Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION MARCH 2014

STATUS OF THE GRF

HIGHLIGHTS

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

The first payment under the new financial institutions tax was due January 31, and revenue from that payment was recorded in both January and February. The February payment exceeded estimate by $38 million, but there was a large negative variance in January, meaning FY 2014 revenue through February exceeded estimate by less than $6 million. Across all tax sources, GRF tax revenue exceeded estimate by $31 million in February.

The Cleveland Federal Reserve Bank noted, in its contribution to the Beige Book, that severe weather contributed to some temporary slowing across industry sectors in the Cleveland district (which includes Ohio), and that hiring was sluggish. It also noted that it was seeing a pickup in manufacturing jobs.

Through February 2014, GRF sources totaled $19.52 billion:

- Revenue from the personal income tax was $280.9 million above estimate but sales and use tax receipts were $47.3 million below estimate.

Through February 2014, GRF uses totaled $21.52 billion:

- Program expenditures were $12.5 million below estimate. Medicaid had the largest single negative variance, at $323.8 million;
- Due largely to timing, Primary and Secondary Education spending was $417.5 million above estimate, nearly offsetting negative variances in other broad categories.

VOLUME 37, NUMBER 7

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

Legislative Service Commission
77 South High Street, 9th Floor
Columbus, Ohio 43215

Telephone: 614-466-3615

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

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$71,303	$76,800	-$5,497	-7.2%
Nonauto Sales and Use	$532,746	$586,200	-$53,454	-9.1%
Total Sales and Use Taxes	$604,049	$663,000	-$58,951	-8.9%
Personal Income	$147,915	$101,400	$46,515	45.9%
Corporate Franchise	-$4,864	$0	-$4,864	---
Financial Institutions	$42,220	$3,900	$38,320	982.6%
Public Utility	$22,072	$21,800	$272	1.2%
Kilowatt Hour Excise	$28,112	$30,400	-$2,288	-7.5%
Natural Gas Consumption (MCF)	$16,004	$10,100	$5,904	58.5%
Commercial Activity Tax	$174,237	$151,200	$23,037	15.2%
Foreign Insurance	$29,194	$42,700	-$13,506	-31.6%
Domestic Insurance	$51	$0	$51	---
Business and Property	$21	$0	$21	---
Cigarette	$52,418	$56,700	-$4,282	-7.6%
Alcoholic Beverage	$4,052	$3,300	$752	22.8%
Liquor Gallonage	$3,055	$2,900	$155	5.3%
Estate	$85	$0	$85	---
Total Tax Revenue	**$1,118,622**	**$1,087,400**	**$31,222**	**2.9%**
NONTAX REVENUE				
Earnings on Investments	$2	$0	$2	---
Licenses and Fees	$6,490	$6,000	$490	8.2%
Other Revenue	$1,206	$3,625	-$2,419	-66.7%
Total Nontax Revenue	**$7,698**	**$9,625**	**-$1,927**	**-20.0%**
TRANSFERS				
Liquor Transfers	$0	$0	$0	---
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$0	$200	-$200	-100.0%
Total Transfers In	**$0**	**$200**	**-$200**	**-100.0%**
TOTAL STATE SOURCES	**$1,126,320**	**$1,097,225**	**$29,095**	**2.7%**
Federal Grants	$645,258	$743,275	-$98,017	-13.2%
TOTAL GRF SOURCES	**$1,771,578**	**$1,840,500**	**-$68,922**	**-3.7%**

* 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 February 28, 2014
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on March 5, 2014)

	Actual	Estimate*	Variance	Percent	FY 2013	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$750,588	$734,200	$16,388	2.2%	$688,799	9.0%
Nonauto Sales and Use	$5,243,850	$5,307,500	-$63,650	-1.2%	$4,907,438	6.9%
Total Sales and Use Taxes	$5,994,439	$6,041,700	-$47,261	-0.8%	$5,596,237	7.1%
Personal Income	$5,484,450	$5,203,600	$280,850	5.4%	$5,782,225	-5.1%
Corporate Franchise	-$10,099	$0	-$10,099	---	$152,139	-106.6%
Financial Institutions	$83,513	$77,900	$5,613	7.2%	$0	---
Public Utility	$70,168	$67,900	$2,268	3.3%	$68,005	3.2%
Kilowatt Hour Excise	$202,054	$211,950	-$9,896	-4.7%	$215,279	-6.1%
Natural Gas Consumption (MCF)	$36,680	$28,000	$8,680	31.0%	$23,834	53.9%
Commercial Activity Tax	$592,359	$605,139	-$12,780	-2.1%	$604,191	-2.0%
Foreign Insurance	$175,835	$185,400	-$9,565	-5.2%	$150,416	16.9%
Domestic Insurance	$149	$1,000	-$851	-85.1%	$4,625	-96.8%
Business and Property	$476	$0	$476	---	$436	9.1%
Cigarette	$490,891	$491,700	-$809	-0.2%	$495,317	-0.9%
Alcoholic Beverage	$36,721	$35,400	$1,321	3.7%	$34,093	7.7%
Liquor Gallonage	$28,242	$27,600	$642	2.3%	$27,364	3.2%
Estate	$30,129	$21,400	$8,729	40.8%	$73,696	-59.1%
Total Tax Revenue	**$13,216,006**	**$12,998,689**	**$217,317**	**1.7%**	**$13,227,858**	**-0.1%**
NONTAX REVENUE						
Earnings on Investments	$8,444	$5,500	$2,944	53.5%	$4,479	88.5%
Licenses and Fees	$20,542	$48,000	-$27,458	-57.2%	$24,508	-16.2%
Other Revenue	$20,748	$29,000	-$8,252	-28.5%	$524,253	-96.0%
Total Nontax Revenue	**$49,734**	**$82,500**	**-$32,766**	**-39.7%**	**$553,240**	**-91.0%**
TRANSFERS						
Liquor Transfers	$0	$0	$0	---	$91,500	-100.0%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$52,730	$6,600	$46,130	698.9%	$5,751	816.9%
Total Transfers In	**$52,730**	**$6,600**	**$46,130**	**698.9%**	**$97,251**	**-45.8%**
TOTAL STATE SOURCES	**$13,318,471**	**$13,087,789**	**$230,682**	**1.8%**	**$13,878,350**	**-4.0%**
Federal Grants	$6,200,391	$6,117,211	$83,181	1.4%	$5,526,128	12.2%
TOTAL GRF SOURCES	**$19,518,862**	**$19,205,000**	**$313,861**	**1.6%**	**$19,404,478**	**0.6%**

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

Revenues

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

Overview

Through February, GRF tax receipts in FY 2014 were $217.3 million above estimate.

GRF sources[1] totaled $1.77 billion in February 2014. These sources were $68.9 million below the estimate released by the Office of Budget and Management (OBM) in September 2013. State sources were $29.1 million above estimates, but federal grants were $98.0 million below projections. Tax sources were $31.2 million above estimates; however, that positive variance was partially offset by a shortfall of $2.1 million in nontax revenues and transfers in. Federal grants in February decreased the year-to-date variance for this GRF source to $83.2 million, down from $181.2 million through January 2014. The monthly revenue of GRF tax sources pushed this category's year-to-date positive variance to $217.3 million from $186.1 million at the end of January. Overall, state-source receipts were $230.7 million above projected receipts through February 2014. Tables 1 and 2 show GRF sources for the month of February and for FY 2014 through February, respectively.

Through February, FY 2014 GRF sources were $313.9 million above estimate.

Regarding individual tax sources, receipts from the personal income tax and the commercial activity tax (CAT) were $46.5 million and $23.0 million above estimate, respectively, in February. The financial institutions tax was $38.3 million above estimate in February, reversing January's shortfall of $32.8 million, and ending the two-month period with a positive variance of $5.6 million. Also, the natural gas consumption tax (MCF) was $5.9 million above estimate in February. On the other hand, two tax sources had large negative variances, including the sales and use tax ($59.0 million) and the foreign insurance tax ($13.5 million). In addition, the corporate franchise tax (CFT) and the cigarette tax were below estimates by $4.9 million and $4.3 million, respectively. February's performance almost doubled the CFT year-to-date negative variance to $10.1 million, up from $5.2 million in January 2014. The remaining tax sources experienced smaller monthly variances.

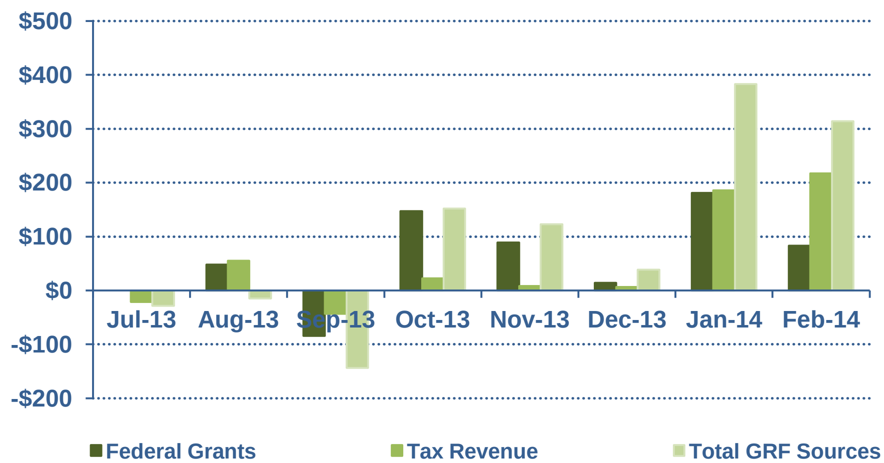
For the fiscal year through February, nontax revenues were short of anticipated receipts by $32.8 million, $1.9 million more than the negative variance at the end of January; and transfers in were $46.1 million above estimate, $0.2 million less than the variance at the end of the previous month.

---

[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.

Chart 1 below shows FY 2014 cumulative variances against estimate for federal grants, tax sources, and total GRF sources. GRF sources as a whole were $313.9 million above estimate, and as mentioned earlier, federal grants were also above estimates. Regarding tax revenue, as shown in Table 2, through February 2014, the personal income tax had a large positive variance; and the auto sales tax, the MCF, and the estate tax had more modest positive variances. On the other hand, the nonauto sales and use tax had a significant negative variance, while the CAT, the CFT, and the kilowatt-hour tax, were below anticipated receipts by smaller amounts.

