

# Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

MAY 2014

## STATUS OF THE GRF

### HIGHLIGHTS

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

GRF income tax receipts in April were \$157 million below estimate. Due primarily to that, GRF tax revenue was \$112 million below estimate for the month. Though tax revenues were weak in April, they only partially offset the strong performance in preceding months. For the first ten months of FY 2014, GRF tax revenues were \$259 million above estimate, due almost entirely to better than expected income tax revenue.

Ohio's unemployment rate fell to 6.1% in March, from 6.5% in February. March was the second consecutive month that Ohio's unemployment rate was lower than the national rate. The household survey from which these numbers are derived shows employment has increased by over 58,000 (1.1%) since November. March employment was also 57,000 higher compared with a year earlier.

#### Through April 2014, GRF sources totaled \$24.35 billion:

- Revenue from the personal income tax was \$254.0 million above estimate.
- Sales and use tax receipts were \$5.5 million below estimate.

#### Through April 2014, GRF uses totaled \$25.96 billion:

- Medicaid was \$500.2 million below estimate due to factors such as a delay in implementing certain initiatives and lower than expected caseload.
- Property Tax Reimbursements were \$282.9 million below estimate due primarily to timing.

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<b>Table 1: General Revenue Fund Sources</b>				
<b>Actual vs. Estimate</b>				
<b>Month of April 2014</b>				
(\$ in thousands)				
(Actual based on report run in OAKS Actuals Ledger on May 5, 2014)				
	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>	<b>Percent</b>
<b>STATE SOURCES</b>				
<b>TAX REVENUE</b>				
Auto Sales	\$132,218	\$119,600	\$12,618	10.5%
Nonauto Sales and Use	\$711,629	\$702,700	\$8,929	1.3%
<b>Total Sales and Use Taxes</b>	<b>\$843,846</b>	<b>\$822,300</b>	<b>\$21,546</b>	<b>2.6%</b>
Personal Income	\$902,218	\$1,059,100	-\$156,882	-14.8%
Corporate Franchise	-\$6,023	\$0	-\$6,023	---
Financial Institutions	\$23,735	\$3,300	\$20,435	619.3%
Public Utility	\$0	\$0	\$0	---
Kilowatt-Hour Excise	\$30,897	\$28,800	\$2,097	7.3%
Natural Gas Consumption (MCF)	\$4,665	\$3,800	\$865	22.8%
Commercial Activity Tax	\$31,572	\$24,300	\$7,272	29.9%
Foreign Insurance	-\$3,174	\$900	-\$4,074	-452.7%
Domestic Insurance	\$0	\$0	\$0	---
Business and Property	\$0	\$0	\$0	---
Cigarette	\$66,866	\$68,200	-\$1,334	-2.0%
Alcoholic Beverage	\$4,752	\$4,700	\$52	1.1%
Liquor Gallonage	\$3,341	\$3,400	-\$59	-1.7%
Estate	\$6,484	\$2,100	\$4,384	208.8%
<b>Total Tax Revenue</b>	<b>\$1,909,178</b>	<b>\$2,020,900</b>	<b>-\$111,722</b>	<b>-5.5%</b>
<b>NONTAX REVENUE</b>				
Earnings on Investments	\$3,933	\$2,500	\$1,433	57.3%
Licenses and Fees	\$7,342	\$6,000	\$1,342	22.4%
Other Revenue	\$10,398	\$3,625	\$6,773	186.8%
<b>Total Nontax Revenue</b>	<b>\$21,673</b>	<b>\$12,125</b>	<b>\$9,548</b>	<b>78.7%</b>
<b>TRANSFERS</b>				
Liquor Transfers	\$0	\$0	\$0	---
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers In	\$2,973	\$200	\$2,773	1386.6%
<b>Total Transfers In</b>	<b>\$2,973</b>	<b>\$200</b>	<b>\$2,773</b>	<b>1386.6%</b>
<b>TOTAL STATE SOURCES</b>	<b>\$1,933,825</b>	<b>\$2,033,225</b>	<b>-\$99,400</b>	<b>-4.9%</b>
Federal Grants	\$844,688	\$675,664	\$169,024	25.0%
<b>TOTAL GRF SOURCES</b>	<b>\$2,778,513</b>	<b>\$2,708,889</b>	<b>\$69,624</b>	<b>2.6%</b>
* Estimates of the Office of Budget and Management as of September 2013.				
<i>Detail may not sum to total due to rounding.</i>				

	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>	<b>Percent</b>	<b>FY 2013</b>	<b>Percent Change</b>
<b>STATE SOURCES</b>						
<b>TAX REVENUE</b>						
Auto Sales	\$994,334	\$961,600	\$32,734	3.4%	\$897,062	10.8%
Nonauto Sales and Use	\$6,569,998	\$6,608,200	-\$38,202	-0.6%	\$6,055,958	8.5%
<b>Total Sales and Use Taxes</b>	<b>\$7,564,331</b>	<b>\$7,569,800</b>	<b>-\$5,469</b>	<b>-0.1%</b>	<b>\$6,953,020</b>	<b>8.8%</b>
Personal Income	\$6,769,169	\$6,515,200	\$253,969	3.9%	\$7,900,122	-14.3%
Corporate Franchise	-\$11,827	\$0	-\$11,827	---	\$231,540	-105.1%
Financial Institutions	\$148,347	\$143,500	\$4,847	3.4%	\$0	---
Public Utility	\$72,370	\$68,800	\$3,570	5.2%	\$68,501	5.6%
Kilowatt-Hour Excise	\$267,066	\$273,050	-\$5,984	-2.2%	\$272,135	-1.9%
Natural Gas Consumption (MCF)	\$41,345	\$31,800	\$9,545	30.0%	\$27,932	48.0%
Commercial Activity Tax	\$623,930	\$636,339	-\$12,409	-1.9%	\$629,047	-0.8%
Foreign Insurance	\$301,257	\$291,500	\$9,757	3.3%	\$288,924	4.3%
Domestic Insurance	\$153	\$1,200	-\$1,047	-87.2%	\$4,949	-96.9%
Business and Property	\$476	\$0	\$476	---	\$33,610	-98.6%
Cigarette	\$621,855	\$623,100	-\$1,245	-0.2%	\$630,118	-1.3%
Alcoholic Beverage	\$46,008	\$45,200	\$808	1.8%	\$45,347	1.5%
Liquor Gallonage	\$34,674	\$34,100	\$574	1.7%	\$33,779	2.6%
Estate	\$37,223	\$23,700	\$13,523	57.1%	\$92,432	-59.7%
<b>Total Tax Revenue</b>	<b>\$16,516,376</b>	<b>\$16,257,289</b>	<b>\$259,087</b>	<b>1.6%</b>	<b>\$17,211,459</b>	<b>-4.0%</b>
<b>NONTAX REVENUE</b>						
Earnings on Investments	\$12,380	\$8,000	\$4,380	54.8%	\$7,374	67.9%
Licenses and Fees	\$55,714	\$60,000	-\$4,286	-7.1%	\$65,994	-15.6%
Other Revenue	\$33,020	\$36,250	-\$3,230	-8.9%	\$529,871	-93.8%
<b>Total Nontax Revenue</b>	<b>\$101,114</b>	<b>\$104,250</b>	<b>-\$3,136</b>	<b>-3.0%</b>	<b>\$603,240</b>	<b>-83.2%</b>
<b>TRANSFERS</b>						
Liquor Transfers	\$0	\$0	\$0	---	\$91,500	-100.0%
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers In	\$55,704	\$7,000	\$48,704	695.8%	\$5,751	868.6%
<b>Total Transfers In</b>	<b>\$55,704</b>	<b>\$7,000</b>	<b>\$48,704</b>	<b>695.8%</b>	<b>\$97,251</b>	<b>-42.7%</b>
<b>TOTAL STATE SOURCES</b>	<b>\$16,673,193</b>	<b>\$16,368,539</b>	<b>\$304,654</b>	<b>1.9%</b>	<b>\$17,911,949</b>	<b>-6.9%</b>
Federal Grants	\$7,680,492	\$7,674,711	\$5,781	0.1%	\$6,800,687	12.9%
<b>TOTAL GRF SOURCES</b>	<b>\$24,353,685</b>	<b>\$24,043,250</b>	<b>\$310,435</b>	<b>1.3%</b>	<b>\$24,712,636</b>	<b>-1.5%</b>

\* 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 April, GRF tax receipts in FY 2014 were \$259.1 million above estimate.

The April 2014 income tax filing season concluded with a negative variance of \$156.9 million for the personal income tax. This poor performance reduced the year-to-date positive variance for this tax source to \$254.0 million, down from \$410.9 million through March 2014. However, GRF sources<sup>1</sup> of \$2.78 billion for the month were \$69.6 million above the estimate released by the Office of Budget and Management (OBM) in September 2013, largely from a positive variance of \$169.0 million from federal grants. The monthly result from federal grants reversed that source's negative year-to-date variance of \$163.2 million at the end of March 2014. State-source GRF receipts were below estimate by \$99.4 million for the month, driven by a negative variance of \$111.7 million in GRF tax sources, but that shortfall was partially offset by a positive variance of \$12.3 million in nontax revenue and transfers in. Over the first ten months of the fiscal year, however, GRF tax sources were \$259.1 million above estimate and state-source GRF receipts as a whole were \$304.7 million above estimate. Tables 1 and 2 show GRF sources for the month of April and for FY 2014 through April, respectively.

