Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION JULY 2014

STATUS OF THE GRF

HIGHLIGHTS

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

A decline in FY 2014 GRF tax revenue was due to tax policy changes and was expected. Total state source GRF receipts were above estimate for the year by almost $190 million, due mostly to tax revenue. A year-end surplus was driven largely by spending having been below estimate, especially for Medicaid. The GRF finished the fiscal year with an unobligated cash balance of $1.28 billion.

No cash will be transferred into the Budget Stabilization Fund (BSF) as the existing balance of $1.48 billion exceeds the fund's statutory target amount for FY 2015. In addition to meeting the required ending fund balance, pursuant to H.B. 483 of the 130th General Assembly, $300 million of the year-end surplus will be transferred into the Medicaid Reserve Fund. The remainder will be used to offset the costs of accelerating an income tax reduction planned for tax year (TY) 2015 to TY 2014 and temporarily increasing the small business income tax deduction from 50% to 75% in TY 2014, and to help fund the FY 2015 budget.

Simplified GRF Cash Statement, as of June 30, 2014 ($ in millions)	
Beginning Cash Balance	**$2,639.2**
Plus Actual Revenues, Transfers In, and Receivables	$29,232.8
Less Actual Expenditures and Transfers Out	$30,172.0
Ending Cash Balance	**$1,700.1**
Less Encumbrances	$422.7
Unobligated Ending Cash Balance	**$1,277.4**
Plus Budget Stabilization Fund Balance	$1,477.9
Combined GRF and BSF Unobligated Ending Balance	**$2,755.3**

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Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of June 2014
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on July 2, 2014)

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$104,881	$106,500	-$1,619	-1.5%
Nonauto Sales and Use	$700,128	$716,800	-$16,672	-2.3%
Total Sales and Use Taxes	$805,009	$823,300	-$18,291	-2.2%
Personal Income	$755,432	$714,100	$41,332	5.8%
Corporate Franchise	$388	$0	$388	---
Financial Institutions	$26,497	$18,400	$8,097	44.0%
Public Utility	$125	$200	-$75	-37.7%
Kilowatt-Hour Excise	$18,164	$18,300	-$136	-0.7%
Natural Gas Consumption (MCF)	$0	$1,400	-$1,400	-100.0%
Commercial Activity Tax	$8,046	$3,300	$4,746	143.8%
Foreign Insurance	-$1,670	-$1,400	-$270	-19.3%
Domestic Insurance	$760	$13,600	-$12,840	-94.4%
Business and Property	$0	$0	$0	---
Cigarette	$64,411	$68,900	-$4,489	-6.5%
Alcoholic Beverage	$4,771	$5,800	-$1,029	-17.7%
Liquor Gallonage	$3,802	$3,600	$202	5.6%
Estate	$968	$300	$668	222.6%
Total Tax Revenue	**$1,686,702**	**$1,669,800**	**$16,902**	**1.0%**
NONTAX REVENUE				
Earnings on Investments	$4,958	$4,000	$958	24.0%
Licenses and Fees	$632	$6,000	-$5,368	-89.5%
Other Revenue	$6,006	$8,025	-$2,020	-25.2%
Total Nontax Revenue	**$11,595**	**$18,025**	**-$6,430**	**-35.7%**
TRANSFERS				
Liquor Transfers	$0	$0	$0	---
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$349,298	$366,413	-$17,115	-4.7%
Total Transfers In	**$349,298**	**$366,413**	**-$17,115**	**-4.7%**
TOTAL STATE SOURCES	**$2,047,595**	**$2,054,238**	**-$6,643**	**-0.3%**
Federal Grants	$419,189	$461,715	-$42,525	-9.2%
TOTAL GRF SOURCES	**$2,466,785**	**$2,515,953**	**-$49,168**	**-2.0%**

* 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 June 30, 2014
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on July 2, 2014)

	Actual	Estimate*	Variance	Percent	FY 2013	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$1,209,879	$1,174,200	$35,679	3.0%	$1,096,689	10.3%
Nonauto Sales and Use	$7,955,923	$8,022,500	-$66,577	-0.8%	$7,348,162	8.3%
Total Sales and Use Taxes	$9,165,802	$9,196,700	-$30,898	-0.3%	$8,444,851	8.5%
Personal Income	$8,064,922	$7,849,700	$215,222	2.7%	$9,507,826	-15.2%
Corporate Franchise	-$11,380	$0	-$11,380	---	$261,905	-104.3%
Financial Institutions	$197,837	$205,000	-$7,163	-3.5%	$0	---
Public Utility	$106,012	$100,000	$6,012	6.0%	$96,666	9.7%
Kilowatt-Hour Excise	$306,294	$310,450	-$4,156	-1.3%	$307,231	-0.3%
Natural Gas Consumption (MCF)	$76,110	$60,000	$16,110	26.8%	$57,804	31.7%
Commercial Activity Tax	$794,205	$811,939	-$17,734	-2.2%	$789,983	0.5%
Foreign Insurance	$286,483	$277,700	$8,783	3.2%	$274,637	4.3%
Domestic Insurance	$196,894	$208,300	-$11,406	-5.5%	$206,371	-4.6%
Business and Property	$476	$0	$476	---	$38,429	-98.8%
Cigarette	$813,984	$818,400	-$4,416	-0.5%	$827,440	-1.6%
Alcoholic Beverage	$55,519	$55,000	$519	0.9%	$56,499	-1.7%
Liquor Gallonage	$41,832	$41,000	$832	2.0%	$40,648	2.9%
Estate	$39,391	$25,000	$14,391	57.6%	$105,202	-62.6%
Total Tax Revenue	**$20,134,381**	**$19,959,189**	**$175,192**	**0.9%**	**$21,015,491**	**-4.2%**
NONTAX REVENUE						
Earnings on Investments	$17,341	$12,000	$5,341	44.5%	$10,509	65.0%
Licenses and Fees	$57,303	$72,000	-$14,697	-20.4%	$70,231	-18.4%
Other Revenue	$39,871	$47,900	-$8,030	-16.8%	$536,644	-92.6%
Total Nontax Revenue	**$114,515**	**$131,900**	**-$17,386**	**-13.2%**	**$617,385**	**-81.5%**
TRANSFERS						
Liquor Transfers	$0	$0	$0	---	$88,000	-100.0%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$405,710	$373,613	$32,097	8.6%	$314,014	29.2%
Total Transfers In	**$405,710**	**$373,613**	**$32,097**	**8.6%**	**$402,014**	**0.9%**
TOTAL STATE SOURCES	**$20,654,606**	**$20,464,702**	**$189,904**	**0.9%**	**$22,034,889**	**-6.3%**
Federal Grants	$8,575,562	$8,863,000	-$287,437	-3.2%	$7,525,842	13.9%
TOTAL GRF SOURCES	**$29,230,168**	**$29,327,702**	**-$97,535**	**-0.3%**	**$29,560,731**	**-1.1%**

* 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

GRF tax receipts in FY 2014 were $175.2 million above estimate.

FY 2014 GRF sources were $97.5 million below estimate.

Overview

GRF sources[1] of $2.47 billion for June 2014 were $49.2 million below the estimate released by the Office of Budget and Management (OBM) in September 2013, due primarily to a shortfall of $42.5 million in federal grants. This GRF source experienced a yearly negative variance of $287.4 million in FY 2014, as actual spending on Medicaid and certain other human service programs also fell short of projections (see the **EXPENDITURES** section of this report for additional information).

GRF tax sources were $16.9 million above estimate for the month, resulting in a full fiscal year's positive variance of $175.2 million, on the strength of a good performance from the personal income tax. GRF tax sources were essentially on target for the fiscal year, finishing the year 0.9% above estimate. GRF sources as a whole for FY 2014 ended up $97.5 million below estimate. Tables 1 and 2 show GRF sources for the month of June and for FY 2014 through June, respectively.

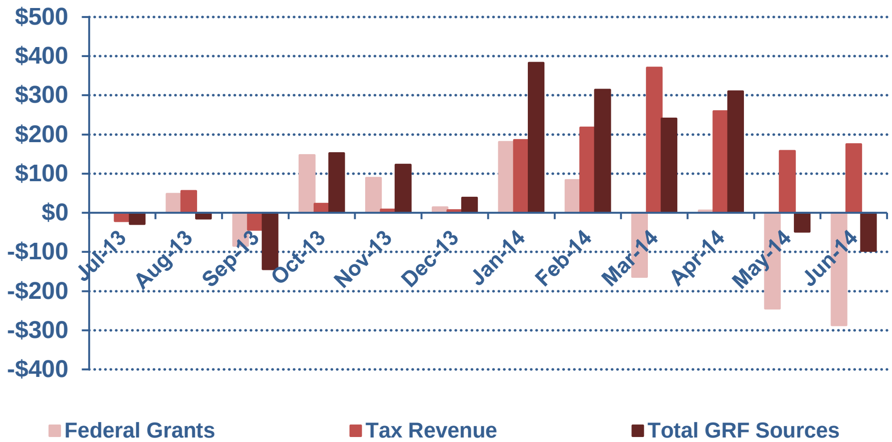
In June 2014, the personal income tax, the financial institutions tax (FIT), and the commercial activity tax (CAT) were above estimates, respectively, by $41.3 million, $8.1 million, and $4.7 million. In contrast, the sales and use tax was below expectations by $18.3 million, the cigarette tax's shortfall was $4.5 million, and the domestic insurance tax was, likely from a timing issue, $12.8 million less than anticipated revenues. Also, the alcoholic beverage tax and the natural gas consumption (MCF) tax were below estimates by $1.0 million and $1.4 million, respectively. In the final month of the fiscal year, nontax revenues were below estimates by $6.4 million, raising the yearly negative variance for this GRF source to $17.4 million, from $11.0 million through May; and transfers in was short of estimate by $17.1 million in June, though for the fiscal year, its final positive variance totaled $32.1 million, down from $49.2 million through May.

Chart 1 below shows FY 2014 cumulative variances against estimate for federal grants, tax sources, and total GRF sources. As stated earlier, total GRF sources ended the fiscal year $97.5 million below estimate. Regarding tax revenues, as shown in Table 2, the personal income tax was the only GRF tax source with a large positive variance;

[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.

the auto sales and use tax, the MCF tax, the foreign insurance tax, the public utility tax, and the estate tax had more modest positive variances. On the other hand, the nonauto sales and use tax, the CAT, the corporate franchise tax (CFT), the FIT, the domestic insurance tax, and the kilowatt-hour (KWh) tax were below anticipated receipts.

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



FY 2014 GRF sources were $330.6 million below GRF sources in FY 2013.

Compared to FY 2013, FY 2014 total GRF sources decreased $330.6 million. A decrease of $1.38 billion in state-source revenue was partially offset by an increase of $1.05 billion in federal grants. Revenues from all major categories of state sources were below year-ago levels. Tax receipts declined $881.1 million. Revenue from nontax revenues fell $502.9 million, but transfers in increased $3.7 million. As explained in previous issues of *Budget Footnotes*, this large decrease in nontax revenue was due to a deposit of $495.0 million to the GRF in February 2013 from proceeds of a $1.57 billion bond sale related to the transfer of the state liquor franchise.[2] That action also resulted in the GRF no longer receiving transfers from liquor profits in subsequent months in 2013 and 2014.

Compared to FY 2013, decreases in revenues from the personal income tax, the CFT, the estate tax, the business and property tax (also called dealers in intangibles tax or DIT), the KWh tax, the domestic insurance tax, and the cigarette tax were partially offset by increased receipts from the sales and use tax, the FIT, the MCF tax, the public utility tax, the CAT, and the foreign insurance tax.

[2] H.B. 153 of the 129th General Assembly, the operating budget act for the FY 2012-FY 2013 biennium, authorized the transfer of the state liquor operation to JobsOhio, a private nonprofit entity created by H.B. 1 of the 129th General Assembly.

Revenue from the personal income tax fell $1.44 billion, while that from the sales and use tax increased $720.9 million. The decrease in income tax revenue was due primarily to an 8.5% reduction in income tax rates for tax year (TY) 2013 enacted in H.B. 59 (the current operating budget act). The increase in sales and use tax receipts over FY 2013 reflects, in part, the increase in the tax rate from 5.5% to 5.75% in September 2013, also enacted in the budget act. CFT, DIT, and estate tax receipts similarly declined due to recent tax law changes. The CFT and the DIT were eliminated by H.B. 510 of the 129th General Assembly, while the estate tax was repealed for dates of death beginning in calendar year (CY) 2013 by H.B. 153 of the 129th General Assembly. The decline from FY 2013 levels was $273.3 million for the CFT, $65.8 million for the estate tax, and $38.0 million for the DIT.

Personal Income Tax

FY 2014 GRF income tax receipts were $215.2 million above estimate.