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



Through February, FY 2014 GRF sources were $114.4 million above GRF sources in FY 2013.

Compared to FY 2013, FY 2014 total GRF sources increased $114.4 million. An increase of $674.3 million in federal grants was partially offset by decreases of $503.5 million in nontax revenues, $44.5 million in transfers in, and $11.9 million in GRF tax receipts. The outsized 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.

[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.

Through February, FY 2014 GRF income tax receipts were $280.8 million above estimates.

Compared to the previous year, receipts from the personal income tax declined $297.8 million, while those from the sales and use tax increased $398.2 million. CFT and estate tax receipts declined $162.2 million and $43.6 million, respectively, primarily from recent tax law changes. Year-to-date foreign insurance tax receipts were $25.4 million above FY 2013 revenue through February, and CAT receipts were still trailing FY 2013 revenue by $11.8 million. As explained in previous issues of *Budget Footnotes*, year-over-year comparisons of receipts from the personal income tax and the sales and use tax are complicated by changes in H.B. 59, the current operating budget act. H.B. 59 reduced income tax rates by 8.5% for tax year (TY) 2013, and withholding tax rates were reduced by 9.0% starting in September to reflect that. Similarly, the increase in sales and use tax receipts over the prior year reflects, in part, the increase in the tax rate from 5.5% to 5.75% in September, also enacted in the budget act. The sharp decline in CFT receipts is due mostly to its elimination by H.B. 510 of the 129th General Assembly, while the estate tax was repealed for dates of death beginning in calendar year 2013 by H.B. 153 of the 129th General Assembly. H.B. 510 also created the financial institutions tax, which has provided $83.5 million to the GRF in the first tax payment due January 2014 from financial institutions.

Personal Income Tax

February GRF receipts from the personal income tax of $147.9 million were $46.5 million (45.9%) above estimate, but were $119.2 million (44.6%) below receipts in the same month a year ago, due to higher refunds and lower employer withholdings this year. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the Local Government Fund (LGF). Gross collections are the sum of employer withholding, quarterly estimated payments,[3] trust payments, payments associated with annual returns, and miscellaneous payments.

[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.

Similarly to January, refunds were $33.0 million (6.4%) below their anticipated level (January refunds were $116.1 million below estimates).[4] Also, monthly employer withholding was $14.3 million (2.3%) above estimate. Quarterly estimated payments and taxes due with annual return, which were, respectively, $3.6 million (65.6%) and $3.6 million (66.7%) above estimates, also boosted monthly receipts.

For the fiscal year through February, the GRF has received $5.48 billion from the personal income tax, $280.8 million (5.4%) 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, employer withholding receipts were $13.2 million above estimates; however, the overall positive year-to-date variance was mostly due to lower than expected refunds ($200.4 million), higher than anticipated quarterly estimated payments ($58.4 million), and annual tax return payments ($34.6 million). Those positive variances were partly offset by shortfalls in miscellaneous receipts ($17.3 million) and trust payments ($4.4 million).

Through February, FY 2014 withholding tax receipts were $13.2 million above estimate.

FY 2014 Year-to-Date Income Tax Revenue Variances and Changes by Component

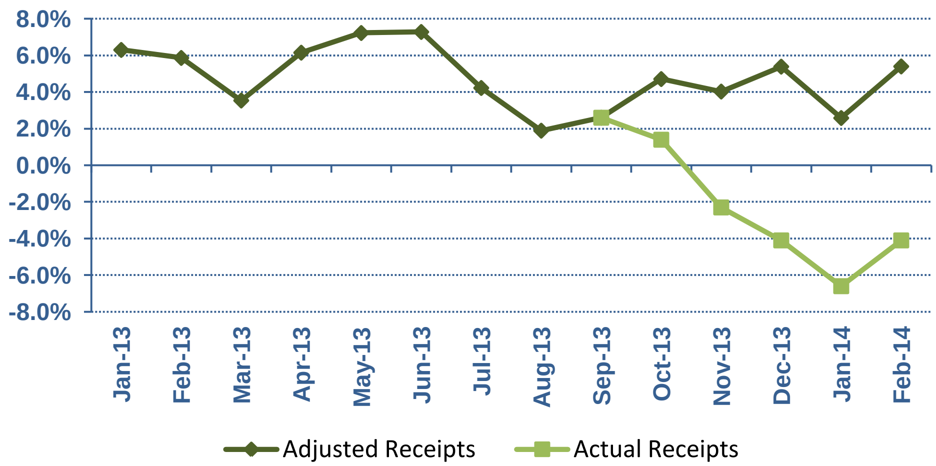
Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2013	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	$13.2	0.3%	-$103.3	-1.9%
Quarterly Estimated Payments	$58.4	7.4%	-$67.1	-7.3%
Trust Payments	-$4.4	-14.6%	-$27.6	-51.9%
Annual Return Payments	$34.6	21.0%	$49.0	32.6%
Miscellaneous Payments	-$17.3	-20.0%	-$13.9	-16.7%
Gross Collections	$84.5	1.3%	-$162.8	-2.5%
Less Refunds	-$200.4	-21.6%	$134.4	22.7%
Less LGF Distribution	$4.0	1.7%	$0.5	0.2%
Income Tax Revenue	$280.9	5.4%	-$297.8	-5.1%

FY 2014 GRF receipts from the income tax were $297.8 million (5.1%) below receipts in the corresponding period in FY 2013. Through February, FY 2014 revenues from employer withholding were

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

$103.3 million (1.9%) below receipts in this category in FY 2013, mostly as a result of a 9% reduction in the withholding rate that went into effect for payrolls that ended on or after September 1, 2013. Quarterly estimated payments declined $67.1 million (7.3%) and payments by trusts fell $27.6 million (51.9%), but annual return payments increased $49.0 million (32.6%). Chart 2 illustrates the trend in employer withholding receipts since January 2013. The chart also includes withholding receipts adjusted for the rate change from October 2013 to February 2014. Though withholding receipts have fallen since the rate change, growth in payroll has remained, on average, between 2% and 6% during that period.

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



Through February, FY 2014 sales and use tax receipts were $47.3 million below estimate.

Sales and Use Tax

February GRF receipts from the sales and use tax of $604.0 million were $59.0 million (8.9%) below estimate, and $14.5 million (2.3%) below receipts in February 2013. Both the auto sales and use and the nonauto sales and use tax posted negative revenue variances. The harsh winter probably prevented some consumers from shopping at brick-and-mortar retailers, and high energy prices likely required a higher share of disposable income, and probably reduced demand for taxable items in recent weeks.

Year-to-date FY 2014 GRF sales and use tax receipts totaled $5.99 billion, $47.3 million (0.8%) below estimate, but $398.2 million (7.1%) above receipts in the corresponding period last year. The increase in receipts is due, in part, to the state sales tax rate increase from 5.5% to 5.75% enacted by H.B. 59. For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[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.

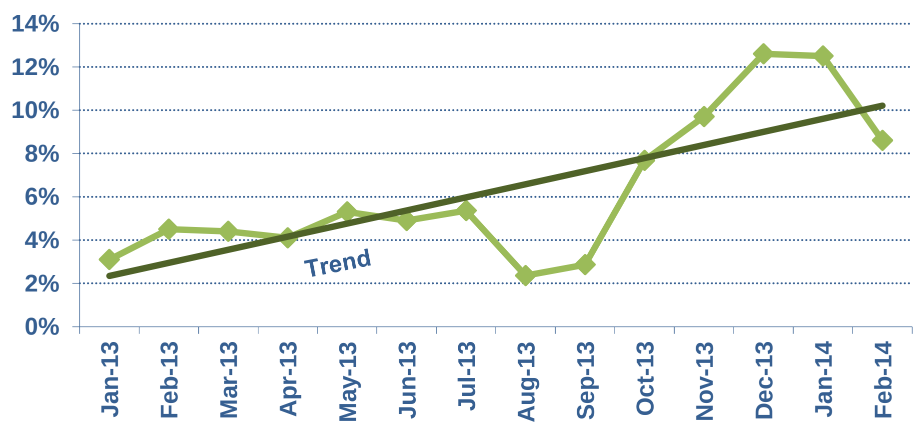
Through February, FY 2014 nonauto sales and use tax receipts were $63.6 million below estimate.

Nonauto Sales and Use Tax

February GRF receipts of $532.7 million fell short of estimates by $53.5 million (9.1%), increasing the year-to-date negative revenue variance for the nonauto sales and use tax to $63.6 million (1.2%). Monthly receipts were also $14.6 million (2.7%) below receipts in February 2013. Total nonauto sales and use tax receipts of $5.24 billion through February 2014 were $336.4 million (6.9%) above revenue in the corresponding period in FY 2013.

FY 2014 year-to-date receipts include $300.2 million in tax payments by Medicaid health insuring corporations; those receipts rose $45.3 million (17.8%) 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. Growth in the taxable base (after adjusting for the increase in the rate) was about 4.0% in FY 2014 through February, when compared to the corresponding period in FY 2013.

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



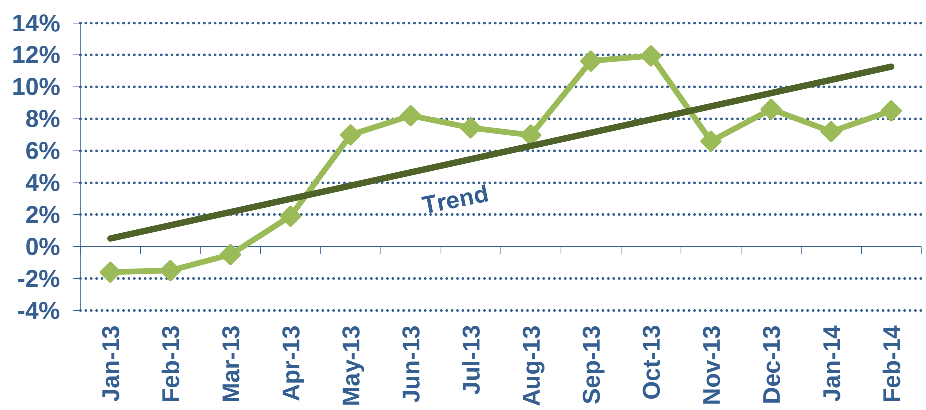
[5] The clerks of court generally make auto sales and use tax payments on Monday for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled. Therefore, auto sales and use tax receipts largely reflect vehicles sold and titled during the month.