Though the personal income tax fell short of estimate in April, receipts from the sales and use tax and the commercial activity tax (CAT), two other major tax sources, were \$21.5 million and \$7.3 million, respectively, above estimates. Also, the estate tax was above projection by \$4.4 million, the kilowatt-hour tax surpassed expectation by \$2.1 million, and collections from the financial institutions tax (FIT), for tax returns due March 31, 2014, were \$20.4 million above estimate in April. For the March-April period, the FIT was \$0.8 million below estimate, but for the fiscal year to date, this tax was \$4.8 million above anticipated receipts.<sup>2</sup> Net refunds to taxpayers under the corporate franchise tax (CFT) were \$6.0 million in April, increasing that tax source's year-to-date negative variance to \$11.8 million, from \$5.8 million at the end of March. Also below estimates this month were the foreign insurance tax (\$4.1 million) and the cigarette tax (\$1.3 million).

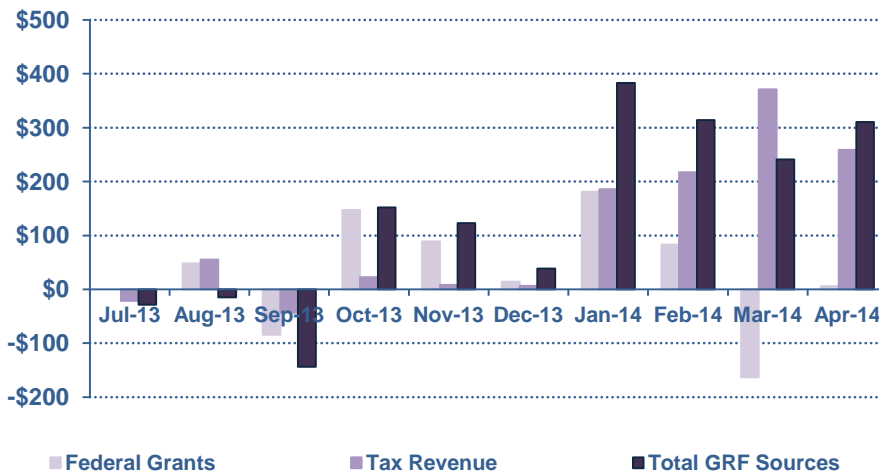
<sup>1</sup> GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants, which are federal reimbursements for Medicaid and certain other human service programs.

<sup>2</sup> FIT returns are due January 31, March 31, and May 31.

For the fiscal year through April, nontax revenues were short of anticipated receipts by \$3.1 million, and transfers in was \$48.7 million above estimates.

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 \$310.4 million above estimate through April 2014. Regarding tax revenues, as shown in Table 2, the personal income tax had a large positive variance; the auto sales and use tax, the natural gas consumption (MCF) tax, the foreign insurance tax, the FIT, 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 CFT, the cigarette tax, the domestic insurance tax, and the kilowatt-hour tax were below anticipated receipts.

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



Compared to FY 2013, FY 2014 total GRF sources decreased \$359.0 million. A decrease of \$1.24 billion in state-source revenue was partially offset by an increase of \$879.8 million in federal grants. Revenues from all major categories of state sources were below year-ago levels. Tax receipts declined \$695.1 million. Revenue from nontax revenues and transfers in fell \$502.1 million and \$41.5 million, respectively. 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

Through April, FY 2014 GRF sources were \$310.4 million above estimate.

Through April, FY 2014 GRF sources were \$359.0 million below GRF sources in FY 2013.

liquor franchise.<sup>3</sup> 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 CAT, the business and property tax (dealers in intangibles tax), and the kilowatt-hour tax, were partially offset by increased receipts from the sales and use tax, the FIT, the MCF tax, and the foreign insurance tax.

Revenue from the personal income tax fell \$1.13 billion, while that from the sales and use tax increased \$611.3 million. The decrease in income tax revenue was due to an 8.5% reduction in income tax rates for tax year (TY) 2013 in H.B. 59 (the current operating budget). 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 and estate tax receipts similarly declined due to recent tax law changes. The CFT and the business and property taxes 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 2013 by H.B. 153 of the 129th General Assembly. The decline from FY 2013 levels was \$243.4 million for the CFT and \$55.2 million for the estate tax.

Through  
April,  
FY 2014  
GRF income  
tax receipts  
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\$254.0 million  
above  
estimate.

### Personal Income Tax

April GRF receipts from the personal income tax of \$902.2 million were \$156.9 million (14.8%) below estimate, largely from lower than expected payments due with annual tax returns. Monthly receipts were also \$745.0 million (45.2%) below receipts in the same month a year ago. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the Local Government Fund (LGF). Gross collections are the sum of employer withholding, quarterly estimated payments,<sup>4</sup> trust payments, payments associated with annual returns, and miscellaneous payments.

<sup>3</sup> 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.

<sup>4</sup> 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.



Payments associated with annual tax returns were below estimates by \$222.8 million in April 2014. Refunds were again below estimate this month, this time by \$10.9 million, after coming in \$247.1 million below estimates in the first three months of the tax filing season. On the other hand, monthly employer withholding and estimated payments were, respectively, \$17.5 million and \$28.2 million above estimates.

For the fiscal year through April, the GRF has received \$6.77 billion from the personal income tax. That amount was \$254.0 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, this tax's positive year-to-date variance was mostly due to lower than expected refunds (\$309.3 million) along with higher than anticipated quarterly estimated payments (\$90.8 million), employer withholding receipts (\$61.6 million), and trust payments (\$5.6 million). Those positive variances were partly offset by shortfalls in annual tax return payments (\$183.2 million) and miscellaneous receipts (\$22.5 million).

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	\$61.6	0.9%	-\$111.4	-1.6%
Quarterly Estimated Payments	\$90.8	10.1%	-\$118.3	-10.6%
Trust Payments	\$5.6	11.4%	-\$14.4	-20.6%
Annual Return Payments	-\$183.2	-19.0%	-\$539.1	-40.9%
Miscellaneous Payments	-\$22.5	-17.8%	-\$13.4	-11.4%
<b>Gross Collections</b>	<b>-\$47.6</b>	<b>-0.5%</b>	<b>-\$796.6</b>	<b>-8.5%</b>
Less Refunds	-\$309.3	-16.6%	\$341.4	28.2%
Less LGF Distribution	\$7.7	2.8%	-\$7.1	-2.4%
<b>Income Tax Revenue</b>	<b>\$254.0</b>	<b>3.9%</b>	<b>-\$1,130.9</b>	<b>-14.3%</b>

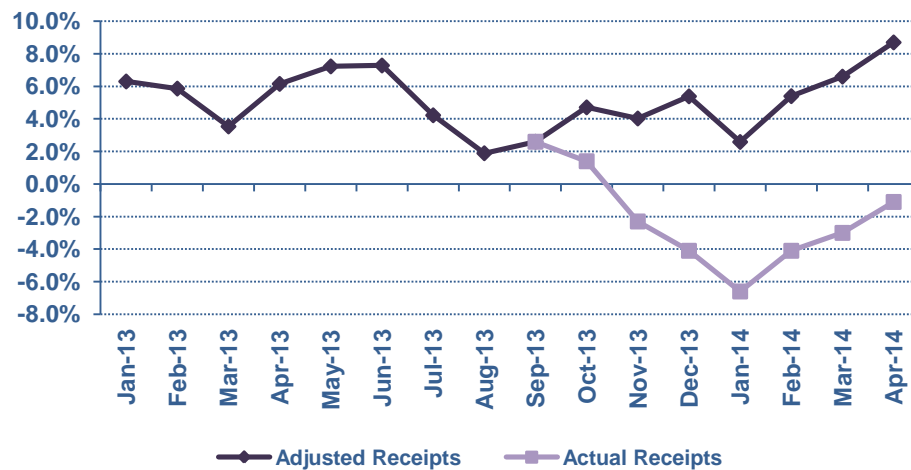
FY 2014 GRF receipts from the income tax were \$1.13 billion (14.2%) below receipts in the corresponding period in FY 2013. Receipts from all income tax components, except for refunds, were below their respective levels in FY 2013. Through April, FY 2014 refunds were \$341.4 million higher. Payments with annual returns were \$539.1 million below such payments in FY 2013, quarterly estimated payments declined \$118.3 million, and revenues from employer withholding were \$111.4 million below receipts in those categories last year. These income tax components were likely directly affected by income tax changes in

Through  
April,  
FY 2014  
GRF income  
tax receipts  
were  
\$1.13 billion  
below  
FY 2013  
revenue.

Through April, FY 2014 withholding tax receipts were \$61.6 million above estimate.

H.B. 59, including the tax rate reduction, the small business deduction, and the earned income tax credit.<sup>5</sup> Additionally, payments by trusts fell \$14.4 million. 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 April 2014. Though actual withholding receipts have fallen since the withholding rate change that went into effect for payroll that ended on or after September 1, 2013, payroll growth has trended upward in the latest months.

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



The Department of Taxation stated in published reports that a substantial number of businesses qualifying for the small business deduction did not claim it in their initial tax returns due April 15 or filed for extensions. Additionally, firms claiming the deduction reported relatively low income, and many higher income companies had filed for extensions that are due by October 2014. This would imply that the impact of income tax provisions in H.B. 59 is likely to negatively affect refunds and estimated payments in the remaining two months of FY 2014, and into FY 2015, when taxpayers file amended income tax returns or finalize their TY 2013 tax returns.

<sup>5</sup> 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 earned income tax credit (EITC) equals 5% of the amount allowed for the federal EITC.



## Sales and Use Tax

April GRF receipts from the sales and use tax of \$843.8 million were \$21.5 million (2.6%) above estimate, and \$114.0 million (15.6%) above receipts in April 2013. Both the auto and the nonauto sales and use taxes posted positive revenue variances.

