

Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

NOVEMBER 2013

STATUS OF THE GRF

HIGHLIGHTS

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

GRF tax receipts were \$66 million above estimate in October. Tax receipts have tracked estimates closely so far in FY 2014, so that they are \$23 million, or 0.3%, above estimate for the first four months of the fiscal year.

The uncertainty surrounding federal fiscal policy was resolved at least temporarily after a three-week partial shutdown of the federal government. Global Insight, an economic forecasting firm, reduced their projection of fourth quarter growth in (inflation-adjusted) gross domestic product from 2.2% to 1.6% due to the effects of the shutdown. Delays in the publication of economic data, due to the shutdown, mean that Ohio's unemployment rate for September is not yet available; it was 7.3% for the month of August.

Through October 2013, GRF sources totaled \$9.95 billion:

- Revenue from the personal income tax was \$40.5 million above estimate;
- Sales and use tax receipts were \$4.7 million above estimate.

Through October 2013, GRF uses totaled \$11.82 billion:

- Program expenditures were \$375.4 million below estimate, due primarily to temporary factors delaying expenditures from Property Tax Reimbursements (\$160.6 million), and Health and Human Services (\$137.2 million).

VOLUME 37, NUMBER 3

STATUS OF THE GRF

Highlights	1
Revenues	2
Expenditures	10

ISSUE UPDATES

Early Childhood Education	
Grants	19
Cleveland Plan Update	19
Capital Funding to End	
Homeless Initiative	20
Crime Victim Service Grants....	21
Lake Erie Protection Fund	
Grants	22
Polling Place Improvement	
Grants	22
New Medicaid Eligibility	
Website	23
Unemployment Benefit Loan	
Interest Payment	24

TRACKING THE ECONOMY

The National Economy	26
The Ohio Economy	31

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 October 2013				
(\$ in thousands)				
(Actual based on report run in OAKS Actuals Ledger on November 5, 2013)				
	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	\$101,553	\$93,300	\$8,253	8.8%
Nonauto Sales and Use	\$664,317	\$650,800	\$13,517	2.1%
Total Sales and Use Taxes	\$765,870	\$744,100	\$21,770	2.9%
Personal Income	\$700,989	\$662,300	\$38,689	5.8%
Corporate Franchise	-\$1,320	\$0	-\$1,320	---
Financial Institutions	\$0	\$0	\$0	---
Public Utility	\$2,107	\$1,800	\$307	17.0%
Kilowatt Hour Excise	\$25,605	\$26,900	-\$1,295	-4.8%
Natural Gas Consumption (MCF)	\$498	\$500	-\$2	-0.4%
Commercial Activity Tax	\$26,348	\$28,400	-\$2,052	-7.2%
Foreign Insurance	\$142,416	\$135,900	\$6,516	4.8%
Domestic Insurance	\$46	\$0	\$46	---
Business and Property	\$4	\$0	\$4	---
Cigarette	\$71,995	\$68,000	\$3,995	5.9%
Alcoholic Beverage	\$4,939	\$4,500	\$439	9.7%
Liquor Gallonage	\$3,185	\$3,300	-\$115	-3.5%
Estate	\$11,880	\$12,600	-\$720	-5.7%
Total Tax Revenue	\$1,754,561	\$1,688,300	\$66,261	3.9%
NONTAX REVENUE				
Earnings on Investments	\$3,748	\$3,000	\$748	24.9%
Licenses and Fees	\$521	\$6,000	-\$5,479	-91.3%
Other Revenue	\$1,703	\$3,625	-\$1,922	-53.0%
Total Nontax Revenue	\$5,971	\$12,625	-\$6,654	-52.7%
TRANSFERS				
Liquor Transfers**	\$0	\$0	\$0	---
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers In	\$4,880	\$200	\$4,680	2340.0%
Total Transfers In	\$4,880	\$200	\$4,680	2340.0%
TOTAL STATE SOURCES	\$1,765,413	\$1,701,125	\$64,288	3.8%
Federal Grants	\$1,001,481	\$769,876	\$231,605	30.1%
TOTAL GRF SOURCES	\$2,766,894	\$2,471,001	\$295,892	12.0%
* Estimates of the Office of Budget and Management as of September 2013.				
<i>Detail may not sum to total due to rounding.</i>				

Table 2: General Revenue Fund Sources**Actual vs. Estimate****FY 2014 as of October 31, 2013**

(\$ in thousands)

(Actual based on report run in OAKS Actuals Ledger on November 5, 2013)

	Actual	Estimate*	Variance	Percent	FY 2013	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	\$416,941	\$393,000	\$23,941	6.1%	\$376,907	10.6%
Nonauto Sales and Use	\$2,525,609	\$2,544,900	-\$19,291	-0.8%	\$2,387,430	5.8%
Total Sales and Use Taxes	\$2,942,550	\$2,937,900	\$4,650	0.2%	\$2,764,337	6.4%
Personal Income	\$2,901,691	\$2,861,200	\$40,491	1.4%	\$2,816,981	3.0%
Corporate Franchise	\$726	\$0	\$726	---	\$63,208	-98.9%
Financial Institutions	\$0	\$0	\$0	---	\$0	---
Public Utility	\$27,960	\$28,300	-\$340	-1.2%	\$27,063	3.3%
Kilowatt Hour Excise	\$105,943	\$117,950	-\$12,007	-10.2%	\$116,285	-8.9%
Natural Gas Consumption (MCF)	\$14,051	\$12,400	\$1,651	13.3%	\$10,702	31.3%
Commercial Activity Tax	\$218,453	\$248,339	-\$29,886	-12.0%	\$225,198	-3.0%
Foreign Insurance	\$146,905	\$141,800	\$5,105	3.6%	\$141,078	4.1%
Domestic Insurance	\$103	\$1,000	-\$897	-89.7%	\$4,753	-97.8%
Business and Property	\$41	\$0	\$41	---	\$216	-80.9%
Cigarette	\$236,019	\$233,000	\$3,019	1.3%	\$234,579	0.6%
Alcoholic Beverage	\$19,144	\$19,500	-\$356	-1.8%	\$19,127	0.1%
Liquor Gallonage	\$13,908	\$13,600	\$308	2.3%	\$13,488	3.1%
Estate	\$24,014	\$13,900	\$10,114	72.8%	\$56,625	-57.6%
Total Tax Revenue	\$6,651,507	\$6,628,889	\$22,618	0.3%	\$6,493,640	2.4%
NONTAX REVENUE						
Earnings on Investments	\$3,758	\$3,000	\$758	25.3%	\$2,280	64.8%
Licenses and Fees	\$9,885	\$24,000	-\$14,115	-58.8%	\$10,476	-5.6%
Other Revenue	\$3,482	\$14,500	-\$11,018	-76.0%	\$3,636	-4.2%
Total Nontax Revenue	\$17,125	\$41,500	-\$24,375	-58.7%	\$16,392	4.5%
TRANSFERS						
Liquor Transfers**	\$0	\$0	\$0	---	\$54,500	-100.0%
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers In	\$12,599	\$5,800	\$6,799	117.2%	\$5,372	134.5%
Total Transfers In	\$12,599	\$5,800	\$6,799	117.2%	\$59,872	-79.0%
TOTAL STATE SOURCES	\$6,681,232	\$6,676,189	\$5,043	0.1%	\$6,569,904	1.7%
Federal Grants	\$3,272,259	\$3,125,065	\$147,194	4.7%	\$2,822,200	15.9%
TOTAL GRF SOURCES	\$9,953,491	\$9,801,254	\$152,236	1.6%	\$9,392,104	6.0%

* 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
October,
GRF tax
receipts in
FY 2014
were
\$22.6 million
above
estimate.

GRF sources¹ totaled \$2.77 billion in October 2013. These sources were \$295.9 million above the estimate released by the Office of Budget and Management (OBM) in September 2013, due largely to a positive variance of \$231.6 million in federal grants. The October positive variance in federal grants reversed a negative variance of \$84.4 million for the first quarter into a positive variance of \$147.2 million for the first four months of FY 2014. Similarly, a positive variance of \$66.3 million in GRF tax revenue for the month of October brought this category's year-to-date variance to a positive \$22.6 million at the end of October, from a negative \$43.6 million at the end of September. State-source nontax revenue came in \$24.4 million below its year-to-date estimate while transfers in were above its year-to-date estimate by \$6.8 million. Overall, state source receipts were roughly in line with estimates for the first four months of the fiscal year. Tables 1 and 2 show GRF sources for the month of October and for FY 2014 through October, respectively.