June GRF receipts from the personal income tax of $755.4 million were $41.3 million (5.8%) above estimate. 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. For the month, estimated payments and payments due with annual tax returns were above estimates by $33.2 million and $4.5 million, respectively. On the other hand, monthly employer withholdings and refunds were, respectively, $4.4 million and $8.8 million, below estimates. Monthly receipts were also $121.8 million (13.9%) below receipts in the same month a year ago.

For FY 2014, the GRF received $8.06 billion from the personal income tax. That amount was $215.2 million 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 personal income tax's positive variance was due to refunds being $321.2 million lower than expected in FY 2014, as gross collections were short of anticipated revenue by $101.3 million. Payments with annual returns and miscellaneous payments, respectively, $201.1 million and $36.2 million below estimates, contributed to the shortfall in income

[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.

tax collections. Those negative variances were partly offset by positive variances for quarterly estimated payments ($106.4 million) and employer withholdings ($34.1 million).

FY 2014 withholding tax receipts were $34.1 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	$34.1	0.4%	-$205.9	-2.5%
Quarterly Estimated Payments	$106.4	9.8%	-$232.5	-16.3%
Trust Payments	-$4.6	-6.5%	-$37.5	-36.4%
Annual Return Payments	-$201.1	-20.0%	-$576.5	-41.8%
Miscellaneous Payments	-$36.2	-22.5%	-$19.9	-13.8%
Gross Collections	-$101.3	-1.0%	-$1,072.4	-9.6%
Less Refunds	-$321.2	-16.0%	$387.6	29.7%
Less LGF Distribution	$4.6	1.4%	-$17.1	-4.7%
Income Tax Revenue	$215.2	2.7%	-$1,442.9	-15.2%

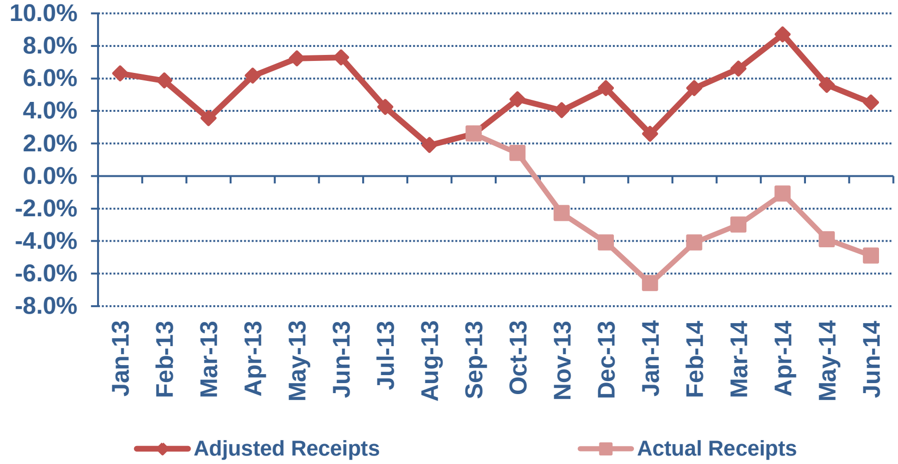
FY 2014 GRF receipts from the income tax were $1.44 billion (15.2%) below receipts in the corresponding period in FY 2013. Receipts from all income tax components, except for refunds, were below their respective levels in FY 2013. Through June, FY 2014 refunds were $387.6 million higher. Payments with annual returns were $576.5 million below such payments in FY 2013, quarterly estimated payments declined $232.5 million, and revenues from employer withholding were $205.9 million below receipts in those categories last year. These income tax components were directly affected by income tax changes in H.B. 59, including the tax rate reduction, the small business deduction, and the earned income tax credit (EITC).[4] Additionally, payments by trusts fell $37.5 million. Chart 2 illustrates the trend in employer withholding receipts since January 2013. The chart also includes withholding receipts adjusted for a 9% reduction in the withholding rate from October 2013 to June 2014. Though actual withholding receipts fell since the withholding rate change that went into effect for payroll that ended on or after

FY 2014 GRF income tax receipts were $1.44 billion below FY 2013 revenue.

[4] The small business deduction permits individuals who have income from a trade or business to deduct one-half of the net business income apportioned to Ohio beginning in TY 2013, up to $250,000. The state EITC equals 5% of the amount allowed for the federal EITC. (Please note that Am. Sub. H.B. 483, enacted in June 2014 by the General Assembly, modified these provisions of H.B. 59 for FY 2015.)

September 1, 2013, payroll growth has generally trended upward, though this growth has slowed in recent months. Ohio nonagricultural wage and salary employment increased over the past 12 months. For the fiscal year as a whole, Ohio payroll growth, as estimated using monthly employer withholdings, averaged 4.8% over the year-ago period.

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



Detailed data from income tax returns from the Department of Taxation is not currently available. A complete analysis of the fiscal impact in FY 2014 of changes to the personal income tax in H.B. 59 may not be possible for several months.

Sales and Use Tax

FY 2014 sales and use tax receipts were $30.9 million below estimate.

June GRF receipts from the sales and use tax of $805.0 million were $18.3 million (2.2%) below estimate, and $73.2 million (10.0%) above receipts in June 2013. Both the auto sales and use tax and the nonauto sales and use tax were short of anticipated receipts for the month.

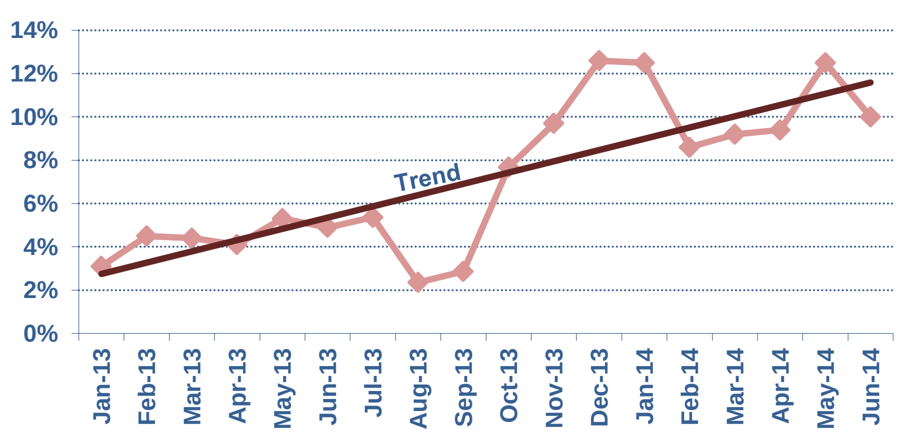
FY 2014 GRF sales and use tax receipts totaled $9.17 billion, $30.9 million (0.3%) below estimate, with a positive variance for the auto sales and use tax partially offsetting a large shortage in the nonauto sales and use tax. FY 2014 total receipts were $721.0 million (8.5%) above receipts in the corresponding period last year, due, in part, to the state sales tax rate increase from 5.5% to 5.75% enacted by H.B. 59. Gain to the GRF from the tax rate increase was approximately $270 million, and the remaining revenue increase came from growth in taxable retail sales. Growth of the taxable base was about 4.9% for the fiscal year (after adjusting for the rate change). For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[5] 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.

Nonauto Sales and Use Tax

June GRF receipts of $700.1 million were $16.7 million (2.3%) below estimate, but $57.6 million (9.0%) above receipts in June 2013. For the fiscal year, total nonauto sales and use tax receipts of $7.96 billion were $66.6 million (0.8%) below projected revenues, but $607.8 million (8.3%) above revenue in FY 2013. The Department of Taxation reported that about half of the negative variance was due to refunds for prior year collections. FY 2014 receipts include $465.1 million in tax payments by Medicaid health insuring corporations; those receipts rose $82.2 million (21.4%) 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 improved in March and April after a weather-related weakness at the start of this calendar year, but were short of targeted revenue in May and June, for a fiscal fourth-quarter negative variance of $19.2 million.

FY 2014 nonauto sales and use tax receipts were $66.6 million below estimate.

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



[5] 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.

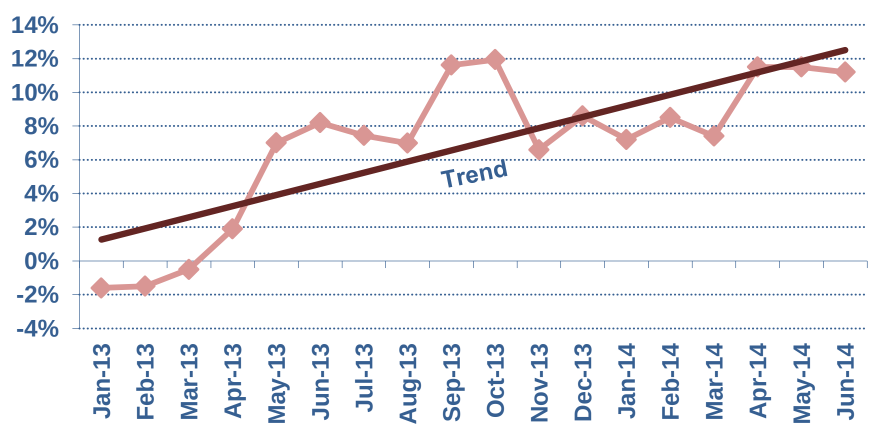
FY 2014 auto sales and use tax receipts were $35.7 million above estimate.

Auto Sales and Use Tax

June GRF receipts from the auto sales and use tax of $104.9 million were $1.6 million (1.5%) below estimate, but exceeded receipts in June 2013 by $15.6 million (17.5%). This monthly performance brought the fiscal year's positive variance for this tax to $35.7 million (3.0%). For the fiscal year, GRF revenue from the auto sales and use tax of $1.21 billion was $113.2 million (10.3%) 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. After a weather-related slowdown in the first calendar quarter, the auto sales and use tax was above estimate in the last fiscal quarter by $15.6 million.

Nationwide sales of light vehicles exceeded expectations in June 2014. After a solid May, June sales jumped to 16.9 million units on a seasonally adjusted annual rate, up from a 16.7 million unit sales rate in May, a pace last reached in July 2006. Unadjusted sales in June increased about 1.2% on a year-ago basis, according to *WardsAuto* (which compiles automobile statistics). For CY 2014 through June, light vehicle sales were up 4.3% compared to the corresponding period in 2013; light truck sales increased 8.3% while those of autos grew 0.4%. Low interest rates and increased credit availability, including an expansion of the subprime credit market, powered automobile sales.

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



Commercial Activity Tax

June GRF receipts from the CAT of $8.0 million were $4.7 million (143.8%) above estimate, and $5.0 million (165.2%) above receipts in June 2013, but for the fiscal year as a whole, GRF revenues of $794.2 million were short of estimates by $17.7 million (2.2%). This negative variance was largely due to larger credit claims than estimated against the tax for FY 2014, according to the Department of Taxation. Compared to last year, FY 2014 GRF revenue from the tax grew $4.2 million (0.5%). According to OAKS, FY 2014 all-funds CAT receipts were $1.68 billion, $89.8 million (5.6%) above revenue in FY 2013. About $80.1 million in motor fuel CAT receipts were excluded from gross CAT receipts before distribution of revenue to the GRF, Fund 7047, and Fund 7081 (the two funds providing tangible personal property tax replacement payments to some local governments and school districts). The exclusion of revenue from motor fuel gross receipts significantly restrained growth in GRF CAT receipts this year.

FY 2014 GRF CAT receipts were $17.7 million below estimate.

To address the use of motor fuel-related CAT taxes after the Ohio Supreme Court held on December 7, 2012 that spending those revenues for nonhighway purposes violated the Ohio Constitution, the General Assembly enacted H.B. 51 (130th General Assembly) requiring the Department of Taxation to determine the amount of such taxes, and to transfer those amounts from the GRF to the Commercial Activity Motor Fuel Receipts Fund. Also, beginning July 1, 2014, the CAT as applied to receipts from the sale or exchange of motor fuel was replaced with a separate tax, the motor fuel receipts tax (MFRT), based solely on receipts from such sales and exchanges. The tax was subsequently renamed the petroleum activity tax by H.B. 492 (130th General Assembly). The tax rate is 0.65% on a supplier's gross receipts, to be paid quarterly.

Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax of $64.4 million in June 2014 were $4.5 million (6.5%) below estimate, but $7.5 million (13.2%) above receipts in the same month in FY 2013. FY 2014 receipts of $814.0 million were $4.4 million (0.5%) below estimated revenue for the year. Receipts from cigarette sales were $757.0 million, and sales of products other than cigarettes provided $57.0 million. Compared to FY 2013, receipts fell $13.5 million (1.6%). A decrease of $16.4 million in revenue from cigarette sales was partially offset by an increase of $2.9 million in revenue from the sales of other tobacco products. Generally, cigarette tax receipts experience a sustained downward trend on a year-ago basis, though the decline in FY 2014 was less severe than those in recent years, in part, due to an increase in the tax rate on "little cigars" included in H.B. 59. The budget act increased the rate levied on "little cigars" to 37% of the wholesale price, up from the general tax rate of 17% of the wholesale price for the remaining tobacco products other than cigarettes. This change was estimated to raise revenue from other tobacco products by about $5 million in FY 2014.

