Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION FEBRUARY 2014

STATUS OF THE GRF

HIGHLIGHTS

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

GRF tax receipts were $180 million above estimate in January. The main reason was income tax collections, which exceeded estimate primarily due to lower than expected refunds resulting from a delay in the federal tax filing season. A negative variance for the new financial institutions tax was due to receipts expected in January not being received until February; a negative variance for the auto sales tax was likely due to poor winter weather. Weakness in the commercial activity tax continued, and remains a concern.

Ohio's unemployment rate fell to 7.2% in December, from 7.4% in November, though the unemployment rate was higher than it was in December 2012 (when it was 6.7%). There was an increase of about 5,000 in payroll employment for the month.

Through January 2014, GRF sources totaled $17.75 billion:

- Revenue from the personal income tax was $234.3 million above estimate;
- Sales and use tax receipts were $11.7 million above estimate.

Through January 2014, GRF uses totaled $19.19 billion:

- Program expenditures were $58.6 million below estimate, with a (timing-related) large positive variance in Primary and Secondary Education ($447.1 million) nearly offsetting negative variances in the other broad categories.

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Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of January 2014
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on February 5, 2014)

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$89,747	$92,700	-$2,953	-3.2%
Nonauto Sales and Use	$788,145	$770,900	$17,245	2.2%
Total Sales and Use Taxes	$877,893	$863,600	$14,293	1.7%
Personal Income	$1,062,453	$874,300	$188,153	21.5%
Corporate Franchise	$13,307	$0	$13,307	---
Financial Institutions	$41,173	$74,000	-$32,827	-44.4%
Public Utility	-$38	-$200	$162	80.8%
Kilowatt Hour Excise	$25,994	$25,100	$894	3.6%
Natural Gas Consumption (MCF)	$1,967	$900	$1,067	118.6%
Commercial Activity Tax	$29,494	$36,200	-$6,706	-18.5%
Foreign Insurance	$4	$200	-$196	-98.2%
Domestic Insurance	-$6	$0	-$6	---
Business and Property	$0	$0	$0	---
Cigarette	$67,593	$67,200	$393	0.6%
Alcoholic Beverage	$4,209	$3,900	$309	7.9%
Liquor Gallonage	$4,268	$4,300	-$32	-0.7%
Estate	$926	$0	$926	---
Total Tax Revenue	**$2,129,237**	**$1,949,500**	**$179,737**	**9.2%**
NONTAX REVENUE				
Earnings on Investments	$4,678	$2,500	$2,178	87.1%
Licenses and Fees	$3,194	$6,000	-$2,806	-46.8%
Other Revenue	$2,010	$3,625	-$1,615	-44.6%
Total Nontax Revenue	**$9,881**	**$12,125**	**-$2,244**	**-18.5%**
TRANSFERS				
Liquor Transfers	$0	$0	$0	---
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$0	$200	-$200	-100.0%
Total Transfers In	**$0**	**$200**	**-$200**	**-100.0%**
TOTAL STATE SOURCES	**$2,139,118**	**$1,961,825**	**$177,293**	**9.0%**
Federal Grants	$968,988	$801,927	$167,061	20.8%
TOTAL GRF SOURCES	**$3,108,105**	**$2,763,752**	**$344,353**	**12.5%**

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

Table 2: General Revenue Fund Sources
Actual vs. Estimate
FY 2014 as of January 31, 2014
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on February 5, 2014)

	Actual	Estimate*	Variance	Percent	FY 2013	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$679,285	$657,400	$21,885	3.3%	$617,573	10.0%
Nonauto Sales and Use	$4,711,104	$4,721,300	-$10,196	-0.2%	$4,360,126	8.0%
Total Sales and Use Taxes	$5,390,389	$5,378,700	$11,689	0.2%	$4,977,698	8.3%
Personal Income	$5,336,534	$5,102,200	$234,334	4.6%	$5,515,063	-3.2%
Corporate Franchise	-$5,236	$0	-$5,236	---	$79,776	-106.6%
Financial Institutions	$41,293	$74,000	-$32,707	-44.2%	$0	---
Public Utility	$48,096	$46,100	$1,996	4.3%	$45,005	6.9%
Kilowatt Hour Excise	$173,941	$181,550	-$7,609	-4.2%	$182,119	-4.5%
Natural Gas Consumption (MCF)	$20,676	$17,900	$2,776	15.5%	$16,959	21.9%
Commercial Activity Tax	$418,122	$453,939	-$35,817	-7.9%	$430,251	-2.8%
Foreign Insurance	$146,641	$142,700	$3,941	2.8%	$142,882	2.6%
Domestic Insurance	$98	$1,000	-$902	-90.2%	$4,625	-97.9%
Business and Property	$455	$0	$455	---	$371	22.6%
Cigarette	$438,473	$435,000	$3,473	0.8%	$438,452	0.0%
Alcoholic Beverage	$32,669	$32,100	$569	1.8%	$32,059	1.9%
Liquor Gallonage	$25,187	$24,700	$487	2.0%	$24,416	3.2%
Estate	$30,045	$21,400	$8,645	40.4%	$73,579	-59.2%
Total Tax Revenue	**$12,097,384**	**$11,911,289**	**$186,095**	**1.6%**	**$11,963,257**	**1.1%**
NONTAX REVENUE						
Earnings on Investments	$8,442	$5,500	$2,942	53.5%	$4,474	88.7%
Licenses and Fees	$14,053	$42,000	-$27,947	-66.5%	$17,094	-17.8%
Other Revenue	$19,542	$25,375	-$5,833	-23.0%	$19,607	-0.3%
Total Nontax Revenue	**$42,036**	**$72,875**	**-$30,839**	**-42.3%**	**$41,174**	**2.1%**
TRANSFERS						
Liquor Transfers	$0	$0	$0	---	$88,000	-100.0%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$52,730	$6,400	$46,330	723.9%	$9,251	470.0%
Total Transfers In	**$52,730**	**$6,400**	**$46,330**	**723.9%**	**$97,251**	**-45.8%**
TOTAL STATE SOURCES	**$12,192,151**	**$11,990,564**	**$201,587**	**1.7%**	**$12,101,682**	**0.7%**
Federal Grants	$5,555,133	$5,373,935	$181,198	3.4%	$4,815,589	15.4%
TOTAL GRF SOURCES	**$17,747,284**	**$17,364,499**	**$382,784**	**2.2%**	**$16,917,271**	**4.9%**

* 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

Through January, GRF tax receipts in FY 2014 were $186.1 million above estimate.

GRF sources[1] totaled $3.11 billion in January 2014. These sources were $344.4 million above the estimate released by the Office of Budget and Management (OBM) in September 2013. Both tax sources and federal grants were strongly above projected revenues, respectively, by $179.7 million and $167.1 million. Those positive variances were partly offset by a negative variance of $2.4 million in nontax revenues and transfers in. Federal grants in January increased the year-to-date variance for this GRF source to $181.2 million, up from $14.1 million for the first half of FY 2014. Similarly, the monthly revenue of GRF tax sources pushed this category's year-to-date positive variance to $186.1 million, up from $6.4 million at the end of December 2013. Overall, state source receipts were $201.6 million above projected receipts through January 2014. Tables 1 and 2 show GRF sources for the month of January and for FY 2014 through January, respectively.

Through January FY 2014 GRF sources were $382.8 million above estimate.

Revenue from the personal income tax, which was $188.2 million above estimate, headlined the strong performance of tax revenues in January 2014. The sales and use tax and the corporate franchise tax (CFT) were also above estimates, respectively, by $14.3 million and $13.3 million in January. January's performance reduced the CFT year-to-date negative variance to $5.2 million, down from $18.5 million through December 2013. The natural gas consumption tax (by $1.1 million) and the estate tax (by $0.9 million) were the other tax sources noticeably above estimate. On the other hand, the yield of the first payment for the financial institutions tax (FIT) in FY 2014 of $41.2 million was $32.8 million below estimate.[2] Also, the commercial activity tax (CAT) was $6.7 million below estimate, while the remaining tax sources experienced smaller monthly variances. For the fiscal year through January, nontax revenues were $30.8 million below estimate, mostly from less than expected revenues from licenses and fees; and transfers in, the bulk of which were transferred from the Commercial

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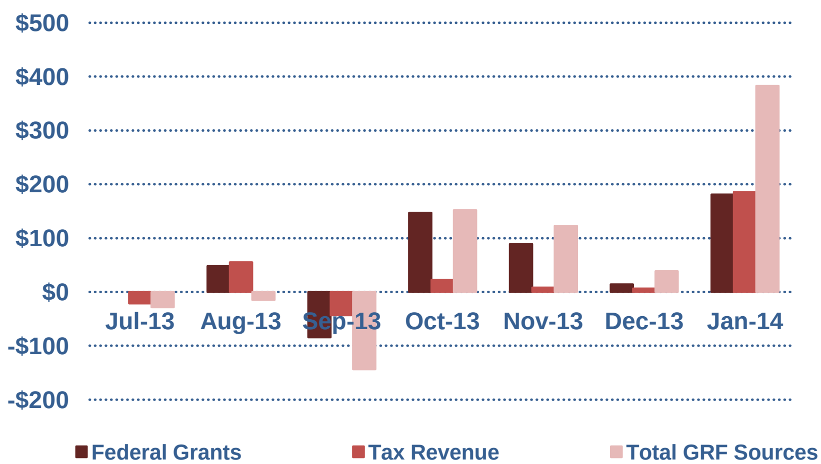
[1] GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants, which are federal reimbursements for Medicaid and certain other human service programs.