For the fiscal year to date, GRF sales and use tax receipts totaled \$7.56 billion, \$5.5 million (0.1%) below estimate, with a positive variance for the auto sales and use tax partially offsetting a negative variance in the nonauto sales and use tax. FY 2014 total receipts were \$611.3 million (8.8%) 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. For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections<sup>6</sup> 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

April GRF receipts of \$711.6 million were \$8.9 million (1.3%) above estimate, and \$95.8 million (15.6%) above receipts in April 2013. For the fiscal year, total nonauto sales and use tax receipts of \$6.57 billion through April were \$38.2 million (0.6%) below projected revenues, and \$514.0 million (8.5%) above revenue in the corresponding period in FY 2013. FY 2014 year-to-date receipts include \$377.3 million in tax payments by Medicaid health insuring corporations; those receipts rose \$58.0 million (18.2%) compared to the year-ago period. Chart 3 shows increases in nonauto sales and use tax monthly receipts against prior year receipts in the same month. Nonauto sales and use tax revenue has improved in recent months, after weather-related weakness at the start of this calendar year. For the fiscal year as a whole, growth of the nonauto taxable base was roughly 5.2%, when adjusted for the tax rate change.

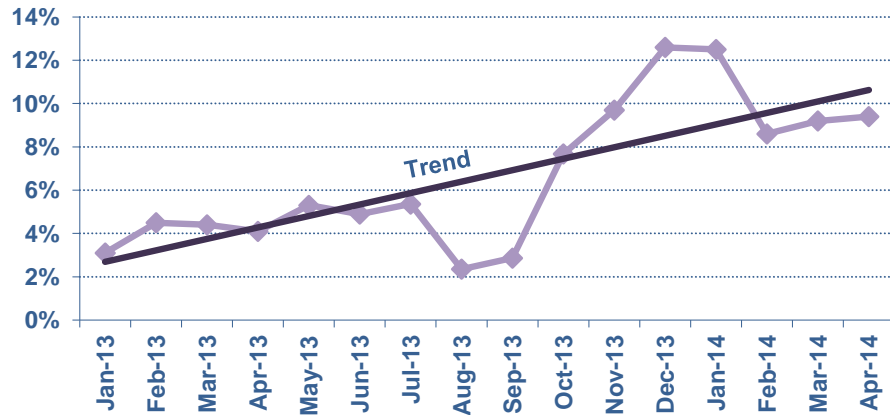
Through  
April,  
FY 2014  
sales and  
use tax  
receipts were  
\$5.5 million  
below  
estimate.

Through  
April,  
FY 2014  
nonauto  
sales and  
use tax  
receipts were  
\$38.2 million  
below  
estimate.

<sup>6</sup> 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 April, FY 2014 auto sales and use tax receipts were \$32.7 million above estimate.

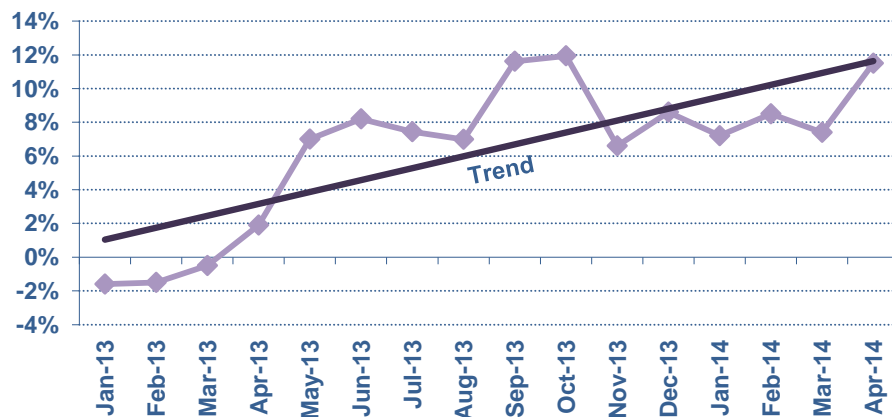
**Chart 3: Nonauto Sales and Use Tax Receipts Trend  
Actual vs. Prior Year  
(Three-month Moving Average)**



**Auto Sales and Use Tax**

April GRF receipts from the auto sales and use tax of \$132.2 million were \$12.6 million (10.5%) above estimate, and exceeded receipts in April 2013 by \$18.2 million (16.0%). This monthly performance increased the year-to-date positive variance of this tax source to \$32.7 million (3.4%), from \$20.1 million at the end of March. For the fiscal year, GRF revenue from the auto sales and use tax of \$994.3 million was \$97.3 million (10.8%) 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. Similarly to the nonauto sales and use tax, the auto sales and use tax has improved in the latest months, and the tax base growth through April was about 6.6%, 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)**



Nationwide sales of light vehicles in April slowed to a 16.0 million unit seasonally adjusted annualized rate, down from a 16.3 million unit rate in March, but above the sales pace in December through February, when adverse weather likely was a factor holding down buying. Though month-to-month levels may be inconsistent, sales continue to trend higher. Unit sales totaled 15.5 million units in CY 2013, and so far this year, sales were 3.1% higher than those in the corresponding period in 2013.

### Commercial Activity Tax

In April, GRF revenue from the CAT of \$31.6 million was \$7.3 million (29.9%) above estimate and \$12.8 million (68.0%) above revenue in the same month in FY 2013. GRF receipts for the fiscal year from the CAT were \$623.9 million through April. This monthly revenue decreased the tax's year-to-date negative variance to \$12.4 million (1.9%), from \$19.7 million through March. Compared to last year, FY 2014 GRF revenue from the tax fell \$5.1 million (0.8%). FY 2014 all-funds CAT receipts were \$1.27 billion through April, \$5.8 million (0.5%) below revenue in the corresponding period in FY 2013. The last payment from calendar quarter taxpayers for this fiscal year is due May 9, 2014. Under current law, 50% of CAT receipts are deposited in the GRF, with the other half deposited in two local government funds that are used to reimburse school districts and other units of local government for lost revenues from the phase-out and reductions in tangible personal property taxes.

### Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax of \$66.9 million in April 2014 were \$1.3 million (2.0%) below estimate, and also \$4.8 million (6.7%) below receipts in the same month in FY 2013. Through April, FY 2014 receipts of \$621.9 million were \$1.2 million (0.2%) below estimate. Receipts from cigarette sales were \$574.7 million, and sales of products other than cigarettes provided \$47.2 million. Compared to FY 2013, for the year to date through April, receipts fell \$8.3 million. A decrease of \$11.9 million in revenue from cigarette sales was partially offset by an increase of \$3.6 million in revenue from the sales of other tobacco products.

Through  
April,  
FY 2014  
GRF CAT  
receipts  
were  
\$12.4 million  
below  
estimate.

Through  
April,  
FY 2014  
cigarette tax  
receipts  
were  
\$1.2 million  
below  
estimate.

**Table 3: General Revenue Fund Uses**  
**Actual vs. Estimate**  
**Month of April 2014**  
(\$ in thousands)  
(Actual based on OAKS reports run May 6, 2014)

<i>PROGRAM</i>	<u>Actual</u>	<u>Estimate*</u>	<u>Variance</u>	<u>Percent</u>
Primary and Secondary Education	\$584,848	\$617,849	-\$33,001	-5.3%
Higher Education	\$174,084	\$164,555	\$9,529	5.8%
Other Education	\$3,823	\$7,776	-\$3,953	-50.8%
<b>Total Education</b>	<b>\$762,755</b>	<b>\$790,180</b>	<b>-\$27,425</b>	<b>-3.5%</b>
Medicaid	\$1,295,285	\$1,113,031	\$182,254	16.4%
Health and Human Services	\$110,039	\$148,492	-\$38,453	-25.9%
<b>Total Welfare and Human Services</b>	<b>\$1,405,324</b>	<b>\$1,261,523</b>	<b>\$143,801</b>	<b>11.4%</b>
Justice and Public Protection	\$180,440	\$213,973	-\$33,533	-15.7%
General Government	\$31,846	\$38,945	-\$7,099	-18.2%
<b>Total Government Operations</b>	<b>\$212,286</b>	<b>\$252,918</b>	<b>-\$40,632</b>	<b>-16.1%</b>
Property Tax Reimbursements	\$64,162	\$332,131	-\$267,969	-80.7%
Capital Outlay	\$0	\$0	\$0	---
Debt Service	\$58,171	\$65,755	-\$7,584	-11.5%
<b>Total Other Expenditures</b>	<b>\$122,334</b>	<b>\$397,886</b>	<b>-\$275,552</b>	<b>-69.3%</b>
<b>Total Program Expenditures</b>	<b>\$2,502,698</b>	<b>\$2,702,507</b>	<b>-\$199,809</b>	<b>-7.4%</b>
<b>TRANSFERS</b>				
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers Out	\$22,280	\$6,774	\$15,506	228.9%
<b>Total Transfers Out</b>	<b>\$22,280</b>	<b>\$6,774</b>	<b>\$15,506</b>	<b>228.9%</b>
<b>TOTAL GRF USES</b>	<b>\$2,524,978</b>	<b>\$2,709,280</b>	<b>-\$184,302</b>	<b>-6.8%</b>
* 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 April 30, 2014**  
(\$ in thousands)  
(Actual based on OAKS reports run May 6, 2014)