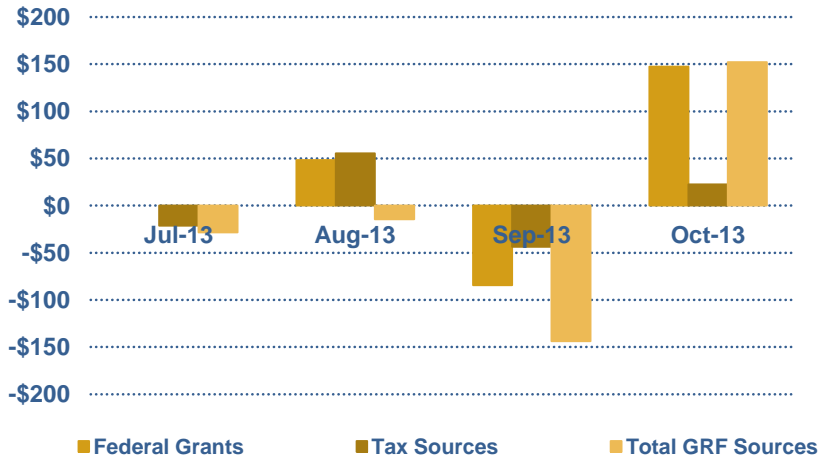
Through
October
FY 2014
GRF sources
were
\$152.2 million
above
estimate.

October receipts from the two largest tax sources, the personal income tax and the sales and use tax, were above anticipated receipts by, respectively, \$38.7 million and \$21.8 million. Also above projected revenues were the foreign insurance tax, by \$6.5 million, and the cigarette tax, by \$4.0 million. On the other hand, shortfalls continued for the commercial activity tax (CAT) with a shortfall of \$2.1 million in October. Also, the corporate franchise tax (CFT) and the kilowatt hour tax were each \$1.3 million below estimate.

Chart 1 below shows FY 2014 cumulative variances against estimate for federal grants, tax sources, and total GRF sources. GRF sources as a whole were \$152.2 million above estimate, with federal grants being \$147.2 million above estimate. Regarding tax sources, through October 2013, the personal income tax and the estate tax had the largest positive variances while the kilowatt hour tax and the CAT had the largest negative variances.

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



Compared to FY 2013, FY 2014 total GRF sources increased \$561.4 million. Increases of \$450.1 million and \$157.9 million, respectively, in federal grants and tax revenues were reduced by decreases of \$48.0 million in nontax revenue and transfers in. Beginning in FY 2014, the GRF no longer receives transfers from liquor profits due to the leasing of the state's liquor enterprise to JobsOhio, which will show a permanent year-over-year negative variance for this GRF source. In FY 2013, the GRF received a total of \$88 million transfers in from liquor profits.

Receipts from the personal income tax grew \$84.7 million, while those from the sales and use tax increased \$178.6 million. On the other hand, CFT and estate tax receipts declined \$62.5 million and \$32.6 million, respectively, primarily from recent tax law changes. As stated in the October issue of *Budget Footnotes*, the sharp decline in CFT receipts is due to both unusually strong collections from this tax in FY 2013, and its elimination by H.B. 510 of the 129th General Assembly. Similarly, H.B. 153 of the 129th General Assembly eliminated the estate tax starting with dates of death on or after January 1, 2013. While the GRF may continue to receive some revenue from this tax from settlements occurring in FY 2014, the amount received in FY 2014 will be well below the amount received in FY 2013.

Personal Income Tax

October GRF receipts from the personal income tax of \$701.0 million were \$38.7 million (5.8%) above estimate, and also \$19.3 million (2.8%) above receipts in October 2012. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the Local Government Fund (LGF). Gross collections are

Through
October,
FY 2014
GRF income
tax receipts
were
\$40.5 million
above
estimate.

the sum of employer withholding, quarterly estimated payments,² trust payments, payments associated with annual returns, and miscellaneous payments.

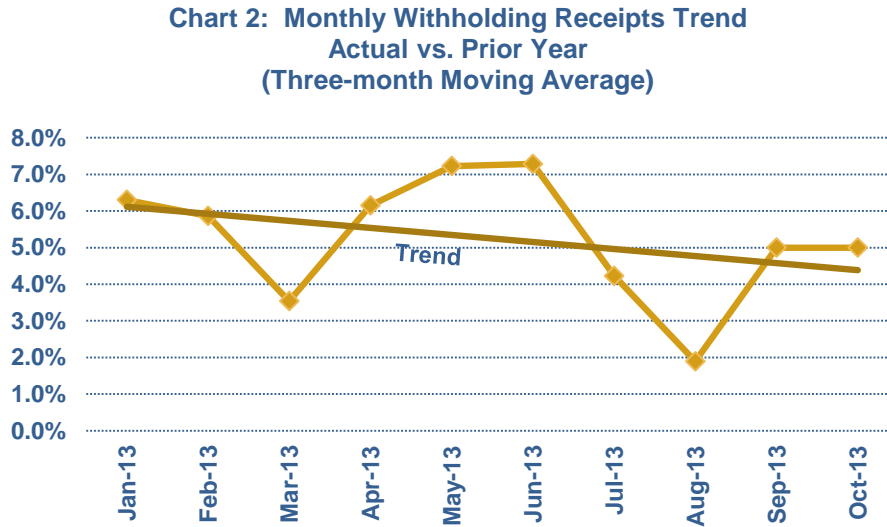
Compared to anticipated revenue for the month, monthly employer withholding was \$37.5 million above estimate, refunds were \$6.2 million below projected levels, and miscellaneous revenues were short \$5.7 million. For the fiscal year, the GRF has received \$2.90 billion from the personal income tax. Yearly receipts were \$40.5 million (1.4%) above estimates, though revenue was below estimates in the first two months of the fiscal year. The table below summarizes year-to-date FY 2014 income tax revenue variances from estimates and annual changes by component. As seen from the table, withholding, the most important component, was above estimate by \$41.5 million, but the second most important personal income tax source, quarterly estimated payments, experienced a shortfall of \$22.7 million through October.

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	\$41.5	1.6%	\$54.9	2.1%
Quarterly Estimated Payments	-\$22.7	-6.0%	\$16.9	5.0%
Trust Payments	-\$0.2	-1.4%	-\$3.0	-20.9%
Annual Return Payments	\$5.5	4.2%	\$25.5	23.3%
Miscellaneous Payments	-\$9.5	-25.8%	-\$9.4	-25.5%
Gross Collections	\$14.6	0.5%	\$85.0	2.8%
Less Refunds	-\$25.7	-16.5%	\$0.1	0.1%
Less Local Government Fund Distribution	-\$0.3	-0.2%	\$0.2	0.2%
Income Tax Revenue	\$40.5	1.4%	\$84.7	3.0%

FY 2014 GRF receipts from the income tax were \$84.7 million (3.0%) above receipts in the corresponding period in FY 2013. Growth in receipts was mostly due to gains in employer withholding and payments with annual returns. Through October, FY 2014 revenues from employer withholding were \$54.9 million (2.1%) above receipts in this category in FY 2013, in spite of a reduction in the withholding rate that went into

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

effect for payrolls that ended on or after September 1, 2013. In addition, annual return payments increased \$25.5 million (23.3%), and quarterly estimated payments grew \$16.9 million (5.0%). Chart 2 illustrates the trend in employer withholding receipts in 2013.



Sales and Use Tax

October GRF receipts from the sales and use tax of \$765.9 million were \$21.8 million (2.9%) above estimate, and also \$95.8 million (14.3%) above receipts in October 2012. Year to date, FY 2014 GRF sales and use tax receipts totaled \$2.94 billion, \$4.6 million (0.2%) above estimate, and \$178.2 million (6.4%) above receipts in FY 2013. October was the second month for which the sales tax rate was at the 5.75% rate enacted by H.B. 59, up from 5.5%. Accounting for the rate increase, growth in the tax base in FY 2014 was roughly 4%. For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections³ 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 October, FY 2014 sales and use tax receipts were \$4.6 million above estimate.

³ 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.

Nonauto Sales and Use Tax

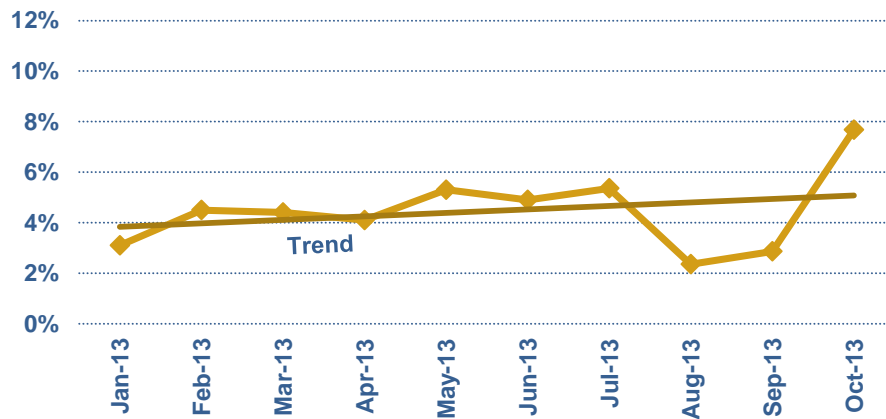
Through October, FY 2014 nonauto sales and use tax receipts were \$19.3 million below estimate.

