

# Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

JUNE 2013

## STATUS OF THE GRF

### HIGHLIGHTS

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

GRF tax revenue came in \$165 million above estimate in May, led by solid performances by the income tax, sales and use tax, and cigarette tax. The only substantial negative variance was from the commercial activity tax, and that was due to transitory factors. As noted in the April edition of *Budget Footnotes*, it looks very likely that GRF tax revenue will end FY 2013 above the forecasts made by the Office of Budget and Management, both the original forecast made last August and the updated version presented in February.

Ohio's unemployment rate fell to 7.0% in April, from 7.1% in March, and payroll employment in Ohio increased by about 7,600 jobs. While job growth continues to be modest, payroll amounts withheld under the state income tax so far in FY 2013 imply that Ohio wages and salaries are about 6% higher than they were in FY 2012.

#### **Through May 2013, GRF sources totaled \$27.32 billion:**

- Revenue from the personal income tax was \$519.8 million above the August 2012 estimate;
- Sales and use tax receipts were \$25.8 million above estimate.

#### **Through May 2013, GRF uses totaled \$26.45 billion:**

- Program expenditures were \$662.6 million below the August 2012 estimate, due primarily to Public Assistance and Medicaid (\$363.3 million) and Primary, Secondary, and Other Education (\$146.4 million).