Through February, FY 2014 auto sales and use tax receipts were $16.4 million above estimate.

Auto Sales and Use Tax

February GRF receipts from the auto sales and use tax of $71.3 million were $5.5 million (7.2%) below estimate, and almost flat compared to February 2013 receipts. This monthly performance reduced the year-to-date positive variance of this tax source to $16.4 million (2.2%), down from $21.9 million at the end of January. For the fiscal year, GRF revenue from the auto sales and use tax of $750.6 million was $61.8 million (9.0%) above receipts in FY 2013. Chart 4 below compares FY 2014 monthly auto sales and use tax receipts with year-ago receipts in the same period. Despite the weak results of the tax in the latest month, the auto sales tax base has grown about 5% through February in FY 2014 when compared to the corresponding period in FY 2013.

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



Vehicle sales disappointed for another month as the severe winter kept potential buyers out of show rooms and snow-covered lots. On a seasonally adjusted annualized basis, nationwide sales were 15.35 million, slightly more than 15.23 million in January, but a sales pace about equal to that of February 2013.

Commercial Activity Tax

Receipts from calendar quarter CAT taxpayers, those with gross receipts exceeding $1 million, were stronger this quarter than in the previous two payments of this fiscal year. Calendar quarter taxpayers pay the tax in four installments each fiscal year (August, November, February, and May), and they provide the bulk of CAT revenue (about 85% of total fiscal year revenue).

February GRF receipts were $174.2 million, $23.0 million (15.2%) above estimate and $0.3 million (0.2%) above February 2013 revenue. In contrast, November 2013 revenue was $5.0 million below estimate and $2.9 million below revenue in the same month the previous year. Similarly, August 2013 receipts were $18.5 million below estimate and $0.4 million below receipts in August 2012. Through February, FY 2014 CAT receipts to the GRF totaled $592.4 million, $12.8 million (2.1%) below estimate, and $11.8 million (2.0%) below receipts in the corresponding period in FY 2013. FY 2014 all-funds CAT receipts were $1.20 billion, $18.2 million (1.5%) below revenue in FY 2013.

Through February, FY 2014 GRF CAT receipts were $12.8 million below estimate.

Though year-to-date receipts are below estimates and prior year revenue, with the latest calendar quarter payment, the CAT may be stabilizing. The remaining fiscal payment for calendar quarter CAT taxpayers, which is due in May 2014, will help establish the potential improvement of this tax source.

Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax of $52.4 million in February 2014 were $4.3 million (7.6%) below estimate, and $4.4 million (7.8%) below receipts in the same month in FY 2013. Through February, FY 2014 receipts of $490.9 million were $0.8 million (0.2%) below estimate. Receipts from cigarette sales were $453.8 million, and sales of products other than cigarettes provided $37.0 million. Compared to FY 2013, for the year to date through February, receipts fell $4.4 million. A decrease of $6.4 million in revenue from cigarette sales was partially offset by an increase of $2.0 million in revenue from the sales of other tobacco products.

Through February, FY 2014 cigarette tax receipts were $0.8 million below estimate.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of February 2014
($ in thousands)
(Actual based on OAKS reports run March 4, 2014)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary and Secondary Education	$576,574	$606,177	-$29,603	-4.9%
Higher Education	$193,437	$195,477	-$2,040	-1.0%
Other Education	$2,047	$2,139	-$92	-4.3%
Total Education	$772,058	$803,793	-$31,734	-3.9%
Medicaid	$1,193,017	$1,208,402	-$15,385	-1.3%
Health and Human Services	$116,558	$71,150	$45,408	63.8%
Total Welfare and Human Services	$1,309,575	$1,279,553	$30,023	2.3%
Justice and Public Protection	$122,723	$133,613	-$10,891	-8.2%
General Government	$24,949	$23,547	$1,402	6.0%
Total Government Operations	$147,672	$157,161	-$9,489	-6.0%
Property Tax Reimbursements	-$2	$3	-$5	-168.8%
Capital Outlay	$0	$0	$0	---
Debt Service	$104,810	$47,556	$57,255	120.4%
Total Other Expenditures	$104,808	$47,559	$57,249	120.4%
Total Program Expenditures	**$2,334,114**	**$2,288,065**	**$46,049**	**2.0%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$0	$0	$0	---
Total Transfers Out	$0	$0	$0	---
TOTAL GRF USES	**$2,334,114**	**$2,288,065**	**$46,049**	**2.0%**

* 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 February 28, 2014
($ in thousands)
(Actual based on OAKS reports run March 4, 2014)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary and Secondary Education	$4,966,846	$4,549,363	$417,483	9.2%
Higher Education	$1,403,943	$1,415,724	-$11,781	-0.8%
Other Education	$34,745	$39,785	-$5,040	-12.7%
Total Education	$6,405,534	$6,004,872	$400,662	6.7%
Medicaid	$9,675,802	$9,999,621	-$323,819	-3.2%
Health and Human Services	$871,223	$944,796	-$73,573	-7.8%
Total Welfare and Human Services	$10,547,025	$10,944,417	-$397,392	-3.6%
Justice and Public Protection	$1,231,058	$1,267,646	-$36,588	-2.9%
General Government	$240,537	$254,240	-$13,703	-5.4%
Total Government Operations	$1,471,595	$1,521,886	-$50,291	-3.3%
Property Tax Reimbursements	$893,054	$903,198	-$10,144	-1.1%
Capital Outlay	$0	$0	$0	---
Debt Service	$994,374	$949,755	$44,619	4.7%
Total Other Expenditures	$1,887,428	$1,852,952	$34,475	1.9%
Total Program Expenditures	**$20,311,583**	**$20,324,128**	**-$12,546**	**-0.1%**
TRANSFERS				
Budget Stabilization	$995,930	$995,930	$0	0.0%
Other Transfers Out	$216,029	$234,148	-$18,119	-7.7%
Total Transfers Out	$1,211,959	$1,230,079	-$18,119	-1.5%
TOTAL GRF USES	**$21,523,542**	**$21,554,207**	**-$30,665**	**-0.1%**

* 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 March 3, 2014)

	February				Year to Date Through February			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	$616,143	$650,837	-$34,694	-5.3%	$4,959,554	$5,065,961	-$106,407	-2.1%
Nursing Facilities	$206,630	$207,760	-$1,130	-0.5%	$1,635,273	$1,656,859	-$21,586	-1.3%
DDD Services	$169,181	$173,674	-$4,493	-2.6%	$1,462,624	$1,513,927	-$51,303	-3.4%
Hospitals	$370,367	$392,849	-$22,483	-5.7%	$1,095,976	$1,182,821	-$86,845	-7.3%
Behavioral Health	$62,143	$81,026	-$18,883	-23.3%	$514,233	$595,165	-$80,932	-13.6%
Administration	$80,261	$92,097	-$11,836	-12.9%	$526,075	$684,525	-$158,450	-23.1%
Aging Waivers	$44,938	$59,022	-$14,084	-23.9%	$356,429	$422,671	-$66,242	-15.7%
Prescription Drugs	$32,305	$36,402	-$4,097	-11.3%	$264,174	$314,349	-$50,176	-16.0%
Medicare Buy-In	$35,532	$37,893	-$2,361	-6.2%	$287,249	$291,335	-$4,086	-1.4%
Physicians	$127,524	$34,360	$93,164	271.1%	$719,158	$533,713	$185,445	34.7%
Medicare Part D	$23,783	$25,108	-$1,325	-5.3%	$199,497	$208,430	-$8,933	-4.3%
Home Care Waivers	$19,386	$19,815	-$429	-2.2%	$167,792	$171,512	-$3,720	-2.2%
ACA Expansion	$16,537	$0	$16,537	N/A	$17,524	$0	$17,524	N/A
All Other	$117,325	$122,516	-$5,191	-4.2%	$873,652	$990,657	-$117,005	-11.8%
Total All Funds	**$1,922,057**	**$1,933,359**	**-$11,303**	**-0.6%**	**$13,079,209**	**$13,631,924**	**-$552,716**	**-4.1%**

* 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 March 3, 2014

	Month of February 2014				Year to Date Through February 2014			
Department	Actual	Estimate*	Variance	Percent	Actual	Estimate*	Variance	Percent
Medicaid	**$1,729,746**	**$1,740,742**	**-$10,996**	**-0.6%**	**$11,462,303**	**$11,922,445**	**-$460,142**	**-3.9%**
GRF	$1,148,881	$1,165,194	-$16,313	-1.4%	$9,320,337	$9,640,227	-$319,890	-3.3%
Non-GRF	$580,865	$575,549	$5,316	0.9%	$2,141,966	$2,282,218	-$140,252	-6.1%
Developmental Disabilities	**$178,520**	**$176,935**	**$1,585**	**0.9%**	**$1,507,189**	**$1,561,433**	**-$54,244**	**-3.5%**
GRF	$38,645	$38,479	$166	0.4%	$308,757	$310,682	-$1,925	-0.6%
Non-GRF	$139,875	$138,456	$1,420	1.0%	$1,198,432	$1,250,751	-$52,319	-4.2%
Job and Family Services	**$9,747**	**$11,901**	**-$2,154**	**-18.1%**	**$87,348**	**$123,647**	**-$36,299**	**-29.4%**
GRF	$4,759	$4,145	$614	14.8%	$40,970	$42,581	-$1,611	-3.8%
Non-GRF	$4,988	$7,756	-$2,768	-35.7%	$46,377	$81,066	-$34,689	-42.8%
Aging	**$646**	**$574**	**$73**	**12.6%**	**$4,073**	**$4,376**	**-$303**	**-6.9%**
GRF	$305	$263	$42	15.8%	$2,306	$2,300	$6	0.3%
Non-GRF	$341	$310	$31	9.9%	$1,766	$2,076	-$309	-14.9%
Health	**$2,654**	**$1,316**	**$1,338**	**101.6%**	**$14,515**	**$14,233**	**$282**	**2.0%**
GRF	$185	$255	-$71	-27.7%	$2,162	$2,104	$58	2.8%
Non-GRF	$2,469	$1,061	$1,409	132.8%	$12,353	$12,129	$224	1.8%
Mental Health and Addiction	**$743**	**$1,891**	**-$1,148**	**-60.7%**	**$3,782**	**$5,791**	**-$2,009**	**-34.7%**
GRF	$243	$66	$177	267.9%	$1,270	$1,728	-$458	-26.5%
Non-GRF	$500	$1,825	-$1,325	-72.6%	$2,512	$4,064	-$1,551	-38.2%
Total GRF	**$1,193,017**	**$1,208,402**	**-$15,385**	**-1.3%**	**$9,675,802**	**$9,999,621**	**-$323,819**	**-3.2%**
Total Non-GRF	**$729,039**	**$724,957**	**$4,082**	**0.6%**	**$3,403,407**	**$3,632,304**	**-$228,896**	**-6.3%**
Total All Funds	**$1,922,057**	**$1,933,359**	**-$11,303**	**-0.6%**	**$13,079,209**	**$13,631,925**	**-$552,715**	**-4.1%**

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

Year-to-date GRF uses were $30.7 million below estimate.