For the first time in FY 2014, monthly nonauto sales and use tax receipts were above estimate, after negative variances of \$10.5 million, \$19.6 million, and \$2.7 million, respectively, in July, August, and September 2013. October GRF receipts from the tax were \$664.3 million, \$13.5 million (2.1%) above estimate, reducing the year-to-date negative variance of this GRF source to \$19.3 million (0.8%), from \$32.8 million in the first quarter. Total nonauto sales and use tax receipts of \$2.53 billion through October were \$138.2 million (5.8%) above revenue in the corresponding period in FY 2013. FY 2014 year-to-date receipts include \$135.8 million in tax payments by Medicaid health insuring corporations; those receipts rose \$27.9 million (25.8%) compared to the corresponding period in FY 2013.

Chart 3 shows increases in nonauto sales and use tax monthly receipts against prior year receipts in the same month. As illustrated in the chart, the rate of growth increased in the latest two months, boosted by the recent rate increase.

Through October, FY 2014 auto sales and use tax receipts were \$23.9 million above estimate.

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

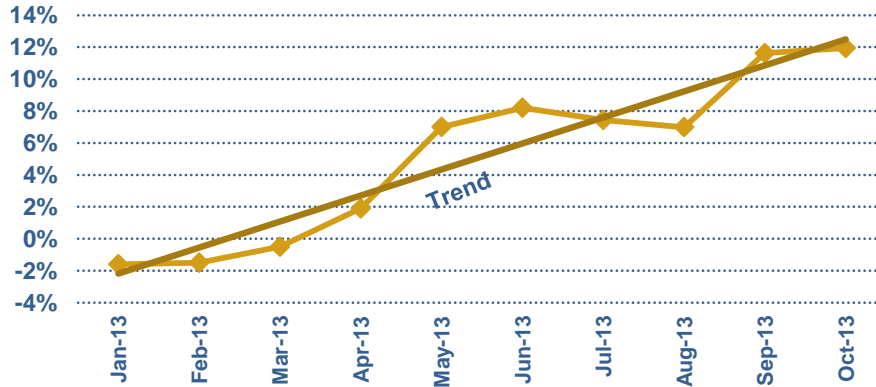


Auto Sales and Use Tax

GRF receipts from the auto sales and use tax totaled \$101.6 million in October 2013. Those receipts were \$8.3 million (8.8%) above estimate and \$7.4 million (7.9%) above October 2012 receipts. For the fiscal year through October, the auto sales and use tax provided \$416.9 million, \$23.9 million (6.1%) above estimate, and revenue from the tax was \$40.0 million (10.6%) 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. The annualized rate of nationwide light vehicle sales (auto and light trucks)

held level in October at 15.2 million units, seasonally adjusted, weighed down by consumer uncertainty related to the recent federal government shutdown. From January through October, the light vehicle sales rate had averaged 15.4 million units per year. Light vehicle sales are expected to continue their upward climb in future months.

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



Through October, FY 2014 GRF CAT receipts were \$29.9 million below estimate.

Commercial Activity Tax

Increasing the concern of a prolonged slump for this tax source, the weakness of the CAT continued in October 2013. October GRF receipts of \$26.3 million were \$2.1 million (7.2%) below estimate, though \$3.8 million (16.6%) above October 2012 revenue. Through October, FY 2014 CAT receipts to the GRF totaled \$218.4 million, \$29.9 million (12.0%) below estimate, and \$6.7 million (3.0%) below receipts in the corresponding period in FY 2013. Through October, FY 2014 all funds CAT receipts were \$449.2 million, \$10.8 million (2.3%) below revenue in the corresponding period last year.

Through October, FY 2014 cigarette tax receipts were \$3.0 million above estimate.

Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax of \$72.0 million in October 2013 were \$4.0 million (5.9%) above estimate and \$0.5 million (0.7%) below receipts in the same month in FY 2013. Through October, FY 2014 receipts of \$236.0 million were \$3.0 million (1.3%) above estimate. Receipts from cigarette sales were \$216.8 million, and sales of products other than cigarettes provided \$19.2 million. Compared to FY 2013, total receipts were \$1.4 million (0.6%) higher. Receipts from the sale of other tobacco products increased \$1.6 million, while revenue from cigarette sales experienced a mild decrease of \$0.2 million.

Table 3: General Revenue Fund Uses				
Actual vs. Estimate				
Month of October 2013				
(\$ in thousands)				
(Actual based on OAKS reports run November 5, 2013)				
PROGRAM	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	\$620,898	\$556,945	\$63,953	11.5%
Higher Education	\$183,900	\$180,039	\$3,861	2.1%
Other Education	\$3,903	\$10,961	-\$7,058	-64.4%
Total Education	\$808,701	\$747,945	\$60,756	8.1%
Medicaid	\$1,194,833	\$1,185,623	\$9,210	0.8%
Health and Human Services	\$98,521	\$213,220	-\$114,699	-53.8%
Total Welfare and Human Services	\$1,293,354	\$1,398,843	-\$105,488	-7.5%
Justice and Public Protection	\$176,321	\$214,176	-\$37,855	-17.7%
General Government	\$32,606	\$39,989	-\$7,383	-18.5%
Total Government Operations	\$208,927	\$254,165	-\$45,238	-17.8%
Property Tax Reimbursements	\$214,620	\$312,868	-\$98,249	-31.4%
Capital Outlay	\$0	\$0	\$0	---
Debt Service	\$62,314	\$62,514	-\$200	-0.3%
Total Other Expenditures	\$276,934	\$375,383	-\$98,449	-26.2%
Total Program Expenditures	\$2,587,916	\$2,776,335	-\$188,419	-6.8%
TRANSFERS				
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers Out	\$10,003	\$16,405	-\$6,402	-39.0%
Total Transfers Out	\$10,003	\$16,405	-\$6,402	-39.0%
TOTAL GRF USES	\$2,597,919	\$2,792,741	-\$194,822	-7.0%
* September 2013 estimates of the Office of Budget and Management.				
<i>Detail may not sum to total due to rounding.</i>				

Table 4: General Revenue Fund Uses
Actual vs. Estimate
FY 2014 as of October 31, 2013
(\$ in thousands)
(Actual based on OAKS reports run November 5, 2013)

PROGRAM	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	\$2,322,323	\$2,247,551	\$74,771	3.3%
Higher Education	\$664,398	\$697,298	-\$32,899	-4.7%
Other Education	\$21,870	\$26,247	-\$4,378	-16.7%
Total Education	\$3,008,591	\$2,971,096	\$37,494	1.3%
Medicaid	\$5,116,885	\$5,195,245	-\$78,360	-1.5%
Health and Human Services	\$421,940	\$559,160	-\$137,220	-24.5%
Total Welfare and Human Services	\$5,538,825	\$5,754,405	-\$215,580	-3.7%
Justice and Public Protection	\$672,121	\$693,920	-\$21,799	-3.1%
General Government	\$127,588	\$139,123	-\$11,535	-8.3%
Total Government Operations	\$799,709	\$833,043	-\$33,334	-4.0%
Property Tax Reimbursements	\$519,096	\$679,714	-\$160,618	-23.6%
Capital Outlay	\$0	\$0	\$0	---
Debt Service	\$746,145	\$749,520	-\$3,376	-0.5%
Total Other Expenditures	\$1,265,241	\$1,429,235	-\$163,994	-11.5%
Total Program Expenditures	\$10,612,365	\$10,987,779	-\$375,413	-3.4%
TRANSFERS				
Budget Stabilization	\$995,930	\$995,930	\$0	0.0%
Other Transfers Out	\$206,998	\$218,411	-\$11,413	-5.2%
Total Transfers Out	\$1,202,928	\$1,214,342	-\$11,413	-0.9%
TOTAL GRF USES	\$11,815,294	\$12,202,120	-\$386,826	-3.2%
* September 2013 estimates of the Office of Budget and Management. <i>Detail may not sum to total due to rounding.</i>				

Table 5: All-Funds Medicaid Expenditures by Payment Category

Actual vs. Estimate

(\$ in thousands)

(Actuals based on OAKS report run on November 6, 2013)