[2] The other two main payments in a fiscal year are due March 31 and May 31. The shortfall in January is entirely due to timing, as FIT receipts were $38.0 million over the February estimate as of February 10, 2014.

Activity Tax Motor Fuel Receipts Fund into the GRF, came in $46.3 million above estimate.

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 $382.8 million above estimate. Regarding tax revenue, as shown in Table 2, through January 2014, the personal income tax, the auto sales tax, and the estate tax had the largest positive variances while the CAT, the FIT, the nonauto sales tax, 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)



Through January, FY 2014 GRF sources were $830.0 million above GRF sources in FY 2013.

Compared to FY 2013, FY 2014 total GRF sources increased $830.0 million. Increases of $739.5 million, $134.1 million, and $0.9 million, respectively, in federal grants, tax revenues, and nontax revenues were partially offset by a decrease of $44.5 million in transfers in. 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 declined $178.5 million, while those from the sales and use tax increased $412.7 million. On the other hand, CFT and estate tax receipts declined $85.0 million and $43.5 million, respectively, primarily from recent tax law changes. As explained in previous issues of *Budget Footnotes*, year-over-year comparisons of receipts from the personal income tax and the sales tax are complicated by changes in H.B. 59, the current operating budget act. H.B. 59 reduced income tax rates by 8.5% for tax year (TY) 2013, and withholding tax rates were reduced by 9.0% starting in September to reflect that. Similarly, the increase in sales and use tax receipts over the prior year reflects, in part, the increase in the tax rate from 5.5% to 5.75% in September, also enacted in the budget act. Also, the sharp decline in CFT receipts is due mostly to its elimination by H.B. 510 of the 129th General Assembly, while the estate tax was repealed for dates of death beginning in calendar year 2013 by H.B. 153 of the 129th General Assembly.

Personal Income Tax

January GRF receipts from the personal income tax of $1.06 billion were $188.2 million (21.5%) above estimate, but $173.0 million (14.0%) below receipts in the same month a year ago. 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,[3] trust payments, payments associated with annual returns, and miscellaneous payments.

In January, monthly employer withholding was $18.8 million (2.4%) below estimate. However, refunds were $116.1 million (63.4%) below the anticipated level in January, due mostly to the Internal Revenue Service's delay in accepting and processing federal tax returns.[4] This timing effect is expected to reverse in February. Quarterly estimated payments and taxes due with annual returns, which were, respectively, $72.4 million (26.5%) and $21.5 million (183.7%) above estimates also boosted monthly receipts. Personal income tax revenue in January 2014 was below revenue in the corresponding month last year due to the delay in filing and processing returns as explained above, but also to a lower tax rate on withholdings, and lower quarterly estimated payments than in January 2013.[5]

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[3] 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.

[4] Ohio income tax returns start with a figure calculated in the federal income tax return. Most taxpayers would generally file the federal and Ohio returns at the same time. This year's federal filing season started January 31, 2014, about two weeks later than usual. This also delayed into February Ohio tax refunds that would have been paid in January.

[5] January 2013 quarterly estimated tax payments were enhanced by early bonus payments and dividends, and increased sales of assets in late 2012.

For the fiscal year through January, the GRF has received $5.34 billion from the personal income tax, $234.3 million (4.6%) 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, withholding receipts were almost in line with estimate; the positive year-to-date variance was mostly due to lower than expected refunds, and higher than anticipated receipts from annual tax return payments and quarterly estimated payments. Those positive variances were partly offset by shortfalls in miscellaneous receipts and trust payments.

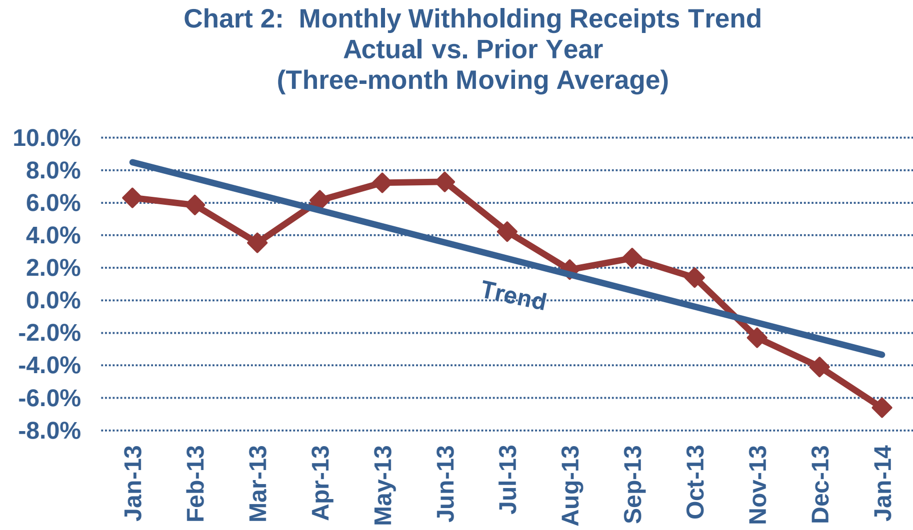
Through January, FY 2014 GRF income tax receipts were $234.3 million above estimates.

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	-$0.7	-0.0%	-$90.0	-1.9%
Quarterly Estimated Payments	$54.8	7.0%	-$67.0	-7.4%
Trust Payments	-$4.8	-16.5%	-$27.8	-53.6%
Annual Return Payments	$31.0	19.4%	$47.5	33.2%
Miscellaneous Payments	-$12.5	-18.3%	-$5.8	-9.4%
Gross Collections	$67.8	1.2%	-$143.2	-2.4%
Less Refunds	-$167.4	-40.5%	$34.0	16.1%
Less LGF Distribution	$0.9	0.5%	$1.4	0.7%
Income Tax Revenue	$234.3	4.6%	-$178.5	-3.2%

Through January, FY 2014 withholding tax receipts were nearly in line with estimates.

FY 2014 GRF receipts from the income tax were $178.5 million (3.2%) below receipts in the corresponding period in FY 2013. Through January, FY 2014 revenues from employer withholding were $90.0 million (1.9%) 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. Quarterly estimated payments declined $67.0 million (7.4%) and payments by trusts fell $27.8 million (53.6%), but annual return payments increased $47.5 million (33.2%). Chart 2 illustrates the trend in employer withholding receipts in 2013.



Sales and Use Tax

Through January, FY 2014 sales and use tax receipts were $11.7 million above estimate.

January GRF receipts from the sales and use tax of $877.9 million were $14.3 million (1.7%) above estimate, and $105.2 million (13.6%) above receipts in January 2013. Year to date, FY 2014 GRF sales and use tax receipts totaled $5.39 billion, $11.7 million (0.2%) above estimate, and $412.7 million (8.3%) above receipts in the corresponding period last year. The increase in receipts is due, in part, to the state sales tax rate increase from 5.5% to 5.75% enacted by H.B. 59. For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[6] 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 January, the positive revenue variance in the nonauto sales tax more than offset the negative variance of the auto tax.

Nonauto Sales and Use Tax

The nonauto sales and use tax started the second half with a relatively good performance, after a poor first quarter and some improvement in the second quarter. Through September 2013, this tax source was $32.8 million below estimate. At the end of December 2013,

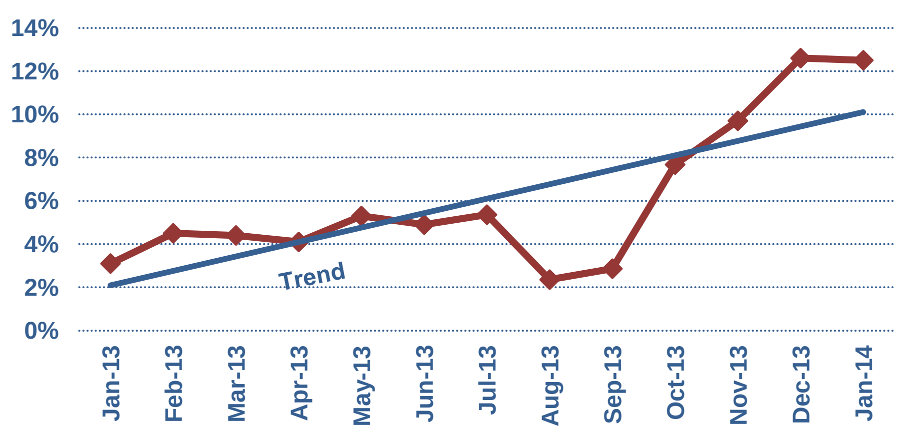
[6] The clerks of court generally make auto sales and use tax payments on Monday for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled. Therefore, auto sales and use tax receipts largely reflect vehicles sold and titled during the month.

the cumulative negative variance had fallen to $27.4 million. January GRF receipts from this tax of $788.1 million, $17.2 million (2.2%) above estimate, reduced the year-to-date revenue shortfall to $10.2 million (0.2%). Monthly receipts were $101.9 million (14.9%) above receipts in January 2013. Total nonauto sales and use tax receipts of $4.71 billion through January 2014 were $351.0 million (8.0%) above revenue in the corresponding period in FY 2013.

Through January, FY 2014 nonauto sales tax receipts were $10.2 million below estimate.

FY 2014 year-to-date receipts include $260.0 million in tax payments by Medicaid health insuring corporations; those receipts rose $37.8 million (17.0%) 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. Nonauto sales and use tax revenue has improved in recent months, after weak first-quarter results in FY 2014. Growth in the taxable base was about 5.5% in the first seven months of FY 2014, when compared to the corresponding period in FY 2013.