<i>PROGRAM</i>	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>	<b>Percent</b>
Primary and Secondary Education	\$5,848,641	\$5,712,445	\$136,197	2.4%
Higher Education	\$1,746,376	\$1,748,530	-\$2,153	-0.1%
Other Education	\$46,071	\$49,592	-\$3,520	-7.1%
<b>Total Education</b>	<b>\$7,641,089</b>	<b>\$7,510,566</b>	<b>\$130,523</b>	<b>1.7%</b>
Medicaid	\$12,005,571	\$12,505,721	-\$500,150	-4.0%
Health and Human Services	\$1,070,792	\$1,167,856	-\$97,064	-8.3%
<b>Total Welfare and Human Services</b>	<b>\$13,076,363</b>	<b>\$13,673,577</b>	<b>-\$597,215</b>	<b>-4.4%</b>
Justice and Public Protection	\$1,577,974	\$1,610,877	-\$32,903	-2.0%
General Government	\$301,558	\$319,057	-\$17,499	-5.5%
<b>Total Government Operations</b>	<b>\$1,879,532</b>	<b>\$1,929,934</b>	<b>-\$50,402</b>	<b>-2.6%</b>
Property Tax Reimbursements	\$978,827	\$1,261,745	-\$282,917	-22.4%
Capital Outlay	\$0	\$0	\$0	---
Debt Service	\$1,148,394	\$1,196,171	-\$47,777	-4.0%
<b>Total Other Expenditures</b>	<b>\$2,127,221</b>	<b>\$2,457,916</b>	<b>-\$330,695</b>	<b>-13.5%</b>
<b>Total Program Expenditures</b>	<b>\$24,724,205</b>	<b>\$25,571,994</b>	<b>-\$847,789</b>	<b>-3.3%</b>
<b>TRANSFERS</b>				
Budget Stabilization	\$995,930	\$995,930	\$0	0.0%
Other Transfers Out	\$238,756	\$245,422	-\$6,666	-2.7%
<b>Total Transfers Out</b>	<b>\$1,234,687</b>	<b>\$1,241,352</b>	<b>-\$6,666</b>	<b>-0.5%</b>
<b>TOTAL GRF USES</b>	<b>\$25,958,892</b>	<b>\$26,813,346</b>	<b>-\$854,454</b>	<b>-3.2%</b>
* 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 May 6, 2014)

Payment Category	April				Year to Date Through April			
	Actual	Estimate*	Variance	Percent	Actual	Estimate*	Variance	Percent
Managed Care	\$610,567	\$785,548	-\$174,981	-22.3%	\$6,177,873	\$6,559,680	-\$381,807	-5.8%
Nursing Facilities	\$208,569	\$173,154	\$35,415	20.5%	\$2,032,450	\$2,014,405	\$18,046	0.9%
DDD Services	\$200,599	\$176,207	\$24,392	13.8%	\$1,897,588	\$1,924,775	-\$27,187	-1.4%
Hospitals	\$77,422	\$229,739	-\$152,317	-66.3%	\$1,567,103	\$1,955,353	-\$388,250	-19.9%
Behavioral Health	\$62,236	\$81,067	-\$18,831	-23.2%	\$653,263	\$768,316	-\$115,053	-15.0%
Administration	\$51,283	\$104,868	-\$53,585	-51.1%	\$646,110	\$888,193	-\$242,083	-27.3%
Aging Waivers	\$44,163	\$57,951	-\$13,788	-23.8%	\$446,609	\$539,566	-\$92,957	-17.2%
Prescription Drugs	\$31,422	\$38,054	-\$6,632	-17.4%	\$335,980	\$397,894	-\$61,914	-15.6%
Medicare Buy-In	\$35,981	\$38,160	-\$2,178	-5.7%	\$358,616	\$367,472	-\$8,856	-2.4%
Physicians	\$124,929	\$32,311	\$92,618	286.7%	\$887,953	\$678,574	\$209,379	30.9%
Medicare Part D	\$23,925	\$25,245	-\$1,320	-5.2%	\$247,236	\$258,811	-\$11,575	-4.5%
Home Care Waivers	\$19,414	\$17,033	\$2,381	14.0%	\$211,721	\$212,503	-\$782	-0.4%
ACA Expansion	\$91,145	\$0	\$91,145	N/A	\$167,098	\$0	\$167,098	N/A
All Other	\$100,905	\$117,906	-\$17,001	-14.4%	\$1,116,408	\$1,254,524	-\$138,116	-11.0%
<b>Total All Funds</b>	<b>\$1,682,560</b>	<b>\$1,877,243</b>	<b>-\$194,682</b>	<b>-10.4%</b>	<b>\$16,746,008</b>	<b>\$17,820,066</b>	<b>-\$1,074,058</b>	<b>-6.0%</b>

\* 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 April 8, 2014

Department	Month of April 2014				Year to Date Through April 2014			
	Actual	Estimate*	Variance	Percent	Actual	Estimate*	Variance	Percent
<b>Medicaid</b>	<b>\$1,459,761</b>	<b>\$1,672,956</b>	<b>-\$213,195</b>	<b>-12.7%</b>	<b>\$14,649,969</b>	<b>\$15,645,942</b>	<b>-\$995,973</b>	<b>-6.4%</b>
GRF	\$1,250,829	\$1,068,095	\$182,734	17.1%	\$11,559,426	\$12,057,393	-\$497,967	-4.1%
Non-GRF	\$208,932	\$604,861	-\$395,929	-65.5%	\$3,090,543	\$3,588,549	-\$498,006	-13.9%
<b>Developmental Disabilities</b>	<b>\$203,563</b>	<b>\$188,079</b>	<b>\$15,484</b>	<b>8.2%</b>	<b>\$1,949,034</b>	<b>\$1,987,413</b>	<b>-\$38,378</b>	<b>-1.9%</b>
GRF	\$38,391	\$40,833	-\$2,442	-6.0%	\$386,247	\$388,684	-\$2,436	-0.6%
Non-GRF	\$165,172	\$147,245	\$17,926	12.2%	\$1,562,787	\$1,598,729	-\$35,942	-2.2%
<b>Job and Family Services</b>	<b>\$16,653</b>	<b>\$10,136</b>	<b>\$6,517</b>	<b>64.3%</b>	<b>\$118,361</b>	<b>\$151,908</b>	<b>-\$33,547</b>	<b>-22.1%</b>
GRF	\$5,640	\$3,556	\$2,084	58.6%	\$52,389	\$52,357	\$33	0.1%
Non-GRF	\$11,013	\$6,579	\$4,434	67.4%	\$65,971	\$99,551	-\$33,580	-33.7%
<b>Aging</b>	<b>\$539</b>	<b>\$574</b>	<b>-\$35</b>	<b>-6.1%</b>	<b>\$5,241</b>	<b>\$5,523</b>	<b>-\$283</b>	<b>-5.1%</b>
GRF	\$229	\$263	-\$34	-13.0%	\$3,024	\$2,827	\$197	7.0%
Non-GRF	\$310	\$310	-\$1	-0.2%	\$2,216	\$2,696	-\$480	-17.8%
<b>Health</b>	<b>\$1,619</b>	<b>\$3,424</b>	<b>-\$1,805</b>	<b>-52.7%</b>	<b>\$18,374</b>	<b>\$19,339</b>	<b>-\$965</b>	<b>-5.0%</b>
GRF	\$195	\$282	-\$87	-30.9%	\$2,757	\$2,734	\$24	0.9%
Non-GRF	\$1,423	\$3,141	-\$1,718	-54.7%	\$15,617	\$16,605	-\$988	-6.0%
<b>Mental Health and Addiction</b>	<b>\$426</b>	<b>\$2,075</b>	<b>-\$1,649</b>	<b>-79.4%</b>	<b>\$5,030</b>	<b>\$9,941</b>	<b>-\$4,911</b>	<b>-49.4%</b>
GRF	\$0	\$0	\$0	N/A	\$1,728	\$1,728	\$0	0.0%
Non-GRF	\$426	\$2,075	-\$1,649	-79.4%	\$3,302	\$8,214	-\$4,911	-59.8%
<b>Total GRF</b>	<b>\$1,295,285</b>	<b>\$1,113,031</b>	<b>\$182,254</b>	<b>16.4%</b>	<b>\$12,005,571</b>	<b>\$12,505,721</b>	<b>-\$500,150</b>	<b>-4.0%</b>
<b>Total Non-GRF</b>	<b>\$387,276</b>	<b>\$764,212</b>	<b>-\$376,936</b>	<b>-49.3%</b>	<b>\$4,740,437</b>	<b>\$5,314,345</b>	<b>-\$573,908</b>	<b>-10.8%</b>
<b>Total All Funds</b>	<b>\$1,682,560</b>	<b>\$1,877,243</b>	<b>-\$194,682</b>	<b>-10.4%</b>	<b>\$16,746,008</b>	<b>\$17,820,066</b>	<b>-\$1,074,058</b>	<b>-6.0%</b>

\*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

For the month of April, GRF program expenditures totaled \$2.50 billion, \$199.8 million below the estimate released by the Office of Budget and Management (OBM) in September 2013. Due largely to timing issues, expenditures from the Property Tax Reimbursements program category were \$268.0 million below estimate. Other program categories with significant negative monthly variances include Health and Human Services (\$38.5 million), Justice and Public Protection (\$33.5 million), and Primary and Secondary Education (\$33.0 million). These negative variances were partially offset by a positive variance of \$182.3 million in Medicaid.

Through April, FY 2014 GRF program expenditures totaled \$24.72 billion, \$847.8 million below estimate. Except for Primary and Secondary Education, which had a largely timing-related, positive year-to-date variance of \$136.2 million, expenditures from all other program categories were below their year-to-date estimates.<sup>7</sup> Medicaid had the largest negative year-to-date variance of \$500.2 million, followed by Property Tax Reimbursements (\$282.9 million), Health and Human Services (\$97.1 million), Debt Service (\$47.8 million), and Justice and Public Protection (\$32.9 million).