Payment Category	October				Year to Date Through October			
	Actual	Estimate*	Variance	Percent	Actual	Estimate*	Variance	Percent
Managed Care	\$819,758	\$625,683	\$194,075	31.0%	\$2,684,943	\$2,502,026	\$182,917	7.3%
Nursing Facilities	\$198,826	\$202,975	-\$4,149	-2.0%	\$814,657	\$821,750	-\$7,093	-0.9%
DDD Services	\$170,890	\$179,036	-\$8,146	-4.5%	\$761,843	\$769,114	-\$7,271	-0.9%
Hospitals	\$93,104	\$101,737	-\$8,633	-8.5%	\$439,847	\$458,666	-\$18,819	-4.1%
Behavioral Health	\$60,610	\$64,706	-\$4,096	-6.3%	\$266,585	\$265,964	\$621	0.2%
Administration	\$65,179	\$111,923	-\$46,744	-41.8%	\$230,361	\$298,514	-\$68,153	-22.8%
Aging Waivers	\$45,579	\$52,479	-\$6,900	-13.1%	\$182,905	\$199,534	-\$16,629	-8.3%
Prescription Drugs	\$31,441	\$34,893	-\$3,452	-9.9%	\$132,360	\$161,204	-\$28,844	-17.9%
Medicare Buy-In	\$35,526	\$35,996	-\$470	-1.3%	\$141,984	\$143,241	-\$1,257	-0.9%
Physicians	\$25,717	\$156,697	-\$130,980	-83.6%	\$117,156	\$269,191	-\$152,035	-56.5%
Medicare Part D	\$24,934	\$26,043	-\$1,109	-4.3%	\$99,676	\$103,736	-\$4,060	-3.9%
Home Care Waivers	\$19,524	\$19,572	-\$48	-0.2%	\$86,078	\$87,698	-\$1,620	-1.8%
All Other	\$98,720	\$116,498	-\$17,778	-15.3%	\$428,348	\$485,180	-\$56,832	-11.7%
Total All Funds	\$1,689,808	\$1,728,239	-\$38,431	-2.2%	\$6,386,743	\$6,565,817	-\$179,074	-2.7%

* 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 November 6, 2013

Department	Month of October 2013				Year to Date Through October 2013			
	Actual	Estimate*	Variance	Percent	Actual	Estimate*	Variance	Percent
Medicaid	\$1,500,348	\$1,516,444	-\$16,096	-1.1%	\$5,554,156	\$5,695,802	-\$141,646	-2.5%
GRF	\$1,152,584	\$1,138,261	\$14,323	1.3%	\$4,941,086	\$5,015,119	-\$74,033	-1.5%
Non-GRF	\$347,764	\$378,183	-\$30,419	-8.0%	\$613,070	\$680,683	-\$67,613	-9.9%
Developmental Disabilities	\$175,377	\$190,924	-\$15,547	-8.1%	\$782,269	\$796,647	-\$14,378	-1.8%
GRF	\$37,145	\$40,761	-\$3,616	-8.9%	\$154,950	\$156,021	-\$1,071	-0.7%
Non-GRF	\$138,232	\$150,163	-\$11,931	-7.9%	\$627,319	\$640,626	-\$13,307	-2.1%
Job and Family Services	\$10,999	\$16,501	-\$5,502	-33.3%	\$39,226	\$62,108	-\$22,882	-36.8%
GRF	\$4,535	\$5,678	-\$1,143	-20.1%	\$17,861	\$20,671	-\$2,810	-13.6%
Non-GRF	\$6,464	\$10,823	-\$4,359	-40.3%	\$21,365	\$41,437	-\$20,072	-48.4%
Aging	\$422	\$558	-\$136	-24.4%	\$1,781	\$1,902	-\$121	-6.3%
GRF	\$222	\$263	-\$41	-15.7%	\$1,233	\$1,116	\$117	10.5%
Non-GRF	\$200	\$295	-\$95	-32.2%	\$548	\$786	-\$238	-30.3%
Health	\$2,530	\$3,114	-\$584	-18.8%	\$7,559	\$6,854	\$705	10.3%
GRF	\$231	\$287	-\$56	-19.6%	\$1,014	\$1,078	-\$64	-5.9%
Non-GRF	\$2,299	\$2,827	-\$528	-18.7%	\$6,545	\$5,776	\$769	13.3%
Mental Health and Addiction	\$132	\$699	-\$567	-81.1%	\$1,752	\$2,506	-\$754	-30.1%
GRF	\$116	\$374	-\$258	-68.9%	\$741	\$1,242	-\$501	-40.3%
Non-GRF	\$16	\$325	-\$309	-95.1%	\$1,011	\$1,264	-\$253	-20.0%
Total GRF	\$1,194,833	\$1,185,623	\$9,210	0.8%	\$5,116,885	\$5,195,245	-\$78,360	-1.5%
Total Non-GRF	\$494,975	\$542,616	-\$47,641	-8.8%	\$1,269,858	\$1,370,572	-\$100,714	-7.3%
Total All Funds	\$1,689,808	\$1,728,239	-\$38,431	-2.2%	\$6,386,743	\$6,565,817	-\$179,074	-2.7%

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

EXPENDITURES

– Russ Keller, Economist, 614-644-1751

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

Overview

For the first four months of FY 2014, GRF uses were \$386.8 million below estimate due largely to timing.

Through October, FY 2014 GRF program expenditures totaled \$10.61 billion. These expenditures were \$375.4 million below the estimate published by the Office of Budget and Management (OBM) in September 2013. Timing plays a key role in this variance. GRF transfers out amounted to \$1.20 billion through October, which was \$11.4 million below estimate. Including both program expenditures and transfers out, GRF uses totaled \$11.82 billion for the first four months of FY 2014. These uses were \$386.8 million below estimate. Tables 3 and 4 show GRF uses for the month of October and for FY 2014 through October, respectively.

The Property Tax Reimbursements and Health and Human Services program categories had the largest negative year-to-date variances of \$160.6 million and \$137.2 million, respectively. Other program categories with significant negative year-to-date variances include Medicaid (\$78.4 million), Higher Education (\$32.9 million), and Justice and Public Protection (\$21.8 million). Primary and Secondary Education, on the other hand, was the only program category that posted a positive year-to-date variance. This category's expenditures were \$74.8 million above their year-to-date estimate. The variances in these six program categories are briefly discussed below.

Property Tax Reimbursements

GRF expenditures from the Property Tax Reimbursements program category totaled \$214.6 million for the month of October. These expenditures were \$98.2 million (31.4%) below estimate, which increased the category's negative year-to-date variance from \$62.4 million (17.0%) at the end of September to \$160.6 million (23.6%) at the end of October. As discussed in the prior issue of *Budget Footnotes*, it is not unusual to see variances in this program category from month to month, especially in the early stages of a payment cycle as actual disbursements depend on the timing of requests for payments from county auditors. Requests from auditors should increase in the latter months of 2013 as the reimbursements based on the August 2013 property tax settlement will be made throughout the first half of FY 2014.

Health and Human Services

GRF expenditures from the Health and Human Services program category were \$98.5 million for the month of October, \$114.7 million (53.8%) below estimate. Year-to-date expenditures totaled \$421.9 million, \$137.2 million (24.5%) below estimate. This program category includes non-Medicaid health and human service expenditures from various agencies. Ohio Department of Job and Family Services (ODJFS) was the largest source of the negative variances. For the month, the agency expended \$49.3 million, \$73.5 million below estimate. For the first four months of FY 2014, expenditures from ODJFS were \$94.3 million below the year-to-date estimate. The majority of these negative variances occurred in two GRF appropriation items: item 600413, Child Care State/Maintenance of Effort, and item 600535, Early Care and Education. Both items are used to make payments to child care providers for publicly funded child care services. Through the first quarter of FY 2014, expenditures from both items were essentially on target with estimates. However, no actual expenditures were made from item 600413 in October while the OBM estimate anticipated \$44.5 million in expenditures from this item for that month. Similarly, expenditures from item 600535 were \$22.7 million below their October estimate and \$24.4 million below their year-to-date estimate. ODJFS primarily used federal dollars for child care payments in October because it was uncertain whether GRF payments made during the partial federal government shutdown would be counted toward the state's maintenance of effort requirement. ODJFS will rely more on GRF dollars for child care payments in November and December. So, the negative variances in items 600413 and 600535 are expected to narrow.

In addition to ODJFS, the Ohio Department of Mental Health and Addiction Services (ODMHAS) contributed another \$36.5 million to the Health and Human Services program category's negative year-to-date variance. Expenditures from ODMHAS's GRF appropriation item 335421, Continuum of Care Services, were \$16.9 million below their October estimate and \$20.2 million below their year-to-date estimate. Expenditures from item 335507, Community Behavioral Health, were \$11.9 million below their October estimate and \$12.5 million below their year-to-date estimate. Timing was also likely the main factor behind these negative variances as both items mainly contain subsidy payments. Item 335421 provides funds to local boards for mental health and alcohol, drug, and gambling addiction services while item 335507 provides funds to local boards for behavioral health services.

ODJFS primarily used federal dollars for child care payments in October and will rely more on GRF dollars for such payments in November and December, which will narrow the category's negative variance.

Medicaid

GRF expenditures from the Medicaid program category totaled \$1.19 billion for the month of October, \$9.2 million (0.8%) above estimate. Year-to-date GRF Medicaid expenditures were \$5.12 billion, \$78.4 million (1.5%) below estimate. Medicaid is a joint federal-state program. The federal and state shares of Medicaid expenditures are about 64% and 36%, respectively. While it is mainly funded by the GRF, Medicaid is also supported by various non-GRF funds. Across all funds, Medicaid expenditures totaled \$6.39 billion for the first four months of FY 2014. These expenditures were \$179.1 million (2.7%) below estimate.