EXPENDITURES

– Russ Keller, Economist, 614-644-1751

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

Overview

Through February, FY 2014 GRF uses totaled $21.52 billion. These uses were $30.7 million below the estimate released by the Office of Budget and Management (OBM) in September 2013. GRF uses consist mainly of program expenditures but also include transfers out. Tables 3 and 4 show GRF uses for the month of February and for FY 2014 through February, respectively. For the first eight months of FY 2014, GRF program expenditures totaled $20.31 billion, which were $12.5 million below estimate. During the same period, GRF transfers out totaled $1.21 billion, which were $18.1 million below estimate.

For reporting purposes, GRF program expenditures are grouped into nine categories.[6] As seen from Table 4, Primary and Secondary Education and Debt Service are the only two categories with positive year-to-date variances. Due mainly to timing issues, year-to-date expenditures were $417.5 million above estimate for Primary and Secondary Education and $44.6 million above estimate for Debt Service. These positive variances were entirely offset by the negative variances in the other seven program categories, which totaled $474.6 million.

Medicaid had the largest negative year-to-date variance at $323.8 million, followed by Health and Human Services ($73.6 million), and Justice and Public Protection ($36.6 million). The remainder of this report will briefly discuss the variances in Medicaid, Health and Human Services, Justice and Public Protection, Primary and Secondary Education, and Debt Service.

Medicaid

GRF Medicaid expenditures were $1.19 billion for the month of February, $15.4 million (1.3%) below estimate. This monthly variance increased the category's negative year-to-date variance from $308.4 million (3.5%) at the end of January to $323.8 million (3.2%) at the end of February. Medicaid is a joint federal-state program. The federal and state shares of Medicaid expenditures are about 64% and 36%, respectively. While Medicaid is mainly funded by the GRF, it is also supported by various non-GRF funds. Across all funds, year-to-date Medicaid expenditures totaled $13.08 billion, which was $552.7 million (4.1%) below estimate.

---

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

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). Table 5 details Medicaid expenditures by payment category across all funds and agencies. A new payment category, ACA Expansion, was created in January. 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). Through February, expenditures from ACA Expansion totaled $17.5 million. The estimate released by OBM in September 2013 did not anticipate any expenditures from this category. Therefore, no variance will be reported for this category.

Year-to-date GRF Medicaid expenditures were $323.8 million below estimate while all-funds expenditures were $552.7 million below estimate.

Through February, categories with significant negative year-to-date variances include Administration ($158.5 million, 23.1%), All Other ($117.0 million, 11.8%), and Managed Care ($106.4 million, 2.1%). The Physicians category, on the other hand, had a positive year-to-date variance of $185.4 million (34.7%), which partially offset the negative variances in Administration, All Other, Managed Care, and other payment categories.

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. GRF year-to-date expenditures for ODM totaled $9.32 billion, which was $319.9 million (3.3%) 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 $301.4 million below their year-to-date estimate. Expenditures for items 651425 and 651526 were also below estimate by $9.6 million and $8.9 million, respectively.

ODM's non-GRF Medicaid expenditures totaled $2.14 billion, which was $140.3 million (6.1%) below their year-to-date estimate. The main contributors were appropriation items 651624, Medicaid Program Support – Federal ($119.1 million), and 651623, Medicaid Services - Federal ($33.6 million). These negative variances were partially offset by a positive year-to-date variance of $43.4 million in item 651603, Medicaid Health Information Technology. Across all funds, ODM's year-to-date expenditures totaled $11.46 billion, which was $460.1 million (3.9%) below estimate.

Year-to-date expenditures from Health and Human Services were $73.6 million below estimate.

Health and Human Services

GRF expenditures from the Health and Human Services program category total $116.6 million for the month of February, $45.4 million above estimate. This monthly variance reduced the category's negative year-to-date variance from $119.0 million (13.6%) at the end of January to $73.6 million (7.8%) at the end of February. The Ohio Department of Job and Family Services (ODJFS) continues to be the main contributor to this category's negative year-to-date variance. Through February, expenditures from ODJFS were $60.7 million below their year-to-date estimate. As reported in prior issues of *Budget Footnotes*, ODJFS primarily used federal dollars for child care subsidy payments last October since it was uncertain whether GRF payments during the partial federal government shutdown would be counted toward the state's maintenance of effort requirement. As a result, two items for child care subsidy payments – item 600413, Child Care State/Maintenance of Effort, and item 600535, Early Care and Education – had a combined negative year-to-date variance of $68.9 million at the end of October. Despite a positive variance of $24.0 million from these two items in the month of February, their year-to-date expenditures were still $19.9 million below estimate. Other items in the ODJFS budget that had significant negative year-to-date variances include items 600410, TANF State/Maintenance of Effort ($17.4 million); 600416, Information Technology Projects ($7.8 million); and 600321, Program Support ($6.4 million).

Expenditures from the Ohio Department of Mental Health and Addiction Services (OMHAS) were $21.9 million above estimate in February. This expected monthly variance narrowed the category's negative year-to-date variance from $24.6 million at the end of January to $2.8 million at the end of February. As reported in the last issue of *Budget Footnotes*, timing was the key factor behind the negative year-to-date variances in the OMHAS budget.

Year-to-date expenditures from Justice and Public Protection were $36.6 million below estimate.

Justice and Public Protection

Through February, FY 2014 GRF expenditures from the Justice and Public Protection program category totaled $1.23 billion. These expenditures were $36.6 million (2.9%) below estimate, of which $10.9 million occurred in the month of February. The Department of Rehabilitation and Correction (DRC) accounted for $22.9 million of this program category's negative year-to-date variance. Year-to-date expenditures from DRC's main appropriation item 501321, Institutional Operations, were $10.4 million below estimate. Year-to-date expenditures from item 505321, Institution Medical Services, were also $10.9 million below estimate. In addition to DRC, the Supreme Court of Ohio and the

Department of Youth Services contributed $7.2 million and $5.5 million, respectively, to the Justice and Public Protection program category's negative year-to-date variance.

Primary and Secondary Education

GRF expenditures from the Primary and Secondary Education program category totaled $576.6 million in the month of February, $29.6 million (4.9%) below estimate. This monthly variance lowered the category's positive year-to-date variance from $447.1 million (11.3%) at the end of January to $417.5 million (9.2%) at the end of February. School foundation payments continue to be the main contributor to the category's positive year-to-date variance. Expenditures from the Ohio of Department of Education's (ODE) appropriation item 200550, Foundation Funding, were $406.8 million above their year-to-date estimate. Item 200550 is the primary funding source of school foundation payments. As explained in prior issues of *Budget Footnotes*, the item's large year-to-date variance is mainly due to the standard practice followed by ODE when adjusting for over and under payments for schools. ODE began paying schools based on the formula enacted in H.B. 59 and current year student enrollment data in October and December 2013, respectively. ODE's standard practice is to include retroactive payments for the already completed portion of the fiscal year when the new calculations indicate an annual funding increase for a school and to spread any reductions across the remainder of the fiscal year, if new calculations indicate an annual decrease for a school. Since total funding allocations for most schools increase in FY 2014, the payment adjustment practice results in a large positive year-to-date variance in item 200550. This variance should narrow continually in the remainder of FY 2014.

Due mainly to timing, year-to-date expenditures from Primary and Secondary Education were $417.5 million above estimate.

Debt Service

GRF expenditures for debt service in the month of February were $104.8 million, which were $57.3 million (120.4%) above estimate. This monthly variance reversed the category's year-to-date variance from a negative $12.6 million (1.4%) at the end January to a positive $44.6 million (4.7%) at the end of February. The Facilities Construction Commission (FCC) was the main contributor to this program category's negative year-to-date variance. FCC is responsible for administering the state's comprehensive public K-12 school construction and renovation program and managing capital projects for state agencies and state-supported universities and community colleges. Expenditures for this agency were $74.7 million in February, which led to a positive year-to-date variance of $67.4 million for FCC. These variances likely reflected a timing issue. The

OBM estimate did not anticipate any debt service payments from FCC in the month of February but did expect payments totaling $94.2 million in March.

The positive year-to-date variance in FCC was partially offset by a negative year-to-date variance in the Public Works Commission (PWC). Debt service payments from PWC were $22.3 million below their year-to-date estimate. PWC administers the State Capital Improvement Program and the Local Transportation Improvement Program. General obligation bonds issued for these programs 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.

Issue Updates

Department of Youth Services Expands Behavioral Health/Juvenile Justice Initiative to Six Additional Counties

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

On January 22, 2014, the Department of Youth Services (DYS) announced the expansion of the Behavioral Health/Juvenile Justice (BH/JJ) Initiative with the addition of Holmes, Lorain, Mahoning, Trumbull, Wayne, and Wood counties. Prior to this expansion, BH/JJ funding was provided to Cuyahoga, Franklin, Hamilton, Lucas, Montgomery, and Summit counties. The initiative is funded through GRF line item 470401, RECLAIM Ohio,[7] of which $8.8 million was earmarked in FY 2014 to expand the BH/JJ Initiative and other evidence-based community programs. As seen in the table below, which shows FY 2014 BH/JJ funding allocations by county, a total of $2.5 million has been allocated to the initiative.