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<b>Table 1: General Revenue Fund Sources</b>				
<b>Actual vs. Estimate</b>				
<b>Month of May 2013</b>				
(\$ in thousands)				
(Actual based on report run in OAKS Actuals Ledger on June 7, 2013)				
	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>	<b>Percent</b>
<b>STATE SOURCES</b>				
<b>TAX REVENUE</b>				
Auto Sales	\$110,362	\$95,500	\$14,862	15.6%
Nonauto Sales and Use	\$649,672	\$600,800	\$48,872	8.1%
<b>Total Sales and Use Taxes</b>	<b>\$760,034</b>	<b>\$696,300</b>	<b>\$63,734</b>	<b>9.2%</b>
Personal Income	\$730,437	\$641,833	\$88,605	13.8%
Corporate Franchise	\$42,437	\$41,000	\$1,437	3.5%
Public Utility	\$28,056	\$39,700	-\$11,644	-29.3%
Kilowatt Hour Excise	\$16,151	\$8,700	\$7,451	85.6%
Natural Gas Consumption (MCF)	\$29,676	\$22,900	\$6,776	29.6%
Commercial Activity Tax	\$157,902	\$195,300	-\$37,398	-19.1%
Foreign Insurance	-\$11,895	-\$12,200	\$305	2.5%
Domestic Insurance	\$189,610	\$142,100	\$47,510	33.4%
Business and Property	\$853	\$15,200	-\$14,347	-94.4%
Cigarette	\$140,416	\$124,500	\$15,916	12.8%
Alcoholic Beverage	\$3,604	\$4,500	-\$896	-19.9%
Liquor Gallonage	\$3,210	\$3,200	\$10	0.3%
Estate	\$8,095	\$10,600	-\$2,505	-23.6%
<b>Total Tax Revenue</b>	<b>\$2,098,587</b>	<b>\$1,933,633</b>	<b>\$164,955</b>	<b>8.5%</b>
<b>NONTAX REVENUE</b>				
Earnings on Investments	\$5	\$0	\$5	---
Licenses and Fees	\$3,495	\$705	\$2,790	395.9%
Other Revenue	\$5,632	\$2,761	\$2,871	104.0%
<b>Total Nontax Revenue</b>	<b>\$9,132</b>	<b>\$3,466</b>	<b>\$5,666</b>	<b>163.5%</b>
<b>TRANSFERS</b>				
Liquor Transfers**	\$0	\$17,000	-\$17,000	-100.0%
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers In	\$0	\$0	\$0	---
<b>Total Transfers In</b>	<b>\$0</b>	<b>\$17,000</b>	<b>-\$17,000</b>	<b>-100.0%</b>
<b>TOTAL STATE SOURCES</b>	<b>\$2,107,719</b>	<b>\$1,954,098</b>	<b>\$153,621</b>	<b>7.9%</b>
Federal Grants	\$503,948	\$751,172	-\$247,224	-32.9%
<b>TOTAL GRF SOURCES</b>	<b>\$2,611,667</b>	<b>\$2,705,270</b>	<b>-\$93,603</b>	<b>-3.5%</b>
*Estimates of the Office of Budget and Management as of August 2012.				
**Liquor Transfers based on a report run in OAKS as of May 31, 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 2012</b>	<b>Percent Change</b>
<b>STATE SOURCES</b>						
<b>TAX REVENUE</b>						
Auto Sales	\$1,007,424	\$980,600	\$26,824	2.7%	\$965,715	4.3%
Nonauto Sales and Use	\$6,705,630	\$6,706,700	-\$1,070	0.0%	\$6,411,493	4.6%
<b>Total Sales and Use Taxes</b>	<b>\$7,713,054</b>	<b>\$7,687,300</b>	<b>\$25,754</b>	<b>0.3%</b>	<b>\$7,377,208</b>	<b>4.6%</b>
Personal Income	\$8,630,559	\$8,110,797	\$519,763	6.4%	\$7,593,799	13.7%
Corporate Franchise	\$273,977	\$145,000	\$128,977	88.9%	\$122,360	123.9%
Public Utility	\$96,557	\$114,700	-\$18,143	-15.8%	\$113,792	-15.1%
Kilowatt Hour Excise	\$288,286	\$285,200	\$3,086	1.1%	\$285,499	1.0%
Natural Gas Consumption (MCF)	\$57,608	\$57,500	\$108	0.2%	\$46,038	25.1%
Commercial Activity Tax	\$786,949	\$847,300	-\$60,351	-7.1%	\$409,595	92.1%
Foreign Insurance	\$277,029	\$270,800	\$6,229	2.3%	\$267,719	3.5%
Domestic Insurance	\$194,560	\$141,900	\$52,660	37.1%	\$177,599	9.5%
Business and Property	\$34,463	\$14,100	\$20,363	144.4%	\$11,381	202.8%
Cigarette	\$770,535	\$746,700	\$23,835	3.2%	\$771,080	-0.1%
Alcoholic Beverage	\$48,952	\$52,600	-\$3,648	-6.9%	\$51,927	-5.7%
Liquor Gallonage	\$36,989	\$36,500	\$489	1.3%	\$35,901	3.0%
Estate	\$100,527	\$64,100	\$36,427	56.8%	\$63,701	57.8%
<b>Total Tax Revenue</b>	<b>\$19,310,046</b>	<b>\$18,574,497</b>	<b>\$735,549</b>	<b>4.0%</b>	<b>\$17,327,598</b>	<b>11.4%</b>
<b>NONTAX REVENUE</b>						
Earnings on Investments	\$7,379	\$4,000	\$3,379	84.5%	\$4,026	83.3%
Licenses and Fees	\$69,489	\$45,072	\$24,417	54.2%	\$64,553	7.6%
Other Revenue	\$535,503	\$34,758	\$500,745	1440.6%	\$29,094	1740.6%
<b>Total Nontax Revenue</b>	<b>\$612,372</b>	<b>\$83,831</b>	<b>\$528,541</b>	<b>630.5%</b>	<b>\$97,673</b>	<b>527.0%</b>
<b>TRANSFERS</b>						
Liquor Transfers**	\$88,000	\$141,000	-\$53,000	-37.6%	\$92,638	-5.0%
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers In	\$9,251	\$5,166	\$4,085	79.1%	\$274,696	-96.6%
<b>Total Transfers In</b>	<b>\$97,251</b>	<b>\$146,166</b>	<b>-\$48,915</b>	<b>-33.5%</b>	<b>\$367,334</b>	<b>-73.5%</b>
<b>TOTAL STATE SOURCES</b>	<b>\$20,019,668</b>	<b>\$18,804,493</b>	<b>\$1,215,175</b>	<b>6.5%</b>	<b>\$17,792,605</b>	<b>12.5%</b>
Federal Grants	\$7,304,635	\$7,587,208	-\$282,573	-3.7%	\$6,883,326	6.1%
<b>TOTAL GRF SOURCES</b>	<b>\$27,324,303</b>	<b>\$26,391,701</b>	<b>\$932,601</b>	<b>3.5%</b>	<b>\$24,675,931</b>	<b>10.7%</b>

\*Estimates of the Office of Budget and Management as of August 2012.  
\*\*Liquor Transfers based on a report run in OAKS as of May 31, 2013.  
*Detail may not sum to total due to rounding.*

# REVENUES

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

## Overview

Through  
May,  
FY 2013  
GRF tax  
sources were  
\$735.5 million  
above OBM's  
August 2012  
estimate.