Table 5 details Medicaid expenditures by payment categories across all funds and agencies. As seen from Table 5, all-funds expenditures were below their year-to-date estimates for all but two payment categories. The Physicians category had the largest negative year-to-date variance at \$152.0 million (56.5%), of which \$131.0 million occurred in the month of October. Other categories with significant negative year-to-date variances include Administration (\$68.2 million, 22.8%), and the All Other category (\$56.8 million, 11.7%). These negative variances were partially offset by a positive year-to-date variance of \$182.9 million (7.3%) in the Managed Care payment category. Managed Care payments totaled \$819.8 million in October, \$194.1 million above estimate. This monthly variance reversed the category's year-to-date variance from a negative \$11.2 million at the end of September to a positive \$182.9 million at the end of October.

Table 6 details the GRF and non-GRF portions of Medicaid expenditures from each of the six agencies that take part in administering Medicaid. The Ohio Department of Medicaid (ODM), the largest agency within this program category, also had the largest year-to-date variance. GRF year-to-date expenditures for ODM totaled \$4.94 billion, which was \$74.0 million (1.5%) below estimate. ODM's GRF Medicaid expenditures are funded through three GRF appropriation items: item 651525, Medicaid/Health Care Services, item 651526, Medicare Part D, and item 651425, Medicaid Program Support – State. Expenditures from item 651525, which provides the majority of funding for Medicaid, were \$61.9 million below their year-to-date estimate. Expenditures for items 651425 and 651526 were also below estimate by \$8.1 million and \$4.0 million respectively.

ODM's non-GRF Medicaid expenditures totaled \$613.1 million, which was \$67.6 million below their year-to-date estimate. The main contributors were appropriation items 651623, Medicaid Services Federal (\$39.8 million), and 651624, Medicaid Program Support – Federal

Year-to-date

GRF

Medicaid

expenditures

were

\$78.4 million

below

estimate; all-

funds

Medicaid

expenditures

were

\$179.1 million

below

estimate.

(\$29.8 million). Across all funds, ODM's year-to-date expenditures totaled \$5.55 billion, which was \$141.6 million (2.5%) below estimate.

Higher Education


GRF expenditures from the Higher Education program category totaled \$183.9 million for the month of October, \$3.9 million above estimate. This positive variance reduced the category's negative year-to-date variance from \$36.8 million at the end of September to \$32.9 million at the end of October. According to OBM, the Board of Regents, the only agency included in this program category, instituted a new subsidy distribution and monitoring system beginning in FY 2014, resulting in a slower-than-expected subsidy distribution process. Various subsidy payments that were planned for the month of September are being paid in future months.

Justice and Public Protection

GRF expenditures from the Justice and Public Protection program category were \$176.3 million for the month of October. These expenditures were \$37.9 million (17.7%) below estimate, reversing the category's year-to-date variance from a positive \$16.1 million at the end of September to a negative \$21.8 million at the end of October. The two largest agencies included in this program category are the Department of Rehabilitation and Correction (DRC) and the Department of Youth Services (DYS). Expenditures from DRC were \$28.2 million below estimate in October, and the agency remained \$10.9 million below its year-to-date estimate through October. Year-to-date expenditures for DYS were \$5.6 million below estimate, and the majority of this negative variance occurred in the month of October as well.

Primary and Secondary Education

GRF Expenditures from the Primary and Secondary Education program category were \$620.9 million for the month of October, \$64.0 million (11.5%) above estimate. This category's year-to-date expenditures totaled \$2.32 billion, \$74.8 million (3.3%) above estimate. These positive variances were mainly attributable to two GRF appropriation items in the Ohio Department of Education (ODE), the only agency included in this program category. Expenditures from item 200550, Foundation Funding, were \$42.9 million above estimate in October and \$59.0 million above estimate through October. Item 200550 is the primary funding source for school foundation payments. It is not unusual to see variances in this item, especially in the early months of a fiscal year as various data needed for determining individual school



payments for FY 2014 have not yet been finalized. In addition, expenditures from item 200511, Auxiliary Services, were above estimate because ODE made a \$32.0 million payment in October that was originally estimated to occur in November. Expenditures from the vast majority of the remaining appropriation items within the ODE budget were below their year-to-date estimates, which partially offset the positive variances in items 200550 and 200511.

ISSUE UPDATES

ODE Awards Early Childhood Education Grants to Serve an Additional 2,450 Children in FY 2014

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

On October 9, 2013, the Ohio Department of Education (ODE) awarded early childhood education grants to serve 8,150 children, an increase of 2,450 over the number of children served in FY 2013. The increase in children served by the program was due to an increase in appropriation in H.B. 59 of \$10.6 million, from \$22.7 million in FY 2013 to \$33.3 million in FY 2014. H.B. 59 increases the appropriation for FY 2015 by another \$12.0 million to \$45.3 million. In addition to the appropriation increases, H.B. 59 expands provider eligibility for the program from school districts and educational service centers to also include community schools, chartered nonpublic schools, and certain highly rated childcare providers licensed by the Ohio Department of Job and Family Services (ODJFS). H.B. 59 instructs ODE to distribute the new funding based on community economic disadvantage, limited access to high quality early childhood education services, and the quality of new eligible providers. ODE awarded the new funding to 145 programs in 80 different school districts and 49 different counties statewide.⁴

Early childhood education grants support programs that provide educational services for three- and four-year-old children from families with incomes below 200% of the federal poverty level. Currently, \$4,000 per child is provided for part-time services of at least 12.5 hours per week during the school year. Generally, programs must align their curricula to the early learning program standards developed by ODE, administer diagnostic assessments prescribed by ODE, require teachers to attend a certain amount of professional development, report child progress, and participate in ODJFS's Step Up to Quality rating system.

CMSD Releases First Year Accountability Results under Cleveland Plan

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

In late September 2013, the Cleveland Municipal School District (CMSD) released the first annual report assessing the school district's performance against the academic improvement goals it established under the Cleveland Plan, a school reform and

⁴ A list of awardees can be found on ODE's website (education.ohio.gov) by searching for "new early childhood funding."

improvement initiative of the district. The report, covering the 2012-2013 school year, is required by H.B. 525 of the 129th General Assembly, which made the statutory changes necessary for the district to implement the Cleveland Plan.

The report is available on the CMSD website (www.clevelandmetroschools.org) by clicking on the link entitled "Strategic Implementation Plan 2012-2016." Detailed results for each of the district's academic improvement goals are located in Appendix C of the report. Overall, CMSD met 49% of its goals, which focus on student achievement, closing achievement gaps, four-year cohort graduation rates, and conditions for learning. The report also describes the status of the district's strategies for implementing the key elements of the plan at the end of the first year as well as the objectives, initiatives, and anticipated completion dates for implementation of year two. Under H.B. 525, the district must report on its performance for the prior school year each year by October 1. Ultimately, ODE will evaluate the school district's performance and issue its own report no later than November 15, 2017.

Development Services Agency Provides \$6 million to Ohio Housing Finance Agency for Capital Funding Initiative to End Homelessness

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

On October 7, 2013, the Controlling Board approved a request by the Development Services Agency (DSA) to provide \$6.0 million in Low- and Moderate-Income Housing Trust Fund (Fund 6460) money to the Ohio Housing Finance Agency (OHFA) in FY 2014 to support the Capital Funding to End Homelessness in Ohio initiative. The initiative is intended to provide one-time capital funding of \$32.0 million over the FY 2014-FY 2015 biennium to assist with OHFA's strategies to end homelessness in Ohio. DSA plans to provide another \$5.0 million in FY 2015 for a total of \$11.0 million in DSA assistance with OHFA providing the remaining \$21.0 million for the initiative.⁵ This one-time money augments ongoing funding that OHFA provides to finance permanent supportive housing geared toward helping the homeless population find a permanent home and receive mental health services.

The Capital Funding to End Homelessness in Ohio initiative will fund two types of projects: (1) Development Projects that involve new construction or acquisition of buildings for permanent supportive housing, transitional housing, or emergency shelters, and (2) Repairs Projects that entail the renovation or restoration of existing facilities that provide the same types of housing services, but only for those that have met or exceeded national best practices. The \$32.0 million in funds for the initiative are

⁵ OHFA's programs are mainly supported through the issuance, private sale, and repayment of mortgage revenue bonds. These sources of funding are not subject to appropriation by the General Assembly.

to be awarded mainly to organizations within the eight "Continuum of Care" cities in Ohio. A Continuum of Care refers to a community plan to organize and deliver housing and services to meet the specific needs of people who are homeless as they move to stable housing and maximum self-sufficiency. Continuum of Care plans are developed by various community stakeholders, including local community organizations, government entities, and the general public, and must be approved by the U.S. Department of Housing and Urban Development (HUD). The table below lists the Continuum of Care cities in Ohio and describes funding limits and matching requirements to eligible applicants in each city. Up to \$4.0 million in initiative funds will go to organizations not involved with an urban Continuum of Care organization. These organizations, from the 80 rural counties in Ohio, are represented by the Coalition on Homelessness and Housing in Ohio (COHHIO).