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



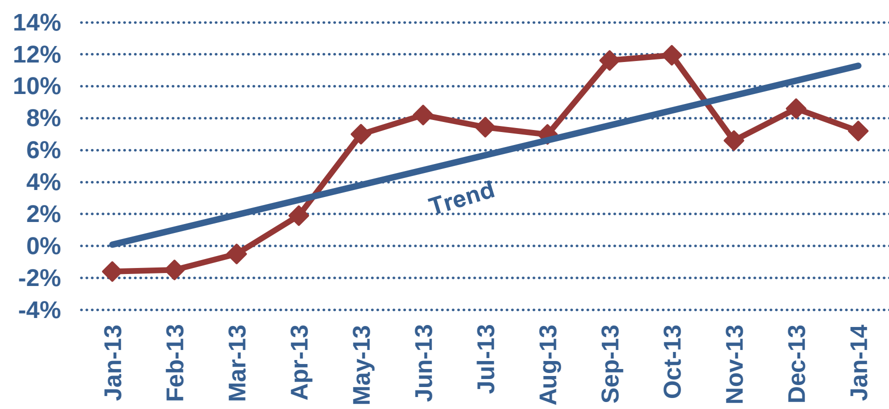
Auto Sales and Use Tax

January GRF receipts from the auto sales and use tax of $89.7 million were $3.0 million (3.2%) below estimate, but $3.3 million (3.8%) above January 2013 receipts. This monthly performance reduced the year-to-date positive variance of this tax source to $21.9 million (3.3%) through January, down from $24.8 million at the end of the first half of FY 2014. For the fiscal year, GRF revenue from the auto sales and use tax of $679.3 million was $61.7 million (10.0%) 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. Despite the poor performance of the tax in the latest month,

Through January FY 2014 auto sales and use tax receipts were $21.9 million above estimate.

the auto sales tax base has grown about 6% through January 2014, when compared to the corresponding period in FY 2013.

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



Vehicle manufacturers reported sales of 15.2 million light vehicles in January 2014 on a seasonally adjusted annualized basis, down from 15.3 million units in December 2013, and sales were about equal to those of January 2013. Manufacturers blamed a harsh winter for temporarily depressing vehicle sales, which implies, if true, that auto sales should pick up in coming months. Most forecasters expect nationwide sales of automobiles and light trucks to be between 16.5 million and 17 million units this calendar year, up from a total of 15.5 million units in 2013.

Commercial Activity Tax

Through January FY 2014 GRF CAT receipts were $35.8 million below estimate.

January GRF receipts from the CAT were $29.5 million, $6.7 million (18.5%) below estimate and $3.3 million (10.0%) below January 2013 revenue. The tax has failed to keep up with the general improvement in the economy over the past year. Through January, FY 2014 CAT receipts to the GRF totaled $418.1 million, $35.8 million (7.9%) below estimate, and $12.1 million (2.8%) below receipts in the corresponding period in FY 2013. FY 2014 all-funds CAT receipts were $854.0 million, $20.6 million (2.4%) below revenue in FY 2013. Calendar quarter taxpayers, those with gross receipts exceeding $1 million, 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). The next payment for calendar quarter taxpayers is due by February 10, 2014.

Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax of $67.6 million in January 2014 were $0.4 million (0.6%) above estimate, but $2.7 million (3.9%) below receipts in the same month in FY 2013. Through January, FY 2014 receipts of $438.5 million were $3.5 million (0.8%) above estimate. Receipts from cigarette sales were $405.6 million, and sales of products other than cigarettes provided $32.9 million. Compared to FY 2013, total receipts were almost flat. A decrease of $1.9 million in revenue from cigarette sales was nearly matched by an increase in revenue from the sales of other tobacco products. Generally, revenue from the cigarette and other tobacco tax declines every year.

Through January, FY 2014 cigarette tax receipts were $3.5 million above estimate.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of January 2014
($ in thousands)
(Actual based on OAKS reports run February 3, 2014)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary and Secondary Education	$808,744	$594,991	$213,752	35.9%
Higher Education	$176,227	$166,177	$10,050	6.0%
Other Education	$2,941	$6,519	-$3,578	-54.9%
Total Education	$987,912	$767,687	$220,225	28.7%
Medicaid	$1,172,766	$1,270,207	-$97,442	-7.7%
Health and Human Services	$101,609	$140,888	-$39,279	-27.9%
Total Welfare and Human Services	$1,274,375	$1,411,096	-$136,721	-9.7%
Justice and Public Protection	$178,598	$183,059	-$4,461	-2.4%
General Government	$36,353	$34,125	$2,228	6.5%
Total Government Operations	$214,951	$217,184	-$2,233	-1.0%
Property Tax Reimbursements	-$11	$22	-$33	-148.9%
Capital Outlay	$0	$0	$0	---
Debt Service	$117,664	$120,066	-$2,401	-2.0%
Total Other Expenditures	$117,654	$120,087	-$2,434	-2.0%
Total Program Expenditures	**$2,594,891**	**$2,516,055**	**$78,837**	**3.1%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$15	$6,561	-$6,545	-99.8%
Total Transfers Out	$15	$6,561	-$6,545	-99.8%
TOTAL GRF USES	**$2,594,907**	**$2,522,615**	**$72,292**	**2.9%**

* 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 January 31, 2014
($ in thousands)
(Actual based on OAKS reports run February 3, 2014)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary and Secondary Education	$4,390,272	$3,943,186	$447,085	11.3%
Higher Education	$1,210,506	$1,220,247	-$9,741	-0.8%
Other Education	$32,698	$37,646	-$4,949	-13.1%
Total Education	$5,633,476	$5,201,080	$432,396	8.3%
Medicaid	$8,482,785	$8,791,218	-$308,434	-3.5%
Health and Human Services	$754,666	$873,646	-$118,981	-13.6%
Total Welfare and Human Services	$9,237,450	$9,664,865	-$427,414	-4.4%
Justice and Public Protection	$1,108,335	$1,134,033	-$25,697	-2.3%
General Government	$215,588	$230,693	-$15,105	-6.5%
Total Government Operations	$1,323,923	$1,364,725	-$40,802	-3.0%
Property Tax Reimbursements	$893,056	$903,194	-$10,138	-1.1%
Capital Outlay	$0	$0	$0	---
Debt Service	$889,564	$902,199	-$12,636	-1.4%
Total Other Expenditures	$1,782,620	$1,805,394	-$22,774	-1.3%
Total Program Expenditures	**$17,977,469**	**$18,036,063**	**-$58,595**	**-0.3%**
TRANSFERS				
Budget Stabilization	$995,930	$995,930	$0	0.0%
Other Transfers Out	$216,029	$234,148	-$18,119	-7.7%
Total Transfers Out	$1,211,959	$1,230,079	-$18,119	-1.5%
TOTAL GRF USES	**$19,189,428**	**$19,266,142**	**-$76,714**	**-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 February 3, 2014)

	January				Year to Date Through January			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	$620,979	$646,552	-$25,573	-4.0%	$4,343,411	$4,415,124	-$71,713	-1.6%
Nursing Facilities	$203,377	$211,125	-$7,748	-3.7%	$1,428,643	$1,449,099	-$20,456	-1.4%
DDD Services	$164,504	$195,209	-$30,705	-15.7%	$1,293,443	$1,340,253	-$46,811	-3.5%
Hospitals	$85,593	$103,854	-$18,261	-17.6%	$726,021	$789,972	-$63,951	-8.1%
Behavioral Health	$51,398	$83,419	-$32,020	-38.4%	$452,090	$514,139	-$62,049	-12.1%
Administration	$55,777	$101,566	-$45,789	-45.1%	$445,814	$592,428	-$146,614	-24.7%
Aging Waivers	$39,520	$56,056	-$16,536	-29.5%	$311,490	$363,649	-$52,158	-14.3%
Prescription Drugs	$29,651	$36,629	-$6,978	-19.1%	$231,965	$277,948	-$45,983	-16.5%
Medicare Buy-In	$35,754	$37,791	-$2,037	-5.4%	$251,717	$253,442	-$1,725	-0.7%
Physicians	$125,726	$98,193	$27,533	28.0%	$591,751	$499,353	$92,399	18.5%
Medicare Part D	$25,052	$26,564	-$1,512	-5.7%	$175,714	$183,322	-$7,608	-4.2%
Home Care Waivers	$19,225	$19,754	-$529	-2.7%	$148,406	$151,698	-$3,291	-2.2%
All Other	$103,989	$121,190	-$17,201	-14.2%	$756,618	$868,141	-$111,523	-12.8%
Total All Funds	**$1,560,544**	**$1,737,900**	**-$177,356**	**-10.2%**	**$11,157,082**	**$11,698,565**	**-$541,483**	**-4.6%**