GRF tax sources had another good month in May, due to strong performances of most major taxes, except the commercial activity tax (CAT). A positive variance of \$165.0 million<sup>1</sup> in May boosted the fiscal year's overage for GRF tax sources to \$735.5 million, up from \$570.6 million at the end of April. However, the May result was partially offset by negative variances of \$247.2 million in federal grants and \$17.0 million in liquor transfers.<sup>2</sup> The shortfall in federal grants increased the fiscal-year-to-date negative variance for this GRF source to \$282.6 million, up from \$35.3 million at the end of April. As a whole, total GRF sources were \$93.6 million below estimates for the month and \$932.6 million above projections for the fiscal year through May. With one month left in this fiscal year, GRF taxes and GRF sources as a whole are expected to finish the fiscal year well above estimates.

Through  
May,  
FY 2013  
GRF sources  
were  
\$932.6 million  
above OBM's  
August 2012  
estimate.

Tables 1 and 2 show GRF sources for the month of May and for FY 2013 through May, respectively. 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 that receive federal funding.

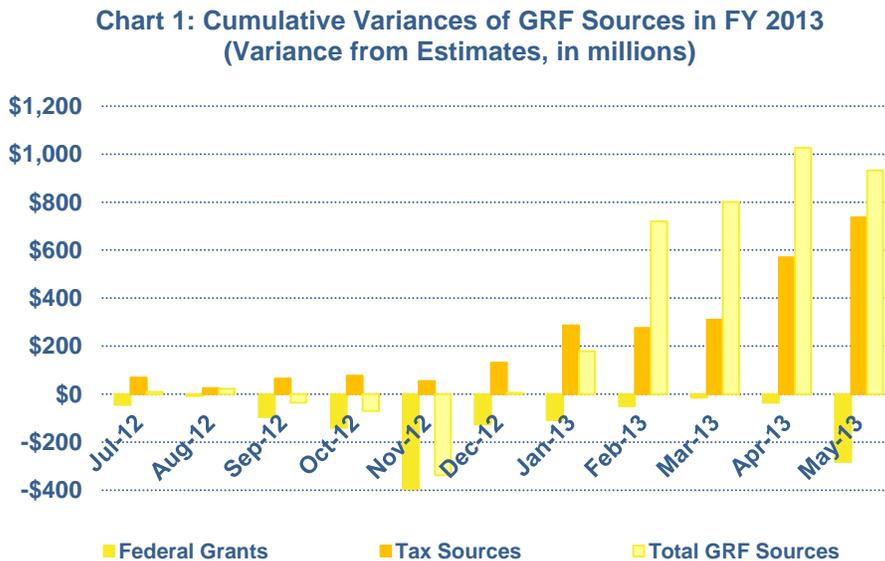
For the month, the personal income tax, the sales and use tax, and the cigarette tax were above estimates by, respectively, \$88.6 million, \$63.7 million, and \$15.9 million. A \$47.5 million positive variance for the domestic insurance tax is primarily timing related; revenue from this tax is likely to end the fiscal year between \$12 million and \$13 million over the full-year estimate. Receipts were also above projections for the kilowatt hour tax (\$7.5 million), and the natural gas consumption tax (\$6.8 million). However, receipts were short of forecasts for the CAT (\$37.4 million), the estate tax (\$2.5 million), and the business and property tax (\$14.3 million). Though the yield of the business and property tax fell short of the May

<sup>1</sup> Actual receipts are compared with estimates released by the Office of Budget and Management (OBM) in August 2012. In February 2013, OBM revised upward by \$432.0 million estimated FY 2013 total GRF sources, but did not revise the original monthly revenue estimates.