Capital Funding to End Homelessness in Ohio Initiative		
Continuum of Care City	Funding Limit (\$ millions)	Matching Requirement
Cincinnati	\$5.0	100%
Columbus	\$5.0	100%
Cleveland	\$5.0	100%
Akron	\$3.0	100%
Dayton	\$3.0	50%
Toledo	\$3.0	50%
Canton	\$2.0	25%
Youngstown	\$2.0	25%
Balance of State (COHHIO)	\$4.0	25%

Attorney General Awards \$17.7 million in State and Federal Grants to Crime Victim Services Agencies

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

On October 8, 2013, the Office of the Attorney General announced the award of \$17.7 million in State Victims Assistance Act and federal Victims of Crime Act grants for the 2013-2014 funding cycle to 276 crime victim services agencies in 85 counties.⁶ The total amount of grant funds in each county ranged from just under \$25,000 in Wyandot County to approximately \$1.5 million in Franklin County. Six counties (Cuyahoga, Franklin, Hamilton, Lucas, Montgomery, and Summit) each received grant awards totaling more than \$500,000.

The \$17.7 million award consists of \$3.6 million under the state grant and \$14.1 million under the federal grant. The state grant is funded by court costs and

⁶ A complete grant award list can be found at: www.ohioattorneygeneral.gov under the Crime Victim Services page. Fulton, Perry, and Putnam counties did not submit grant applications; they will be served by one or more crime victim assistance programs based in another county.

license reinstatement fees, while fines and penalties paid by convicted federal offenders fund the federal grant. These grants are awarded to a victim assistance program operated by either a public agency or a private nonprofit organization. The funded programs include: domestic violence shelters; human trafficking outreach centers; aged-out foster youth initiatives; sexual, elder, and child abuse programs; legal aid initiatives; and court appointed special advocate programs.

Ohio Lake Erie Commission Awards Two Grants at September Meeting

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

The Ohio Lake Erie Commission awarded two \$15,000 grants at its September 2013 meeting, one to the Chagrin River Watershed Partners (CRWP) and one to Bowling Green State University (BGSU).⁷ The CRWP project will involve collaborating with the Lake County Planning Commission to develop plans to manage storm water, erosion, and sediment control, and assist municipalities with adopting the recommended codes. CRWP is making a required 25% matching contribution of \$3,750 to the project, and their final reports are scheduled for November 2014.

The grant awarded to BGSU seeks to utilize the biological chemistry of common carp from different river ecosystems to document chemical signatures of different rivers. The chemical signatures could be utilized to combat the spread of Asian carp, an invasive species that threatens many U.S. ecosystems. The project will involve collecting and analyzing data from the Sandusky, Maumee, and Grand rivers. BGSU exceeded its required 25% match by making a contribution of \$18,880 towards the project. The project's completion date is also expected to be November 2014.

Secretary of State Awards Five Grants to Counties for Polling Place Improvements

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

On October 17, 2013, the Ohio Secretary of State announced the award of five grants to county boards of elections for permanent polling place improvements. The grants totaled \$11,300 and included \$1,810 to Belmont County, two awards to Jefferson County, for \$2,038 and \$3,950, \$2,139 to Morgan County, and \$1,400 to Logan County. These grants were to make handicap parking improvements to various polling locations within these counties to provide two additional handicap parking spaces.

⁷ The grant funding is being drawn from the Lake Erie Protection Fund (Fund 4C00). Its primary revenue source is a \$15 contribution paid by Ohio motorists for the issuance of a Lake Erie license plate displaying either the Marblehead Lighthouse or the Lake Erie life ring.

County boards of elections are permitted to submit applications for permanent improvement grants at any time throughout the year. Grant awards are announced as requests are submitted to the office. Since FY 2011, the Ohio Secretary of State has awarded 71 grants for permanent improvement projects totaling \$203,837. The money for the grants comes from federal funding provided by the U.S. Department of Health and Human Services under the Help America Vote Act (HAVA). Within the Ohio Secretary of State's budget, this funding is appropriated under Election Reform/Health and Human Services Fund (Fund 3AH0) appropriation item 050614 Election Reform/Health and Human Services. Fund 3AH0 is used by the Ohio Secretary of State's office to meet the requirements of the Americans with Disabilities Act (ADA), including polling place accessibility, availability of voting machines for handicap individuals, and voter education for the disabled.

First Phase of Benefits.Ohio.Gov Website Goes Live

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

On October 1, 2013, the first phase of the Benefits.Ohio.Gov website went live. The launch of this website is part of the Office of Health Transformation's (OHT) efforts to simplify and automate Medicaid eligibility determinations. The new website is designed to be an online portal where individuals may apply for Medicaid and other benefits and local case workers may integrate case management and data collection functions. As of October 1, the website is able to direct applicants who are likely eligible for Medicaid to the existing Medicaid eligibility system to actually apply for benefits and others to the health insurance exchange. Beginning January 1, 2014, Medicaid eligibility determinations and benefits applications will be available directly on the website for certain applicants. The first phase of the project is scheduled to end in November 2014 when all applicants will be able to use the website for Medicaid determinations and applications. Subsequent project phases will bring eligibility determinations online for other health and human services programs, such as the Supplemental Nutrition Assistance Program and Temporary Assistance for Needy Families.

The new website was developed, in part, due to the Affordable Care Act (ACA) requirements. States are required to simplify Medicaid enrollment, allow applications for various benefits to be processed online, in person, or by phone, and verify income and other eligibility criteria electronically. States are also required to use the modified adjusted gross income as the income standard for Medicaid eligibility determination purposes. Over the course of the next two years, Benefits.Ohio.Gov will replace the existing Medicaid determination system that was built in the early 1980s. According to OHT, many eligibility determinations using the current system must be manually overridden in order to ensure that eligible applicants receive coverage. Under ACA, the federal government will pay for 75% to 90% of the new website project costs with the

state paying the remaining share. The total budget for the project is \$383.5 million (\$56.8 million state share). Approximately \$80.5 million (\$9.2 million state share) has been expended as of October 29, 2013.

Ohio Pays \$44.5 million to Federal Government in Interest for Amounts Borrowed to Issue Regular Unemployment Benefits

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

On September 24, 2013, Ohio paid \$44.5 million in interest to the federal government for amounts borrowed to issue regular unemployment benefits. Ohio began borrowing to issue unemployment benefits in January 2009, and has continued to borrow each year since then. States must pay the federal government interest on borrowed amounts at the end of every federal fiscal year (FFY) that the state maintains a balance.⁸ The table below shows Ohio's interest payments along with the loan balance at the end of each federal fiscal year when the payment was made.

Ohio's Year-end Interest Payments and Loan Balances		
Federal Fiscal Year	Interest Paid	Loan Balance
FFY 2011	\$70.7 million	\$2.31 billion
FFY 2012	\$65.8 million	\$1.79 billion
FFY 2013	\$44.5 million	\$1.55 billion

As shown in the table, interest payments have decreased in part due to a lower loan balance. The decrease in the balance is a result of a few factors. One is that the state has been borrowing less in recent years. For example, in FFY 2013 Ohio borrowed \$294.2 million, whereas in FFY 2009, during the recession, Ohio borrowed about \$1.40 billion. Another reason for the balance decrease is that Ohio has made principal payments on borrowed amounts from the state's Unemployment Compensation Trust Fund. Finally, the balance is reduced by revenue from higher federal unemployment taxes paid by Ohio employers. In addition to the lower balance, interest payments have decreased due to lower interest rates charged by the federal government. The rates have fallen from about 4.1% at the beginning of FFY 2011 to about 2.6% at the beginning of FFY 2013.

Payments were issued, generally, from the Unemployment Compensation Interest Contingency Fund (Fund 5HC0); though, for the FFY 2012 payment, a portion came from the Unemployment Compensation Administration Fund (Fund 4A90). In the current biennium, Fund 5HC0 is funded by a transfer of \$120 million from the GRF.

⁸ The federal government waived interest on borrowings through the end of calendar year 2010; without this waiver, Ohio would have accrued another \$139.9 million in interest.

TRACKING THE ECONOMY

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

Overview

The economy continues to grow, based on the economic data available for the writing of this publication, despite the temporary shutdown of part of the federal government in October. Employment increased 204,000 in October, and employment growth has averaged 190,000 per month over the last 12 months. Inflation-adjusted gross domestic product (real GDP) expanded in the third quarter at a 2.8% annual rate, in the government's initial estimate. Total industrial production, the output from factories, utilities, and mines, increased in September, mainly due to increased output of electric utilities. Manufacturing output barely grew in September, though preliminary reports suggest that output increased in October despite the government shutdown. Disposable personal incomes have increased. The rate of completed existing home sales fell in September, as mortgage interest rates rose from lows in the year's first half. Mortgage interest rates generally declined in October. Inflation has remained low.

Employment growth has averaged 190,000 per month over the last 12 months.