Jointly administered by DYS and the Department of Mental Health and Addiction Services, BH/JJ is a statewide initiative that focuses on juvenile offenders with serious behavioral health needs. The funds provide local communities with prevention and early intervention services, as well as treatment services for youth that would otherwise be committed to an out-of-home placement, including incarceration in a DYS juvenile correctional facility. All of the BH/JJ projects involve multiple local collaborators, a common element of which is a partnership between the juvenile court and the county alcohol, drug addiction and mental health services board.

BH/JJ Initiative Funding Allocations by County, FY 2014

County	Allocation	County	Allocation
Cuyahoga	$500,000	Montgomery	$403,178
Franklin	$272,001	Summit	$314,261
Hamilton	$225,174	Trumbull/Mahoning	$78,925
Lorain	$64,308	Wayne/Holmes	$105,815
Lucas	$412,025	Wood	$125,652
		Total	**$2,501,339**

[7] This line item is used by DYS to pay for a variety of services and activities associated with institutional services, juvenile court subsidies, community programs, and program management.

MetroHealth Care Plus Program Extended through April

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

The MetroHealth Care Plus Program, which was originally slated to end on December 31, 2013, has been extended through April 30, 2014. The federal Centers for Medicare and Medicaid Services (CMS) approved the extension of the program to ensure that participants receive health care, with no lapse in coverage, while they are transitioned onto the expanded Medicaid program.

The MetroHealth Care Plus Program was approved by CMS in February 2013 under a Medicaid waiver. Under the program, eligible individuals receive a comprehensive set of benefits including physician services; behavioral health services; dental services; prescription drug coverage; home care; smoking cessation; physical, occupational, and speech therapies; and durable medical equipment. In order to be eligible an individual must reside in Cuyahoga County, be aged 19 to 64, have an income below 133% of the federal poverty level ($23,850 for a family of four), and be uninsured. The program targets parents and childless adults and has an enrollment cap of 30,000 participants. As of the beginning of January 2014, there were over 28,000 individuals enrolled. The program is funded with $36 million in county tax revenues and $64 million in federal Medicaid matching funds. No state funds are used to support this program.

MetroHealth is a public hospital system that provides health care to individuals regardless of an individual's ability to pay. The system consists of an acute care hospital, a rehabilitation hospital, a skilled nursing facility, an emergency department, and 17 outpatient centers located in Cuyahoga County.

ODNR Awards $6.25 million in Latest Round of Clean Ohio Trail Grants

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

On February 25, the Controlling Board approved the release of $6.25 million from the Clean Ohio Trail Fund (Fund 7061), administered by the Ohio Department of Natural Resources (ODNR). This latest round of funding, the eighth overall since the program's inception, will support 22 recreational trail projects in 19 counties throughout the state. The $6.25 million in grants represents 36.0% of the $17.35 million in combined total project costs for all of the projects funded in this round. The awards range in size from approximately $38,500 to $500,000 and will be used for the design, engineering, and construction of multi-use recreational trails in parks and public areas. As shown in the table below, recipients include counties, cities, townships, and villages, as well as park districts and one institution of higher education.

Clean Ohio Trail Fund Awards, Round 8			
Project (Recipient)	**Amount**	**Project (Recipient)**	**Amount**
Lake-to-Lakes Trail Phase II (City of Shaker Heights)	$60,000	Tecumseh Trail Phase 3 (Darke County Park District)	$250,000
Ashtabula City North Shore Trail (Ashtabula County Metroparks)	$250,000	Holes Creek Multi-Use Trail (Centerville-Washington Park District)	$500,000
Mohican Valley Trail (Knox County Commissioners)	$446,203	Powell Road Trail, Phase I (Orange Township Parks)	$248,186
Great Miami River Recreation Trail (City of Hamilton)	$500,000	North Coast Inland Trail (City of Bellevue)	$176,368
Clinton Fayette Friendship Trail, Fayette Part I (Fayette County Commissioners, Clinton County Park District, Tri-County Commissioners)	$247,188	Roundtown Trail (Pickaway County Park District)	$150,000
Galena Brick Trail (Village of Galena)	$214,944	AUG-M&E Canal Shared Use Trail (Village of New Bremen)	$249,815
Big Walnut Trail, Section 5 (City of Gahanna)	$400,000	Marion Tallgrass Trail, Phase II (Marion County Park District)	$500,000
Hiram Extension (Hiram College)	$131,250	Cedar Glen Multipurpose Trail (City of Cleveland Heights)	$92,896
Little Miami Scenic Trail (City of Springfield)	$450,000	Veterans Trail (City of Hudson Parks)	$301,139
Ironton Riverfront Trail (City of Ironton)	$500,000	Spencerville Canal Trail (Village of Spencerville)	$38,496
Indian Trail Park (Ashtabula Township Park Commission)	$500,000	Community Biking/Walking Trail (Village of East Palestine)	$43,515
		Total	**$6,250,000**

OHFA Awards $11.1 million for the Development of Eight Affordable Housing Projects

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

In January and February 2014, the Ohio Housing Finance Agency (OHFA) awarded a total of $11.1 million for the development of eight affordable housing projects, including $5.0 million awarded through the Housing Development Loan (HDL) Program, $3.1 million through the Housing Development Assistance Program (HDAP), and $3.0 million through the Recycled-Tax Credit Assistance Program (R-TCAP). The table below shows the total award amounts and project costs for the eight funded projects.

OHFA administers various housing development programs, including HDL, HDAP, and R-TCAP to assist developers of low- to moderate-income housing in gaining access to financial resources and tax incentives. The interest rate on loans issued under OHFA programs generally does not exceed 2%, with a maximum term of ten years. HDL is funded by transfers from unclaimed funds overseen by the Ohio Department of Commerce. HDAP funding comes from Ohio's allocation under the federal HOME program administered by the U.S. Department of Housing and Urban

Development and transfers from the Low- and Moderate-Income Housing Trust Fund (Fund 6460) overseen by the Development Services Agency. R-TCAP is supported by loan repayments under the federal Tax Credit Assistance Program, which was funded by the money received in 2009 through the American Recovery and Reinvestment Act.

OHFA Awards, January and February 2014			
Project	**County**	**Total Award Amount**	**Total Project Cost**
Green Hills Apartments	Logan	$1.4 million	$8.7 million
Log Pond Apartments	Licking	$1.0 million	$6.0 million
Westerly I	Cuyahoga	$1.0 million	$15.4 million
Parqwood Apartments	Lucas	$2.5 million	$10.7 million
Heritage View Homes IV	Cuyahoga	$2.5 million	$12.9 million
Victorian Heritage	Franklin	$1.0 million	$8.2 million
Southwick Manor	Medina	$1.0 million	$8.8 million
Wayne/Holmes Independent Living	Wayne	$0.7 million	$1.9 million
	Total	**$11.1 million**	**$72.6 million**

$3.8 million in Demolition Grants Reallocated to Counties in the Second Phase of the Moving Ohio Forward Program

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

On February 4, 2014, the Office of the Attorney General announced that $3.8 million in demolition grants was allocated to 87 counties as part of the second phase of the Moving Ohio Forward Program. These funds came from unrequested allocations from the first phase of the program. The program was initiated in Spring 2012 as part of the National Mortgage Settlement, a multi-state suit that alleged foreclosure abuses, fraud, and unfair and deceptive mortgage practices by five of the nation's largest mortgage servicers. The Office received $93 million to be used for foreclosure prevention and assistance.[8] Of this amount, $75 million was set aside for the Moving Ohio Forward Program to help stabilize and improve communities by removing blighted and abandoned homes.

Under phase one of the grant program, funds were proportionally allocated to counties based upon the percentage of foreclosures that occurred in that county between 2008 and 2010. Counties were required to provide matching funds for any grant above $500,000. Several counties did not apply for their full allocation, leaving more than $3.8 million available.

[8] The five servicers are: Ally (formerly GMAC), Bank of America, Citi, JPMorgan Chase, and Wells Fargo. The settlement was reached in March 2012. In addition to the $93 million received by the Attorney General, the settlement provided Ohio consumers $330 million in relief through loan modification, principal reduction, and other refinancing programs.

Phase two of the grant program reallocated those remaining funds based on the same formula, with each county receiving a minimum of $7,800. However, matching funds are not required as part of this phase. Warren County was the only county to decline the additional funding. Counties will have until May 31, 2014, to spend down phase one grants and until September 30, 2014, to spend down phase two grants. A chart detailing each county's allocations is available at the Attorney General's website: www.ohioattorneygeneral.gov.

Total Liquor Sales Increased by 5.8% to $898.2 million in CY 2013

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

On January 23, 2014, the Department of Commerce announced final spirituous liquor sales results for calendar year (CY) 2013. Total spirituous liquor sales amounted to approximately $898.2 million in CY 2013, an increase of 5.8% ($49.2 million) over CY 2012 sales of approximately $849.0 million. Taking a closer look at the results, retail sales (sales made by contract liquor agencies directly to consumers) totaled about $634.6 million in CY 2013, an increase of 7.4% over the prior year. Wholesale sales (sales made by contract liquor stores to restaurants and bars) counted for approximately $263.6 million in CY 2013, a 2.3% increase from CY 2012. Total spirituous liquor gallonage sold was around 12.3 million gallons, 3.0% over the quantity sold in CY 2012. As has been the case in recent years, retail sales drove the increase in total liquor sales, with consumers seeking higher-priced liquor brands in greater amounts.

