S. Bureau of Economic Analysis (BEA), up from a 2.5% rate of growth in the second quarter and 1.1% in the first quarter. The BEA's initial estimate was 2.8%. The estimate was revised upward primarily due to higher private inventory investment than in the previous estimate. Without the gain in inventories, the rest of the economy grew at an annual rate of about 1.9%. The agency's third

estimate of GDP growth will be released later in December based on more complete data.

Total industrial production increased at an annual rate of 2.3% in the third quarter after expanding at rates of 4.1% and 1.1% in the first and second quarters, respectively, according to the Federal Reserve. Total industrial production decreased 0.1% in October, seasonally adjusted, as decreases in the output of mines (-1.6%) and utilities (-1.1%) outweighed an increase in manufacturing production (0.3%). According to the Federal Reserve, the decrease in mining output was due to a temporary weather-related shutdown of oil and gas rigs in the Gulf of Mexico.

Total industrial output was 3.2% higher than in October of last year, and total manufacturing production was about 3.3% higher, with manufacturing of motor vehicles and parts up 9.3% over that time. Mining output was 4.8% higher in October than a year earlier, but utility output was little changed, as the output of natural gas utilities declined 7.1%.

In October, new orders for nondefense capital goods, decreased 0.6%, seasonally adjusted, according to the Census Bureau. New orders for durable goods fell 1.6% in October after increasing 4.2% in September, seasonally adjusted. Inventories of durable manufactured goods continued to climb in October to its highest level on record.

According to the BEA, U.S. exports rose 1.8% in October to a record high after decreases over the previous three months. Exports increased for both goods and services.

In November, total factory activity appears to have expanded further, based on an Institute for Supply Management (ISM) monthly survey of purchasing managers. In November, ISM's purchasing managers index reached its highest level since April 2011. The ISM index for new orders also increased to its highest levels since April 2011. Order backlogs rose for the second straight month.

Consumer Spending and Personal Incomes

In October, real disposable personal incomes decreased 0.2%, seasonally adjusted, following increases in the previous three months. However, the decrease appears to be due to a one-time factor affecting farm proprietors' income: in September, farm proprietors' income was boosted by a class-action lawsuit settlement agreement. In October, the subsequent decrease in farm proprietors' income outweighed increases in various other components including employee wages and salaries, resulting in an aggregate decrease. Real disposable incomes remained 1.8% higher in October than in October of last year.

U.S. exports
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previous
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Real
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than in
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last year.

Nationwide light vehicle sales rose in November to its highest rate since May 2007.

In October, real consumer spending increased 0.3%, seasonally adjusted. Spending for durable goods rose 0.8% and spending on nondurables rose 0.7%. Purchases of durable goods were 7.1% higher in October than in October of last year. Consumer spending for services increased 0.1% in October.

The annualized rate of nationwide light vehicle sales rose in November to its highest rate since May 2007, at 16.3 million units, seasonally adjusted. From January through November, the light vehicle sales rate has averaged 15.5 million units.

Housing

The annualized rate of building permits for private housing units increased 6.2% in October, seasonally adjusted, to its highest rate registered since June 2008.

The annualized rate of existing home sales decreased in October, while the rate of new home sales increased. The table below shows annualized sales rates and median sales prices in that month.

The rate of building permits for private housing units increased in October, to its highest rate registered since June 2008.

U.S. Home Sales Data, October 2013		
Sales Rates and Prices	Existing Homes*	New Homes**
Annualized Sales Rate	5,120,000	444,000
% change, 12 months	6.0%	21.6%
% change, prior month	-3.2%	25.4%
Median Sales Price	\$199,500	\$245,800
% change, 12 months	12.8%	-0.6%

Sales rates are seasonally adjusted; sales prices are not seasonally adjusted

* From the National Association of Realtors

** From the U.S. Census Bureau

While the annualized rates of existing home sales decreased 3.2% in October to 5.12 million, seasonally adjusted, home sales have been above previous year levels for the past 28 consecutive months, according to the National Association of Realtors (NAR). The median sales price was \$199,500, which was up 12.8% from October of last year. NAR attributes the lower sales rate and higher prices mainly to low inventories. According to NAR, housing inventories fell in October 1.8% to a 5.0 month supply at the current sales rate. The higher median price is also due to fewer distressed homes sold. Distressed homes, which include foreclosures and short sales, accounted for 14% of total existing home sales in October, compared to 25% in October of last year.