Tables 3 and 4 show GRF uses for the month of April and for FY 2014 through April, respectively. GRF uses primarily consist of program expenditures but also include transfers out. Through April, GRF transfers out totaled \$1.23 billion, \$6.7 million below estimate. GRF uses as a whole totaled \$25.96 billion for the first ten months of FY 2014, \$854.5 million below estimate. The remainder of this report will briefly discuss the variances in Medicaid, Property Tax Reimbursements, Health and Human Services, Debt Service, Justice and Public Protection, and Primary and Secondary Education.

Through  
April,  
FY 2014  
GRF uses  
were  
\$854.5 million  
below  
estimate.

<sup>7</sup> For reporting purposes, GRF program expenditures were grouped into nine categories. A tenth category, Capital Outlay, has had no expenditures through the end of April.

## Medicaid

GRF Medicaid expenditures were \$1.30 billion in April, \$182.3 million (16.4%) above estimate. Across all funds, however, Medicaid expenditures were \$194.7 million (10.4%) below their April estimate. For the fiscal year to date, GRF and all-funds Medicaid expenditures were both below estimates, by \$500.2 million (4.0%) and \$1.07 billion (6.0%), respectively. For the first ten months of FY 2014, GRF Medicaid expenditures totaled \$12.01 billion while all-funds expenditures totaled \$16.75 billion. Medicaid is a joint federal-state program. The federal share of Medicaid expenditures is about 64% and the state's share is about 36%. Medicaid is mainly funded by the GRF, but is also supported by various non-GRF funds.

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, all-funds expenditures were below their year-to-date estimates for all categories except for Physicians (\$209.4 million, 30.9%) and Nursing Facilities (\$18.0 million, 0.9%). The positive variance for the Physicians category was due to both timing issues and larger than estimated payments related to the physician rate increase that was required under the federal Patient Protection and Affordable Care Act (ACA). The variance in the Nursing Facilities category was due to the fact that the Integrated Care Delivery System, otherwise known as MyCare Ohio, began enrollment in May instead of March as originally anticipated. MyCare Ohio is a three-year pilot program that will provide managed care services to individuals covered by Medicaid and Medicare. Since the program was delayed, expenditures for servicing those individuals continued to be reflected in the Nursing Facilities instead of Managed Care category.

Categories with significant negative year-to-date variances include Hospitals (\$388.3 million, 19.9%), Managed Care (\$381.8 million, 5.8%), Administration (\$242.1 million, 27.3%), the All Other category (\$138.1 million, 11.0%), and Behavioral Health (\$115.1 million, 15.0%). Payments related to the Hospital Upper Payment Limit (UPL) Program, which require prior approval from the federal government, were being delayed as ODM is still waiting for such an approval. The delay of MyCare Ohio and lower than expected caseload for the Covered Families and Children population contributed to the negative year-to-date variance in the Managed Care category. The negative variance in the Administration category was due to several factors. According to ODM, some contracts that

Year-to-date  
GRF  
Medicaid  
expenditures  
were  
\$500.2 million  
below  
estimate;  
all-funds  
expenditures  
were  
\$1.07 billion  
below  
estimate.

From  
January  
through  
April, 2014,  
all-funds  
expenditures  
from the  
ACA  
Expansion  
category  
totaled  
\$167.1 million.

are to be paid from this category have been delayed until FY 2015 and some contracts may not be needed after all. The appropriation for this category also included funding for certain administrative activity grants that have not yet been pursued or awarded at this time. Finally, the delay in the second phase of Health Homes Program was the main reason for the negative variance in the Behavioral Health category. Under the program, individuals with severe and persistent mental illness will receive improved care coordination through a person-centered care model.

Through April, all-funds expenditures from the ACA Expansion category, a new category created in January, totaled \$167.1 million. This category contains expenditures for individuals who became eligible for coverage on January 1, 2014, through the ACA. The estimate released by OBM in September 2013 did not anticipate any expenditure from this category. Thus, no variance is reported for this category.

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 \$11.56 billion, which was \$498.0 million (4.1%) below estimate. ODM's GRF Medicaid expenditures are funded through three 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 \$458.4 million below their year-to-date estimate. Expenditures for item 651425 and 651526 were also below estimate by \$28.0 million and \$11.6 million respectively.

ODM's non-GRF Medicaid expenditures totaled \$3.09 billion, which was \$498.0 million (13.9%) below their year-to-date estimate. The main contributors were items 651623, Medicaid Services – Federal (\$168.2 million), 651656, Medicaid Services – Hospitals/UPL (\$167.3 million), and 651624, Medicaid Program Support – Federal (\$160.7 million).

Across all funds, ODM's year-to-date expenditures totaled \$14.65 billion, which was \$996.0 million (6.4%) below estimate.

### Property Tax Reimbursements

GRF expenditures for Property Tax Reimbursements were \$64.2 million in April, \$268.0 million (80.7%) below estimate. Through April, FY 2014 property tax reimbursements totaled \$978.8 million, \$282.9 million (22.4%) below estimate. The property tax reimbursements are made twice per year, one based on the February property tax

settlement and one based on the August property tax settlement. The reimbursements based on the February 2014 settlement started in March and will continue through the remainder of the fiscal year. It is not unusual to see variances in this program category from month to month, especially in the early stage of a payment cycle as actual disbursements depend on the timing of requests for payments from county auditors. At the end of April, the majority of the large counties in the state, including Cuyahoga, Franklin, and Hamilton, have not yet received their reimbursement payments based on the February 2014 settlement. Such payments will be made in May and June. The state completed reimbursements based on the August 2013 settlement in December, and payments were \$10.1 million lower than estimate. H.B. 483 of the 130th General Assembly, As Passed by the House, reduces the total appropriation for GRF property tax reimbursements for FY 2014 by \$20 million.

Reimbursement payments based on the August 2013 property tax settlement were \$10.1 million below estimate.

### Health and Human Services

GRF expenditures for Health and Human Services were \$110.0 million in April. These expenditures were \$38.5 million (25.9%) below estimate, which widened the category's negative year-to-date variance to \$97.1 million (8.3%).

The Ohio Department of Job and Family Services (ODJFS) accounted for \$57.8 million of the program category's total negative year-to-date variance. Items within the ODJFS budget that had significant negative year-to-date variances include: 600535, Early Care and Education (\$14.8 million); 600410, TANF State/Maintenance of Effort (\$12.8 million); 600416, Information Technology Projects (\$9.2 million); and 600321, Program Support (\$7.0 million).

The Ohio Department of Mental Health and Addiction Services (OMHAS) contributed another \$27.0 million to the Health and Human Services program category's total negative year-to-date variance. Expenditures from items 335421, Continuum of Care Services, and 335507, Community Behavioral Health, were both below their year-to-date estimates, by \$15.5 million and \$11.2 million, respectively.

Finally, the Department of Health (DOH) added \$9.0 million to the category's total negative year-to-date variance. Items 440474, Infant Vitality (\$2.3 million), and 440465, Federally Qualified Health Centers (\$2.0 million) had the largest negative year-to-date variances within the DOH budget.

### Debt Service

GRF expenditures for Debt Service were \$58.2 million in April. These expenditures were \$7.6 million (11.5%) below estimate, which increased the category's negative year-to-date variance to \$47.8 million (4.0%).



Year-to-date debt service payments from the Public Works Commission (PWC), Ohio Facilities Construction Commission (OFCC), and Board of Regents (BOR) were all below their year-to-date estimates, by \$22.3 million, \$17.1 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, As Passed by the House, reduces FY 2014 debt service appropriations for PWC, OFCC, 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 were \$180.4 million in April. These expenditures were \$33.5 million (15.7%) below estimate, which reversed the category's year-to-date variance from a positive of \$0.6 million at the end of March to a negative of \$32.9 million at the end of April. The Department of Rehabilitation and Correction (DRC) accounted for \$21.0 million of this category's negative year-to-date variance. Items 505321, Institution Medical Services, and 501321, Institutional Operations, were \$13.4 million and \$5.9 million, respectively, below their year-to-date estimates. In addition to DRC, the Judiciary/Supreme Court and the Department of Youth Services contributed \$7.8 million and \$3.6 million, respectively, to the category's negative year-to-date variance.

### Primary and Secondary Education

GRF expenditures for Primary and Secondary Education were \$584.8 million in April. These expenditures were \$33.0 million (5.3%) below estimate, which continued to lower the category's positive year-to-date variance from \$169.2 million (3.3%) at the end of March to \$136.2 million (2.4%) at the end of April. School foundation payments continue to be the main contributor to the category's positive year-to-date variance. Expenditures from item 200550, Foundation Funding, the primary funding source of school foundation payments, were \$137.5 million above their year-to-date estimate. This positive variance was somewhat offset by a small net negative variance in all other items within the Ohio Department of Education (ODE) budget. As noted in previous issues of *Budget Footnotes*, the positive year-to-date variance in school foundation payments was largely due to the standard practice followed by ODE when adjusting for over and under payments for schools. This variance should continue to narrow in the last two months of FY 2014.

The positive year-to-date variance in Primary and Secondary Education is expected to further narrow in the last two months of FY 2014.