* 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 February 3, 2014

	Month of January 2014				Year to Date Through January 2014			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid	**$1,380,748**	**$1,513,819**	**-$133,071**	**-8.8%**	**$9,732,557**	**$10,181,703**	**-$449,146**	**-4.4%**
GRF	$1,129,504	$1,225,907	-$96,403	-7.9%	$8,171,456	$8,475,033	-$303,577	-3.6%
Non-GRF	$251,244	$287,912	-$36,668	-12.7%	$1,561,101	$1,706,670	-$145,568	-8.5%
Developmental Disabilities	**$166,991**	**$205,470**	**-$38,478**	**-18.7%**	**$1,328,666**	**$1,384,498**	**-$55,832**	**-4.0%**
GRF	$38,517	$38,629	-$111	-0.3%	$270,112	$272,203	-$2,091	-0.8%
Non-GRF	$128,474	$166,841	-$38,367	-23.0%	$1,058,554	$1,112,295	-$53,741	-4.8%
Job and Family Services	**$10,697**	**$14,509**	**-$3,812**	**-26.3%**	**$77,532**	**$111,746**	**-$34,214**	**-30.6%**
GRF	$4,224	$5,014	-$790	-15.8%	$36,212	$38,436	-$2,225	-5.8%
Non-GRF	$6,473	$9,495	-$3,022	-31.8%	$41,321	$73,310	-$31,989	-43.6%
Aging	**$735**	**$574**	**$161**	**28.0%**	**$3,426**	**$3,802**	**-$376**	**-9.9%**
GRF	$264	$263	$0	0.1%	$2,001	$2,036	-$35	-1.7%
Non-GRF	$471	$310	$161	51.7%	$1,425	$1,765	-$340	-19.3%
Health	**$1,183**	**$3,063**	**-$1,879**	**-61.4%**	**$11,861**	**$12,917**	**-$1,056**	**-8.2%**
GRF	$257	$255	$3	1.0%	$1,977	$1,848	$129	7.0%
Non-GRF	$926	$2,808	-$1,882	-67.0%	$9,884	$11,069	-$1,185	-10.7%
Mental Health and Addiction	**$189**	**$465**	**-$276**	**-59.3%**	**$3,039**	**$3,900**	**-$861**	**-22.1%**
GRF	$0	$140	-$140	-100.0%	$1,027	$1,662	-$635	-38.2%
Non-GRF	$189	$325	-$136	-41.7%	$2,013	$2,239	-$226	-10.1%
Total GRF	**$1,172,766**	**$1,270,207**	**-$97,442**	**-7.7%**	**$8,482,785**	**$8,791,218**	**-$308,434**	**-3.5%**
Total Non-GRF	**$387,778**	**$467,692**	**-$79,914**	**-17.1%**	**$2,674,298**	**$2,907,347**	**-$233,049**	**-8.0%**
Total All Funds	**$1,560,544**	**$1,737,900**	**-$177,356**	**-10.2%**	**$11,157,082**	**$11,698,565**	**-$541,483**	**-4.6%**

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

For the first seven months of FY 2014, GRF uses were $76.7 million below estimate.

EXPENDITURES

– Russ Keller, Economist, 614-644-1751

– Wendy Risner, Senior Budget Analyst, 614-644-9098

Overview

Tables 3 and 4 show GRF uses for the month of January and for FY 2014 through January, respectively. GRF uses mainly consist of program expenditures but also include transfers out. For the first seven months of FY 2014, GRF program expenditures were $58.6 million below the estimate released by the Office of Budget and Management (OBM) in September 2013. GRF transfers out were $18.1 million below estimate. GRF uses as a whole were $76.7 million below their year-to-date estimate.

For reporting purposes, GRF program expenditures are grouped into nine categories.[7] As seen from Table 4, expenditures from eight out of the nine program categories were below their year-to-date estimates. Due mainly to timing issues, year-to-date expenditures from the Primary and Secondary Education program category were $447.1 million above estimate. This positive variance was entirely offset by the negative variances in the other eight program categories, which total $505.7 million. The two program categories that had the largest negative year-to-date variances were Medicaid, at $308.4 million, and Health and Human Services, at $119.0 million. The remainder of this report will briefly discuss the variances in Primary and Secondary Education, Medicaid, and Health and Human Services.

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

Primary and Secondary Education

GRF expenditures from the Primary and Secondary Education program category were $808.7 million for the month of January, $213.8 million (35.9%) above estimate. This monthly variance increased the category's positive year-to-date variance from $233.3 million (7.0%) at the end of December to $447.1 million at the end of January (11.3%). School foundation payments are the main culprit behind these positive variances. Expenditures from the Department of Education's GRF appropriation item 200550, Foundation Funding, the primary funding source of school foundation payments, were $174.8 million above estimate in January and $430.2 million above estimate for the year to date. The item's large positive year-to-date variance was partly due to

[7] A tenth category, Capital Outlay has had no expenditures through the end of January.

timing of payments. School foundation payments are made twice per month. The first February payment was made on February 7. 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 January, resulting in a large positive monthly variance.

The item's large positive year-to-date variance was also due to the standard practice followed by the Department of Education when adjusting for over and under payments to school districts. As indicated in prior issues of *Budget Footnotes*, for the first quarter of FY 2014, schools were largely paid based on what they received in FY 2013. The school funding formula enacted in H.B. 59 for FY 2014, which increases total funding allocations for most districts, became effective on October 1, 2013. FY 2014 October student count data became available for the first payment in December. Schools have been paid under the new formula since October and under the new student enrollment data since December. The Department of Education's standard practice is to include retroactive payments for the already completed portion of the fiscal year when new calculations indicate an annual funding increase for a school and to spread any reductions across the remainder of the fiscal year if new calculations indicate an annual funding decrease for a school. This practice contributes to the large positive year-to-date variance in item 200550 since total funding allocations for most school districts increase in FY 2014. The positive variance in item 200550 should narrow gradually in the remaining months of FY 2014

Medicaid

Year-to-date GRF Medicaid spending was $308.4 million below estimate while all-funds spending was $541.5 million below estimate.

GRF Medicaid expenditures were $1.17 billion for the month of January, $97.4 million (7.7%) below estimate. This monthly variance increased the category's negative year-to-date variance from $211.0 million (2.8%) at the end of December to $308.4 million (3.5%) at the end January. 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 about $11.16 billion, which was $541.5 million (4.6%) 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 except for one payment category. The category with a positive year-to-date variance is Physicians ($92.4 million, 18.5%). Categories with significant negative year-to-date variances include Administration ($146.6 million, 24.7%), All Other ($111.5 million, 12.8%), and Managed Care ($71.7 million, 1.6%).

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, had the largest year-to-date variance. GRF year-to-date expenditures for ODM totaled $8.17 billion, which was $303.6 million (3.6%) 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 $284.0 million below their year-to-date estimate. Expenditures for items 651425 and 651526 were also below estimate by $11.9 million and $7.6 million respectively.

ODM's non-GRF Medicaid expenditures totaled $1.56 billion, which was $145.6 million (8.5%) below their year-to-date estimate. The main contributors were appropriation items 651623, Medicaid Services - Federal ($56.2 million), and 651624, Medicaid Program Support – Federal ($107.0 million). These negative variances were partially offset by a positive year-to-date variance of $42.4 million in item 651603, Medicaid Health Information Technology. Across all funds, ODM's year-to-date expenditures totaled $9.73 billion, which was $449.1 million (4.4%) below estimate.

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 $101.6 million for the month of January, $39.3 million (27.9%) below estimate. This monthly variance increased the category's negative year-to-date variance from $79.7 million (10.9%) at the end of December to $119.0 million (13.6%) at the end of January.

The Ohio Department of Job and Family Services (ODJFS) accounted for $82.3 million of the category's negative year-to-date variance. As reported in prior issues of *Budget Footnotes*, ODJFS primarily used federal dollars for child care subsidy payments last October because it was uncertain whether GRF payments during the partial federal government shutdown would be counted toward the state's maintenance of effort requirement. As a result, two items that provide GRF funding for child care subsidy payments – item 600413, Child Care State/Maintenance of Effort, and item 600535, Early Care and Education – had a combined negative year-to-date variance of $68.9 million at the end of October. Through the end of January, these two items' expenditures were still $43.8 million below their year-to-date estimates. Other items in the ODJFS budget that had significant negative year-to-date variances include item 600410, TANF State/Maintenance of Effort ($16.0 million); item 600416, Information Technology Projects ($7.0 million); and item 600321, Program Support ($6.7 million).

The Ohio Department of Mental Health and Addiction Services (OMHAS) contributed another $24.6 million to the Health and Human Services program category's total negative year-to-date variance. Expenditures from item 335421, Continuum of Care Services, were $14.7 million below their year-to-date estimate. This item is used to distribute funds to local boards for mental health and alcohol, drug, and gambling addiction services to meet locally determined needs. Expenditures from item 335507, Community Behavioral Health, were also $11.2 million below estimate. Funds provided under this item are distributed to community alcohol, drug, addiction, and mental health services boards to provide behavioral health services. The negative variances in these two items were somewhat offset by positive variances in other line items.

Finally, the Department of Health (DOH) also contributed $8.7 million to the category's total negative year-to-date variance. Year-to-date expenditures from item 440418, Immunizations, were $5.0 million below estimate. Several other line items in the DOH budget accounted for the remainder of the negative variance. Item 440418 is used to purchase vaccines for immunization against vaccine-preventable infectious disease for children who do not qualify for the federal Vaccines for Children Program.

ISSUE UPDATES

Development Services Agency Announces FY 2014 Incumbent Workforce Training Voucher Program Recipients

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

On January 16, 2014, the Development Services Agency (DSA) announced the second year of grant recipients for the Ohio Incumbent Workforce Training Voucher Program. In all, the FY 2014 awards will go to 620 companies, with the vouchers valued at a total of $27.0 million. The program, begun in FY 2013, reimburses an employer's cost for training existing workers, up to $4,000 per employee. Eligible employees must be Ohio residents who earn at least 150% of the federal minimum wage (currently $10.88 per hour) and work in one of the following business functions: production, back office operations, information technology, logistics, or research and development.

The training subsidized under the program must relate to the employee's position or future advancement within the company. Eligible training opportunities include credit or noncredit classroom education related to the employee's field of work, computer proficiency, training related to new equipment, or instruction that leads to an industry-recognized certificate. Training for soft-skills does not qualify. Companies must match at least 50% of the training costs, and may receive up to $250,000 in aggregate per fiscal year. The table below displays the FY 2014 awards by the 13 industries targeted under the program. To actually receive the voucher reimbursement pledged by DSA, the employee must complete the training by June 30, 2014.