FY 2014 cigarette tax receipts were $4.4 million below estimate.

First FIT tax receipts totaled $197.8 million, $7.2 million below estimate.

Financial Institutions Tax

H.B. 510 of the 129th General Assembly eliminated the CFT and the DIT at the end of 2013, and replaced both taxes with the FIT, in TY 2014, with tax payments starting on January 2014. Including receipts from the March and May payments, GRF revenues from the FIT totaled $197.8 million in FY 2014, $7.2 million (3.5%) below estimates.

The FIT specifies three tax rates: a rate of 0.8% which applies to the first $200 million of a taxpayer's total Ohio equity capital; a rate of 0.4% of equity capital between $200 million and $1.3 billion; and a rate of 0.25% which applies to the amount of total Ohio equity capital in excess of $1.3 billion. H.B. 510 also specified a revenue target of $200 million for FY 2014, and prescribed a tax rate adjustment mechanism if FIT revenue in TY 2014 was more than 110% or less than 90% of the target. If the tax generated less than 90% of the target amount or less than $180 million, then the rate for certain taxpayers would be adjusted upward for TY 2015 and thereafter. Based on FIT revenue this fiscal year, tax rates would remain unchanged for TY 2015.

Corporate Franchise Tax and Business and Property Tax

Though GRF receipts were not anticipated from the CFT in FY 2014, tax filings in previous years appear to have resulted in refunds of $11.4 million to CFT taxpayers this fiscal year. Prior year activity may result in additional payments or refunds. In FY 2013, revenue from the CFT totaled $261.9 million. Similarly to the CFT, the DIT contributed little, $0.5 million, to the GRF in FY 2014. Last year, the GRF received $38.4 million from this tax. Thus, combined revenues for the two taxes in FY 2013 were about $102.5 million above FIT revenue this fiscal year.

FY 2014 receipts from utility-related taxes were $18.0 million above estimate.

Utility-Related Taxes

Receipts from the public utility excise tax totaled $106.0 million in FY 2014, $6.0 million (6.0%) more than the estimate, and $9.3 million (9.7%) more than in FY 2013. Taxes paid by natural gas companies account for about 95% of total tax receipts from the public utility excise tax. Revenues from this tax are based on utilities' gross receipts, which have been held down by low natural gas prices in recent years. Revenues appear to have risen in the latest year because of increased volumes of natural gas delivered.

MCF tax receipts of $76.1 million in FY 2014 were $16.1 million (26.8%) above estimate, and $18.3 million (31.7%) above FY 2013 revenue. H.B. 153 (129th General Assembly) credited all receipts from this excise tax levied on natural gas distribution companies to the GRF, starting in FY 2013. Under previous law, revenue from the MCF tax was credited to the School District Property Tax Replacement Fund (68.7%) and the Local Government Property Tax Replacement Fund (31.3%). As with the public utility excise tax, revenue has risen due to increased volumes of natural gas sold.

GRF receipts from the KWh tax in FY 2014 were $306.3 million, $4.2 million (1.3%) below estimate and $0.9 million (0.3%) lower than FY 2013 receipts. Total FY 2014 KWh tax collections (revenues on an all funds basis), net of refunds, were $544.6 million, $2.9 million (0.5%) lower than total collections in FY 2013. Under current law, as amended by H.B. 153 of the 129th General Assembly, 88% of total receipts are distributed to the GRF, 9% to the School District Property Tax Replacement Fund (Fund 7053), and 3% to the Local Government Property Tax Replacement Fund (Fund 7054). From the amount distributed to the GRF, a portion is distributed to the Public Library Fund (PLF, Fund 7065). The PLF receives 1.66% of revenue from all GRF taxes, of which half is from the KWh tax and half is from the nonauto sales tax. Distributions to the PLF from the KWh tax declined $1.6 million (0.9%) in FY 2014.

FY 2014 GRF receipts from insurance taxes were $2.6 million below estimate.

Foreign and Domestic Insurance Taxes

GRF revenue from the domestic insurance tax was $196.9 million in FY 2014, $11.4 million (5.5%) below estimate. GRF revenue from the foreign insurance tax was $286.5 million for the fiscal year, $8.8 million (3.2%) over estimate. The domestic insurance tax is paid by insurance companies headquartered in Ohio, while the foreign insurance tax is paid by companies headquartered in other states.

The negative variance for the domestic insurance tax may be timing related, as the Department of Insurance certified a tax liability of $209.3 million for the year. The amount collected under the domestic tax is typically within $1.5 million of the amount certified for collection, but in some recent years, the relationship has been disrupted by collections delayed into the subsequent fiscal year. FY 2014 revenue from the tax was $9.5 million (4.6%) less than FY 2013 revenue. Revenue from the foreign insurance tax grew $11.8 million (4.3%), close to the long-run growth rate for revenue from that tax.

FY 2014 receipts from alcoholic beverage and liquor gallonage taxes were $1.3 million above estimate.

Alcoholic Beverage and Liquor Gallonage Taxes

Receipts from the alcoholic beverage tax were $55.5 million in FY 2014, $0.5 million (0.9%) above estimate, but $1.0 million (1.7%) below FY 2013 receipts, from declining beer and malt beverages sales. Sales of beer and malt beverages and those of wine and mixed beverages decreased, respectively, by 1.6% and 2.2% this fiscal year. Sales of beer and malt beverages had also declined 3.9% in FY 2013, though sales of wine and mixed beverages grew 6.2%. Beer and malt beverages generated about 79% of the total alcoholic beverage tax receipts in FY 2014.

Liquor gallonage tax receipts of $41.8 million in FY 2014 were $0.8 million (2.0%) above estimate, and $1.2 million (2.9%) higher than FY 2013 receipts. Liquor sales have increased steadily each year.

FY 2014 GRF receipts from the estate tax were $14.4 million above estimate.

Estate Tax

H.B. 153 eliminated the estate tax starting with dates of death on or after January 1, 2013. However, due to the length required for settling certain estates, the state GRF received $39.4 million from the estate tax in FY 2014. This amount was $14.4 million (57.6%) above estimate, and below FY 2013 receipts by $65.8 million (62.6%). Estate tax receipts had varied from year to year because they depend on the net taxable value of a decedent's estate at the time of death, which depends on financial market conditions, and the time of settlement made by each county with the state. The total estate tax revenue is shared by the state GRF (20%) and the municipality or township in which the decedent resided (80%).

Earnings on Investments

In FY 2014, GRF earnings on investments of $17.4 million were $5.3 million (44.5%) above estimate and $6.8 million (65.0%) above FY 2013 earnings. Earnings on investments grew due to increases in the amount of available cash for investment and slightly higher than anticipated average yields.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of June 2014
($ in thousands)
(Actual based on OAKS reports run July 1, 2014)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary and Secondary Education	$444,425	$526,818	-$82,393	-15.6%
Higher Education	$163,096	$160,876	$2,221	1.4%
Other Education	$1,914	$2,337	-$423	-18.1%
Total Education	$609,435	$690,030	-$80,595	-11.7%
Medicaid	$728,063	$759,033	-$30,970	-4.1%
Health and Human Services	$53,229	$49,459	$3,771	7.6%
Total Welfare and Human Services	$781,293	$808,492	-$27,199	-3.4%
Justice and Public Protection	$135,666	$137,377	-$1,710	-1.2%
General Government	$23,017	$27,757	-$4,740	-17.1%
Total Government Operations	$158,684	$165,134	-$6,450	-3.9%
Property Tax Reimbursements	$327,567	$192,210	$135,356	70.4%
Capital Outlay	$0	$20	-$20	-100.0%
Debt Service	$65,627	$69,733	-$4,106	-5.9%
Total Other Expenditures	$393,194	$261,964	$131,231	50.1%
Total Program Expenditures	**$1,942,605**	**$1,925,620**	**$16,986**	**0.9%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$24,408	$16,017	$8,392	52.4%
Total Transfers Out	$24,408	$16,017	$8,392	52.4%
TOTAL GRF USES	**$1,967,014**	**$1,941,636**	**$25,377**	**1.3%**

* 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 June 30, 2014
($ in thousands)
(Actual based on OAKS reports run July 1, 2014)

PROGRAM	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	$6,762,680	$6,777,688	-$15,009	-0.2%
Higher Education	$2,085,040	$2,102,423	-$17,382	-0.8%
Other Education	$50,551	$54,263	-$3,711	-6.8%
Total Education	$8,898,271	$8,934,374	-$36,102	-0.4%
Medicaid	$13,570,528	$14,442,456	-$871,928	-6.0%
Health and Human Services	$1,235,828	$1,270,356	-$34,527	-2.7%
Total Welfare and Human Services	$14,806,357	$15,712,812	-$906,455	-5.8%
Justice and Public Protection	$1,836,987	$1,879,513	-$42,526	-2.3%
General Government	$348,556	$371,099	-$22,543	-6.1%
Total Government Operations	$2,185,543	$2,250,612	-$65,068	-2.9%
Property Tax Reimbursements	$1,785,239	$1,805,440	-$20,201	-1.1%
Capital Outlay	$0	$20	-$20	-100.0%
Debt Service	$1,226,413	$1,280,179	-$53,766	-4.2%
Total Other Expenditures	$3,011,652	$3,085,639	-$73,987	-2.4%
Total Program Expenditures	**$28,901,823**	**$29,983,436**	**-$1,081,613**	**-3.6%**
TRANSFERS				
Budget Stabilization	$995,930	$995,930	$0	0.0%
Other Transfers Out	$274,236	$261,439	$12,798	4.9%
Total Transfers Out	$1,270,167	$1,257,369	$12,798	1.0%
TOTAL GRF USES	**$30,171,990**	**$31,240,805**	**-$1,068,815**	**-3.4%**

* 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 July 1, 2014)

	June				Year to Date Through June			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	$886,413	$922,229	-$35,816	-3.9%	$7,761,777	$8,333,857	-$572,080	-6.9%
Nursing Facilities	$181,238	$118,907	$62,331	52.4%	$2,412,079	$2,271,996	$140,083	6.2%
DDD Services	$170,786	$175,482	-$4,696	-2.7%	$2,237,109	$2,272,559	-$35,450	-1.6%
Hospitals	$82,251	$99,395	-$17,143	-17.2%	$2,235,800	$2,407,934	-$172,135	-7.1%
Behavioral Health	$60,492	$85,461	-$24,969	-29.2%	$779,559	$935,753	-$156,195	-16.7%
Administration	$74,355	$89,148	-$14,793	-16.6%	$775,430	$1,067,148	-$291,718	-27.3%
Aging Waivers	$45,958	$40,033	$5,925	14.8%	$533,932	$632,688	-$98,757	-15.6%
Prescription Drugs	$30,190	$36,655	-$6,465	-17.6%	$398,438	$471,325	-$72,886	-15.5%
Medicare Buy-In	$36,893	$38,428	-$1,535	-4.0%	$431,881	$444,161	-$12,280	-2.8%
Physicians	$24,925	$29,881	-$4,956	-16.6%	$940,077	$738,797	$201,280	27.2%
Medicare Part D	$24,081	$25,273	-$1,193	-4.7%	$295,499	$309,349	-$13,851	-4.5%
Home Care Waivers	$17,575	$12,159	$5,416	44.5%	$248,124	$239,127	$8,997	3.8%
ACA Expansion	$177,458	$0	$177,458	N/A	$494,655	$0	$494,655	N/A
All Other	$93,725	$100,443	-$6,717	-6.7%	$1,314,368	$1,465,661	-$151,293	-10.3%
Total All Funds	**$1,906,342**	**$1,773,495**	**$132,847**	**7.5%**	**$20,858,726**	**$21,590,356**	**-$731,629**	**-3.4%**