# ISSUE UPDATES

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## **BWC Board of Directors Approves \$1.2 billion in Credits to Employers for Transition to a Prospective Billing System**

– Terry Steele, Senior Budget Analyst, 614-387-3319

On April 23, 2014, the Bureau of Workers' Compensation (BWC) Board of Directors approved \$1.2 billion in premium credits to employers who obtain coverage under the State Insurance Fund to facilitate the transition from a retrospective premium payment system to a prospective payment system. Beginning July 1, 2015, private employers will make the transition to the new system, while public employers will make the transition on January 1, 2016. For private employers, the credit will cover their final payment under the retrospective payment system, which would normally be due in August 2015 for premiums for the January 1-June 30, 2015 period, and the first two months of premiums under the prospective payment system (July and August 2015).<sup>8</sup> Private employers will make their first prospective payment for September 2015. Local government employers will receive a credit for all of calendar year 2016, making their first prospective payment due in January of 2017.

Approximately \$1.1 billion of the credits approved by BWC will go to private employers, with the remaining portion going to local government employers. As of the end of FY 2013, there were approximately 249,000 active private and approximately 3,800 local government employers covered under the State Insurance Fund. BWC estimates that the transition to prospective billing will lead to an overall reduction in workers' compensation insurance rates of 2% for private employers and 4% for public employers covered by the State Insurance Fund. These reductions will result in an estimated reduction of premium payments of \$28.0 million and \$16.0 million, respectively. As of this writing, the net position of the State Insurance Fund is approximately \$6.0 billion in assets over liabilities.

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<sup>8</sup> Under the current system, private employers pay premiums twice a year, one in August (covering the period from January 1 to June 30) and one in April (covering the period from July 1 to December 31). The new system will allow more payment options, including monthly and quarterly.

## **ODNR Awards Nearly \$180,000 to Local Volunteer Fire Departments**

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

On April 18, 2014, the Ohio Department of Natural Resources' Division of Forestry announced the awarding of \$178,677 to 53 local volunteer fire departments through the Volunteer Fire Assistance (VFA) Program. These grants provide funding to volunteer fire departments in communities with populations under 10,000, and will be used for activities such as the conversion of federal excess personal property (that is, excess federal equipment loaned by the federal government to states for use by local fire departments) into fire apparatus, the purchase of wildland firefighting equipment and personal protective equipment, and Multi-Agency Radio Communication System (MARCS) radio equipment.

Grants in this round of funding were awarded to local volunteer fire departments in Adams, Athens, Belmont, Carroll, Columbiana, Coshocton, Fairfield, Fulton, Gallia, Guernsey, Harrison, Hocking, Jackson, Jefferson, Lawrence, Morgan, Muskingum, Pike, Ross, Scioto, Tuscarawas, Vinton, and Washington counties. Grants ranged in size from \$376 for the Rarden Fire Department in Scioto County to the maximum allowable amount of \$10,000 for the Pike County Firefighters Association. Under the program, individual fire departments are eligible for up to \$4,500, while multi-community projects may receive up to \$10,000. Funds for the program are federal dollars from the U.S. Forest Service's VFA Program that are received by the Division of Forestry and deposited into the State Forest Fund (Fund 5090). The VFA Program is a 50/50 matching reimbursement grant program, which means that a grantee must purchase equipment or complete a project before it is eligible to receive a grant for reimbursement of 50% of the total project cost.

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## **Department of Health Launches Safe Sleep Campaign**

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

On April 14, 2014, the Ohio Department of Health (ODH) announced the start of its statewide Safe Sleep Campaign to raise awareness about unsafe infant sleep practices and to reduce the number of infants in Ohio who die as a result of unsafe sleep environments. This campaign, which is part of a broader effort to curb infant mortality, will educate parents and grandparents living in areas with high infant mortality rates about safe sleep practices for infants. A variety of media will be used, including radio, television, Internet, transit, movie, and billboard advertisements. ODH plans to spend about \$652,366 for advertising in fiscal years 2014 and 2015. In addition to funding advertisements, ODH has developed a public service announcement, a new website ([www.safesleep.ohio.gov](http://www.safesleep.ohio.gov)), and other educational materials, including posters and brochures.

The leading causes of death for infants between one month and one year of age are sleep-related, including sudden infant death syndrome, accidental suffocation, and other undetermined causes. ODH reports that about three babies die in unsafe sleeping environments each week, and a total of 819 infants died between 2007 and 2011.

## OMHAS Awards 22 Building Youth Resiliency Grants Totaling \$1.5 million

– Justin Pinsker, Budget Analyst, 614-466-5709

On April 7, 2014, the Ohio Department of Mental Health and Addiction Services (OMHAS) announced the awarding of 22 Building Youth Resiliency grants totaling \$1.5 million. These grants are part of the Start Talking! youth drug prevention initiative and are funded using federal Temporary Assistance to Needy Families dollars. The projects are designed to strengthen school-based alcohol and other drug prevention and resiliency programming for students in the fifth through ninth grades that are at-risk for substance abuse. All projects are required to be implemented by September 2014.

The table below lists the counties in which the projects receiving awards are located. Mahoning County has three projects. All other counties listed have one project.

Building Youth Resiliency Grants			
County	Amount	County	Amount
Allen	\$48,000	Huron	\$7,337
Belmont	\$56,101	Lawrence	\$63,968
Butler	\$86,989	Licking	\$62,448
Coshocton	\$62,256	Lucas	\$94,455
Columbiana	\$51,210	Mahoning	\$238,064
Crawford	\$51,495	Miami	\$35,969
Cuyahoga	\$50,195	Portage	\$81,820
Gallia	\$113,731	Stark	\$95,934
Hamilton	\$91,686	Summit	\$208,282
Holmes	\$76,699	Tuscarawas	\$12,875
		<b>Total</b>	<b>\$1,493,580</b>

## Attorney General Awards Nearly \$1 million in FY 2014 Rape Crisis Program Grants

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

On February 21, 2014, the Office of the Attorney General awarded new GRF-backed Rape Crisis Program grants totaling \$949,989 to 25 entities (see table below). The purpose of these grants is to help fund services for survivors of sexual assault. The Ohio Alliance to End Sexual Violence, located in Cleveland, was awarded

\$95,000 to provide statewide training on sexual assault issues. The Erie County Prosecutor was found to have only partially met the program guidelines and was awarded \$8,842 in funding to assist with implementing all required core services.<sup>9</sup> The other 23 entities have met the program's core service requirements and were each awarded \$36,789 to help sexual assault survivors.

The Rape Crisis Program was established in H.B. 59 of the 130th General Assembly. The bill created the Rape Crisis Program Trust Fund (Fund 5NV0) to support the program. The fund is to receive revenues from: (1) a one-time \$100 sex offender registration fee, which is in addition to any current sex offender registration fees, and (2) court imposed discretionary fines of \$50 to \$500 on a person convicted of a sexually oriented or child-victim oriented offense. As of April 28, 2014, Fund 5NV0 has received \$100 in revenue. To supplement funding for the program until the new revenue stream is established, H.B. 59 appropriated \$1 million in GRF funding for each of FY 2014 and FY 2015.

FY 2014 Rape Crisis Program Grant Recipients		
County	City	Recipient
Allen	Lima	Crime Victim Services
Ashland	Ashland	Appleseed Community Mental Health Center
Athens	Athens	Ohio University
Belmont	St. Clairsville	Tri-County Help Center
Clark	Springfield	Project Woman
Cuyahoga	Cleveland	Cleveland Rape Crisis Center
Cuyahoga	Cleveland	Ohio Alliance to End Sexual Violence
Delaware	Delaware	HelpLine of Delaware and Morrow Counties
Erie	Sandusky	Erie County Prosecutor
Franklin	Columbus	OhioHealth Research Institute/SARNCO
Guernsey	Cambridge	Haven of Hope
Hamilton	Cincinnati	Women Helping Women
Hancock	Findlay	Council on Domestic Violence/Open Arms
Lake	Painesville	Lake County Prosecutor
Lorain	Lorain	The Nord Center/Lorain County Rape Crisis Center
Lucas	Toledo	YWCA of Northwest Ohio
Portage	Kent	Townhall II
Richland	Mansfield	The Domestic Violence Shelter
Stark	Canton	American Red Cross
Summit	Akron	The Rape Crisis Center of Medina & Summit Counties
Tuscarawas	New Philadelphia	COMPASS
Warren	Lebanon	Abuse and Rape Crisis Shelter of Warren County
Washington	Marietta	EVE Incorporated
Wayne	Wooster	Liberty Center Connections/Every Woman's House
Wood	Bowling Green	The SAAFE Center/Behavioral Connections

<sup>9</sup> Some of the core services include providing a 24-hour hotline, advocacy, community outreach, crisis intervention, prevention education, support groups, and professional counseling. A complete listing of the program's guidelines is available at the Attorney General's website ([www.ohioattorneygeneral.gov](http://www.ohioattorneygeneral.gov)).

## Department of Rehabilitation and Correction Awards Courts Smart Ohio Grants Totaling \$10.4 million

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

On March 19, 2014, the Department of Rehabilitation and Correction (DRC) awarded GRF-backed Smart Ohio grants totaling \$10.4 million to 29 county courts of common pleas for the FY 2014-FY 2015 biennium (see table below). These grants are part of an effort to test three different funding models for providing assistance to common pleas courts in the development of county-based community corrections programs that will decrease the number of low-level nonviolent felony offenders being sentenced into the state prison system. Each court was limited to applying for the funding of only one of the three models: (1) Probation Services to supplement the costs of supervision and treatment, (2) Treatment Services to increase resources for treatment service providers, and (3) Targeted Diversion to divert more fourth and fifth degree felony offenders into various community sanctions. The award totals for each model are as follows: Probation Services (\$4.93 million/13 courts), Treatment Services (\$2.62 million/10 courts), and Targeted Diversion (\$2.84 million/6 courts). Actual disbursements of the awards will be made on a quarterly basis. In order to measure the effectiveness of each funding model, courts are required to submit certain data to DRC each quarter for evaluating their progress in reducing the number of nonviolent offenders sent to prison. Subsequent quarterly award disbursements for individual courts may be adjusted to reflect the reported success of each model.