FY 2014 Incumbent Workforce Training Voucher Program Awards by Industry Type					
Industry Type	**Number of Businesses**	**Award Total***	**Industry Type**	**Number of Businesses**	**Award Total***
Advanced Manufacturing	255	$10,890,000	Food Processing	14	$433,000
Aerospace and Aviation	24	$1,002,000	ICD-10 (Medical Coding)	22	$653,000
Automotive	47	$1,688,000	Information Technology	85	$4,861,000
BioHealth	5	$368,000	Logistics	7	$255,000
Corporate Headquarters	74	$3,424,000	Polymers and Chemicals	38	$1,313,000
Energy	22	$1,299,000	Research and Development	10	$105,000
Financial Services	17	$704,000			
			TOTAL – ALL INDUSTRIES	**620**	**$26,996,000**

*The award totals are rounded to the thousands of dollars.

The Ohio Incumbent Workforce Training Voucher Program is appropriated $30.0 million in FY 2014 through line item 195526, Incumbent Workforce Training

Vouchers. This appropriation is supported by one-time revenue from casino licensing fees deposited into the Incumbent Workforce Job Training Fund (Fund 5HR0).

Department of Agriculture Announces $6.0 million Allocated for Agricultural Easement Purchases under the Clean Ohio Conservation Fund

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

On December 9, 2013, the Ohio Department of Agriculture (ODA) announced that 17 land trusts, counties, and local soil and water conservation districts would receive a total of $6.0 million in 2014 to manage the state's Local Agricultural Easement Purchase Program (LAEPP). These 17 local sponsors are now certified to accept LAEPP applications from landowners in up to 46 counties. The application period began on January 15, 2014, and in most cases will last for 90 days. Funding for the program comes from ODA's allocation under the state's Clean Ohio Conservation Fund, which was approved by voters in 2008. ODA estimates that the local sponsors will be able to leverage the state funding to acquire agricultural easements worth up to $18.0 million (a 1:3 basis) from the Farm Lands Protection Program administered by the United States Department of Agriculture. This would bring the potential total available to buy agricultural easements within these 46 counties to $24.0 million.

The LAEPP allows landowners to voluntarily sell easements on their farms to the state, ensuring that the qualifying land remains in agricultural production permanently. Eligible farms must be at least 40 acres, in active use, enrolled in the Current Agricultural Use Valuation Program, and removed from development. In addition, farm owners must show proper stewardship of the land and have support from local government for their farmland to qualify. Payments are capped at $2,000 per acre with a maximum of $500,000 per farm. Statewide, as of June 30, 2013, LAEPP easements had been purchased on 228 farms totaling 42,677 acres. A map showing the number of agricultural easements by county can be found on ODA's website at http://www.agri.ohio.gov/farmland/docs/Farm_ASA_AgMap.pdf.

Ohio Receives a $10.8 Million Performance Bonus

– Wendy Risner, Senior Budget Analyst, 614-644-9098

On December 30, 2013, the Centers for Medicare and Medicaid Services announced that Ohio was awarded a $10.8 million performance bonus for successfully enrolling children onto the Medicaid Program. Ohio was one of the 23 states to receive such a bonus in federal fiscal year (FFY) 2013. In order to qualify, states had to implement measures to simplify enrollment procedures and increase the number of children enrolled onto the Medicaid Program. Ohio became qualified for a bonus by implementing several measures including: easing the application process by eliminating the requirement for a face-to-face interview; guaranteeing continued Medicaid coverage for at least one year regardless of certain changes in circumstances; and providing presumptive eligibility for children who appear to be Medicaid-eligible.

The performance bonuses were established under the Children's Health Insurance Program Reauthorization Act of 2009 and have been awarded annually since FFY 2009. FFY 2013 is the last year that these performance bonuses will be awarded. Ohio also received performance bonuses in previous years – $19.0 million in FFY 2012, $20.8 million in FFY 2011, and $13.1 million in FFY 2010. As of this writing, the detailed plan for how to spend the $10.8 million performance bonus has not yet been developed. However, bonus awards have previously been used to fund a variety of health initiatives such as increasing early identification and intervention efforts for autism, providing additional community addiction treatment services, expanding access to patient-centered medical homes, and providing research funds for childhood asthma and neonatal abstinence syndrome.

Cash Assistance Caseload at Lowest Level in Program's History

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

In December 2013, the Ohio Works First (OWF) cash assistance caseload totaled about 63,700, the lowest level since the program was established in 1997. Due to the low caseloads, OWF expenditures totaled $290 million in calendar year 2013, the lowest annual total recorded. The caseload has declined steadily over the past three years, from about 101,000 in December 2010, a decrease of 37%.

OWF caseloads have declined in recent years due to a number of factors. First, caseloads have decreased due to the 36-month time limit on benefits. Second, caseloads have fallen due to the state's corrective compliance plan with the federal government beginning in October 2011. Under this plan, in order to meet federal work participation requirements, the Ohio Department of Job and Family Services has terminated some assistance groups for not working, and county departments of job and family services have denied eligibility to some assistance groups for not participating in job readiness activities. Finally, OWF caseloads have decreased over the past three years as the economy has improved.

To be eligible for OWF, an assistance group must have at least one child and family income must be less than 50% of the federal poverty guidelines (about $9,765 annually for a family of three). The most recent average monthly payment per assistance group was about $362. Benefits are limited to 36 months but, in some cases, may be extended up to 60 months due to hardship. For child-only cases, there are no time limits for cash benefits. In 2013, about 80% of OWF beneficiaries were children.

OWF cash benefits are provided under the federal Temporary Assistance for Needy Families (TANF) Program. Under TANF, states receive a federal block grant of the same amount each year, and must meet a maintenance of effort (MOE) requirement. Ohio's federal block grant each year totals $728 million and the state MOE (the majority of which is paid out of the GRF) totals about $417 million. In addition to providing OWF cash benefits, TANF funds are used for other public assistance programs such as child care, noncash support programs, summer youth employment programs, and funding to local food banks.

Board of Regents Issues Recommendations for College Credit Plus Program

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

As required by H.B. 59, the Board of Regents (BOR) released a report in January 2014 detailing its recommendations for implementing the College Credit Plus Program[8] beginning in the 2014-2015 school year. The program is to allow high school students to take courses that earn both high school and college credit. It is to replace the state's current dual enrollment system, the Post-Secondary Enrollment Options Program (PSEO). The report contains 47 recommendations focused on six goals. These goals and some of the specific recommendations are listed below.

- **Clearly define the College Credit Plus Program**. The program will govern only courses where successful completion of the course automatically results in dual credit and where the course is to be paid for through a school foundation aid transfer for public school students or, for nonpublic and homeschool students, through a direct appropriation.
- **Expand dual credit opportunities to all student demographic populations**. All public school districts and public higher education institutions will be required to participate in the program and no public district may prohibit students from participating if they meet the program's admission requirements.
- **Create a transparent dual credit funding system in which school districts and colleges share the costs**. There will be a per credit charge floor and ceiling based on the per pupil foundation formula amount. In FY 2015, the floor would be $25 and the ceiling $160. The district and institution will then negotiate the charge. The program will be free of charge for a participating public school student.
- **Each course is purposeful and meaningful for the student**. The courses offered must be the same as those offered at the higher education institution for transcripted, nonremedial credit.
- **Ensure that all parents and students receive comprehensive and consistent communication regarding the programs**. BOR and the Ohio Department of

[8] The full report can be found at: https://www.ohiohighered.org/college_credit_plus.

Education (ODE) will jointly create a basic program information packet. Both school districts and institutions will be required to promote the program.

- **All participating schools and higher education institutions collect, report, and track program data**. BOR and ODE will annually collect and review program data and jointly prepare a biennial report on the program's status.

Open Enrollment Task Force Issues Recommendations

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

On December 31, 2013, the Open Enrollment Task Force issued its recommendations for open enrollment as required by H.B. 59. The Task Force was created to review the process by which students enroll into other school districts under open enrollment and the funding mechanisms associated with open enrollment deductions and credits. Overall, the Task Force was supportive of open enrollment as an appropriate and viable school choice option. However, the Task Force made several recommendations in both the process and funding areas that it was charged to review. The recommendations are briefly described below.

Concerning enrollment processes, the Task Force recommended that the ODE ensure appropriate policies are in place for each district regarding open enrollment and encouraged ODE to provide consistent oversight and support, including department guidance, model policy templates, and checklists detailing statutory requirements. The Task Force also recommended placing the number of students who open enroll into a district on the district's report card.

In regard to funding, the Task Force recommended that the state address the financial effects on school districts with a high net loss of funding without reducing the payments to school districts for incoming open enrollment students. The Task Force suggested that this could be accomplished through a pool of state funds for high net loss districts, funded perhaps through appropriations that would otherwise lapse or through appropriations in the next biennial budget. The Task Force also recommended including special education funding with open enrollment funding adjustments (rather than through the current excess cost method whereby a district is charged for special education costs exceeding the formula amount that is transferred for the student) and undertaking further study in the areas of: funding open enrollment students where they are educated, consistency with School Facilities Commission policy, the impact on local property tax levies, and the disparate ways in which different types of new students are funded as a result of the school funding formula's guarantee and gain cap provisions.