* 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 July 1, 2014

Department	Month of June 2014 Actual	Estimate*	Variance	Percent	Year to Date Through June 2014 Actual	Estimate*	Variance	Percent
Medicaid	**$1,698,834**	**$1,583,624**	**$115,210**	**7.3%**	**$18,361,169**	**$19,037,638**	**-$676,469**	**-3.6%**
GRF	$706,720	$734,821	-$28,102	-3.8%	$13,065,250	$13,939,165	-$873,915	-6.3%
Non-GRF	$992,114	$848,802	$143,312	16.9%	$5,295,919	$5,098,473	$197,446	3.9%
Developmental Disabilities	**$173,665**	**$178,745**	**-$5,080**	**-2.8%**	**$2,301,194**	**$2,341,720**	**-$40,526**	**-1.7%**
GRF	$15,827	$20,716	-$4,889	-23.6%	$435,493	$436,241	-$748	-0.2%
Non-GRF	$157,838	$158,029	-$191	-0.1%	$1,865,702	$1,905,479	-$39,777	-2.1%
Job and Family Services	**$30,233**	**$8,058**	**$22,175**	**275.2%**	**$158,998**	**$169,220**	**-$10,222**	**-6.0%**
GRF	$4,991	$2,920	$2,071	70.9%	$61,309	$58,539	$2,770	4.7%
Non-GRF	$25,242	$5,138	$20,104	391.3%	$97,689	$110,680	-$12,991	-11.7%
Aging	**$338**	**$574**	**-$235**	**-41.0%**	**$6,130**	**$6,869**	**-$739**	**-10.8%**
GRF	$229	$263	-$34	-12.9%	$3,482	$3,484	-$2	0.0%
Non-GRF	$109	$310	-$202	-64.9%	$2,647	$3,385	-$738	-21.8%
Health	**$2,026**	**$1,421**	**$605**	**42.6%**	**$23,025**	**$22,068**	**$957**	**4.3%**
GRF	$296	$313	-$16	-5.3%	$3,267	$3,300	-$33	-1.0%
Non-GRF	$1,730	$1,108	$622	56.1%	$19,758	$18,768	$989	5.3%
Mental Health and Addiction	**$1,246**	**$1,075**	**$171**	**15.9%**	**$8,211**	**$12,841**	**-$4,631**	**-36.1%**
GRF	$0	$0	$0	N/A	$1,728	$1,728	$0	0.0%
Non-GRF	$1,246	$1,075	$171	15.9%	$6,483	$11,114	-$4,631	-41.7%
Total GRF	**$728,063**	**$759,033**	**-$30,970**	**-4.1%**	**$13,570,528**	**$14,442,456**	**-$871,928**	**-6.0%**
Total Non-GRF	**$1,178,278**	**$1,014,462**	**$163,817**	**16.1%**	**$7,288,198**	**$7,147,899**	**$140,299**	**2.0%**
Total All Funds	**$1,906,342**	**$1,773,495**	**$132,847**	**7.5%**	**$20,858,726**	**$21,590,356**	**-$731,629**	**-3.4%**

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

EXPENDITURES

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Overview

GRF program expenditures totaled $28.90 billion for FY 2014. These expenditures were $1.08 billion below the estimate released by the Office of Budget and Management (OBM) in September 2013. GRF transfers out totaled $1.27 billion, $12.8 million above estimate. GRF uses as a whole totaled $30.17 billion, $1.07 billion below estimate. Tables 3 and 4 show GRF uses for the month of June and for FY 2014, respectively.

FY 2014 GRF uses were $1.07 billion below OBM's September 2013 estimate.

For reporting purposes, GRF program expenditures were grouped into ten categories. Expenditures from every program category were below their estimates for the fiscal year. Medicaid had the largest negative variance in FY 2014. GRF Medicaid expenditures were $871.9 million below estimate due to various factors, including later than anticipated implementation of certain programs and lower than expected caseloads. Pursuant to H.B. 483, the mid-biennium review act of the 130th General Assembly, up to $300 million of FY 2014 year-end GRF surplus money will be transferred into the Medicaid Reserve Fund (Fund 5Y80)[6] to provide contingency funding for Medicaid in FY 2015.

Debt Service had the second largest negative variance at $53.8 million, followed by Justice and Public Protection ($42.5 million), Health and Human Services ($34.5 million), General Government ($22.5 million), Property Tax Reimbursements ($20.2 million), Higher Education ($17.4 million), and Primary and Secondary Education ($15.0 million). FY 2014 expenditures from the last two GRF program categories, Other Education and Capital Outlay,[7] were $3.7 million and $20,000, respectively, below their estimates. The section that follows this overview will briefly discuss the program categories with significant negative variances in FY 2014.

Year-end GRF encumbrances totaled $422.7 million for FY 2014.

In addition to program expenditures and transfers out, 43 state agencies encumbered a total of $422.7 million in GRF funding, as of June 30, 2014, for expenditures in FY 2015. These encumbrances were $16.4 million below OBM's September 2013 estimate. The **Encumbrances** section of this report provides additional information on FY 2014 year-end encumbrances.

[6] As of June 30, 2014, Fund 5Y80 had a cash balance of $31.1 million.

[7] Capital Outlay had no expenditures in FY 2014.

FY 2014 GRF Medicaid expenditures were $871.9 million below estimate; all-funds expenditures were $731.6 million below estimate.

From January through June, 2014, all-funds expenditures from the ACA Expansion category totaled $494.7 million.

Categories with Significant Negative Variances in FY 2014

Medicaid

GRF Medicaid expenditures totaled $13.57 billion in FY 2014, which was $871.9 million (6.0%) below estimate. While the GRF is the primary funding source for Medicaid, various non-GRF funds also help support Medicaid. In FY 2014, all-funds Medicaid expenditures totaled $20.86 billion, $731.6 million (3.4%) 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 administered by the Ohio Department of Medicaid (ODM) and five other agencies (Developmental Disabilities, Job and Family Services, Aging, Health, and Mental Health and Addiction Services). Table 5 details Medicaid expenditures by payment category across all funds and agencies. As seen from Table 5, Managed Care had the largest negative variance in FY 2014 at $572.1 million (6.9%), followed by Administration ($291.7 million, 27.3%), Hospitals ($172.1 million, 7.1%), Behavioral Health ($156.2 million, 16.7%), and All Other ($151.3 million, 10.3%). Physicians and Nursing Facilities, on the other hand, were the two categories that had significant positive variances in FY 2014, at $201.3 million (27.2%) and $140.1 million (6.2%), respectively, which partially offset the negative variances in the other categories. Furthermore, expenditures for the ACA Expansion category, a new category created in January, totaled $494.7 million in FY 2014. This category contains expenditures for individuals who became eligible for coverage on January 1, 2014 through the federal Patient Protection and Affordable Care Act (ACA). The estimate released by OBM in September 2013 did not anticipate any expenditures from this category. Thus, no variance is reported for this category.

The negative variance in Managed Care was partly due to a lower than expected caseload for the Covered Families and Children population and partly due to a later than anticipated start of the Integrated Care Delivery System, otherwise known as MyCare Ohio. MyCare Ohio, which is a three-year pilot program that provides managed care services to individuals covered by Medicaid and Medicare, began enrollment in May instead of March as projected. This delay was also the main reason behind the positive variance in the Nursing Facilities category. Because of the delay, nursing facility payments that would have taken place under MyCare Ohio and been reflected in the Managed Care category were instead reflected in the Nursing Facilities category.

The negative variance in Administration was caused by several factors. According to ODM, some contracts that are to be paid from this category have been delayed until FY 2015 and some contracts are not needed after all. The appropriation for this category also includes funding for certain administrative activity grants that were not pursued or awarded in FY 2014. The later than expected approval from the federal government, which is required for making payments related to the Hospital Upper Payment Limit (UPL) Program, accounted for the negative variance in the Hospitals category. ODM began making UPL payments in May after receiving federal approval. Behavioral Health's negative variance was due to the lower than expected caseload in the Health Homes Program. Under the program, individuals with severe and persistent mental illness receive improved care coordination through a person-centered care model.

Finally, the positive variance in Physicians was due to both timing issues and larger than estimated payments related to the physician rate increase that was required under the ACA.

Table 6 details the GRF and non-GRF portions of Medicaid expenditures from each of the six agencies that take part in administering Medicaid. ODM, the largest agency within this program category, had the largest year-to-date variance. Its GRF expenditures totaled $13.07 billion in FY 2014, which was $873.9 million (6.3%) below estimate. ODM's non-GRF year-to-date expenditures totaled $5.30 billion, $197.4 million (3.9%) above estimate. Across all funds, ODM's year-to-date expenditures totaled $18.36 billion, which was $676.5 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 $821.6 million below estimate. Expenditures for items 651425 and 651526 were also below estimate by $38.5 million and $13.8 million, respectively.

Item 651623, Medicaid Services – Federal, was the main contributor to the positive variance in ODM's non-GRF Medicaid expenditures. In fact, expenditures from item 651623 were $443.0 million above their FY 2014 estimate. This positive variance was partially offset by negative variances in several other non-GRF items. The items with the largest negative variances were item 651624, Medicaid Program Support – Federal ($208.0 million); item 651654, Medicaid Program Support ($35.7 million); and item 651680, Health Care Grants – Federal ($18.2 million).

Debt Service

GRF debt service expenditures totaled $1.23 billion in FY 2014, which was $53.8 million (4.2%) below estimate. Debt service payments from the Public Works Commission (PWC), Facilities Construction Commission (FCC), and Board of Regents (BOR) were all below their FY 2014 estimates, by $22.3 million, $21.2 million, and $5.6 million, respectively. General obligation bonds issued for the programs administered by these agencies are backed by the full faith and credit of the state. The state is obligated to fully fund any debt service payments required for those bonds. H.B. 483 reduced FY 2014 GRF debt service appropriations for PWC, FCC, and BOR by $23.8 million, $19.3 million, and $5.8 million, respectively.

Justice and Public Protection

GRF expenditures for Justice and Public Protection amounted to $1.84 billion in FY 2014, which was $42.5 million (2.3%) below estimate. The Department of Rehabilitation and Correction (DRC) accounted for $29.0 million (68.1%) of the category's total negative variance in FY 2014. Expenditures from DRC's appropriation items 505321, Institution Medical Services, and 501321, Institutional Operations, were $20.9 million and $6.3 million, respectively, below their FY 2014 estimates. DRC was the only agency that received an overall increase in GRF appropriation for FY 2014 in H.B. 483; item 501321's FY 2014 appropriation was increased $12.0 million. This item's year-end encumbrances totaled $25.9 million, which will be available for expenditures in FY 2015.

GRF expenditures made by the Judiciary/Supreme Court in FY 2014 were $9.1 million below estimate. Of this total, $6.2 million occurred in appropriation item 005321, Operating Expenses – Judiciary/Supreme Court. This item funds the Supreme Court's operating expenses and helps support the salaries of various judges, clerks, and other court staff throughout the state.

In addition to DRC and the Supreme Court, the Department of Youth Services also contributed $3.1 million to the Justice and Public Protection program category's total negative variance in FY 2014.

Health and Human Services

GRF expenditures for Health and Human Services were $1.24 billion in FY 2014, which was $34.5 million (2.7%) below estimate. The Ohio Department of Job and Family Services (ODJFS) accounted for $21.2 million (61.3%) of the category's total negative variance. Expenditures from appropriation item 600416, Information Technology Projects, were $9.6 million below their FY 2014 estimate. This item funds the development, implementation, and maintenance of information technology systems used by ODJFS and county departments of job and family services. Item 600321, Program Support, had the second largest negative variance within ODJFS at $4.4 million. This item is the primary funding source for support services provided by various offices within ODJFS to the rest of the agency. The remainder of ODJFS's negative variance occurred across several other appropriation items.

In addition to ODJFS, the Department of Mental Health and Addiction Services and the Department of Health contributed $6.2 million and $4.1 million, respectively, to the Health and Human Services program category's total negative variance in FY 2014.

General Government

GRF expenditures for General Government totaled $348.6 million in FY 2014, which was $22.5 million (6.1%) below estimate. This program category includes eight cabinet-level executive agencies, four out of the five statewide elected offices,[8] and all seven legislative agencies. The eight cabinet-level executive agencies registered a combined negative variance of $11.9 million, of which $7.2 million was attributable to the Department of Taxation. Expenditures from the Department's appropriation item 110321, Operating Expenses, were $7.1 million below their FY 2014 estimate. FY 2014 total expenditures from the Auditor of State, the Office of Governor, the Secretary of State, and the Treasurer of State were $0.9 million below estimates. Finally, the seven legislative agencies accounted for a combined negative variance of $7.6 million in FY 2014.

Property Tax Reimbursements

GRF expenditures for Property Tax Reimbursements were $1.79 billion in FY 2014, which was $20.2 million (1.1%) below estimate. This program category consists of two GRF appropriation items: item 200901, Property Tax Allocation – Education, and item 110901, Property Tax Allocation – Taxation. Items 200901 and 110901 are used to reimburse school districts and other local governments, respectively, for losses incurred as a result of 10% and 2.5% "rollback" reductions in real property taxes and as a result of the "homestead exemption" reduction in real property taxes. The reimbursement payments are made twice per year, one based on the February property tax settlement and one based on the August property tax settlement. The $20 million negative variance was expected in this program category. H.B. 483 reduced the total appropriation for GRF property tax reimbursements for FY 2014 by $20 million.

[8] The other statewide elected office, the Office of Attorney General, is included in the Justice and Public Protection program category.

Higher Education

GRF expenditures for Higher Education totaled $2.09 billion in FY 2014, which was $17.4 million (0.8%) below estimate. This program category includes only one agency, BOR. Appropriation item 235563, Ohio College Opportunity Grant, had the largest negative variance at $9.7 million, followed by item 235438, Choose Ohio First Scholarship ($3.6 million) and item 235483, Technology Integration and Professional Development ($3.0 million). Note that funds were encumbered in these three items to pay any outstanding obligations incurred in FY 2014.