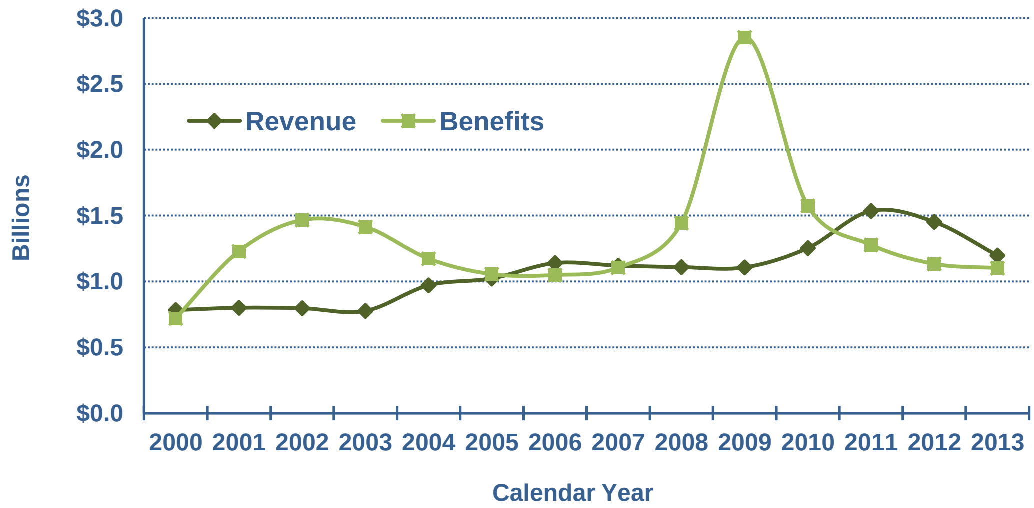
Effective February 1, 2013, JobsOhio, the state's nonprofit economic development corporation, leased the state's exclusive right to manage and control spirituous liquor distribution and sales and to sell spirituous liquor for 25 years. Under this arrangement, JobsOhio contracts with the Division of Liquor Control within the Department of Commerce to run the liquor merchandising operations. Consequently, the Division continues to manage the spirituous liquor inventory and to oversee the distribution of liquor to the contract liquor agencies, while the profits from spirituous liquor sales fund JobsOhio's efforts to spur job creation and capital investment in the state. JobsOhio received approximately $187.2 million in liquor profits in FY 2013.

Revenues Exceed Benefits in Ohio's Unemployment Compensation Trust Fund for Third Straight Year

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

In 2013, Ohio's Unemployment Compensation Trust Fund posted its third straight year of revenues exceeding benefits (see chart below). In that year, regular unemployment compensation (UC) revenues totaled $1.20 billion, $96.4 million higher than net benefit payments of $1.10 billion.

Chart 5: UC State Revenues and Regular Benefits



UC benefits exceeded revenues in eight of the past 14 years. During the years of shortfall, the state used the balance in Ohio's trust fund to pay benefits. The balance of the fund peaked in August 2000, at $2.42 billion, and steadily declined until January 2009, when the fund was depleted. Once depleted, Ohio borrowed from the federal government to pay unemployment benefits. Ohio's current loan balance with the federal government is about $1.64 billion (as of February 25). Interest on borrowed amounts must be paid from state funds, and Ohio's last interest payment, made in September, was $44.5 million. This brings the total interest paid to $181.0 million.

Trust fund revenue comes from taxes paid by Ohio employers on the first $9,000 of each employee's wages. Rates are set in state law and are based on an employer's "experience" of unemployment. In 2013, the tax rates ranged from 0.3% to 8.4% ($27 to $756 per employee) and averaged 2.87%, or $258 per employee. Benefits are available for up to 26 weeks to individuals who are laid off due to no fault of their own. In 2013, the average benefit was about $318 per week, which was received for an average of about 17 weeks.

Facilities Construction Commission Releases FY 2013 Annual Report

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

The Facilities Construction Commission (FCC) recently issued its annual report for FY 2013, its first year of operation. FCC was established by H.B. 487 of the 129th General Assembly, to combine the functions of the former Office of the State Architect and Engineer and Office of Energy Services in the Department of Administrative Services with the functions of the Ohio School Facilities Commission (SFC), which remains an independent entity within FCC. H.B. 59 subsequently transferred the functions of the former Ohio Cultural Facilities Commission to FCC along with the authority to administer many of ODNR's capital facilities projects. FCC provides oversight of and construction guidelines for capital projects for state agencies, state-supported universities and community colleges, and public K-12 schools.

According to the annual report, 60 new or renovated K-12 school facilities projects overseen by SFC were completed in FY 2013, bringing the total number of buildings completed under SFC programs to 1,049. The master facilities plans for 14 school districts were completed, bringing the total number of school districts with completed plans to 244. State spending on these projects was $315.9 million in FY 2013, bringing the total spent by SFC on K-12 school facilities since FY 1998 to $10.31 billion. In FY 2013, FCC also finished 30 higher education or state agency projects valued at over $90 million.

ODE Releases 2013 Office of School Sponsorship Report

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

In December 2013, the Ohio Department of Education (ODE) released the 2013 Office of School Sponsorship (OSS) Annual Report. The OSS was created in H.B. 153 of the 129th General Assembly to provide sponsorship to new and existing community schools. From FY 2012 to FY 2016, OSS may sponsor up to five start-up and up to 15 existing community schools each year. In FY 2013, OSS received applications from six start-up and two existing community schools. Four start-up and one existing community school were approved for sponsorship. One approved start-up community school was subsequently asked to voluntarily close and closing procedures are in progress. Additionally, two start-up schools initially approved in FY 2012 began operations in FY 2013. In other words, six OSS-sponsored schools began operations in FY 2013 (see table below). This brings the total number of schools OSS is sponsoring to 13.

Community Schools that Began Operation under Sponsorship from OSS in FY 2013

School	District	County	Type
Bridges Community Academy	Tiffin	Seneca	Existing
Discovery Academy	Washington LSD	Lucas	Start-up
East Academy*	Cleveland	Cuyahoga	Start-up
Life Skills H.S. of Springfield	Springfield	Clark	Start-up
Watkins Academy	Dayton	Montgomery	Start-up
West Park Academy*	Cleveland	Cuyahoga	Start-up

* Approved for OSS sponsorship in FY 2012 but did not begin operations until FY 2013.

TRACKING THE ECONOMY

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

Overview

U.S. economic growth was uneven at the beginning of 2014. Severe winter weather curtailed manufacturing output in January, while utility output increased to meet the higher demand for heating. Employment increased by an upwardly revised 129,000 in January and 175,000 in February. Consumer spending increased in January, particularly for health care services, but decreased for durable and nondurable goods. Personal incomes rose in January, partially due to increases in federal transfer payments. Overall construction activity rose in January with increases in private residential construction activity outweighing decreases in private nonresidential and public construction projects.

Housing market indicators were mixed early in 2014.

Housing market indicators were mixed early in 2014. Existing home sales nationwide fell in January to the lowest rate since July 2012, the third consecutive month of sales below year-ago levels. While severe winter weather in parts of the country appears to have contributed to the overall decrease, low inventories and tight credit may also be constraining sales. The rate of U.S. housing starts also fell in January, and was below the rate in January of last year, marking the first time since August 2011 that the seasonally adjusted rate of housing starts was below its year-ago levels. New housing starts fell in the Midwest, West, and South regions, but increased in the Northeast region, again signaling that the overall decrease was not entirely weather-related. The rate of new home sales in the nation increased 9.6% in January and was up 2.2% over January of last year.

The Conference Board's Leading Economic Index rose 0.3% in January, pointing toward improvement in economic conditions in the year ahead. However, the Conference Board stated that the pace of growth was slowed by severe winter weather. Lower rates of housing permits and housing starts in January indicate slower activity in the housing market. New orders for all manufactured goods fell for the second straight month in January.

In January, the Federal Reserve, the nation's central bank, announced it will continue to buy U.S. Treasury and mortgage-backed securities each month, albeit at a slower rate. Also, on February 15, the president signed the Temporary Debt Limit Extension Act, which temporarily suspends the national debt limit. The legislation will allow the federal government to borrow funds to pay obligations up through March 15, 2015. The President released his budget proposal for federal fiscal year 2015 on March 4.

Growth of inflation-adjusted gross domestic product (real GDP) for the fourth quarter of 2013 was revised down to 2.4% from an initial estimate of 3.2%, mainly due to slower growth in consumer spending than was previously estimated.

In the Ohio economy, employment estimates were revised, showing higher job growth, particularly in 2013. Existing home sales in Ohio were down 5.1% in January compared to January of last year, ending a streak of 30 consecutive months of year-over-year growth of home sales in the state.

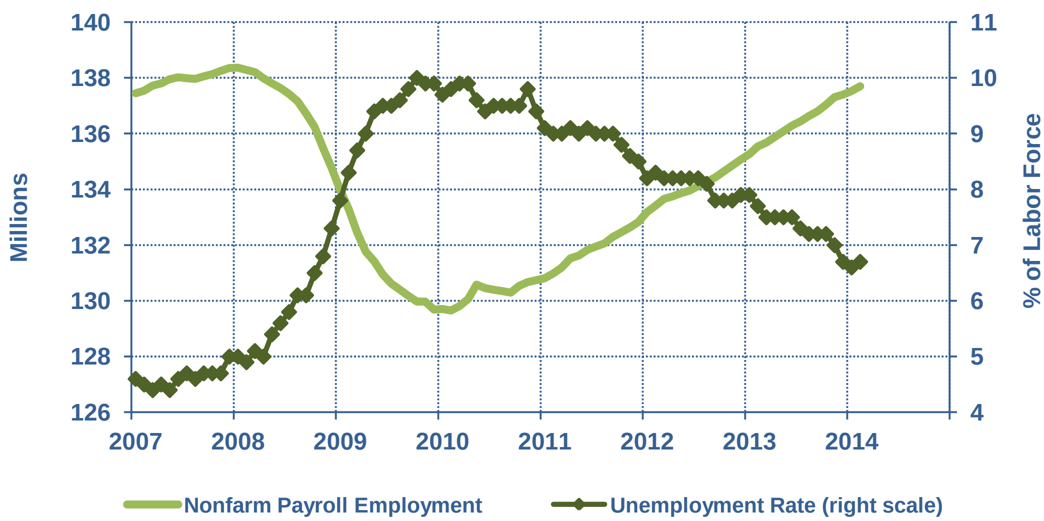
In the Ohio economy, employment estimates were revised, showing higher job growth, particularly in 2013.

The National Economy

Employment and Unemployment

In February, nonfarm payroll employment increased 175,000, according to the initial estimate from the Bureau of Labor Statistics (BLS), while the nation's unemployment rate ticked up from 6.6% to 6.7%, as shown in Chart 6.

Chart 6: U.S. Employment and Unemployment



Employment

In February, seasonally adjusted employment gains were widespread across many industries, based on establishment survey data. Employment gains in private services industries accounted for the most gains in employment, with large increases in professional and business services (79,000), education and health services (33,000), and leisure and

In February, seasonally adjusted employment gains were widespread across many industries.