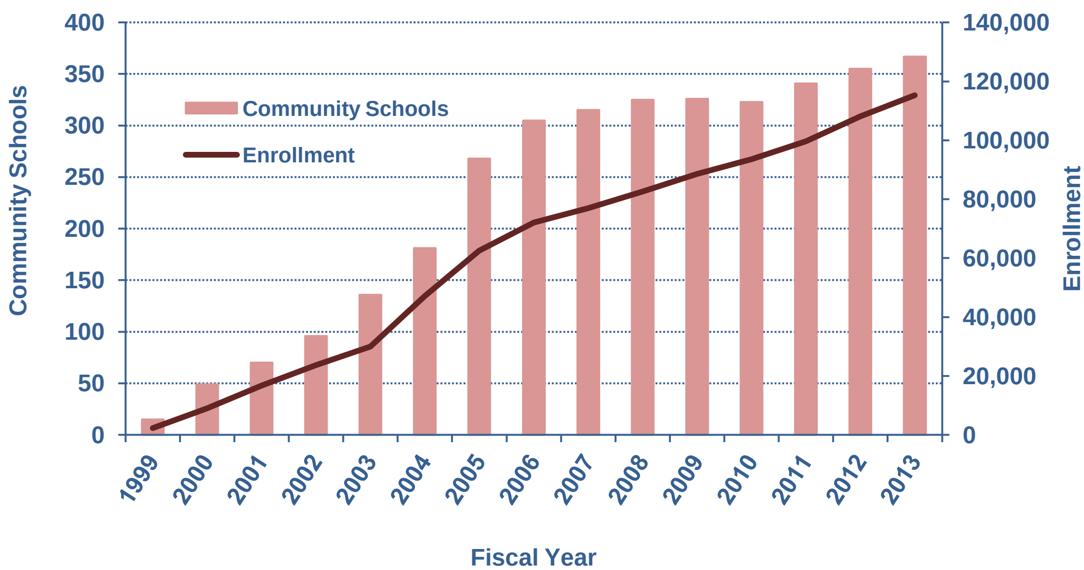
The Task Force report contained other process and funding options that were supported by some members, but not enough to warrant recommendation by the group as a whole. The full report is available on ODE's website by searching for "Open Enrollment Task Force report."

ODE Releases 2012-2013 Annual Report on Community Schools

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

In December 2013, the ODE released its eleventh Annual Report on Ohio Community Schools. According to the report, during FY 2013, more than 115,300 students were enrolled in community schools (a 6.7% increase over FY 2012). Those students attended 367 community schools, 12 more than the number operating the previous year. About 68.0% (250) of the community schools in Ohio were located in five counties: Franklin (79), Cuyahoga (77), Lucas (37), Hamilton (29), and Montgomery (28). Chart 5 shows the growth of community schools and community school enrollment from FY 1999 to FY 2013. For the complete report, please visit ODE's website: education.ohio.gov and search for "Community Schools Annual Report."

Chart 5: Community Schools and Community School Enrollment in Ohio, FY 1999-FY 2013



Controlling Board Approves Funding Increase to Study Harmful Algal Blooms in Lake Erie

– Garrett Crane, Budget Analyst, 614-466-9108

On January 13, 2014, the Controlling Board approved a $500,000 spending increase for the Ohio Lake Erie Commission to study the causes of harmful algal blooms and low oxygen levels in the Western Basin of Lake Erie. The revenue supporting this increase came from a federal grant awarded in November 2013 as part of the U.S. Environmental Protection Agency's Great Lakes Restoration Initiative. The study, which involves field work, lab experiments, and modeling, is intended to quantify the relationship between nutrient loading from all sources to the Western Basin of Lake Erie and the ecosystem's response, and to enable managers and decision makers to better target Lake Erie protection and restoration efforts. Preliminary work is occurring now, with the data collection phase taking place this summer.

Around $370,000 of the grant will be disbursed to four Ohio universities that are partnering in the study's data collection phase. These four universities are Case Western Reserve, Toledo, Ohio State, and Heidelberg. About $90,000 of the grant will be used to contract with LimnoTech, a Michigan-based firm that has developed a proprietary model that is considered uniquely suited for this Lake Erie study.[9] The remainder of the grant, around $40,000, will be allocated for expenses incurred by Commission staff in supporting and monitoring the contractor and university partners.

Controlling Board Approves Funding Increase for Online Database for Civil Impacts of Criminal Convictions

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

On December 16, 2013, the Controlling Board approved a $27,000 funding increase for the Ohio Public Defender Commission for the continued development of the Civil Impacts of Criminal Convictions (CIVICC) online database system (civiccohio.org). The revenue to support this increase came from five state agencies that help cosponsor the development of the CIVICC website: the Department of Rehabilitation and Correction ($10,000), the Department of Job and Family Services ($5,000), the Department of Mental Health and Addiction Services ($5,000), the Development Services Agency ($5,000), and the Department of Aging ($2,000).

CIVICC collects in one place all of the civil impacts of criminal convictions that exist in Ohio statutes. These are legal restrictions, also called "collateral consequences" or "collateral sanctions," that apply outside of the criminal justice system to a person with a criminal record, including laws that can limit access to jobs, licenses, civic rights, housing, and education. The database is intended for use by anyone, free of charge.

As the lead sponsor, the Public Defender has contracted with the Ohio Justice and Policy Center, a Cincinnati nonprofit law office working on issues of criminal justice reform, to provide all of the legal research and collaboration on the development and content of the website. The website first went live in March 2011. As of July 4, 2013, it contains nearly 800 civil impacts and 600 offenses. The development of the CIVICC database is expected to be completed in July 2014. The $27,000 in increased funding will be used to contract for the legal research required to make the CIVICC database fully functional. The Public Defender estimates that once fully functional, the database will

[9] This contract was also approved by the Controlling Board on January 13, 2014.

cost around $40,000 annually to maintain. The Public Defender plans on using part of its budget allocation to provide ongoing support to keep the CIVICC database up-to-date.

TRACKING THE ECONOMY

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Overview

The U.S. economy expanded in the fourth quarter of 2013.

The U.S. economy expanded in the fourth quarter of 2013. Gross domestic product, adjusted for inflation (real GDP), grew at an annualized rate of 3.2% in the fourth quarter of 2013, according to the federal government's initial estimate. Total industrial production increased throughout the quarter, surpassing its prerecession peak in November and increasing further in December. Employment in the fourth quarter grew at a revised 195,300 jobs per month; and in January, grew by 113,000 jobs. Consumer spending increased at a 3.3% annual rate in the fourth quarter. Inflation remained low. Construction activity increased in the fourth quarter, with gains in private structures more than offsetting losses in public structures.

The housing market improved, with sales of existing homes in all of 2013 the highest since 2006. However, existing home sales were below year-ago levels in November and December. This drop in sales has been attributed in part to constrained inventories of homes for sale in some parts of the country.

Leading indicators point toward "gradually strengthening economic conditions" in 2014, according to the Conference Board, whose index rose 0.1% in December. In the housing sector, the annualized rates of private housing permits issued rose in the fourth quarter of 2013 to their highest levels in more than five years, and housing starts were highest in six years. In the manufacturing sector, new orders for all industries decreased in December, but new orders excluding transportation increased for the third straight month. Preliminary reports indicate slower growth in the manufacturing sector in January.

In January, the Federal Reserve announced it will continue to buy U.S. Treasury and mortgage-backed securities each month, albeit at a slower rate. Also in January, the President signed an omnibus appropriations bill that funds the federal government throughout federal fiscal year (FFY) 2014.

In the Ohio economy, employment growth remains muted. Total nonfarm employment increased by 5,000 in December with gains in some industries and losses in others. As of December, total nonfarm employment in the state remained about 4.2% below employment levels in 2007, prior to the 2007-2009 recession, while nationwide employment in December was about 0.4% below the 2007 annual average level. In 2013, the number of homes sold in Ohio reported by the Ohio Association of Realtors was 14.7% higher than the number sold in 2012, and 1.2% higher than in 2007, before the recession, though sales remained 10% lower than in peak year 2005.

The National Economy

Monetary and Fiscal Policy

On January 29, the Federal Open Market Committee (FOMC) of the Federal Reserve, the nation's central bank, indicated it will continue its policy of asset purchases, though at a "tapered" rate of $65 billion in each month instead of $75 billion. Beginning in February, the Federal Reserve will purchase $30 billion (instead of $35 billion) of mortgage-backed securities and $35 billion (instead of $40 billion) of longer-term U.S. Treasury securities each month. The FOMC expects to keep its short-term interest rate target for federal funds near zero (between 0% and 0.25%) at least until the national unemployment rate falls to 6.5%, and as long as expected inflation is no more than half a percentage point above the 2.0% goal. The statement said in addition that the FOMC will likely keep its federal funds target at this low level well after the unemployment rate falls below 6.5%.

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In February, Janet Yellen replaced Ben Bernanke as chairperson of the Board of Governors of the Federal Reserve. She was confirmed by the U.S. Senate in early January. Yellen previously served as the vice chair of the Federal Reserve since 2010.

On January 17, the President signed an omnibus appropriations bill (H.R. 3547) that included all 12 federal appropriations bills. The omnibus bill funds the federal government for the remainder of FFY 2014, within the caps established by the Bipartisan Budget Act (H.J.R. 59) that was passed and signed in December. The caps established in that act are higher than would have been permitted under the automatic spending cuts, referred to as sequestration, in prior law. The Bipartisan Budget Act

In January, the nation's unemployment rate fell from 6.7% to 6.6%.

also established spending caps for FFY 2015, and the President is expected to release a budget proposal for FFY 2015 in March.[10]

Employment and Unemployment

In January, total nonfarm payroll employment increased 113,000, according to initial estimates from the Bureau of Labor Statistics (BLS), while the nation's unemployment rate fell from 6.7% to 6.6%, as shown in Chart 6.