The majority of state support for public institutions of higher education was distributed through GRF appropriation item, 235501, State Share of Instruction (SSI). In FY 2014, SSI payments totaled $1.79 billion. Traditionally, SSI disbursements do not deviate from a predetermined schedule. As a result, item 235501 does not normally carry any variances.

Primary and Secondary Education

GRF expenditures for Primary and Secondary Education totaled $6.76 billion in FY 2014. The Ohio Department of Education (ODE) is the only agency that is included in this program category. As expected, the timing related positive variances existing in Primary and Secondary Education in earlier months of this year continued to narrow, with the category's June expenditures being $82.4 million below estimate. For the fiscal year as a whole, expenditures from this program category were $15.0 million below estimate.

GRF appropriation item 200550, Foundation Funding, had the largest negative variance at $6.9 million in FY 2014, followed by item 200426, Ohio Educational Computer Network ($6.4 million); item 200408, Early Childhood Education ($5.8 million); and item 200437, Student Assessment ($3.8 million). Several other items also had negative variances. The combined negative variance totaled $30.8 million, which was partially offset by the positive variances in several other items, mainly in item 200540, Special Education Enhancements ($9.9 million) and item 200502, Pupil Transportation ($5.8 million).

School foundation payments, which are made twice per month, provide the bulk of state support for K-12 schools. These payments are mainly funded by GRF appropriation item 200550 but also supported by lottery profits appropriation item 200612, Foundation Funding. In FY 2014, expenditures from these two items totaled $5.79 billion and $775.5 million, respectively.

Encumbrances

As indicated earlier, as of June 30, 2014, state agencies encumbered a total of $422.7 million in GRF funds for expenditure in FY 2015. An agency generally has five months to spend prior-year encumbrances for operating expenses. Any unspent operating expense encumbrances generally will lapse at the end of the five-month period and will become part of the GRF cash balance. 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.

The majority (89.0%) of the $422.7 million year-end encumbrances were originally appropriated in FY 2014.

The table below summarizes the encumbrances by the fiscal year for which funds were originally appropriated. As seen from the table, the majority (89.0%) of the encumbrances were originally appropriated in FY 2014, but smaller amounts were first appropriated for earlier years back to FY 2005.

FY 2014 Year-End Encumbrances by Fiscal Year for Which Appropriations Were Originally Made

Fiscal Year	Amount (in thousands)	Percentage of Total
2005-2007	$460	0.1%
2008	$3,086	0.7%
2009	$8,637	2.0%
2010	$4,269	1.0%
2011	$4,383	1.0%
2012	$4,746	1.1%
2013	$20,799	4.9%
2014	$376,304	89.0%
Total	**$422,685**	**100.0%**

The encumbrance amounts vary greatly from agency to agency. As shown in the table below, ODE had the largest encumbrance amount at $151.7 million or 35.9% of the total, followed by ODJFS at $65.8 million or 15.6% of the total. Five other agencies with significant year-end encumbrance amounts were ODM at $50.3 million (11.9% of the total) DRC at $44.9 million (10.6%), the Development Services Agency (DSA) at $27.9 million (6.6%), BOR at $24.6 million (5.8%), and the Department of Administrative Services (DAS) at $11.6 million (2.8%). Together, these seven agencies account for $376.8 million (89.2%) of the total encumbrances; these encumbrances are briefly discussed below. Thirty-six other agencies accounted for the remaining $45.8 million, 10.8% of the total year-end encumbrances.

Of the total year-end encumbrances, 51.5% is attributable to the departments of Education and Job and Family Services.

FY 2014 Year-End Encumbrances by Agency		
Agency	**Amount (in thousands)**	**Percentage of Total**
Education	$151,691	35.9%
Job and Family Services	$65,801	15.6%
Medicaid	$50,285	11.9%
Rehabilitation and Correction	$44,903	10.6%
Development Services	$27,862	6.6%
Regents	$24,648	5.8%
Administrative Services	$11,649	2.8%
All Other Agencies	$45,845	10.8%
Total	**$422,685**	**100.0%**

Ohio Department of Education

ODE encumbered a total of $151.7 million for expenditure in FY 2015. Of this total, $142.1 million (93.7%) occurred in four appropriation items: item 200550, Foundation Funding ($91.9 million); item 200540, Special Education Enhancements ($22.6 million); item 200437, Student Assessment ($19.5 million); and item 200408, Early Childhood Education ($8.1 million).

Funds encumbered in item 200550 will mainly be used to meet year-end school foundation payment adjustments. School foundation payments are allocated to individual districts based on a variety of data. Some of these data are not finalized until the following fiscal year or later. Funds are generally encumbered each year in order to make adjusted payments based on the updated data.

Funds encumbered in item 200540 will primarily be used for outstanding subsidy payments to county boards of developmental disabilities that provide special education services to both school-aged and preschool students.

Funds encumbered in item 200437 will be used to pay contractors for scoring achievement assessments this summer that were administered in the spring and to pay other bills not yet received from vendors.

Finally, funds encumbered in item 200408 will be used to fund early childhood education (ECE) service provider grants. The ECE programs are directed at those families with an income level at or below 200% of the federal poverty level. Families with incomes above 200% of the federal poverty level pay fees on a sliding scale to participate in the programs.

Ohio Department of Job and Family Services

ODJFS encumbered a total of $65.8 million for expenditure in FY 2015. The encumbrances in four appropriation items account for $40.6 million (61.7%) of the total. These four items are: item 600525, Health Care/Medicaid ($11.7 million); item 600416, Information Technology Projects ($11.8 million); item 655523, Medicaid Program Support – Local Transportation ($9.4 million); and item 655522, Medicaid Program Support – Local ($7.7 million).

On July 1, 2013, the main responsibility of administering Ohio Medicaid was transferred from ODJFS to the then newly created ODM. GRF appropriation item 651525, Medicaid/Health Care Services, within the ODM budget is now the main funding source for Medicaid. All of the encumbrances in ODJFS item 600525 were originally appropriated in fiscal years prior to FY 2014.

Funds encumbered in item 600416 will be used to make payments for various information technology systems used by ODJFS and county departments of job and family services.

Items 655523 and 655522 were both first created for FY 2014. Item 655523 is used to distribute to county departments of job and family services the state share of Medicaid costs for providing local transportation services for certain Medicaid enrollees. Item 655522 is used to provide the state share of Medicaid costs for providing local administrative services for Medicaid and the State Children's Health Insurance Program (SCHIP).

Ohio Department of Medicaid

ODM encumbered a total of $50.3 million for expenditure in FY 2015, including $23.5 million in item 651525, Medicaid/Health Care Services, and $26.7 million in item 651425, Medicaid Program Support – State. As indicated earlier, item 651525 is now the primary funding source for Medicaid. Funds encumbered in this item are for certain Medicaid services that were provided, but not paid, in FY 2014. Item 651425 funds ODM's operating expenses.

Department of Rehabilitation and Correction

DRC encumbered $44.9 million for expenditure in FY 2015, of which $39.1 million (87.0%) occurred in items 501321, Institutional Operations ($25.9 million) and 505321, Institution Medical Services ($13.1 million). Funds were encumbered in item 501321 for a mix of purchased personal services, supplies, maintenance, repairs, materials, and other minor expenditures at DRC and institutions. Funds were encumbered from item 505321 to pay various outstanding bills for providing medical and mental health services to inmates.

Development Services Agency

DSA encumbered $27.9 million for expenditure in FY 2015. These encumbrances are largely attributable to various economic development incentive grants that have been awarded but not yet disbursed. Many of DSA's grant programs are operated on a reimbursement basis, whereby grant recipients do not receive money from the state until a project has been completed or certain conditions have been met. For example, a grantee may be awarded grants in FY 2014 but not receive them until FY 2015 or later.

Appropriation item 195532, Technology Programs and Grants, which is mainly used to support the Thomas Edison Program, had the largest encumbrance at $9.6 million. Item 195434, Industrial Training Grants, is second with an encumbrance of $5.0 million. Item 195412, Rapid Outreach Grants, ended the year with an encumbrance of $3.7 million. Another $3.6 million was encumbered in item 195535, Appalachia Assistance. The remainder of DSA's year-end encumbrances occurred across several other items.

Board of Regents

BOR encumbered $24.6 million for expenditure in FY 2015. The majority ($16.4 million) of this total was encumbered in item 235438, Choose Ohio First Scholarship, to pay the state's obligations to scholarship recipients. Item 235563, Ohio College Opportunity Grant, ended FY 2014 with $2.0 million in encumbrances, which will be used for need-based financial aid for higher education students. Another $3.0 million was encumbered in item 235483, Technology Integration/Professional Development, for providing grants to educational television stations working with education technology centers to provide public schools with instructional resources and services.

Department of Administrative Services

DAS encumbered $11.6 million for expenditure in FY 2015. Of this amount, $5.8 million occurred in item 100448, Office Building Operating Payments, and another $2.2 million in item 100459, Ohio Business Gateway. Item 100448 is used by DAS to operate and maintain various state office buildings. Item 100459 helps fund the Digital Government Program administered by DAS to facilitate effective and consistent online service offerings to all state agencies and to the public.

ISSUE UPDATES

FY 2014 Operating and Capital Expenditures Total $61.22 billion

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

In FY 2014, the state of Ohio incurred a total of $61.22 billion in operating and capital expenditures. As seen from Table A, $56.23 billion (91.9%) of the total expenditures were authorized in the main operating budget. The transportation and capital budgets accounted for $3.74 billion (6.1%) and $919.7 million (1.5%), respectively, of the total. The remaining $324.9 million (0.5%) was authorized in the Bureau of Workers' Compensation and Industrial Commission budgets.

Table A. FY 2014 Operating and Capital Expenditures by Budget

Budget	Amount	% of Total
Main Operating	$56,231,962,372	91.9%
Transportation	$3,744,908,426	6.1%
Capital	$919,716,439	1.5%
Workers' Compensation System	$324,940,769	0.5%
Total	**$61,221,528,006**	**100.0%**

Table B shows FY 2014 expenditures by account category used in the state's accounting system. As seen from Table B, Subsidies and Shared Revenue is the largest spending area. In FY 2014, 86.4% ($24.98 billion) of total GRF expenditures were distributed as "subsidies" to schools, colleges and universities, Medicaid service providers, local governments, and various other entities. Across all funds, this category's expenditures totaled $40.14 billion (65.6%). The vast majority of the expenditures incurred under the Capital Item category – $3.19 billion (5.2%) across all funds – supported the construction and maintenance of roads and bridges in the state as well as the construction and renovation of public K-12 schools and colleges and universities. Capital Item expenditures are mainly funded by bond proceeds. FY 2014 debt service payments totaled $335.7 million (1.2%) for the GRF and $1.59 billion (2.6%) across all funds.

For FY 2014, state payroll costs (including both salaries and fringe benefits) amounted to $4.23 billion across all funds, of which $1.79 billion was supported by the GRF. In addition to Payroll, what commonly is referred to as the state government's operating expenses also include expenditures incurred under the Purchased Personal Services and Other, Supplies and Maintenance, and Equipment categories. For FY 2014, the state government's operating expenses totaled $7.18 billion across all funds, of which $2.58 billion came from the GRF. In percentage terms, these amounts represent 11.7% and 8.9% of the respective totals.

Table B. FY 2014 Operating and Capital Expenditures by Account Category				
Account Category	GRF Only	% of Total	All Funds	% of Total
500 – Payroll	$1,787,821,651	6.2%	$4,233,034,276	6.9%
510 – Purchased Personal Services & Other	$352,995,576	1.2%	$1,235,164,390	2.0%
520 – Supplies and Maintenance	$418,005,747	1.4%	$1,511,127,656	2.5%
530 – Equipment	$24,259,602	0.1%	$197,868,602	0.3%
550 – Subsidies and Shared Revenue	$24,981,285,703	86.4%	$40,142,620,038	65.6%
560 – Goods and Services for Resale	$0	0.0%	$85,741,479	0.1%
570 – Capital Items	$749,158	0.0%	$3,190,430,487	5.2%
590 – Judgments, Settlements, & Bonds	$4,737,778	0.0%	$20,350,736	0.0%
591 – Debt Service	$335,668,148	1.2%	$1,587,596,016	2.6%
595 – Transfers & Non-expense	$996,300,353	3.4%	$9,017,594,326	14.7%
Total	**$28,901,823,364**	**100.0%**	**$61,221,528,006**	**100.0%**

ODOT to Receive Up to $8.65 million Over Ten Years under State Farm Sponsorship Agreement

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

On June 4, 2014, the Ohio Department of Transportation (ODOT) announced that it has entered into a sponsorship agreement with State Farm Insurance for its Freeway Patrol Program, which assists stranded motorists along Ohio's freeway system. Under this arrangement, State Farm will pay ODOT $850,000 annually for four years and $875,000 annually thereafter, for a total period of up to ten years. This would allow ODOT to collect a total of $8.65 million over that period in exchange for allowing State Farm to display its logo on the Department's vehicles and signs that are used for the program. Presumably, the proceeds from this sponsorship agreement would be deposited into the Highway Operating Fund (Fund 7002) to supplement funding for highway maintenance and construction.