<sup>2</sup> The last monthly liquor transfer for June 2013, estimated at \$19.0 million, is also unlikely due to the completion of the transfer of the state liquor franchise to JobsOhio and a deposit of \$495.0 million to the GRF in February 2013. (See the March 2013 issue of *Budget Footnotes*.)

estimate, year-to-date receipts from that tax and the corporate franchise tax are more than twice the revenues collected in FY 2012, thus ensuring a strong finish for these two taxes in FY 2013.

Chart 1 below shows the cumulative variances against estimates for federal grants, tax sources, and total GRF sources.



Compared to receipts in the corresponding period in FY 2012, year-to-date FY 2013 total GRF sources increased \$2.65 billion. Gains of \$1.98 billion in GRF tax revenue, \$514.7 million in nontax revenue, and \$421.3 million in federal grants were partly offset by a decline of \$270.1 million in transfers in. Receipts from the personal income tax grew \$1.04 billion, while revenue from the CAT and the sales and use tax increased \$377.4 million and \$335.8 million, respectively. Growth in GRF receipts from the income tax and the CAT was due in part to changes that H.B. 153 of the 129th General Assembly made to revenue sharing with local governments.

### Personal Income Tax

In May, GRF personal income tax receipts of \$730.4 million were \$88.6 million (13.8%) above estimate, mostly due to positive variances in monthly withholding receipts (\$40.8 million), estimated payments (\$28.9 million), and taxes paid with annual returns (\$23.9 million). Those positive variances were partly reduced by higher than expected refunds (\$14.9 million). Receipts in May 2013 were also \$95.0 million (14.9%) above receipts in the same month in 2012. The personal income tax's performance in May increased its positive year-to-date variance to \$519.8 million, from \$431.2 million at the end of April. Personal income

Through  
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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>3</sup> trust payments, payments associated with annual returns, and miscellaneous payments.

For the fiscal year to date, the GRF received \$8.63 billion from the personal income tax. The table below summarizes year-to-date FY 2013 income tax revenue variances from estimates and from a year earlier by component.

Through

May,

FY 2013

withholding

tax receipts

were

\$125.3 million

above OBM's

August 2012

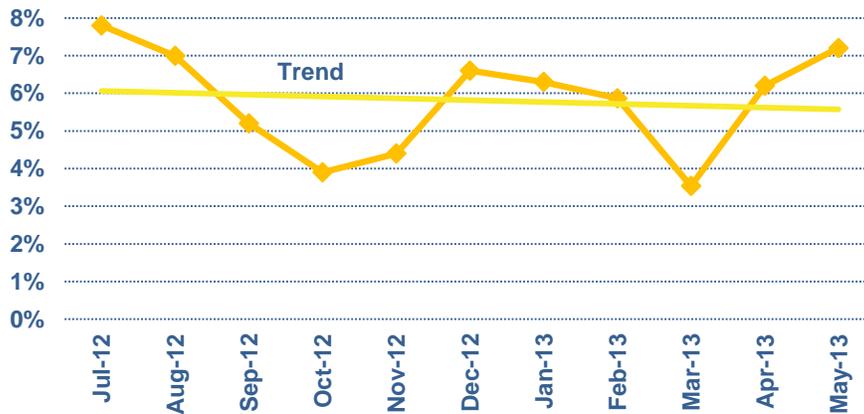
estimate.

FY 2013 Year-to-Date Income Tax Revenue Variances and Changes by Component				
Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2012	
	Amount (\$ in millions)	Percentage (%)	Amount (\$ in millions)	Percentage (%)
Withholding	\$125.3	1.7%	\$431.8	6.1%
Quarterly Estimated Payments	\$189.4	19.6%	\$146.5	14.5%
Trust Payments	\$43.6	84.3%	\$43.6	84.5%
Annual Return Payments	\$299.7	28.1%	\$289.1	26.9%
Miscellaneous Payments	-\$41.2	-31.0%	-\$41.2	-30.9%
<b>Gross Collections</b>	<b>\$616.7</b>	<b>6.4%</b>	<b>\$869.9</b>	<b>9.3%</b>
Less Refunds	\$91.7	7.8%	\$56.7	4.7%
Less LGF Distribution	\$5.2	1.6%	-\$223.6	-40.7%
<b>Income Tax Revenue</b>	<b>\$519.8</b>	<b>6.4%</b>	<b>\$1,036.8</b>	<b>13.7%</b>