The Federal Housing Finance Agency reported that in the third quarter of 2013, house prices increased 2.0% from the second quarter, based on their nationwide House Price Index. In the first and second quarters of the year, house prices increased by 2.2% and 2.3%, respectively. These appreciation rates over the last three quarters are the highest registered since the index began increasing consistently in the third quarter of 2011. The index was 8.4% higher than in the third quarter of last year, but remained below the peak in 2007.

As shown in the table, the annualized rate of new home sales jumped 25.4% in October to 444,000, seasonally adjusted. Though a high increase, the annualized rate is in line with seasonally adjusted rates registered in the first six months of the year (rates from January through June averaged about 445,000). The rate of new home sales slipped in July to 373,000 and further in September to 354,000, its lowest rate of the year.

Over the past 12 months, the average 30-year fixed-rate mortgage interest rate has increased from 3.35% in November 2012 to 4.26% in November 2013, according to the Freddie Mac weekly survey. However, rates have remained below the high mark in 2013 of 4.58% set in late August. Since the series began in 1971, the lowest monthly average rates were recorded in November and December of 2012 at 3.35%.

Construction Activity

Total construction activity was 5.3% higher in October than a year earlier, with private construction up 6.6%, and public construction up 2.3%. In private construction there were high percentage increases in new multifamily residential housing (37.8%), nonresidential lodging (18.6%), and new single-family residential housing (17.8%). In public construction over the last 12 months, there were large percentage increases for power (10.8%) and water supply (10.4%).

From September to October, the rate of total construction activity increased 0.8%, seasonally adjusted, with private construction down 0.5%, and public construction up 3.9%. Private residential construction decreased 0.6% in October, while in that month in the public sector, there were large percentage increases in offices (8.8%), educational (8.5%), and power (8.0%).

Inflation

Consumer Prices

The consumer price index (CPI) for all items less food and energy (core index) increased 0.1% in October, seasonally adjusted. Core CPI is up 1.7% over October of last year. The all-items CPI decreased 0.1% in

Private residential construction decreased 0.6% in October.

The all-items
CPI rose
1.0% over
the last
12 months,
the lowest
12-month
percentage
increase in
the last four
years.

October, mainly due to a 2.9% decrease in the gasoline index. Over the last 12 months, the gasoline index is down 10.1%. The all-items CPI rose 1.0% over the last 12 months, the lowest 12-month percentage increase in the all-items CPI in the last four years.

In November, the average nationwide price for regular gasoline declined to its lowest level of 2013, at \$3.19 per gallon on November 11, according to the U.S. Energy Information Administration's weekly survey of prices at the pump. As of December 2, the average price per gallon nationwide was \$3.27, while the average price in Ohio was \$3.13 per gallon.

Producer Prices

The "core" producer price index (PPI) for finished goods increased 0.2% in October. When energy and food are included, the all-items PPI for finished goods decreased 0.2% in October, led by a 1.5% decrease for finished energy goods, mainly due to lower gasoline prices. The PPI for intermediate goods decreased 0.4%, also largely due to lower prices for energy goods. The PPI for crude goods decreased 0.9%, led by a 2.9% decrease in prices for crude energy goods, particularly crude petroleum. When energy and food are excluded, the indexes for intermediate and crude goods still fell in October. Core PPI for intermediate goods fell 0.1% due to a drop in the index for industrial chemicals. Core PPI for crude goods fell 0.5%, mainly due to a drop in the index for corn and lower prices for gold ores.

Ohio's
unemployment
rate
increased to
7.5% in
October.