Although Fund 7002 primarily receives income from the state motor fuel tax, as well as reimbursements of federal dollars for highway projects, the fund also is the repository for certain other revenues, including fees from businesses that place their logos on signs directing drivers to gas, food, and lodging establishments at or near freeway exits, as well as permit fees and right-of-way leases for the placement of billboards, other roadside advertisements, and structures such as cell phone towers. Revenue from these sources comprises a very small portion of overall Fund 7002 revenue. Income from the logo program and right-of-way receipts totaled about $10.3 million, or approximately 0.3% of the $3.23 billion in net revenue in FY 2013. An annual payment of $850,000 from the State Farm sponsorship agreement would represent about 0.03% of that $3.23 billion total.

Ohio Medicaid Expands Presumptive Eligibility to Adults

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

Starting March 31, 2014, the Ohio Department of Medicaid extended the use of presumptive eligibility to the "newly eligible"[9] who qualify for Medicaid coverage under the recent Medicaid expansion pursuant to the federal Patient Protection and Affordable Care Act (ACA). As a result, county departments of job and family services and qualified providers may enroll certain individuals who are presumably eligible for Medicaid services, which will allow those individuals to receive immediate access to care. Providers are guaranteed payments for the services provided should the application later be denied. As of May 5, 2014, 3,924 Ohioans had been approved presumptively for coverage.

Presumptive eligibility is a Medicaid policy option that permits states to authorize specific types of "qualified entities," such as hospitals, federally qualified health centers, and schools, to screen eligibility based on gross income and temporarily enroll eligible children or pregnant women in the Children's Health Insurance Program or Medicaid. Ohio has implemented presumptive eligibility for children and pregnant women since April 1, 2010. The ACA allows presumptive eligibility to be extended to parents and adults.

OOD Waiting List for Individuals with Significant Disabilities Eliminated

– Jacquelyn Schroeder, Budget Analyst, 614-466-3279

On June 9, 2014, the Opportunities for Ohioans with Disabilities Agency (OOD) eliminated the vocational rehabilitation (VR) services waiting list for individuals with significant disabilities by moving the final 395 individuals on the list to eligible status. VR services are now immediately available for individuals classified under the Most Significant Disability (MSD) and Significant Disability (SD) categories.[10] The waiting list for individuals with SD had been in place since December 2009. At its peak, there were about 4,700 such individuals waiting for VR services.

[9] Adults ages 19 through 64 with income at or below 133% of the federal poverty line ($15,521 for an individual).

[10] Federal law requires OOD to establish disability categories to prioritize VR services. In FY 2014 there was no waiting list for individuals with MSD. VR services are not currently provided to individuals classified under the third – Other – category. These are individuals who do not need multiple services over an extended period of time or who do not have limitations to functional capacities in terms of an employment outcome.

OOD provides VR services to assist individuals with disabilities in obtaining or maintaining employment. Services may include referrals, job search and placement assistance, vocational counseling and training, educational guidance, transportation services, and personal attendant services. To be eligible, individuals must have a physical or mental impairment that constitutes or results in a substantial barrier to employment, must require VR services to gain or retain employment, and can benefit from VR services in terms of an employment outcome.

OOD used $2.5 million in FY 2014 GRF funding to eliminate the waiting list for individuals with significant disabilities. These funds are counted as state match in order to receive federal funding. OOD generally receives $3.69 in federal funds for every $1 in state match that is used for VR services.

FY 2015 "Strong Families, Safe Communities" Grants Total $2 million

– Gregory Craig, Budget Analyst, 614-728-3218

On June 25, 2014, the Ohio departments of Developmental Disabilities (ODODD) and Mental Health and Addiction Services (OMHAS) announced the awarding of 14 "Strong Families, Safe Communities" grants totaling approximately $2 million for FY 2015. The grants will be used to support families with youth in crisis who present a risk to themselves, their families, or others because of mental illness or a developmental disability. The Strong Families, Safe Communities initiative began with the funding of seven projects in FY 2014. Awards for FY 2015 include continuation funding for the seven projects that started in FY 2014, expansion funding for two of those projects, and initial funding for five new projects. The initiative is funded with performance bonus moneys under the federal Children's Health Insurance Program Reauthorization Act (CHIPRA).[11] Ohio received a total of $63.7 million in bonuses and set aside $3 million of these funds for the initiative in FY 2014 and $2 million in FY 2015.

Strong Families, Safe Communities grants were awarded to community partnerships involving county boards of developmental disabilities, county boards of mental health and addiction services, county departments of job and family services, family and children first councils, school districts, local children's services agencies, family resource centers, juvenile and probate courts, local law enforcement agencies, and Ohio State University. These partnerships provide services for at-risk youth ages 8 to 24, including: (1) intensive care coordination, (2) rapid response team efforts, (3) family mentoring and support, (4) screening for high-risk children, and

[11] Between federal fiscal year (FFY) 2010 and FFY 2013, the Centers for Medicare and Medicaid Services annually awarded CHIPRA performance bonuses to states that implemented measures simplifying Medicaid enrollment procedures and increasing the number of children enrolled onto the Medicaid Program.

(5) therapeutic services across county networks. They also provide for statewide crisis intervention training for mental health and developmental disabilities services professionals. Community partners meet regularly to share ideas, discuss models of care, and identify best practices.

Expenditures for Indigent Defense in Capital Cases Average About $20,000 in Recent Years

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

On May 21, 2014, the Joint Task Force to Review the Administration of Ohio's Death Penalty issued its final report and a dissenting report.[12] The final report contains 56 recommendations that aim to improve the administration of capital punishment in Ohio. Five of these are concerned with the appointment and compensation of counsel for indigent defenders. As seen in the table below, expenditures for indigent defense in capital cases averaged $21,705 between FY 2009 and FY 2013 (the latest year for which data is available). Currently in Ohio, counties are required to provide and pay for legal counsel for indigent persons. Subject to available appropriation, the state reimburses counties for up to 50% of allowable costs. From FY 2010 through FY 2013, the state reimbursed counties for 35% of their expenses for indigent defense services.[13] The state reimbursement rate is expected to increase to 40% in FY 2014. State reimbursements are mainly funded by the money deposited into the Indigent Defense Support Fund (Fund 5DY0). In FY 2013, Fund 5DY0 accounted for about 91% of total state reimbursements for indigent defense services. The remainder was supported by the GRF.

Indigent Defense Expenditures for Capital Cases, FY 2009–FY 2013

Fiscal Year	Number of Cases	Average Cost per Case	Total Amount Expended	Reimbursement Rate	County Reimbursement
2009	85	$17,926	$1,523,689	25%	$380,922
2010	128	$20,057	$2,567,330	35%	$898,566
2011	115	$24,660	$2,835,849	35%	$992,547
2012	96	$22,325	$2,143,217	35%	$750,126
2013	91	$20,408	$1,857,103	35%	$649,986
Average	***103***	***$21,075***	***$2,185,438***	***33%***	***$734,429***

Data source: Ohio Public Defender Commission's annual reports (www.opd.ohio.gov/AboutUS/About.htm).

[12] The full reports and recommendations can be found at: www.supremecourt.ohio.gov under the "Committees & Task Forces" tab.

[13] This percentage applies to both capital and noncapital cases.

One-Year-Old Arson Registry Contains 189 Offenders

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

As of June 12, 2014, there were 189 registrants in Ohio's Arson Registry, which is part of the Ohio Law Enforcement Gateway (OHLEG). The Office of the Attorney General implemented the registry on July 1, 2013 pursuant to S.B. 70 of the 129th General Assembly. This web-based registry allows law enforcement agencies and fire investigators to quickly identify convicted arsonists in a geographical location.[14] The registry, which was developed at a one-time expense of $50,000, is maintained by the Attorney General's Bureau of Criminal Investigation (BCI).

Ohio's arson offenders are required to register with the sheriff of the county in which they reside within ten days after the offender is released from confinement. Arson offenders from out of state are also obligated to register with the county sheriff within ten days of arriving in Ohio, if staying longer than a three-day period. The offense of arson generally carries a lifetime duty to register. While the registration time period may be shortened by a judge, it cannot be shorter than ten years.

There is a $50 initial registration fee for an arson offender and a $25 re-registration fee annually thereafter. However, these fees may be waived if the offender is considered indigent. The fees are collected by the sheriffs and then remitted to the Attorney General to be deposited into the General Reimbursement Fund (Fund 1060). The fees are used to support and maintain the registry.

As of June 2014, three other states have established arson registries: California, Louisiana, and Illinois. Tennessee has legislation pending.

Department of Youth Services Estimates New Intake Process Will Save $376,000 Annually

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

On May 19, 2014, the Department of Youth Services (DYS) began implementation of a streamlined process that reduces the number of youth intake assessment steps from 220 to 53. DYS estimates that this improvement will save $376,434 annually. The savings will be reallocated for other departmental uses, including covering increasing personnel costs at DYS and providing more money for community services. The new streamlined process, which is the product of collaboration between DYS and the Department of Administrative Services' LeanOhio Office,[15] is accomplished by asking courts and

[14] The records contained in the registry are not open to public inspection.

[15] LeanOhio is also working with the Department of Rehabilitation and Correction to streamline their intake process.

counties to submit information electronically prior to the youth arriving at the institution, removing the collection of unnecessary information, eliminating reliance on most paper forms, and consolidating various technology systems. The goal is to reduce from four days to three the maximum amount of time it takes to receive a youth on intake and assign that youth to their home institution.

Ohio Third Frontier Commission Awards Two Grants Totaling $46 million under the Technology Commercialization Center Program

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

On June 11, 2014, the Ohio Third Frontier Commission awarded $46.0 million in grant funding for two projects that aim to assist Ohio companies developing new medical technologies by commercializing them into breakthrough treatments and medicines. The grants are the first to be awarded under the Commission's Technology Commercialization Center Program. A $25.0 million grant to University Hospitals in Cleveland will be used to establish the Harrington Discovery Institute – Innovation Support Center. The center will build on pharmaceutical innovations from University Hospitals by supporting physician-scientists in accelerating drug development. A $21.0 million grant to the Ohio State University will be used to establish the Neurotechnology Innovations Translator, with the goal of successfully commercializing validated, market-ready neurological therapies developed at the university.

Projects funded under the Technology Commercialization Center Program must be focused on a technology industry sector and must be spearheaded by an Ohio university, medical center, or other nonprofit research institution already renowned for work in the core technology focus area. Technology commercialization centers receiving funding must also possess a deep pipeline of projects and deal flow in the emerging technology, with clear near-term potential for commercialization in Ohio through manufacture, production, and distribution capabilities within the state. In addition, the program requires a minimum of 2:1 cost-share, with at least half of the nonstate funding coming from industry and private investment capital, as well as sustainable nonstate funding beyond the project period.

Altogether, the Ohio Third Frontier Commission has allocated $75.0 million for the Technology Commercialization Center Program; thus, $29.0 million remains available after these two awards. As with other Third Frontier grants, awards under the Technology Commercialization Center Program are subject to Controlling Board approval.

Department of Agriculture Announces Local Agricultural Easement Purchase Program Approvals in 21 Counties

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

On June 18, 2014, the Ohio Department of Agriculture (ODA) announced approval for local sponsors to purchase agricultural easements on 51 farms, encompassing more than 10,000 acres in 21 counties through the Local Agricultural Easement Purchase Program (LAEPP). Approximately $11.7 million in state and federal funding will be provided in 2014 to support the purchase of the approved easements. Of the total funding, $4.6 million (39.3%) will be awarded from ODA's allocation of the Clean Ohio Conservation Fund, which was approved by voters in 2008. The remaining $7.1 million (60.7%) will be provided by the United States Department of Agriculture's Agricultural Conservation Easement Program (ACEP). The table below summarizes the approved easement purchases by county.