FY 2013 GRF receipts from the income tax were \$1.04 billion (13.7%) above receipts in the corresponding period in FY 2012. Growth in income tax receipts throughout the fiscal year has been largely due to gains in employer withholding and quarterly estimated payments and reduced distributions to the LGF. Through May, revenues from employer withholding in FY 2013 were \$431.8 million (6.1%) above receipts in this category in FY 2012, and quarterly estimated payments increased \$146.5 million (14.5%). Chart 2 below illustrates the trend in employer withholding receipts in FY 2013, indicating growth accelerating in the latest months. Distributions to the LGF were \$223.6 million (40.7%) below amounts in that category through May in FY 2012, due to H.B. 153 which reduced revenue sharing of state tax revenues with local governments.

<sup>3</sup> Quarterly estimated payments are due from taxpayers who expect to be underwithheld by more than 10% and who expect to have less withheld than their taxes owed in the prior year. Payments are generally 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.

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



## Sales and Use Tax

May GRF receipts from the sales and use tax of \$760.0 million were \$63.7 million (9.2%) above estimate and \$82.3 million (12.1%) above receipts in May 2012. Through May, FY 2013 GRF sales and use tax receipts totaled \$7.71 billion, \$25.8 million (0.3%) above estimate and \$335.8 million (4.6%) above receipts in FY 2012. For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections<sup>4</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. Through May, the auto sales and use tax was above projections while the nonauto sales and use tax was slightly lagging anticipated receipts.

### Nonauto Sales and Use Tax

May GRF receipts from the nonauto sales and use tax were \$649.7 million, \$48.9 million (8.1%) above estimate. Those receipts were also \$69.0 million (11.9%) above May 2012 receipts. Year-to-date GRF nonauto sales and use tax receipts were \$6.71 billion for FY 2013, just \$1.1 million below estimate. Through May, FY 2013 revenue from this tax was \$294.1 million (4.6%) above receipts through May in FY 2012. Chart 3 below shows the trend in FY 2013 nonauto sales and use tax monthly

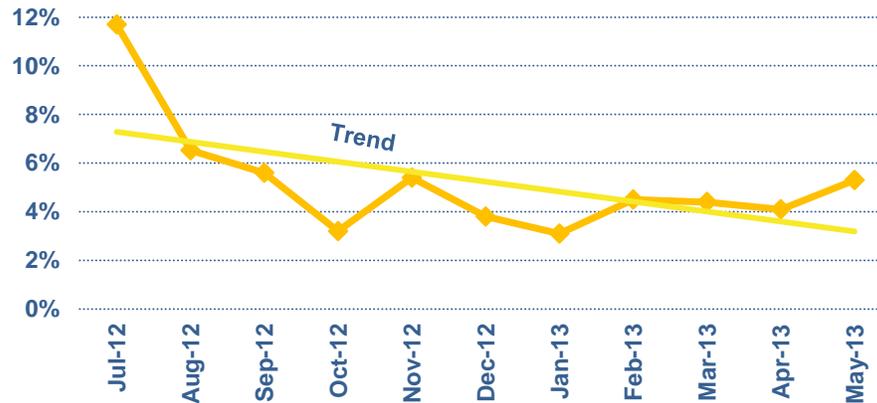
<sup>4</sup> The clerks of court generally make auto sales and use tax payments on Monday for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled. Therefore, auto sales and use tax receipts largely reflect vehicles sold and titled during the month.

Through  
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Through May, FY 2013 nonauto sales and use tax receipts were \$1.1 million below OBM's August 2012 estimate.

receipts against prior year receipts in the same month. Though the monthly performance of the tax has been uneven this fiscal year, the tax base continues to expand.