The federal government, partially shut down from October 1 to October 16, reopened on October 17 after the president signed legislation that appropriated funds at final federal fiscal year (FFY) 2013 levels until January 15, 2014, and suspended the federal debt ceiling until February 7, 2014. Though the actual economic impact of the shutdown remains uncertain, as the shutdown delayed the release of economic reports, certain organizations have released estimates. IHS Global Insight, a research firm whose analyses are used by LSC, estimated the value of lost government services during the shutdown at \$3.1 billion. In addition, Standard & Poor's estimated that lost total economic activity resulting from the shutdown would reduce the annualized GDP growth rate by at least 0.6 percentage point.⁹

The shutdown broadly impacted economic activity: wages were withheld to certain federal employees; some federal contractors reported furloughing employees; the closure of national parks not only reduced revenue to the National Parks Service (estimated \$450,000 per day loss in fee revenues)¹⁰ but affected businesses in the travel industry; other

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

¹⁰ Press release from Cuyahoga Valley National Park, October 2, 2013.

government services were delayed including issuing permits for oil and gas drilling, verifying mortgage applications, and processing small business loan applications. In addition, the shutdown likely affected consumer spending, the largest component of the nation's GDP. The Conference Board's Consumer Confidence Index fell "sharply" in October to 71.2 (based on a survey conducted through October 17) from 80.2 in September. The Conference Board's director of economic indicators stated that consumer confidence is "likely to remain volatile for the next several months" since the legislation passed by Congress provided only temporary government funding.¹¹

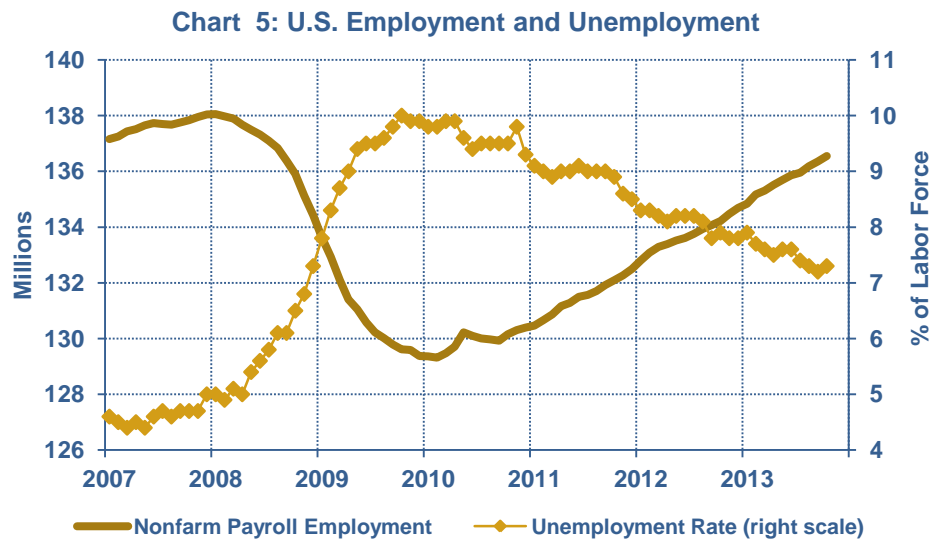
On October 30, the Federal Open Market Committee (FOMC) of the Federal Reserve, the nation's central bank, indicated it will continue its policy of monetary expansion through purchasing \$40 billion per month of mortgage-backed securities and \$45 billion per month of longer-term U.S. Treasury securities each month. The FOMC expects to keep its short-term interest rate target for federal funds near zero (between 0% and 0.25%) at least until the national unemployment rate falls to 6.5%, as long as expected inflation is no more than half a percentage point above the 2.0% goal.

Employment increased by 163,000 in September and by 204,000 in October.

The National Economy

Employment and Unemployment

Employment increased by 163,000 in September and by 204,000 in October, according to the Bureau of Labor Statistics (BLS), while the unemployment rate fell to 7.2% in September but was 7.3% in October, as shown in Chart 5.



¹¹ The Conference Board, "Consumer Confidence Decreases Sharply in October," October 29, 2013.

In October, large seasonally adjusted employment gains were reported in leisure and hospitality (53,000), retail trade (44,400), professional and technical services (44,000), and education and health services (23,000). Employment in goods producing industries expanded with increases in manufacturing (19,000), construction (11,000), and mining and logging (5,000). Government employment fell overall (-8,000), with losses at the federal and local levels and gains at the state level.

According to BLS, the partial shutdown of the federal government in October had no "discernible impacts" on employment estimates from the establishment survey.¹² This is likely due to the survey methodology, which asks employers (businesses and government entities) to count as employed any person who worked or received pay for a pay period that includes the 12th of the month. According to BLS, furloughed federal employees during the partial shutdown were still counted as employed since they worked or received pay for a pay period that included the 12th of October. However, furloughed federal employees were apparent in the household survey data, which showed a 41% increase in the number of individuals reported being on temporary layoff (from about 1.1 million in September to 1.5 million in October). This increase, along with other factors, contributed to the increase in the unemployment rate from September to October.

The total number of individuals reported unemployed held from August to October at about 11.3 million. From September to October, the civilian labor force decreased 0.5% from 155.6 million to 154.8 million.

Employment data for earlier in the year were revised. Employment growth in July was revised downward from 104,000 to 89,000 and growth in August was revised upward from 169,000 initially reported to 238,000, for a net upward revision of 54,000. September's initial estimate of a 148,000 increase was revised up to 163,000.

Production

U.S. gross domestic product, the total output of goods and services produced by labor and property in this country, rose in the third quarter to nearly \$16.9 trillion, stated at an annual rate. Real GDP rose at a 2.8% annual rate in the third quarter, according to the initial estimate from the U.S. Bureau of Economic Analysis (BEA), up from a 2.5% rate of growth in the second quarter and 1.1% in the first quarter. In the third quarter,

¹² Every month BLS conducts an establishment survey of businesses regarding employment based on payrolls and a household survey of individuals regarding their employment status.

Furloughed federal employees were apparent in the household survey data, which showed a 41% increase in the number of individuals reported being on temporary layoff.

Real GDP rose at a 2.8% annual rate in the third quarter.

consumer spending, exports, and residential and nonresidential fixed investment continued to expand. Private inventories rose. Imports, a subtraction in calculation of GDP, were higher. Government spending rose slightly in total as state and local outlays rose while federal expenditures fell.

Total industrial production increased 0.6% in September, seasonally adjusted, and has nearly returned to its peak prior to the 2007-2009 recession. The production of business transit equipment increased 2.3% in September, seasonally adjusted, while consumer automotive products increased 1.8%. Consumer automotive product output is 12.9% higher than in September of last year. However, total manufacturing production increased only 0.1% in September, and was about 2.6% higher than in September of last year. Among major industry groups, the largest increases in manufacturing in September were in motor vehicle and parts (2.0%), machinery (1.5%), and apparel and leather (1.5%). Manufacturing of motor vehicles and parts was up 11.3% over September of last year. There were large gains in the output of utilities in September, which helped increase total industrial production even with the low growth in manufacturing. Output of electrical utilities increased 5.0% in September, seasonally adjusted.

Total industrial production has nearly returned to its peak prior to the 2007-2009 recession.

In September, new orders for nondefense capital goods, excluding aircraft (which can be a volatile sector), decreased 1.3%, seasonally adjusted, according to the Census Bureau. For the first nine months of 2013, this category is up 4.4% from a year earlier. When the aircraft category is included, new orders for nondefense capital goods increased 6.7% in September, seasonally adjusted. Shipments of nondefense capital goods, excluding aircraft, fell 0.2%, seasonally adjusted, in September. Inventories of durable manufactured goods continued to climb in September to its highest level on record.

In October, total factory activity appears to have expanded further, based on the Institute for Supply Management's (ISM) monthly survey of purchasing managers. More respondents to the survey reported increases in production than noted declines, for the fifth consecutive month. In October, the overall ISM index for national factory activity registered its highest number since April 2011. A comparable ISM survey of purchasing managers with organizations other than manufacturers also showed continued expansion in October.

Consumer Spending and Personal Incomes

In September, real disposable personal incomes increased 0.4%, seasonally adjusted, after increasing by the same percentage in August and by 0.2% in July.

In September, real consumer spending edged up 0.1%, seasonally adjusted. Spending for durable goods fell 1.2% while spending on nondurables increased 0.6%, resulting in no net change in spending on total goods. Consumer spending for services increased 0.2%.

For the third quarter of 2013, real consumer spending was up at a 1.5% annual rate, seasonally adjusted, after annualized growth rates of 2.3% in the first quarter and 1.8% in the second. From the second to third quarters, expenditures for durable goods increased at a 7.8% rate while expenditures for services increased at a 0.1% rate.

The annualized rate of nationwide light vehicle sales held level in October at 15.2 million units, seasonally adjusted. From January through October, the light vehicle sales rate has averaged 15.4 million units per year. In August, the annual sales rate rose to 16.0 million, the highest level recorded since 2007.