Chart 6: U.S. Employment and Unemployment

In January, seasonally adjusted employment gains in private goods-producing industries (76,000) and service industries (66,000) outweighed employment losses in government (-29,000), based on establishment survey data. In goods-producing industries, there were gains in construction (48,000), manufacturing (21,000), and mining and logging (7,000). In the private services sector, the largest gains were in professional and business services (36,000), in leisure and hospitality (24,000), and in wholesale trade (14,000); employment changes in other service industries were smaller. Government employment fell at the federal (-12,000), state (-6,000) and local (-11,000) levels.

Establishment survey data were revised by BLS due to the annual benchmarking process and the updating of seasonal adjustment factors. The benchmarking was to a comprehensive count of employees for March 2013, and raised the number of employees on nonfarm payrolls as of that date by 0.3%. Employment estimates in all years shown in the

[10] *Reuters.com*, "White House to release fiscal 2015 budget on March 4," January 23, 2014.

chart were revised upward. The upward revision is due to BLS reclassifying private household services for the elderly and disabled (previously not included in the payroll employment survey) as an industry included in the establishment data.

In 2013, nonfarm payroll employment increased an average of 193,500 each month, from 135.1 million in December 2012 to 137.4 million in December 2013, according to revised estimates from the BLS.

The number of workers that normally work full time, but worked part time (up to 34 hours a week) due to bad weather conditions, rose more than usual in the winter months, particularly in December.

According to household survey data, the total number of individuals unemployed edged down in January to 10.2 million, seasonally adjusted, from 10.4 million in December. The number of job-searchers unemployed for 27 weeks and over fell to 3.6 million in January, down from 3.9 million in December and from 4.7 million in January of last year.

The median number of weeks of unemployment fell to 16.0, seasonally adjusted, matching the median number of January of last year. The median number of weeks has decreased unevenly from its historic peak of 25.0 weeks, registered in June 2010 (based on data going back to 1967). From 2005 to 2007, prior to the recession, the median number of weeks of unemployment ranged between seven and ten.

Production

GDP

In the fourth quarter of 2013, real GDP grew at an annualized rate of 3.2%, according to the initial estimate released by the Bureau of Economic Analysis (BEA). Gains in consumer spending, exports of goods, nonresidential fixed investment, and inventories were partly offset by losses in federal government expenditures and residential investment. The BEA estimated that the reduction of hours worked by federal employees due to the government shutdown in October reduced GDP growth by 0.3 percentage point. According to the BEA, the total economic impact of the shutdown could not be quantified.

Over the entire year of 2013, real GDP increased 1.9%, according to the BEA's initial estimate, after increasing 2.8% in 2012. The lower growth rate in 2013 was due to lower growth of consumer spending, nonresidential fixed investment, and exports, as well as a larger decrease in federal government expenditures. BEA will revise the estimates for the fourth quarter and the year later in February and in March when more complete data become available.

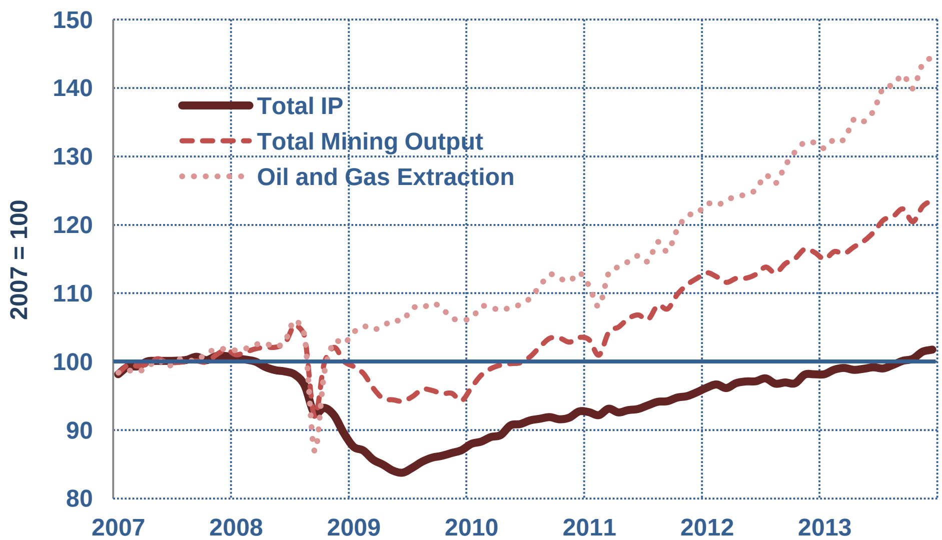
Over the entire year of 2013, real GDP increased 1.9%, according to the BEA's initial estimate.

Increases in mining output have contributed to the total IP index exceeding prerecession highs.

Industrial Production

In December, total industrial production (IP) increased 0.3%, seasonally adjusted, to its highest level ever. IP first surpassed its prerecession peak (in December 2007) in November 2013. Increases in mining output have contributed to the total IP index exceeding prerecession highs. The index for mining output, which accounted for about 14.6% of total IP in 2012, was 24% higher in December than in 2007. The increase in mining has been driven by gains in oil and gas production, which has increased 44.5% on balance since 2007. Chart 7 shows the changes in the total IP index, the mining index, and the oil and gas production subset of the mining index from 2007 to 2013. The sharp drop in production in 2008 is attributable to Hurricane Ike.

Chart 7: Industrial Production, Mining Output, and Oil and Gas Extraction Indexes, 2007-2013



In the index for oil and gas extraction, the subset index for crude oil registered the largest increase over this time period of 59.1%. In 2013, U.S. oil production totaled 7.5 million barrels a day, according to the U.S. Energy Information Administration (USEIA), up from 5.0 million barrels a day in 2008, and the highest level since 1989 (but below the record of 9.6 million barrels a day in 1970). The gains in oil production are largely attributable to increased production from shale resources in Texas and North Dakota.

The IP index for natural gas extraction increased 27.7% from 2007 through October 2013 (the latest month published). Based on data from USEIA, total natural gas production (gross withdrawals) in the U.S. increased from 67.57 billion cubic feet per day in 2007 to 80.94 billion cubic feet per day in 2012 (data for all of 2013 are not yet available). This increase has been driven by production from *shale* gas wells, which rose from about 5.45 billion cubic feet per day in 2007 to about 28.13 billion cubic feet per day in 2012. Much of the shale gas production has occurred in Texas, Louisiana, Pennsylvania, and Arkansas.

The largest component of IP, manufacturing output, which accounted for about 75.5% of total IP in 2012, in December remained 3.1% below its prerecession high. The other major component, total electric and natural gas utility output nationwide, which accounted for 9.9% of total IP in 2012, generally fluctuated in a fairly narrow range during 2007 through 2013, and was 2.9% higher in December 2013 than in 2007.

Leading Indicators

New orders for all manufactured goods decreased 1.5% in December, seasonally adjusted, according to the Census Bureau. But manufacturers' new orders excluding the volatile transportation sector rose 0.2% in December, after rising 0.3% in November and 0.1% in October. New orders for nondefense capital goods excluding aircraft (a volatile category), fell by 0.6% in December.

In January, total factory activity appears to have expanded, but at a much slower rate than in December, based on an Institute for Supply Management (ISM) monthly survey of purchasing managers. The diffusion index for new orders fell from 64.4 in December to 51.2 in January, the largest decrease in that index since 1980. Readings above 50 indicate that more respondents reported increases than reported decreases. The index is seasonally adjusted. The production index also fell sharply to 54.8. A number of survey respondents said bad weather had a negative impact on business in January.

Consumer spending and personal incomes

In December, real consumer spending increased 0.2% seasonally adjusted, led by a 1.0% increase in purchases of nondurable goods; purchases of durable goods decreased 1.4%. Over the fourth quarter of 2013, real consumer spending rose at a 3.3% annual rate.

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The annualized rate of nationwide light vehicle sales (cars and light trucks) was 15.2 million in January, slightly weaker than in December due to lower car sales. In 2013, 15.5 million light vehicles were sold, the strongest year for sales since 2007.

Personal income was about unchanged in December, as was its largest component, wages and salaries. Farm proprietor's incomes decreased. Adjusted for inflation, disposable (after-tax) personal incomes decreased 0.2% in December.

In all of 2013, real disposable personal incomes increased 0.7%, after increasing 2.0% in 2012.

Housing

Home Sales

In 2013, existing home sales totaled about 5.09 million, based on preliminary estimates.

In 2013, existing home sales totaled about 5.09 million, based on the preliminary estimate released by the National Association of Realtors (NAR), the highest level of annual sales since 2006. The national median price in 2013 was $197,100, 11.5% higher than the median price in 2012. New home sales totaled about 428,000 in 2013, based on the preliminary estimate released by the Census Bureau, the highest since 2008. The table below shows sales levels and median prices for existing and new homes in 2013.

2013 U.S. Home Sales Data

Sales and Prices	Existing Homes*	New Homes**
Total Home Sales	5,090,000	428,000
% change, 2012	9.2%	16.4%
Median Sales Price	$197,100	$265,800
% change, 2012	11.5%	8.4%

* From the National Association of Realtors
** From the U.S. Census Bureau

In December, the rate of completed *existing* home sales increased 1.0% to a 4.87 million annual rate from a downward revised rate in November. The annualized sales rate of existing homes rose unevenly in the beginning of 2013 from 4.94 million in January, peaking at 5.39 million in July and August. The sales rate then decreased to its lowest level of the year in November at 4.82 million, then rose in December. December marked the second consecutive month of sales rates for existing homes below their year-ago levels, after 28 consecutive months of year-over-year increases.