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

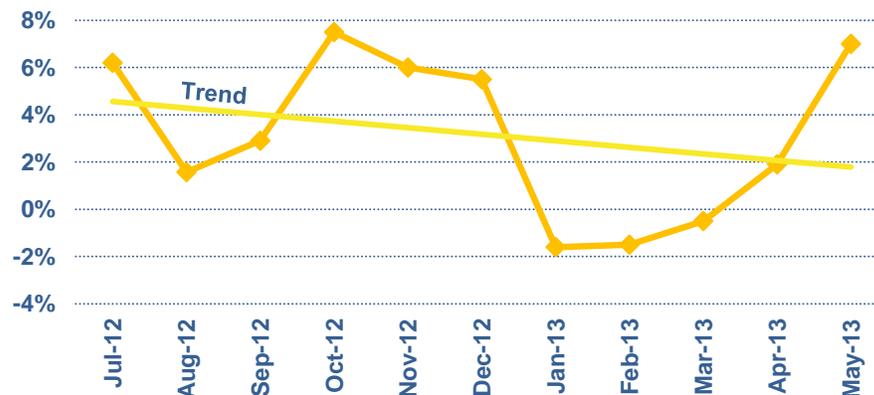


**Auto Sales and Use Tax**

GRF receipts from the auto sales and use tax totaled \$110.4 million in May. Those receipts were \$14.9 million (15.6%) above estimate and \$13.3 million (13.7%) above May 2012 receipts. Through May, FY 2013 GRF receipts from the auto sales and use tax of \$1.01 billion were \$26.8 million (2.7%) above estimate and \$41.7 million (4.3%) above receipts for the corresponding period in FY 2012. Chart 4 below compares FY 2013 monthly auto sales and use tax receipts with year-ago receipts in the same period. The auto sales and use tax has reversed weaker revenues earlier in 2013 and improved markedly in the last few months.

Through May, FY 2013 auto sales and use tax receipts were \$26.8 million above OBM's August 2012 estimate.

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



## Commercial Activity Tax

The final payment of the fiscal year from CAT taxpayers who pay quarterly is due May 10, 2013 provided \$157.9 million in GRF revenue. Those receipts were \$37.4 million (19.1%) below estimate but \$60.3 million (61.8%) above May 2012 revenue. Through May, FY 2013 CAT receipts to the GRF totaled \$786.9 million, \$60.4 million (7.1%) below estimate, but were \$377.3 million (92.1%) above receipts in the corresponding period in FY 2012. The revenue increase compared to FY 2012 is largely due to H.B. 153 which increased the share of receipts distributed to the GRF from the CAT with corresponding decreases to local government funds that share revenues from those tax sources. The GRF share of CAT receipts doubled to 50% in FY 2013, up from 25% in FY 2012. CAT receipts that are deposited into the local government funds 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.

The CAT is substantially below estimates this fiscal year due to larger than expected refunds but also a one-time large decrease in revenue from a provision in H.B. 508 of the 129th General Assembly.<sup>5</sup> The impact of H.B. 508 decreased FY 2013 all-funds CAT revenues below the level of FY 2012. Through May, all-funds CAT revenue of \$1.59 billion was \$51.6 million (3.1%) below receipts in the corresponding period last year. June revenue from this tax source, which was estimated at \$5.4 million, is unlikely to erase the current shortfall.

## Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax of \$140.4 million in May 2013 were \$15.9 million (12.8%) above estimate and \$11.0 million (8.5%) above receipts in the same month in FY 2012. Through May, FY 2013 receipts of \$770.5 million were \$23.8 million (3.2%) above estimate. Receipts from cigarette sales were \$721.7 million, and sales of products other than cigarettes provided \$48.8 million.

<sup>5</sup> H.B. 508 required CAT quarterly taxpayers to apply the full \$1 million exclusion from gross receipts to the first quarter of a calendar year, and allowed them to carry forward unused exclusion amounts to subsequent quarters within the same year. Under previous law, such taxpayers could apply \$250,000 of the exclusion amount to each calendar quarter and carry forward unused amounts to three subsequent quarters, regardless of whether the subsequent quarter was in the same calendar year. According to the Department of Taxation, this provision resulted in a decrease of several tens of millions of dollars in revenue this fiscal quarter.