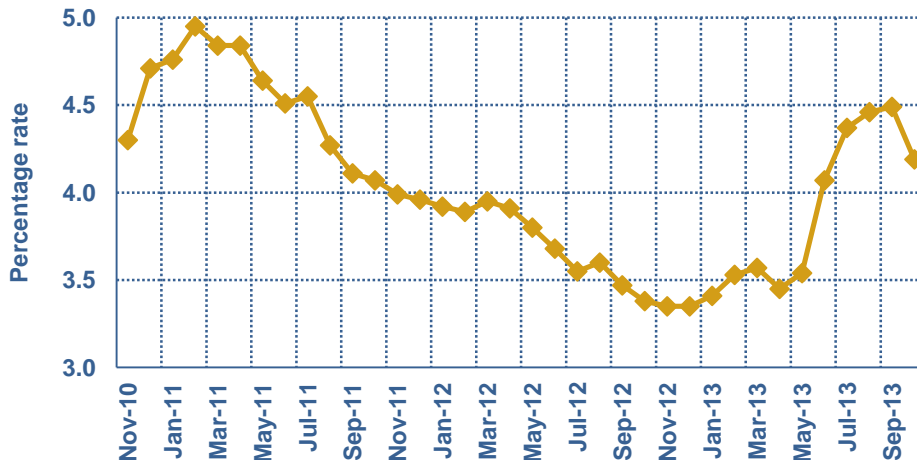
Housing

The annualized rates of existing home sales decreased 1.9% in September to 5.29 million, seasonally adjusted, though sales have been above previous year levels for the past 27 consecutive months, according to the National Association of Realtors (NAR). The sales rate in September was 10.7% above the rate recorded in September 2012. The median sales price was \$199,200, which was up 11.7% from September of last year.

The decrease in the existing homes sales rate in September was expected, according to NAR, due to home prices increasing faster than incomes as well as to increases in mortgage interest rates. Over the past 12 months, the average 30-year, fixed-rate mortgage interest rate has increased from 3.35% in November 2012 to 4.19% in October 2013, according to the Freddie Mac weekly survey. However, rates in October were below the high mark in 2013 of 4.58% set in late August. Since the series began in 1971, the lowest monthly average rates were recorded in November and December of 2012 at 3.35%. Chart 6 shows the nationwide monthly average contract rate on 30-year, fixed-rate conventional home mortgage commitments, from the Freddie Mac survey, since late 2010.

The
annualized
rates of
existing
home sales
decreased
1.9% in
September.

Chart 6: Monthly Average Commitment Rates On 30-Year Fixed-Rate Mortgages, November 2010-October 2013



The average price per gallon nationwide for regular gasoline was \$3.27, its lowest level of the calendar year.

Due to the temporary lapse in federal funding, the Census Bureau has delayed its release of September data for construction spending and new residential construction (which includes data on housing starts). The Bureau will release data for September with their October releases in late November and early December.

Inflation

Consumer Prices

The consumer price index (CPI) for all items less food and energy (core index) increased 0.1% in September, seasonally adjusted, after increasing by the same percentage in August. Core CPI is up 1.7% over September of last year. The all-items CPI increased 0.2% in September. The index for all energy prices increased in September. However, over the past 12 months, prices for energy commodities have fallen 7.0% with decreases in motor fuel (-7.4%) and fuel oil (-3.1%), while prices for energy services have increased 3.7% with gains in utility gas (5.3%) and electricity (3.2%).

As of Monday, November 4, the U.S. Energy Information Administration's weekly survey of prices at the pump for regular gasoline showed the average price per gallon nationwide was \$3.27, its lowest level of the calendar year, below \$3.30 recorded during the first weeks of January. The lower gasoline prices have been attributed to increased supplies, easing demand (partially due to better fuel efficiency), and refineries switching to winter blends, which are cheaper to produce.¹³

¹³ National Public Radio, "Declining Gas Prices Pump Up a Shaky Economy," October 18, 2013.

Producer Prices

The producer price index (PPI) for finished goods decreased 0.1% in September. When food and energy are excluded, the "core" PPI for finished goods increased 0.1%. Finished energy goods increased 0.5% largely due to a 6.0% increase in the home heating oil price index. The PPI for intermediate goods increased 0.1%. The PPI for crude goods increased 0.5%, led by a 2.0% increase in prices for crude energy goods, particularly crude petroleum.

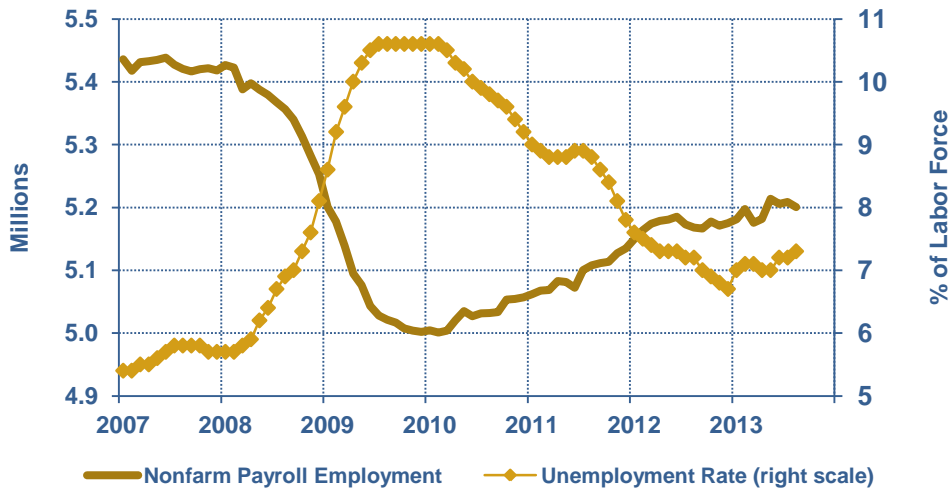
The Ohio Economy

Employment and Unemployment

Due to the federal shutdown in early October, state level employment and unemployment data for September will not be released by the Ohio Department of Job and Family Services' Bureau of Labor Market Information until November 22, which is when the division will also release revised estimates for August and preliminary data for October. The following is an abbreviated version of Ohio labor market data reported in last month's issue of *Budget Footnotes*.

Total nonfarm payroll employment in Ohio fell 8,200 (-0.2%) from July to August, seasonally adjusted, and was 32,500 (0.6%) higher in August than a year earlier. Unemployment edged up to 7.3% of the labor force. Trends in employment and the unemployment rate are shown in Chart 7.

Chart 7: Ohio Employment and Unemployment



The decline in payroll employment in Ohio in August was the second largest decline among the states, trailing only Georgia where employment fell 16,100. As is evident in the chart, Ohio payroll employment has declined on balance since May, falling 13,400 (0.3%)

The pace of growth in employment has slowed compared with one and two years earlier.

during that period. Although the year-over-year trend is still upward, the pace of growth in employment has slowed compared with one and two years earlier. Over the past year, large employment gains were reported in administrative and support services, in health care, and in wholesale and retail trade. Government employment fell, with most of the declines at the local level.

Ohio's statewide unemployment rate in August matched that of the U.S. after being lower than the nationwide average for nearly three years. At 7.3%, the statewide average unemployment rate was up from a recent low of 6.7% in December 2012, and at the highest rate since June 2012. The increase in unemployment since the end of 2012 was nearly matched by the decline during that period in total employment (including the self employed and agricultural workers).

Ohio Home Sales

Home sales in Ohio were 19% higher in September than a year earlier, according to the Ohio Association of Realtors, the 27th consecutive month of year-over-year increases in home sales. Sales in the first nine months of the year totaled 99,585 in the state, up 17.7% from 84,614 homes sold in the same period of 2012. The average sales price for the year to date was \$143,462, up 5.8% from the average price in the same period of last year. The third quarter of 2012 registered the most home sales in Ohio in a quarter since the second quarter of 2007.

Regional Economy

According to a report from the Federal Reserve Bank of Cleveland, economic activity expanded at a "moderate" pace in this part of the country since a previous report in September.¹⁴ The report noted that:

- Reports on manufacturing activity indicated that demand was steady to growing at a "robust" pace over the past couple of months with the strongest activity for suppliers to housing, motor vehicle, and oil and gas industries;
- Sales of new homes were "stable" but below levels recorded in the second quarter of the year;

The third quarter of 2012 registered the most home sales in Ohio in a quarter since the second quarter of 2007.

¹⁴ 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 October 7, 2013, from outside contacts. It is published about every six weeks. The Federal Reserve Bank of Cleveland's district includes all of Ohio and parts of Kentucky, Pennsylvania, and West Virginia.

- Nonresidential builders reported the strongest activity in industrial construction related to manufacturing, distribution, healthcare, and multifamily housing;
- Consumer spending grew over prior year levels with strong demand for school supplies, home furnishings, and cold-weather clothing;
- Vehicle sales are projected to finish 2013 about 10% higher than 2012 due to pent-up demand, the availability of financing, and leasing options;
- Shale-gas production is at "historic highs" in the region, though it may be "moderating" due to lower prices for natural gas.

Vehicle sales are projected to finish 2013 about 10% higher than 2012 in the region.