State and Federal Funding for Agricultural Easements					
County	**Number of Farms**	**Total Acres**	**Clean Ohio Fund**	**Federal ACEP Funding**	**Total**
Allen	3	1,398	$230,877	$332,460	$536,337
Champaign	2	481	$168,350	$336,699	$505,049
Clark	6	1,110	$259,684	$1,038,726	$1,298,410
Clark & Champaign	1	552	$100,000	$400,000	$500,000
Clinton	1	426	$100,000	$400,000	$500,000
Clinton & Warren	1	373	$100,000	$400,000	$500,000
Fairfield	1	220	$322,806	$0	$322,806
Fulton	1	135	$100,772	$0	$100,772
Greene	4	939	$176,876	$701,585	$878,461
Huron	1	158	$183,539	$0	$183,539
Knox	1	386	$316,783	$0	$316,783
Lake	2	84	$138,321	$270,366	$408,687
Licking	2	283	$185,743	$371,485	$557,228
Logan	3	675	$187,603	$750,405	$938,008
Logan & Champaign	1	111	$31,141	$124,564	$155,705
Madison	3	546	$454,064	$460,486	$920,972
Madison & Clark	1	229	$210,952	$210,952	$421,904
Montgomery	5	413	$212,503	$424,995	$637,498
Pickaway	3	221	$366,242	$75,258	$441,500
Portage	1	52	$35,545	$0	$35,545
Preble	1	446	$261,247	$522,493	$783,740
Sandusky	2	261	$72,248	$144,496	$216,744
Seneca	4	416	$250,684	$85,574	$336,258
Wayne	1	127	$167,015	$0	$167,015
Total	**51**	**10,040**	**$4,632,995**	**$7,050,544**	**$11,689,961**

The LAEPP allows landowners to voluntarily sell easements on their farms to the state, ensuring that the qualifying land remains in agricultural production permanently. The process is overseen by local sponsor organizations that score applications and forward their recommendations for funding to ODA. Sponsor organizations can be counties, cities, townships, soil and water conservation districts, or land trusts. 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 from the Clean Ohio Fund are capped at $2,000 per acre with a maximum of $500,000 per farm. Statewide, as of December 31, 2013, LAEPP easements had been purchased on 239 farms totaling 43,956 acres. A map showing the number of agricultural easement by county can be found on ODA's website at: http://www.agri.ohio.gov/farmland/docs/Farm_ASA_AgMap.pdf.

Ohio Veterinary Medical Licensing Board Awards $25,000 in Grants to Three Recipients under the Veterinarian Loan Repayment Program

– Tynita M. White, LSC Fellow, 614-466-1523

On May 14, 2014, the Ohio Veterinary Medical Licensing Board awarded a total of $25,000 to three veterinarians through the Veterinarian Loan Repayment Program, with the amount to be split equally among three recipients. The grant program is an incentive geared toward encouraging veterinary students interested in large animal medicine, regulatory services, or veterinary public health to practice in areas of the state where these professional services are lacking. The grants can be used to offset the cost of tuition, other educational expenses, and room and board incurred during schooling. The maximum amount of an award permitted by law is $20,000 per person in any year. There is also a service commitment required of recipients. If the grant is less than $10,000, recipients must stay in Ohio for at least one year; if the grant is greater than $10,000, recipients must stay in Ohio for at least two years. The program is funded by $10 from each license fee plus any penalties assessed to award recipients who fail to meet the service commitment under the program. These amounts are deposited into the Veterinarian Loan Repayment Fund (Fund 5BU0).

To qualify for consideration under the Veterinarian Loan Repayment Program, applicants must: (1) be enrolled or have graduated within three years of application from a veterinary college approved by the Board, (2) be eligible for Ohio licensure as a veterinarian, (3) intend to practice in a veterinary resource shortage area, and (4) not have received student loan repayment assistance pursuant to federal law. Applicants must also submit a biography and a personal statement explaining their motivation for serving in veterinary shortage areas.

State Fire Marshal Awards $1.7 million under Fire Department Grant Program

– Shannon Delaney, Budget Analyst, 614-466-1154

On June 6, 2014, the Division of State Fire Marshal within the Department of Commerce announced $1.7 million in awards under the Fire Department Grant Program. The purpose of the grant program is to help offset the costs that local fire departments incur for equipment and training. Of the total awarded under this announcement, $1,054,894 was awarded for fire safety equipment and $635,126 was awarded for firefighter training. Additionally, there were 103 equipment grants, ranging from $2,527 to $15,000, awarded to fire protection services in 54 counties. Finally, 286 training grants, ranging from $225 to $15,000, were awarded to recipients in 84 counties. The grants are funded with revenue from taxes on insurance companies selling fire insurance in Ohio and from inspection fees, hotel permits, and fireworks licenses, which are deposited into the State Fire Marshal Fund (Fund 5460).

The State Fire Marshal awards equipment and training grants to local fire departments based on a variety of criteria including: (1) the fire department's annual budget, (2) the annual number of fire incidents, and (3) the resident population served by the fire department. Eligible grant recipients include volunteer fire departments, joint fire districts, and certain private fire companies. Equipment grants may be used for the purchase of protective clothing, self-contained breathing apparatus (SCBA), communications equipment, and other miscellaneous equipment. Training grants may be used for specific fire training classes, including the cost of training manuals and student workbooks. Individual equipment and training grants are limited up to $15,000 per fiscal year.

Controlling Board Approves Funding for Videoconferencing Update

– Merilee Newsham, Budget Analyst, 614-466-3839

On June 2, 2014, the Controlling Board approved the Broadcast Educational Media Commission's (BEMC's) request for more than $290,000 to update and increase the capacity of its videoconferencing technology. BEMC's videoconferencing service, Video Bridge, supports mobile as well as on-site videoconferencing for primary and secondary schools, institutions of higher education, and state and local government agencies. The approved funds increase BEMC's capacity to bridge high definition calls, and handle concurrent mobile clients using videoconferencing. BEMC's request for funding anticipates an expected increase in Video Bridge usage by schools receiving Straight A Fund grants.

Three School Districts Receive Solvency Assistance in FY 2014

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

Three school districts received solvency assistance totaling nearly $5.0 million in FY 2014. The Controlling Board approved the release of $775,000 for Bettsville Local (Seneca County) on February 25, $3.7 million for Mansfield City (Richland County) on March 24, and $514,000 for Brookfield Local (Trumbull County) on May 19.

Districts declared to be in fiscal emergency may qualify for advances from the Solvency Assistance Fund. Generally, each advance is repaid by the respective school district over the next two fiscal years through deductions from foundation aid. School districts are designated to be in fiscal emergency, fiscal watch, or fiscal caution when they are deemed to be operating under a certified or anticipated deficit or failing to meet other fiscal or budgetary guidelines established by the Superintendent of Public Instruction and the Auditor of State. Districts in fiscal emergency or fiscal watch as of the end of FY 2014 are listed in the table below.

School Districts in Fiscal Emergency or Watch, as of the end of FY 2014	
Fiscal Emergency	
Bellaire Local (Belmont)	Bettsville Local (Seneca)
Brookfield Local (Trumbull)	Cloverleaf Local (Medina)
Ledgemont Local (Geauga)	Liberty Local (Trumbull)
Mansfield City (Richland)	Monroe Local (Butler)
Fiscal Watch	
Coventry Local (Summit)	Niles City (Trumbull)

Straight A Fund Board Recommends Second Round Grant Awards

– Neil Townsend, Budget Analyst, 614-466-8742

On June 20, 2014, the Straight A Fund Governing Board recommended 34 grants totaling $142.0 million in the second round of awards under the Straight A Program created in H.B. 59. An additional three projects received tentative approval pending review of additional information. The Straight A Program provides competitive grants for projects that aim to achieve significant advancement in one or more of the following: (1) student achievement, (2) reduced spending in the entity's five-year fiscal forecast, (3) utilization of a greater share of resources in the classroom, and (4) use of a shared service delivery model. The awards are limited to $1 million for an individual entity and $15 million for a consortium. Lottery profits provide the funding for the program, which is appropriated in Fund 7017 line item 200648, Straight A Fund. Before funds are distributed, the recommendations require Controlling Board approval.

Most of the selected recipients are partnerships of varying sizes; only three are individual entities. Of the 37 grants recommended or receiving tentative approval, 95% aim to increase student achievement, 81% aim to reduce spending, 57% aim to use a greater share of resources in the classroom, and 51% aim to implement a shared services delivery model. In terms of geographic characteristics, ten lead applicants are suburban districts, seven are rural or small town districts, and six are urban districts. There were also six educational service centers (representing nine projects), three community or STEM (science, technology, engineering, and mathematics) schools, and two joint vocational school districts recommended to receive funding. The list of recommended grants and descriptions is available on the Ohio Department of Education website (education.ohio.gov) by searching for "Straight A Fund." The first round of awards occurred earlier in FY 2014, with 24 grants totaling $88.7 million awarded.

TRACKING THE ECONOMY

– Russ Keller, Economist, 614-644-1751

Overview

The U.S. economy reached significant milestones as the second quarter of 2014 came to a close. The Federal Reserve's Industrial Production Index reached a new high, and June light vehicle sales represented the highest sales pace since 2006. Nonfarm payroll employment gains in the latest five months were the most rapid in more than eight years. In June, the U.S. unemployment rate fell to 6.1% for the first time since September 2008. Similarly, Ohio's unemployment rate was 5.5% in May, which is a level last recorded in April 2007, prior to the most recent recession. The stock market reached all-time highs as the Dow Jones Industrial Average eclipsed 17,000 in July, and the S&P 500 neared 2,000.

Other economic news was less exuberant. U.S. labor force participation rates in recent months were the lowest since March 1978, and the Ohio labor force participation rate for May was lowest since April 1980. The quarterly change in real GDP for the first quarter of 2014 was the 17th weakest quarter among the 268 quarters on record.

In June, nonfarm payroll employment nationwide at business establishments increased 288,000.

The National Economy

Employment and Unemployment

In June, nonfarm payroll employment nationwide at business establishments increased 288,000, according to initial estimates from the Bureau of Labor Statistics (BLS). June's increase, as recorded by establishment survey data, marked the fifth consecutive month of 200,000+ payroll gains. Over the past five months, U.S. payrolls added more than 1.2 million jobs, the largest gain in a five-month period since November 2005 through March 2006. The nation's unemployment rate declined in June to 6.1%, which is down from 6.7% in February and March 2014.

June's job gains were widespread, led by employment growth in professional and business services, retail trade, food services and drinking places, and health care. Over the latest 12 months, the strongest payroll increase among major industry sectors was in professional and business services, which gained 647,000 jobs (3.5% above year ago levels). Other notable employment gains were in leisure and hospitality (393,000, 2.8%), education and health services (378,000, 1.8%), retail trade (317,000, 2.1%), and construction (186,000, 3.2%).

According to household survey data, part-time workers increased by 799,000 in June as full-time workers declined by 523,000.

According to household survey data, part-time workers increased by 799,000 in June as full-time workers declined by 523,000. The number of part-time workers is near an all-time high (1% below), while the number of full-time workers is 3.7 million (3.7%) lower than the peak in 2007. The total number of unemployed job-seekers decreased in June to 9.5 million, seasonally adjusted, from 9.8 million in May. The number of individuals working part time (up to 34 hours per week) for economic reasons increased to 7.5 million in June from 7.3 million in May. The number of job-seekers unemployed for 27 weeks or more dropped in June to 3.1 million from 3.4 million in May. The number of job-seekers unemployed for 27 weeks or more in June was 29% lower than in June of last year. The median number of weeks of unemployment fell to 13.1 in June from 14.6 in May. June's level was 19% lower than in June of last year.

The labor force participation rate (persons employed or actively seeking work as a percent of the civilian population aged 16 and over) remains at 62.8%, below its peak of 67.3%, which last occurred in April 2000. Since that peak, the labor force participation rate declined for those under 55 (refer to Chart 5), but increased for those 55 and over (refer to Chart 6). Explanations for those dropping out of the labor force include difficulties finding work, returning to school, incurring a disability or illness, and involuntarily leaving the workforce. An aging U.S. population and retirements are also contributing to the long-term decline in labor participation even with the rising participation in this age group.