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Compared to receipts through May in FY 2012, total receipts from the tax were \$0.5 million (0.1%) lower. Receipts from the sale of cigarettes decreased by \$1.5 million, and revenue from the sale of other tobacco products increased by about \$1.0 million.

<b>PROGRAM</b>	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>	<b>Percent</b>
Primary, Secondary, and Other Education	\$616,023	\$768,381	-\$152,358	-19.8%
Higher Education	\$168,422	\$189,249	-\$20,827	-11.0%
<b>Total Education</b>	<b>\$784,445</b>	<b>\$957,630</b>	<b>-\$173,185</b>	<b>-18.1%</b>
Public Assistance and Medicaid	\$820,560	\$1,156,089	-\$335,529	-29.0%
Health and Human Services	\$84,732	\$61,265	\$23,468	38.3%
<b>Total Welfare and Human Services</b>	<b>\$905,293</b>	<b>\$1,217,354</b>	<b>-\$312,061</b>	<b>-25.6%</b>
Justice and Public Protection	\$126,253	\$128,741	-\$2,489	-1.9%
Environment and Natural Resources	\$21,956	\$4,970	\$16,986	341.7%
Transportation	\$359	\$1,047	-\$688	-65.7%
General Government	\$12,761	\$15,005	-\$2,243	-15.0%
Community and Economic Development	\$4,505	\$7,964	-\$3,459	-43.4%
Capital	\$0	\$0	\$0	---
<b>Total Government Operations</b>	<b>\$165,833</b>	<b>\$157,727</b>	<b>\$8,107</b>	<b>5.1%</b>
Tax Relief and Other	\$324,955	\$373,800	-\$48,845	-13.1%
Debt Service	\$83	\$0	\$83	---
<b>Total Other Expenditures</b>	<b>\$325,038</b>	<b>\$373,800</b>	<b>-\$48,762</b>	<b>-13.0%</b>
<b>Total Program Expenditures</b>	<b>\$2,180,609</b>	<b>\$2,706,511</b>	<b>-\$525,901</b>	<b>-19.4%</b>
<b>TRANSFERS</b>				
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers Out	\$8,008	\$0	\$8,008	---
<b>Total Transfers Out</b>	<b>\$8,008</b>	<b>\$0</b>	<b>\$8,008</b>	<b>---</b>
<b>TOTAL GRF USES</b>	<b>\$2,188,618</b>	<b>\$2,706,511</b>	<b>-\$517,893</b>	<b>-19.1%</b>
* August 2012 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 2013 as of May 31, 2013**  
(\$ in thousands)  
(Actual based on OAKS reports run June 5, 2013)