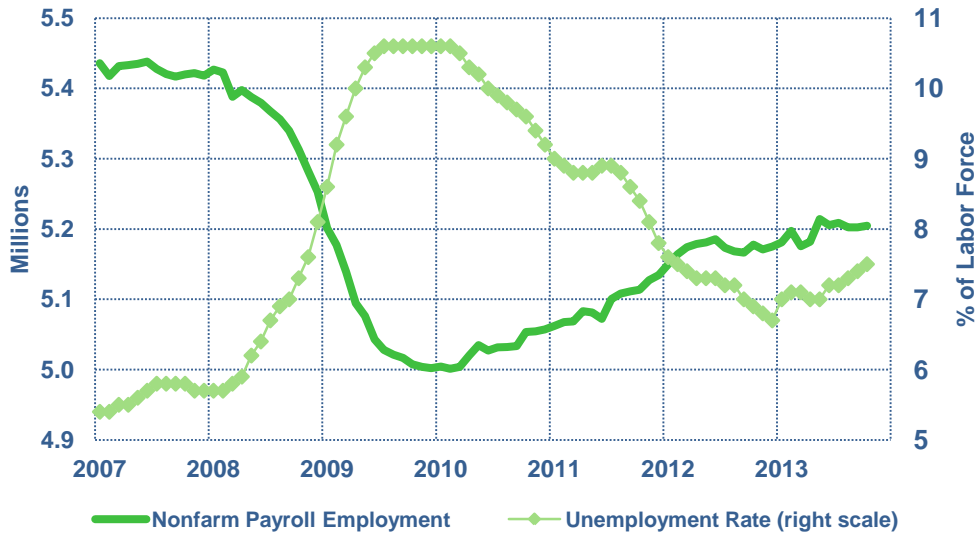
The Ohio Economy

Employment and Unemployment

Total nonfarm payroll employment in Ohio held about level in September and increased by 2,400 in October, seasonally adjusted. Ohio's unemployment rate increased from 7.3% in August to 7.4% in September and to 7.5% in October.¹¹ Trends in employment and the unemployment rate are shown in Chart 7.

¹¹ Due to the federal shutdown in early October, state level employment and unemployment data for September were released by the Ohio Department of Job and Family Services' Bureau of Labor Market Information on November 22, when the division also released revised estimates for August and preliminary data for October.

Chart 7: Ohio Employment and Unemployment



From September to October, employment gains in the private service sector (6,400) and good-producing sector (2,300) outweighed losses in government (-6,300). The largest job gains occurred in trade, transportation, and utilities; leisure and hospitality; construction; financial activities; and other services. Government employment fell at all three levels: local (-4,300), state (-1,400), and federal (-600). Total nonfarm employment in Ohio in October was down 9,200 (0.2%) from its recent peak of about 5.21 million set in May 2013, which was the highest level of seasonally adjusted employment recorded since December 2008.

Since October of last year, employment is up 27,200 (0.5%). This growth is lower than the year-over-year increases in the previous three years. Employment was up by 63,900 (1.2%) in the 12 months ending October 2012, by 60,300 (1.2%) in the 12 months ending October 2011, and by 46,000 (0.9%) in the 12 months ending October 2010.

The number of unemployed job-seekers increased from 425,000 in September to 427,000 in October. The number of unemployed job-seekers is up by 31,000 from October of last year.

Ohio Home Sales

Home sales in Ohio were 8% higher in October than a year earlier, according to the Ohio Association of Realtors, the 28th consecutive month of year-over-year increases in home sales. Homes sold from January through October totaled 110,674, a 16.7% increase from the number of homes sold in the same period a year ago. The average selling price of \$142,820 statewide was 5.4% higher than in the year-earlier period.

Since October of last year, employment in Ohio is up 27,200 (0.5%).

Regional Economy

According to a report from the Federal Reserve Bank of Cleveland, economic activity expanded at a "moderate" pace in this part of the country since a previous report in October.¹² The report noted that:

Shale gas
production
"rose
sharply" in
the region
the third
quarter.

- Manufacturing activity was strongest for suppliers to aerospace, housing, motor vehicle, and oil and gas industries;
- Automobile production was "strong" in October;
- Shale gas production "rose sharply" in the third quarter due to recently completed pipeline connections and gas-processing plants coming online;
- Single-family home sales decreased while construction for multifamily units remained strong;
- New vehicle sales decreased from September to October, while sales of used vehicles increased;
- Most job vacancies were in healthcare and manufacturing;
- Employment growth picked up in construction but was "sluggish" in most industries.

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