In December, the rate of *new* homes sold fell 7.0% to an annual rate of 414,000, seasonally adjusted, from November's revised rate. December's rate was still 4.5% higher than the rate registered in December of last year.

Leading Indicators

The annualized rate of new housing *permits* fell in December, seasonally adjusted, for the second straight month after reaching a five-year high in October. December's estimated rate of 986,000 units was 4.6% higher than the rate in December of last year. The annualized rate of new housing *starts* also fell in December, seasonally adjusted, after reaching a six-year high in November. December's estimated rate was 1.6% higher than the rate from December of last year.

In 2013, new housing permits totaled 974,700, up 17.5% from the number of permits issued in 2012, and new housing starts totaled 923,400, up 18.3% from housing starts in 2012.

Construction Activity

Total construction activity grew in December by 0.1%, according to the Census Bureau, as gains in private residential construction about offset losses in private nonresidential and public construction projects.

In 2013, total construction activity was valued at $898.4 billion, up 4.8% over the value of activity in 2012. The increase in 2013 was driven by gains in private residential construction, which increased 18.0% over 2012; private nonresidential construction fell by 0.4%. In 2013, the value of public construction activity fell 2.8% from 2012.

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Inflation

The consumer price index (CPI) for core goods (i.e., all items less food and energy) increased 0.1% in December. Over the past 12 months, the core index was up 1.7%. The all items CPI increased 0.3% in December, largely due to higher energy prices: the energy commodities index rose 3.4% in December. Though higher than November, the energy commodities index was lower than in December of last year. The all items CPI was up 1.5% over the past 12 months.

The producer price index (PPI) for core finished goods increased 0.3% in December, mainly due to higher prices for tobacco products and motor vehicles. The index for intermediate core goods increased 0.2%, largely from higher prices for basic organic chemicals. The index for core crude goods increased 0.6% mostly from price increases for carbon steel scrap. The three producer energy indexes increased in December: the finished energy index was up 1.6%, the intermediate energy index was up 1.9%, and the crude energy index was up 6.2%. Much of the large increase in crude energy was due to a 7.1% gain in the prices for crude petroleum.

The PPI for all finished goods increased 0.4% in December and was up 1.2% over December of last year.

Total nonfarm payroll employment in Ohio increased by 5,000 in December, seasonally adjusted.

The Ohio Economy

Employment and Unemployment

Total nonfarm payroll employment in Ohio increased by 5,000 in December, seasonally adjusted, while the state's rate of unemployed job-seekers fell to 7.2% from 7.4% in November, as shown in Chart 8 below.

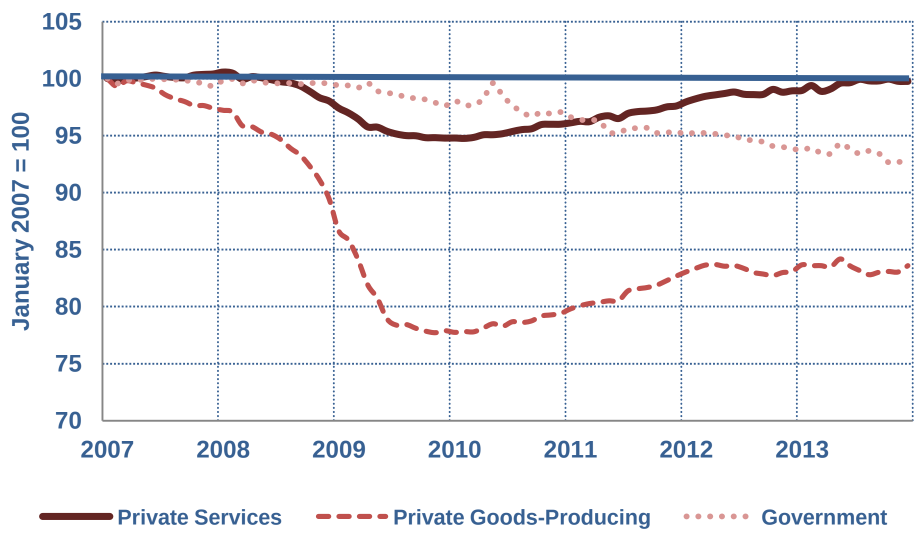
Chart 8: Ohio Employment and Unemployment

In December, employment in the private service sector changed little on balance with a net loss of 200 jobs. In this sector, the industry groups with the largest gains were professional and business services (3,400) and leisure and hospitality (2,400); the largest losses were in educational and health services (-3,700) and trade, transportation, and utilities (-1,500). Employment in the goods-producing sector grew by 5,600 with gains in construction (4,000), manufacturing (1,400), and mining and logging (200). Government employment fell by 400 with losses in state government (-700) more than offsetting small gains in federal (200) and local (100) government.

The number of unemployed job seekers fell in December to 416,000.

Employment growth in Ohio over the past seven years has varied by sector. This period includes the recession from December 2007 to June 2009. The chart below shows changes in employment in terms of an index with January 2007 equaling 100 for three sectors: private services, private goods-producing, and government.

Chart 9: Ohio Employment Index, 2007-2013



Ohio employment in private services has almost recovered to prerecession levels.

As shown in the chart, Ohio employment in private services has almost recovered to prerecession levels. Much of this recovery is attributable to growth in health and education services, which continued to trend upward throughout the entire period shown in the chart. By December 2013, this category was up about 12% from its January 2007 level. Gains in the professional and business services category (up 3% from January 2007) also contributed to the growth in the private service sector. Private services account for the majority of total nonfarm employment in the state (69.4% in December 2013).

The private goods-producing sector, which includes manufacturing, construction, and logging and mining, had the greatest percentage decrease in employment over the past seven years. Employment in this sector was also in decline prior to the recession. In January 2001, employment in this sector totaled 1.25 million and decreased to about 1.02 million in January 2007. As of December 2013, employment in goods-producing industries totaled about 850,000, a decrease of about 16% from January 2007 and a decrease of 32% from January 2001. The goods-producing sector accounted for 16.4% of total nonfarm employment in December 2013.

Government employment (federal, state, and local) has fallen gradually over the time period shown in the chart, from about 798,700 in January 2007 to about 740,000 in December 2013, a decrease of 7.3%. Most of this decrease has occurred in local governments. Since January 2007, Ohio local government employment has fallen by 50,800 (-9.2%), state government by 7,000 (-4.2%), and federal government in this state by 900 (-1.2%). Local government employment accounts for the majority of government employment in the state at 503,400 (68%) in December 2013, with state government accounting for 160,700 (22%), and federal government 75,900 (10%). At the beginning of the last decade, government employment in the state had risen to just under 800,000, peaking in July 2003 at 805,300. A brief spike in 2010 was due to temporary hiring by the federal government for the U.S. census.

Ohio has registered lower employment gains in almost all industries relative to the nation.

Since 2007, ahead of the 2007-2009 recession, total nonfarm employment has been weaker on balance in Ohio than in the U.S. Using average employment levels in 2007 as a base, U.S. employment was 99.6 in December 2013 (0.4% below its 2007 level) and Ohio employment was 95.8 (4.2% below its 2007 level). Ohio has registered lower employment gains in almost all industries relative to the nation. The table below shows index readings for U.S. and Ohio nonfarm employment for December 2013 (with 2007 = 100). The industries are listed in order of those with the most employees, for both the U.S. and Ohio. For example, in December, trade, transportation, and utilities accounted for 986,300, employees (19.0% of total nonfarm employment in Ohio) and information accounted for 69,900 employees (1.3%).

U.S. and Ohio Employment by Industry, Seasonally Adjusted, December 2013 (2007 = 100)

Sectors and Industries	U.S.	Ohio	Difference (Ohio – U.S.)
Private Services Sector	**103.5**	**99.6**	**-3.9**
Trade, Transportation, and Utilities	98.3	93.9	-4.4
Education and Health Services	114.1	110.9	-3.2
Professional and Business Services	104.9	101.9	-3.0
Leisure and Hospitality	107.5	101.3	-6.2
Financial Activities	94.7	92.9	-1.8
Other Services	99.8	92.8	-7.0
Information	88.4	79.7	-8.7
Private Goods-Producing Sector	**84.6**	**84.7**	**+0.1**
Manufacturing	86.9	86.0	-0.9
Construction	77.0	78.7	1.7
Mining and Logging	122.1	111.3	-10.8
Government	**98.3**	**92.9**	**-5.4**
Total Nonfarm Payroll Employment	**99.6**	**95.8**	**-3.8**

Home Sales

In 2013, sales of new and existing homes totaled about 132,570, 14.7% higher than the number of homes sold in 2012, according to the Ohio Association of Realtors, but 9.8% lower than peak sales registered in

2005. The average sales price in 2013 was about $142,000, up 5.2% from the average price in 2012. The number of homes sold in Ohio was 9.7% higher in December than a year earlier, the 30th consecutive month of year-over-year increases in home sales.

The number of homes sold in Ohio was 9.7% higher in December than a year earlier.

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 December.[11] The report noted that manufacturing production levels are generally higher than a year ago, with the strongest demand in the aerospace, housing, motor vehicle, and oil and gas industries. Residential construction for single and multifamily units remained elevated. Retail sales were above year-ago levels. Production of coal increased in Ohio and northern West Virginia, while continuing to decline in eastern Kentucky. Natural gas production was stable, but with an increasing number of drilling rigs. Demand for freight transportation is expected to grow in the region in 2014.

[11] 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 January 6, 2014, 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.