The number of workers that normally work full time, but worked part time due to bad weather conditions, rose to the highest level ever recorded for a February.

hospitality (25,000). Employment in goods-producing industries increased largely due to gains in construction employment (15,000); manufacturing and mining and logging employment increased slightly. Employment in government increased (13,000), as gains in state and local governments outweighed losses in the federal government.

The number of workers that normally work full time, but worked part time (up to 34 hours per week) due to bad weather conditions, rose to the highest level ever recorded for a February (with records beginning in 1977).

The number of individuals working part time for economic reasons decreased to 7.2 million in February from 7.3 million in January, based on data from the household survey. February's total was 10% lower than in February of last year and 22% lower than the peak of 9.2 million in March 2010. However, February's total remained 63% above the monthly average number in 2007 of about 4.4 million, prior to the last recession.

Unemployment

According to household survey data, the total number of unemployed job-seekers increased in February to 10.5 million, seasonally adjusted, from 10.2 million in January. The number of unemployed individuals in February was 13% lower than the count of unemployed in February of last year and 32% lower than the peak of 15.4 million in October 2009. However, February's level was 48% higher than the monthly average of unemployed individuals in 2007 of about 7.1 million.

The number of job-seekers unemployed for 27 weeks or more also increased in February to 3.8 million from 3.6 million in January. The number of these individuals in February was 19% lower than in February of last year and 43% lower than April 2010, when the number peaked at 6.8 million. February's level is still 210% higher than the monthly average of job seekers unemployed for more than 27 weeks in 2007, about 1.2 million.

The median number of weeks of unemployment rose to 16.4 in February from 16.0 in January. February's level was 7% lower than in February of last year and 34% lower than the peak of 25 weeks in June 2010, but was 93% higher than the median duration of unemployment of 8.5 weeks in 2007.

Production

Gross Domestic Product

In the fourth quarter of 2013, real GDP grew at an annualized rate of 2.4%, according to the second estimate released by the Bureau of Economic Analysis (BEA). The initial estimate of 3.2% was revised downward to reflect more complete data that showed slower growth in consumer spending and exports than was previously estimated. Consumer spending grew at an annualized rate of 2.6% in the fourth quarter, which was revised downward from the initial estimate of 3.3%. Over the entire year of 2013, real GDP increased 1.9%, down from 2.8% growth in 2012.

Industrial Production

In January, total industrial production (IP) decreased 0.3%, seasonally adjusted, after reaching its highest level ever in December. According to the Federal Reserve, severe weather curtailed production in parts of the country. The largest component of IP, manufacturing output, which accounted for about 75% of total IP in 2013, decreased 0.8% in January, but remained 1.3% above its level in January of last year. Mining output (15% of total IP), which includes oil and natural gas extraction, fell 0.9% in January, but remained 6.7% above year-ago levels. Total electric and natural gas utility output nationwide (10% of total IP), increased 4.1% in January, due to higher demand for heating, and was 9.3% higher than year-ago levels.

Severe weather curtailed industrial production in parts of the country.

Leading Indicators

In January, new orders for all manufactured goods decreased 0.7%, seasonally adjusted, after decreasing 2.0% in December, according to the Census Bureau. However, excluding the transportation sector, new orders rose 0.2% in January. New orders for nondefense capital goods excluding aircraft (a volatile category) increased 1.5% in January. Shipments of durable goods fell 0.3% in January, and inventories rose 0.2% to their highest recorded level.

In February, total factory activity appears to have expanded for the ninth consecutive month, based on an Institute for Supply Management (ISM) monthly survey of purchasing managers. While the diffusion indexes for new orders and inventories showed growing activity, the production index showed contraction. Some managers reported that severe weather impacted their businesses in February.

Consumer Spending and Personal Incomes

In January, real consumer spending increased 0.3% seasonally adjusted, led by a 0.8% increase in the purchases of services. Purchases of durable and nondurable goods fell, seasonally adjusted, by 0.2% and 0.7%, respectively. Purchases of energy goods and services, which include gasoline, other energy goods, and electricity and gas services, rose 2.0% in January. Health care expenditures rose 1.7%.

In January, health care expenditures rose 1.7%.

The January increase in real disposable incomes was affected by several "special" factors.

The annualized rate of nationwide light vehicle sales (cars and light trucks) rose to 15.3 million in February from 15.2 million in January. In 2013, 15.5 million light vehicles were sold.

Real disposable incomes increased 0.3% in January. According to the BEA, the increase in January was affected by several "special" factors. When the factors are excluded, personal incomes increased 0.2%. The factors that boosted personal incomes in January were provisions of the federal Affordable Care Act that increased social benefit payments (including increased Medicaid benefits from expanded coverage and increased tax credits from health insurance premium subsidies), a 1.5% cost-of-living increase to Social Security benefits and other federal transfer programs, and pay raises for civilian and military personnel. The factors that lowered personal incomes in January were the expiration of Emergency Unemployment Compensation benefits and lump-sum Social Security benefit payments made in December, which increased incomes in that month.

Housing

Home Sales

The table below shows annualized sales rates and median prices for existing and new homes in January.

U.S. Home Sales Data, January 2014		
Sales Rates and Prices	Existing Homes*	New Homes**
Annualized Sales Rate	4,620,000	468,000
% change, 12 months	-5.1%	2.2%
% change, prior month	-5.1%	9.6%
Median Sales Price	$188,900	$260,100
% change, 12 months	10.7%	3.4%

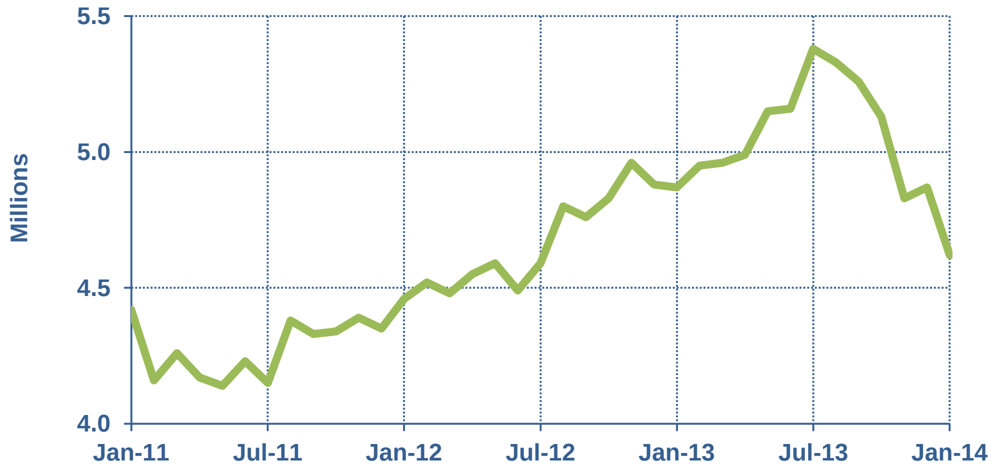
Sales rates are seasonally adjusted; sales prices are not seasonally adjusted
* From the National Association of Realtors
** From the U.S. Census Bureau

In January, the annual rate of existing home sales decreased to its lowest level since July 2012.

Existing Home Sales

In January, the annual rate of existing home sales decreased 5.1%, seasonally adjusted, to its lowest level since July 2012, based on the preliminary estimate released by the National Association of Realtors (NAR). The annualized rate of existing home sales has decreased five out of the last six months, as shown in Chart 7 below.

Chart 7: Annualized Rate for Existing Home Sales, Seasonally Adjusted (January 2011-January 2014)

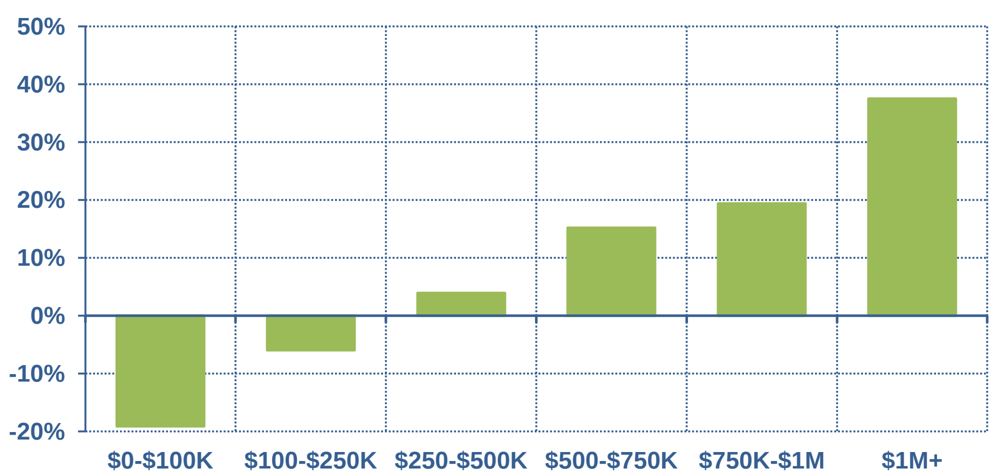


According to NAR's chief economist, the decrease in existing home sales is attributable in part to "ongoing headwinds of tight credit, limited inventory, higher prices and higher mortgage interest rates." In January, sales rates decreased in each of the four regions of the country, with the largest percentage monthly and 12-month decreases in the West, which was less affected by the severe winter weather that hit the Northeast, Midwest, and parts of the South. In addition, according to NAR, the overall rate of existing home sales is falling due to higher flood insurance rates that went into effect in October 2013.

The 12-month change in existing home sales varied by price range.

The 12-month change in existing home sales varied by price range. Chart 8 shows the percent change in existing home sales in January compared to January of last year by price range, based on data from NAR.

Chart 8: Percent Change in Sales of Existing Homes From a Year Ago (January 2013-January 2014) by Price Range



Decreases in the lower priced categories may be due to a smaller percentage of distressed homes sold compared to a year ago.