FY 2014-FY 2015 Smart Ohio Grant Awards by County					
County	Amount	County	Amount	County	Amount
Allen	\$375,000	Harrison	\$68,675	Portage	\$186,193
Ashtabula	\$250,000	Highland	\$375,000	Richland	\$198,750
Auglaize	\$375,000	Lake	\$150,000	Ross	\$250,000
Belmont	\$250,000	Lawrence	\$339,000	Sandusky	\$257,625
Butler	\$310,375	Licking	\$206,318	Summit	\$603,989
Cuyahoga	\$1,336,125	Lorain	\$250,000	Trumbull	\$656,625
Erie	\$514,650	Marion	\$711,750	Tuscarawas	\$385,625
Geauga	\$107,425	Medina	\$677,675	Warren	\$832,175
Greene	\$175,000	Morgan	\$63,475	Wood	\$175,000
Guernsey	\$166,100	Morrow	\$145,775	<b>Total – \$10,393,325</b>	

## **Department of Agriculture Quarantines Three Additional Counties After Discovery of Hemlock Woolly Adelgid**

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

On March 28, 2014, the Ohio Department of Agriculture (AGR) announced the discovery of Hemlock Woolly Adelgid (HWA) in Lawrence, Monroe, and Vinton counties. This discovery brings the total number of Ohio counties with HWA infestations to six. Previously, HWA had been discovered in Hocking, Meigs, and Washington counties. HWA is a small aphid-like insect that threatens the health of eastern hemlock and Carolina hemlock in the eastern United States. HWA infestations can lead to tree mortality in three to ten years by depleting affected plants of sap and desiccating their vascular systems.

AGR's Division of Plant Health plans to include the three new counties under a hemlock quarantine which already includes the previously infested Ohio counties and counties in 23 other states where the pest is known to be active. The hemlock quarantine restricts the movement of hemlock plants or hemlock materials from counties where infestations have been observed into non-infested counties. Additionally, under the quarantine, hemlock nursery stock or hemlock materials produced in other states is prohibited from entering Ohio unless it is certified by the originating state's department of agriculture or plant regulatory equivalent as being HWA free and originating in an area not affected by HWA. Costs associated with controlling HWA in Ohio are paid from the Plant Pest Program Fund (Fund 5FC0). Fund 5FC0 is supported by various nursery stock fees and registration fees and fines under the Apiaries Law.

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## **BOR Approves Tuition Guarantee Program for Ohio University**

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

In early April, the Board of Regents (BOR) announced approval of a tuition guarantee program for Ohio University (OU). Under the OHIO Guarantee Program, each student cohort will be charged a fixed amount for tuition and fees (including housing and dining fees) for four years. The first cohort in the program will be students who first enroll for the fall 2015 or spring 2016 semesters. These students will pay a fixed amount for 12 consecutive semesters, including summer sessions (fall 2015 through summer 2019 or spring 2016 through fall 2019). Students who do not graduate in four years generally will pay the rate charged to the next subsequent cohort for their 13th or 14th semester.<sup>10</sup> On the other hand, students that finish their programs prior to

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<sup>10</sup> Students enrolled in certain programs identified by BOR as requiring more than 120 hours to complete will be charged their initial guaranteed rate for a 13th semester if needed to graduate.



four years will be able to take other classes at the guaranteed rate until they reach their final semester of eligibility. The OHIO Guarantee does not affect tuition at OU's regional campuses, however, students who enroll at the Athens campus after attending a regional campus will be placed in the cohort, and pay the same guaranteed rate, that began at the same time as their first year at the regional campus.

H.B. 59 of the 130th General Assembly authorizes state universities to establish undergraduate tuition guarantee programs, subject to BOR approval. Similarly, the "As Passed by the House" version of H.B. 484 of the 130th General Assembly permits community and technical colleges to develop tuition guarantee programs.

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## **U.S. Department of Education Approves Race to the Top Extension**

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

On March 27, 2014, the U.S. Department of Education approved Ohio's request for an extension to its federal Race to the Top (RttT) grant. With the extension, the state, school districts, and community schools (the latter two of which are referred to as local education agencies or LEAs) will have until July 1, 2015, to continue to build the capacity and sustainability of selected projects and initiatives included in previously approved scopes of work using any unspent RttT funding remaining at the end of the original four-year grant period, September 23, 2014. LEAs that are interested in applying for additional funding need to complete a two-tiered application process by May 30, 2014. The Ohio Department of Education (ODE) will announce the projects approved for the extension by June 30, 2014. Through March 2014, ODE disbursed \$282.2 million (70.6%) of the \$400 million awarded. Of the amount disbursed, \$153.9 million was passed through to LEAs and \$128.3 million was spent on state-level activities.

# TRACKING THE ECONOMY

– Russ Keller, *Economist*, 614-644-1751

## Overview

The nation's economy appears to be picking up momentum in the spring, after being held back in part by weather last winter. In this year's first quarter, inflation-adjusted gross domestic product (real GDP) was little changed, rising only 0.1% at an annual rate. In April, however, total nonfarm payroll employment rose by the largest number in more than two years. The nationwide unemployment rate fell last month to 6.3%, lowest since 2008, though many people of working age remained out of the labor force, neither employed nor looking for work. Industrial production rose in February and March, and reports from purchasing managers suggest further growth took place in April. Consumer spending and incomes rose in March. The seasonally adjusted pace of car and light truck sales slipped in April but remained at a level that, if sustained all year, would be the highest since 2007. Home sales stayed soft. In Ohio, the unemployment rate fell to 6.1% in March, lowest in nearly six years. Total nonfarm payroll employment in the state, however, has grown only slowly over the past seven months. Inflation stayed low at the consumer level in March but picked up at the wholesale level. Interest rates remain exceptionally low, though long-term rates are up from even lower levels of recent years, and monetary policy remains accommodative.

## The National Economy

### Employment and Unemployment

In April, nonfarm payroll employment nationwide increased 288,000, according to initial estimates from the Bureau of Labor Statistics (BLS). April's increase was the largest monthly gain since January 2012. The nation's unemployment rate lowered to 6.3%. An additional 36,000 jobs were recognized after BLS upwardly revised payroll employment data for February and March.

Employment gains, seasonally adjusted, were widespread in April. Professional and business services increased by 75,000 jobs, while employment in retail trade and construction increased by 34,500 and 32,000, respectively. Strong job gains in these latter categories may be indicative of April's rebound from severe weather in previous months.

In April,  
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The number of individuals working part time (up to 34 hours per week) for economic reasons increased by 54,000 to 7.5 million in April. These individuals are sometimes referred to as involuntary part-time workers because their hours had been cut back or because they were unable to find full-time work.

According to BLS data, the total number of unemployed job-seekers decreased by 733,000 in April to 9.8 million, seasonally adjusted. The labor force decreased by 806,000 in April, and the labor force participation rate decreased from 63.2% in March to 62.8% in April, the same level as last October and lowest since 1978.

### Production

Gross domestic product, adjusted for inflation, increased in the first quarter of 2014 at an annual rate of 0.1%, according to the initial estimate of real GDP growth from the U.S. Bureau of Economic Analysis. This rate follows 2.6% growth in the fourth quarter of 2013. First quarter economic growth was the result of increases in consumer spending, largely offset by negative contributions from business and residential fixed investment, exports, and government spending. Additions to inventories slowed.

Industrial production expanded by 0.7% in March, according to the Federal Reserve's index. Growth was also strong in February at 1.2%. These two months represent the sharpest growth in nearly four years, after only a small increase in December and a decline in January. Last October, the index eclipsed the pre-recession high in November 2007, ahead of the start of the 2007-2009 downturn.

Manufacturing activity appears to have expanded further in April based on a survey of manufacturing sector purchasing managers released by the Institute for Supply Management (ISM). Reports of rising production, new orders, and order backlogs were more frequent than reports of declines. Survey respondents' comments were generally positive.

### Consumer Spending and Personal Incomes

Real consumer spending grew by 0.7% in March, seasonally adjusted, continuing a pattern of escalating growth in 2014. The winter weather likely restrained consumer spending in December and January. Real consumer spending rose at a 3.0% annual rate in the first quarter, one of the higher rates of growth since the end of the recession. Consumers were supported by healthy income gains. Personal income grew for the third consecutive month in March, by 0.5%, one of the largest monthly gains in the past year.

Gross domestic product, adjusted for inflation, increased in the first quarter of 2014 at an annual rate of 0.1%.

In April, sales of light vehicles slowed to a 16.0 million unit seasonally adjusted annualized rate, down from a 16.3 million unit rate in March but above the sales pace in December through February when adverse weather likely was a factor holding down buying. In all of 2013, light vehicle sales totaled 15.5 million units, the strongest sales pace since 2007 and earlier when more than 16 million units were sold each year.

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## Inflation

### Consumer Prices

Inflation edged upward in March, but remained quite low at the consumer level. The consumer price index (CPI) rose 0.2% in March, seasonally adjusted, with price increases for shelter and food accounting for most of the increase. The energy component decreased in March for the second consecutive month. The index for all items less food and energy (core index) increased 0.2% with increases in the prices for shelter, medical care, apparel, used cars and trucks, and airline fares outweighing decreases in prices for household furnishings and operations and for recreation. The all items CPI was 1.5% higher in March than a year earlier.