Chart 5: Civilian Labor Force Participation Rate, Percent, Monthly, Seasonally Adjusted

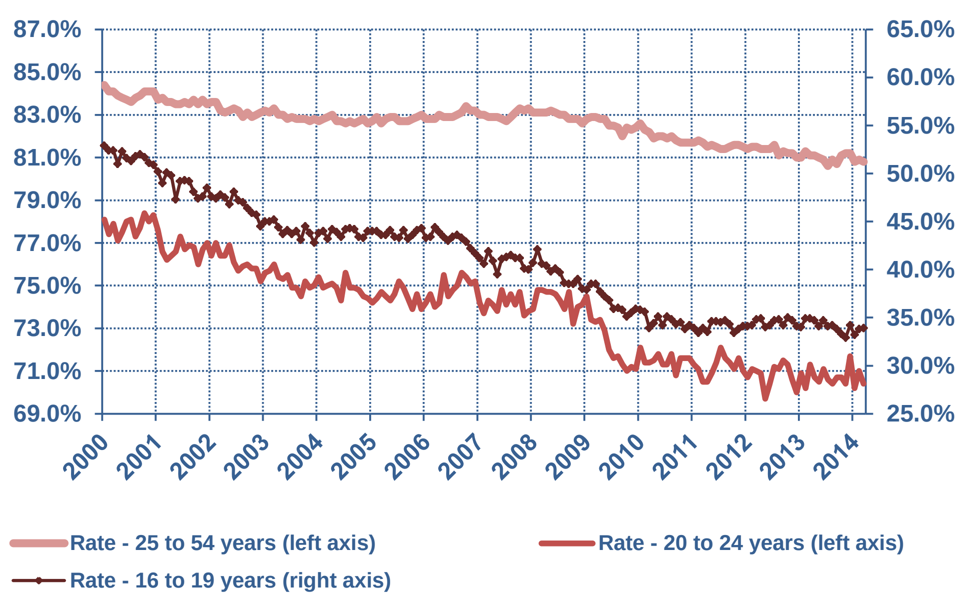
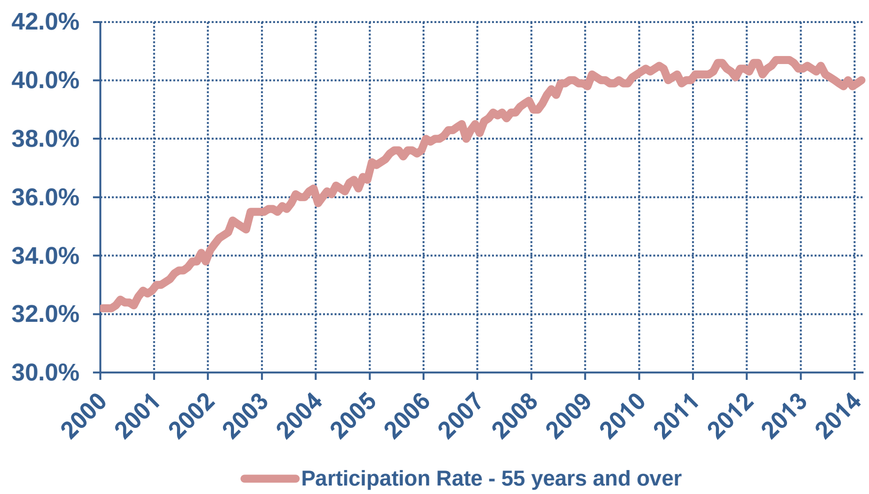


Chart 6: Civilian Labor Force Participation Rate, Percent, Monthly, Seasonally Adjusted



Hiring gains occurring in 2014 are likely to continue into the third quarter according to a recently released survey by a staffing firm, ManpowerGroup. The Net Employment Outlook, which quantifies survey responses about hiring plans from 18,000 U.S. employers, was +14%, seasonally adjusted, highest since the second quarter of 2008.

Production

U.S. industrial production in May rebounded from April when the index fell 0.3%.[16] According to the Federal Reserve's index, total industrial production was 0.6% higher in May, and 4.3% higher in May than a year earlier. The gain in May pushed the index to an all-time high. Last October, the index eclipsed the pre-recession high in November 2007, ahead of the start of the 2007-2009 downturn.

Manufacturing activity expanded for the 13th consecutive month in June based on a release by the Institute for Supply Management (ISM), which surveys purchasing managers. Reports of higher new orders were more widespread than in May. Production and employment also increased in June. On the other hand, backlogs of orders contracted in June for the first time since January. Survey respondents described business as "still very solid and strong," and some respondents remarked about their improved outlook for future business volume.

Manufacturing activity expanded for the 13th consecutive month in June.

[16] The Federal Reserve revised its April change to -0.3% from -0.6%, which was reported in the previous issue of *Budget Footnotes*.

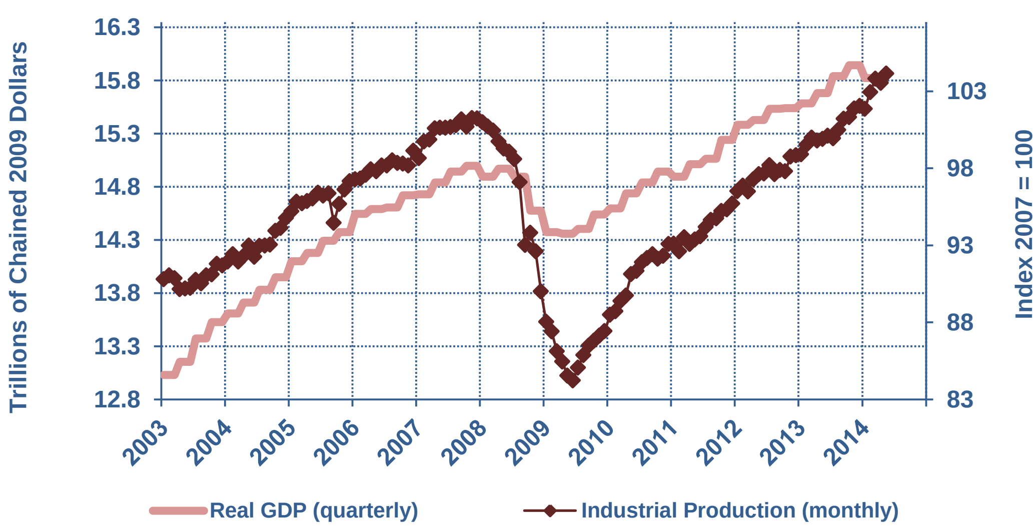
Real GDP decreased in the first quarter of 2014 at an annual rate of 2.9%.

Gross domestic product, adjusted for inflation, (real GDP) decreased in the first quarter of 2014 at an annual rate of 2.9%, according to the third estimate of real GDP growth from the U.S. Bureau of Economic Analysis. The decrease was the sharpest such decline since the first quarter of 2009 when the economy was in a recession.

The third revision to real GDP changed the quarterly growth rate in personal consumption expenditures to 1.0% rather than 3.1%. Consumer spending growth in the quarter was one of the weaker showings since the end of the 2007-2009 recession. Additions to inventories were smaller than previously estimated, and exports were weaker.

In every previous occasion since 1947 where the change, at an annual rate, in real GDP was at least 1.6% negative, the U.S. economy was either in recession or in the quarter immediately preceding a recession, as identified by the National Bureau of Economic Research. However, other economic indicators, such as industrial production, are not reflecting that sort of weakness in the economy. Chart 7 shows that over the past decade, real GDP generally moved in tandem with industrial production. This most recent quarter reflected a decline in real GDP as industrial production reached an all-time high. The chart lends some credence to the commentators in the financial press that regard the first quarter's real GDP as an aberration or a temporary setback. If it was a temporary setback, it would be the largest quarterly real GDP decline in the post-World War II era to occur outside of a recession or the period just prior to a recession.

Chart 7: Real GDP and Industrial Production Index



Consumer Spending and Personal Incomes

Real consumer spending decreased by 0.1% in May, seasonally adjusted, the second consecutive monthly decline. Consumer spending declines for the month were concentrated in nondurable goods and services. Durable goods spending increased from April, but growth is essentially flat since March. Consumers' income gains outpaced their spending for the month, and the personal saving rate increased from 4.5% to 4.8%. Personal income grew for the fifth consecutive month in May, by 0.4%, not adjusted for inflation. Income in May was 3.5% above levels from one year ago.

Income in May was 3.5% above levels from one year ago.

The early information for consumer spending in June was positive as light vehicle sales for the month were near an eight-year high. For June, consumers purchased cars and light trucks at a seasonally adjusted annual rate of 16.9 million, the highest sales rate in any month since July 2006.

Inflation

Consumer Prices

Inflation, as measured by the consumer price index (CPI), continued the upward trend that began last fall. The CPI rose 0.4% in May, seasonally adjusted, with price increases for rent (of shelter), electricity, food, airline fares, and gasoline accounting for most of the increase. The energy component increased for the second consecutive month in May after two consecutive months of declines. The all-items CPI was 2.1% higher in May than a year earlier.

Producer Prices

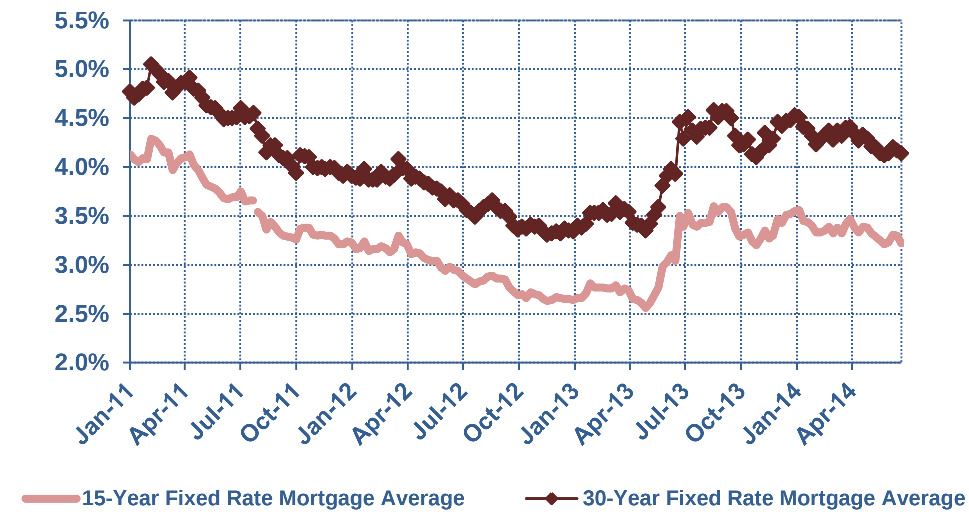
Producer prices declined in May after two consecutive months of increases. The producer price index (PPI) for total final demand decreased 0.2% in May, seasonally adjusted. As compared to one year ago, the PPI increased 2.0%. Price indexes for both final demand goods and final demand services decreased 0.2% in the latest month.

Housing

Sales of existing homes in May were up 4.9% to a 4.89 million unit seasonally adjusted annual rate, which marked the second consecutive monthly gain. The most recent high in home sales occurred in July 2013, when sales were 5.38 million units. Aside from November 2009 when sales were spurred by the initial expiration of the federal first-time homebuyer tax credit, the July 2013 sales mark represented a post-recession high. According to Freddie Mac's Primary Mortgage Market Survey, interest rates for fixed rate mortgages increased by about a percentage point just before the July 2013 sales peak, but they have somewhat moderated since April 2014 as home sales increased, see Chart 8 below.

The state's labor force participation rate in May, 63.0%, is at its lowest level since April 1980.

Chart 8: Freddie Mac Primary Mortgage Market Survey



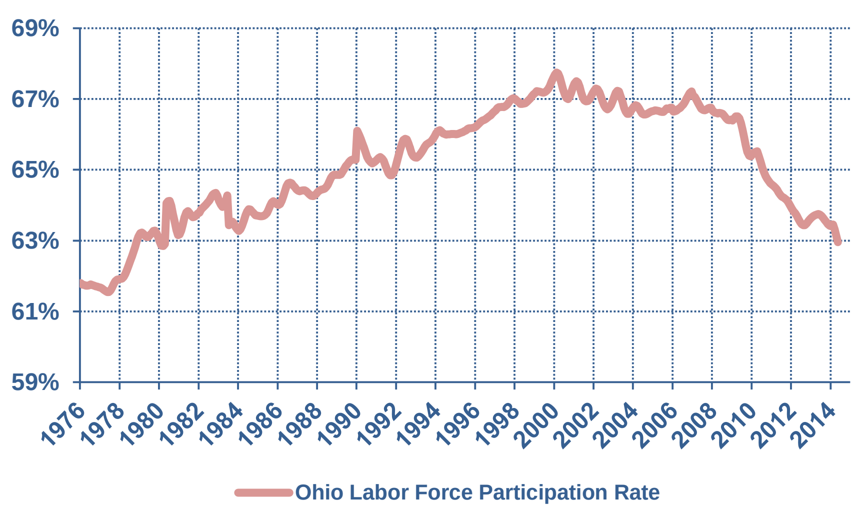
The Ohio Economy

Employment and Unemployment

Total nonfarm payroll employment in Ohio increased by 2,900 in May, while the state's rate of unemployed job-seekers fell to 5.5% from 5.7% in April.

From April to May, the number of unemployed Ohioans decreased from 328,000 to 317,000, a decline of 11,000. Compared with a year earlier, unemployment statewide was 108,000 lower, while total employment was higher by a smaller number, 64,000, and the labor force contracted by 44,000. The state's labor force participation rate in May, 63.0%, is at its lowest level since April 1980, as shown in Chart 9 below.

Chart 9: Ohio Labor Force Participation Rate, Monthly



Nonagricultural wage and salary employment increased 46,800 (0.9%) over the past 12 months. Goods-producing industries were responsible for 15,200 of the increase in jobs, a 1.8% rise. The sector's growth was concentrated in durable goods manufacturing, which added 11,800 jobs, a 2.6% increase, over the previous year. The private service-providing sector added 35,000 jobs since May 2013. The industry groups with the largest growth in this sector were professional and business services (20,100, 2.9%); trade, transportation, and utilities (6,900, 0.7%); and education and health service (5,300, 0.6%). Government employment contracted by 3,400 (0.4%) over the past 12 months.

Nonagricultural wage and salary employment increased 46,800 (0.9%) over the past 12 months.

Home Sales

The number of homes sold in Ohio, reported by the Ohio Association of Realtors (OAR), was lower in May than a year earlier, the fifth consecutive month of year-over-year declines in sales activity after 30 consecutive months of gains. However, the seasonally adjusted annual rate of home sales in May was 6.2% higher than the previous month. In May, the average price at which Ohio homes were sold was $152,612, which was 2.9% above the average price of May 2013.