The price range with the highest sales volume was the $100-$250K range, which accounted for 43% of total sales. This category in January had 6.0% lower sales than in January of last year. In the next largest category, the $250-$500K range, which accounted for 25% of sales in January, sales were up 3.9% over January of last year. Sales of homes priced below $100,000 accounted for 21% of total sales in January, and were down 19.1% compared to January of last year. Sales rose in the higher price ranges, which accounted for the remaining 11% of existing home sales in January, with the $500-$750K price range accounting for 7% of sales, the $750K-$1M range 2%, and the $1M+ range 2%.

Some of the changes may simply reflect the effects of rising home prices, resulting in more home sales in higher ranges and fewer in lower ranges. Decreases in the lower priced categories may be due to a smaller percentage of distressed homes sold compared to a year ago. Distressed homes, which include foreclosures and short sales, accounted for 15% of total sales in January 2014, down from 24% in January 2013. Increases in the upper price ranges appear stronger than can be accounted for by the effects of rising prices.

In January, first-time home buyers of existing homes accounted for 26% of purchases, the lowest share of first-time buyers since NAR began recording this measurement in October 2008. According to NAR, the rate of first-time buyers should "normally" be closer to 40%.

New Home Sales

New home sales increased in January to its highest level since July 2008.

New home sales increased 9.6% in January, seasonally adjusted, based on the preliminary estimate released by the Census Bureau, to its highest level since July 2008. The rate was 2.2% higher on balance than in January of last year, with large variation by region. Compared to January of last year, the rate of new home sales fell in the West (-23.4%) and Midwest (-14.3%) and rose in the South (22.7%) and Northeast (3.1%).

House Prices

House prices nationwide increased 1.2%, seasonally adjusted, in the fourth quarter of 2013, according to the Federal Housing Finance Agency's House Price Index, marking the tenth consecutive quarter of price increases. Price indexes rose in 38 states in the fourth quarter, down from 48 states in the third quarter. The index was up 7.7% compared to the fourth quarter of 2012.

According the Census Bureau, in 2013, the median price of new homes sold was $265,900, up 8.4% from the 2012 median price of $245,200.

Leading Indicators

The annualized rate of housing starts fell 16.0% in January, seasonally adjusted, declining for the second straight month after reaching the highest level in nearly six years in November. The rate in January was 2.0% lower than in January of last year. The last time housing starts were below year-ago levels was in August 2011. Starts decreased from December to January in the Midwest (-67.7%), the West (-17.4%), and the South (-12.5%), but increased in the Northeast (61.9%). Bad winter weather likely affected the rate of starts in the Midwest and some parts of the South in January.

The last time housing starts were below year-ago levels was in August 2011.

The annualized rate of new housing permits fell 5.4% in January, seasonally adjusted, declining for the third straight month after reaching a five-year high in October. Permits in January were still 2.4% higher than the rate in January of last year.

Construction Activity

Total construction activity grew in January by 0.1%, according to the Census Bureau, as gains in private residential construction more than offset losses in private nonresidential and public construction projects. The estimated dollar value of total construction activity was up 9.3% over January of last year with private residential up 14.6%, private nonresidential up 9.7%, and public construction projects up 2.5%.

Inflation

The consumer price index (CPI) for core goods (i.e., all items less food and energy) rose 0.1% in January, seasonally adjusted, as did the CPI for all items. The core index rose mainly due to increases in prices for shelter, medical care, recreation, personal care, and tobacco. The all-items CPI rose mainly due to increases in prices for household energy. Over the past 12 months, both the core and the all-items consumer price indexes were up 1.6%.

The producer price index transitioned to a new aggregation system and expanded to include more data.

The producer price index (PPI) transitioned to a new aggregation system and expanded to include more data. According to the U.S. Bureau of Labor Statistics, the PPI changed from a "Stage of Processing" system to a "Final Demand-Intermediate Demand" aggregation system. The new system includes PPIs not only for goods but also for services and construction, and includes government purchases and exports as well as consumer and business purchases. Whereas the former system included three levels of PPI aggregation (crude, intermediate, and final products), the new system includes five. *Budget Footnotes* will report on the PPI for final demand (which is similar to the former PPI for finished goods) and periodically note significant changes in the intermediate demand categories.

In January, the PPI for total final demand for goods and services rose 0.2%, seasonally adjusted, to 1.2% higher than a year earlier. The core PPI (without food and energy) for final demand goods rose 0.4% from December to January.

The Ohio Economy

Employment and Unemployment

Annual Revisions to Ohio Employment Data

Ohio employment and unemployment data have been revised in accordance with the annual benchmark revision process. The revised data account for new seasonal adjustments, revised population controls, and model re-estimation. National employment data were also revised (as discussed in last month's *Budget Footnotes*).

For 2012, average monthly employment in Ohio was revised upward by about 18,100 (0.3%), and for 2013, it was revised upward by 55,975 (1.1%).

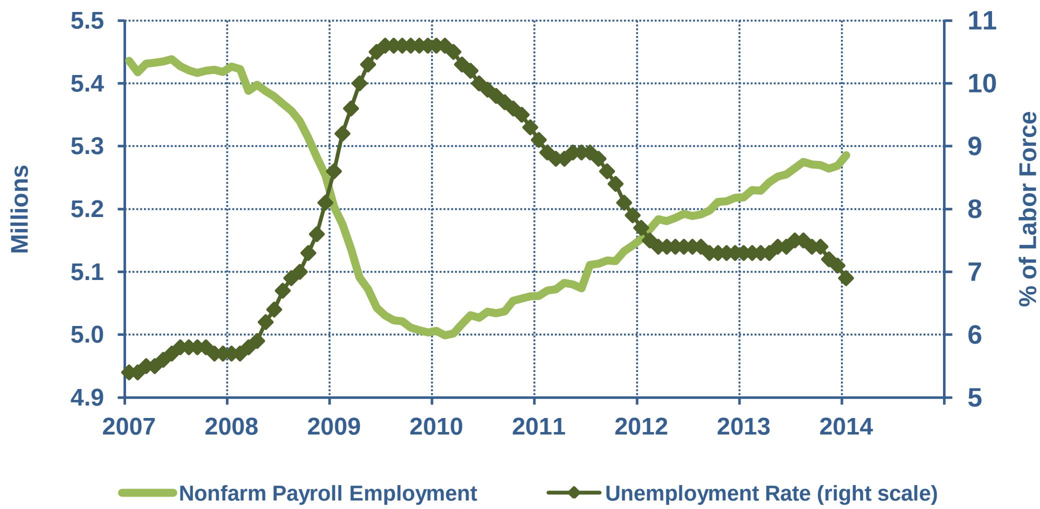
Ohio employment estimates were revised slightly upward in 2009 and 2010 (by less than 0.1% in each year). For 2011, the revised estimates increased average monthly employment by about 3,600 (0.1%). For 2012, average monthly employment was revised upward by about 18,100 (0.3%), and for 2013, it was revised upward by 55,975 (1.1%). By December 2013, the revised estimates show that Ohio employment totaled about 5,268,900, which was up 68,300 (1.3%) from the prior estimate of 5,200,600.

Monthly unemployment rates were also revised. There were no changes in 2009 and only slight changes in 2010 and 2011, with the average monthly rate for the latter two years remaining the same at 10.0% and 8.7%, respectively. The rates were revised upward in each month from April 2012 to August 2013, with the largest revision in December 2012 from 6.7% to a revised 7.3%. The revised average rate for 2012 was 7.4% up from the prior estimate of 7.2%, and the revised average rate for 2013 was 7.3% up from 7.2%.

Current Employment Situation

In January, total nonfarm payroll employment in Ohio increased by 16,700 (0.3%), seasonally adjusted, while the state's rate of unemployed job-seekers fell to 6.9% from 7.1% in December, as shown in Chart 9 below.

Chart 9: Ohio Employment and Unemployment



In January, employment in private good-producing industries increased 10,900 (1.3%) with most of the gains in construction. Employment in private services industries increased 3,300 (0.1%) with gains in professional and business services and leisure and hospitality outweighing losses in retail trade. Employment in government increased 2,500 (0.3%) mainly due to gains in local governments.

Compared to January of last year, total nonfarm employment in Ohio is up 67,100 (1.3%) with large gains in professional and business services (25,600, 3.8%), construction (11,600, 6.3%), education and health services (10,700, 1.2%), and leisure and hospitality (9,500, 1.9%). Employment in government was down (-3,700, -0.5%) compared to January of last year.

The number of unemployed job seekers totaled 395,000 in January, seasonally adjusted, down from 411,000 in December and from 421,000 in January of last year.

Compared to January of last year, total nonfarm employment in Ohio is up 67,100 (1.3%).

Home Sales

In January, existing home sales in Ohio were 5.1% lower than in January of last year, according to the Ohio Association of Realtors. This was the first decrease following 30 consecutive months of year-over-year gains. The seasonally adjusted annualized rate of about 120,000 homes sold in January was also 5.1% lower than the rate in December. January's rate was still higher than the total number of homes sold in 2012 at about 112,450, but lower than the total number sold in 2013 at about 129,110.

In January, existing home sales in Ohio were 5.1% lower than in January of last year.

Shale Activity

In January, the Ohio Department of Job and Family Services (ODJFS) released a report of shale activity in Ohio in the second quarter of 2013. Employment in "core" industries (includes pipeline construction and well drilling) and ancillary industries totaled 182,575 in the second quarter of 2013. Employment in "core" shale industries was up in that quarter 3,876 (56.4%) over the second quarter of 2011. Employment in "ancillary" industries was up 4,913 (2.9%) over the same period.

Severe weather temporarily slowed some activity across various industries.

Regional Economy

According to a report from the Federal Reserve Bank of Cleveland, economic activity continued at a "moderate" pace in this part of the country since a previous report in January.[9] The report noted that severe weather temporarily slowed some activity across various industries, but that the weather was mainly an "inconvenience." Economic activity varied across industries. Demand for manufactured goods remained moderate to strong, shale gas activity continued at a high level, freight volume increased, and motor vehicle sales in January improved over December. However, retail sales were "disappointing," construction activity slowed, and hiring across most industries was "sluggish."

---

[9] This Federal Reserve Bank of Cleveland report is contained in the latest Beige Book, a Federal Reserve System publication that summarizes information gathered on or before February 24, 2014, from outside contacts. It is published about every six weeks. The Federal Reserve Bank of Cleveland's district includes all of Ohio and parts of Kentucky, Pennsylvania, and West Virginia.