### Producer Prices

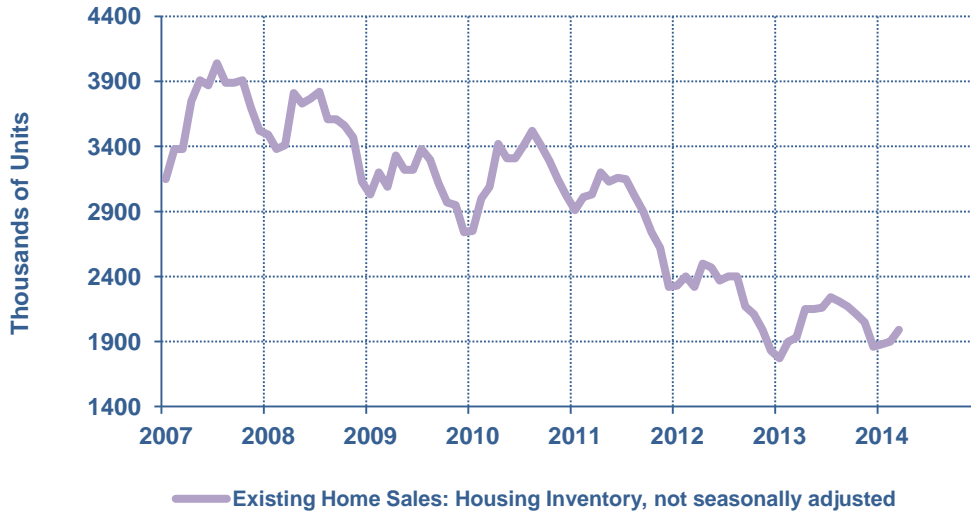
Producer prices jumped in March, which may be indicative of higher consumer inflation in the near future. The producer price index (PPI) for total final demand increased 0.5% in March, seasonally adjusted. As compared to one year ago, the PPI increased 1.4%, the largest 12-month advance since August 2013. The monthly increase can be attributed to the index for final demand services, which increased 0.7%.

## Housing

Existing home sales, which account for a larger share of the market than new homes, contracted in March by 0.2%, seasonally adjusted. Data from the National Association of Realtors show that existing home sales declined in seven of the last eight months. March 2014 existing home sales were 7.5% below levels from one year ago. Over that time span, the 30-year conventional mortgage rate increased from 3.57% to 4.34% according to data provided by Freddie Mac. Also, the housing inventory remains well below the pre-recession peak, as shown in Chart 5.

New home sales nationwide slowed in March to the lowest pace, seasonally adjusted, since last July. The median sales price, at \$290,000, was 13% higher in March than a year earlier. Builders' inventories of homes for sale remained tight. Year-to-date sales through March were 2% lower than a year earlier. Sales in all of last year were 40% higher than at the low point in 2011 but were down 67% from the peak eight years earlier.

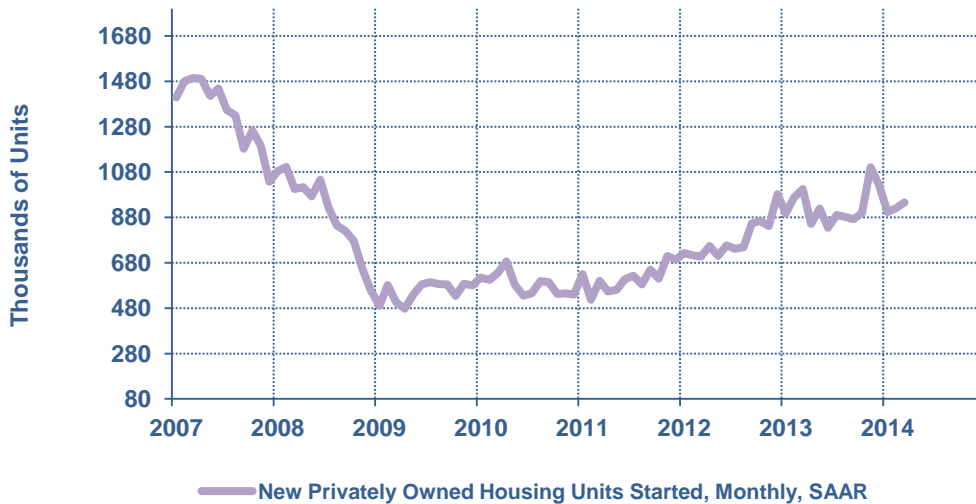
Chart 5: Housing Inventory



U.S. Census Bureau statistics show housing starts growing 2.8% in March after a 1.9% increase in February. Growth in the month of March was led by single-family starts, which increased 6.0%, following a 2.9% rise the month before. Multifamily starts declined 3.1% in March after no change the month before. Total housing starts in March were 5.9% below year-ago levels. As shown in Chart 6 below, housing starts have not returned to pre-recession levels and growth in housing starts decelerated over the past year.

Housing starts rose 2.8% in March after a 1.9% increase in February.

Chart 6: U.S. Housing Starts

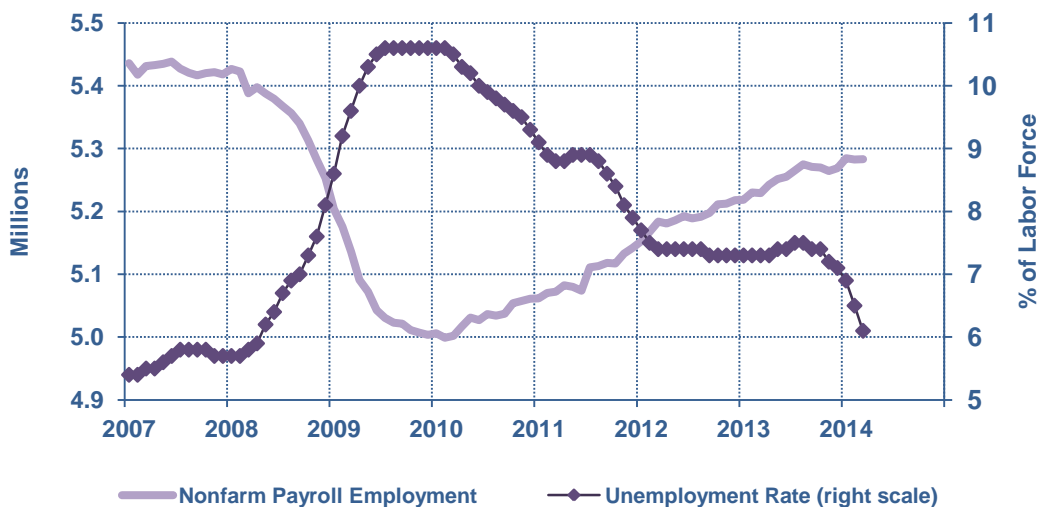


## The Ohio Economy

### Employment and Unemployment

Total nonfarm payroll employment in Ohio was little changed in March, increasing by only 600 seasonally adjusted, while the state's rate of unemployed job-seekers fell to 6.1% from 6.5% in February, as shown in Chart 7 below.

Chart 7: Ohio Employment and Unemployment



From February to March, the number of unemployed Ohioans decreased from 377,000 to 353,000, a decline of 24,000. Compared with a year earlier, unemployment statewide was 68,000 lower, while total employment was higher by a smaller number, 57,000, and the labor force contracted by 11,000. The state's labor force was at its lowest level since 2012.

Nonagricultural wage and salary employment increased 53,600 (1.0%) over the past year. Goods-producing industries were responsible for 18,300 of the increase in jobs, a 2.1% rise. The sector's growth was concentrated in manufacturing, which added 9,800 jobs, a 1.5% increase, over the previous 12 months. Employment in construction rose 7,800 (4.3%). The private service-providing sector added 41,900 jobs since March 2013. The industry groups with the largest growth in this sector were professional and business services (24,000, 3.5%), leisure and hospitality (11,000, 2.1%), and educational and health services (10,900, 1.2%). On the other hand, government employment declined by 6,600 (0.9%) between March 2013 and March 2014.

Total nonfarm payroll employment in Ohio was little changed in March, increasing by only 600 seasonally adjusted.



## Housing

The number of homes sold in Ohio in March, reported by the Ohio Association of Realtors, was 9% lower than in March 2013. In the first three months of 2014, home sales were 7% lower than a year earlier. The average selling price statewide was 4% higher in January through March than a year earlier. The association cited tight inventories of homes for sale and weather effects in explaining the slower sales.

## Regional Economy

According to a report from the Federal Reserve Bank of Cleveland, economic activity "declined slightly" in this part of the country since the previous report released in March.<sup>11</sup> The Cleveland bank's report noted that "(h)iring was sluggish across industry sectors. Reports by staffing-firm representatives on the number of job openings and placements were mixed, with job vacancies found primarily in manufacturing and healthcare." Retail sales were described as disappointing, but some retailers indicated that their sales picked up in March as the weather improved. Automotive dealers had a positive outlook for the spring selling season, and also noted growth of leasing as an alternative to buying. Demand for business credit picked up, and consumer credit stayed on its slow uptrend. Manufacturing activity was steady or higher as supplier disruptions eased. Many manufacturers expect higher production in the coming months with demand strongest from the motor vehicle industry and the oil and gas sector. Production of shale gas was at a high level but conventional drilling was reported to be held down by low natural gas prices.

The state's  
rate of  
unemployed  
job-seekers  
fell to 6.1%.

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<sup>11</sup> 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 April 7, 2014, from outside contacts. The Federal Reserve Bank of Cleveland's district includes all of Ohio and parts of Kentucky, Pennsylvania, and West Virginia.