<i>PROGRAM</i>	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>	<b>Percent</b>	<b>FY 2012</b>	<b>Percent Change</b>
Primary, Secondary, and Other Education	\$6,188,885	\$6,335,277	-\$146,392	-2.3%	\$5,927,114	4.4%
Higher Education	\$1,937,025	\$1,967,810	-\$30,785	-1.6%	\$1,942,282	-0.3%
<b>Total Education</b>	<b>\$8,125,910</b>	<b>\$8,303,087</b>	<b>-\$177,177</b>	<b>-2.1%</b>	<b>\$7,869,397</b>	<b>3.3%</b>
Public Assistance and Medicaid	\$12,434,814	\$12,798,111	-\$363,298	-2.8%	\$11,695,072	6.3%
Health and Human Services	\$918,691	\$927,579	-\$8,888	-1.0%	\$917,612	0.1%
<b>Total Welfare and Human Services</b>	<b>\$13,353,505</b>	<b>\$13,725,691</b>	<b>-\$372,186</b>	<b>-2.7%</b>	<b>\$12,612,683</b>	<b>5.9%</b>
Justice and Public Protection	\$1,792,696	\$1,866,473	-\$73,777	-4.0%	\$1,732,184	3.5%
Environment and Natural Resources	\$81,508	\$66,284	\$15,224	23.0%	\$69,075	18.0%
Transportation	\$8,655	\$9,955	-\$1,300	-13.1%	\$9,180	-5.7%
General Government	\$294,092	\$322,947	-\$28,856	-8.9%	\$259,551	13.3%
Community and Economic Development	\$80,624	\$93,293	-\$12,669	-13.6%	\$94,102	-14.3%
Capital	\$137	\$0	\$137	---	\$120	14.4%
<b>Total Government Operations</b>	<b>\$2,257,713</b>	<b>\$2,358,952</b>	<b>-\$101,240</b>	<b>-4.3%</b>	<b>\$2,164,212</b>	<b>4.3%</b>
Tax Relief and Other	\$1,600,869	\$1,590,065	\$10,804	0.7%	\$1,680,459	-4.7%
Debt Service	\$760,504	\$783,260	-\$22,756	-2.9%	\$327,323	132.3%
<b>Total Other Expenditures</b>	<b>\$2,361,373</b>	<b>\$2,373,325</b>	<b>-\$11,952</b>	<b>-0.5%</b>	<b>\$2,007,782</b>	<b>17.6%</b>
<b>Total Program Expenditures</b>	<b>\$26,098,500</b>	<b>\$26,761,055</b>	<b>-\$662,554</b>	<b>-2.5%</b>	<b>\$24,654,074</b>	<b>5.9%</b>
<b>TRANSFERS</b>						
Budget Stabilization	\$235,096	\$235,096	\$0	0.0%	\$246,899	-4.8%
Other Transfers Out	\$118,890	\$113,071	\$5,820	5.1%	\$365,955	-67.5%
<b>Total Transfers Out</b>	<b>\$353,987</b>	<b>\$348,167</b>	<b>\$5,820</b>	<b>1.7%</b>	<b>\$612,853</b>	<b>-42.2%</b>
<b>TOTAL GRF USES</b>	<b>\$26,452,487</b>	<b>\$27,109,222</b>	<b>-\$656,735</b>	<b>-2.4%</b>	<b>\$25,266,927</b>	<b>4.7%</b>

\* August 2012 estimates of the Office of Budget and Management.  
Detail may not sum to total due to rounding.

**Table 5: FY 2013 Medicaid Expenditures**  
(\$ in thousands)  
(Actuals based on OAKS report run on June 5, 2013)

Medicaid (600525) Payments by Service Category	May				Year to Date			
	Actual	Estimate	Variance	Percent Variance	Actual thru May	Estimate thru May	Variance	Percent Variance
Managed Care Plans	\$581,828	\$676,843	-\$95,015	-14.0%	\$6,452,329	\$7,002,523	-\$550,194	-7.9%
Nursing Facilities	\$203,350	\$198,956	\$4,394	2.2%	\$2,247,314	\$2,245,593	\$1,721	0.1%
Hospitals	\$107,652	\$110,275	-\$2,623	-2.4%	\$1,229,661	\$1,270,954	-\$41,293	-3.2%
Aging Waivers	\$45,388	\$56,151	-\$10,763	-19.2%	\$498,773	\$605,849	-\$107,076	-17.7%
Prescription Drugs	\$74,284	\$41,808	\$32,476	77.7%	\$473,871	\$482,180	-\$8,309	-1.7%
Physicians	\$25,666	\$30,651	-\$4,985	-16.3%	\$297,619	\$323,347	-\$25,728	-8.0%
ODJFS Waivers	\$19,143	\$20,724	-\$1,581	-7.6%	\$230,640	\$244,967	-\$14,327	-5.8%
All Other	\$201,972	\$207,274	-\$5,302	-2.6%	\$2,160,888	\$2,204,006	-\$43,118	-2.0%
<b>Total Payments</b>	<b>\$1,259,283</b>	<b>\$1,342,682</b>	<b>-\$83,399</b>	<b>-6.2%</b>	<b>\$13,591,095</b>	<b>\$14,379,419</b>	<b>-\$788,324</b>	<b>-5.5%</b>
Total Offsets (non-GRF)	-\$522,743	-\$264,725	-\$258,018	97.5%	-\$2,150,871	-\$2,610,847	\$459,976	-17.6%
Total 600525 (net of offsets)	\$736,540	\$1,077,957	-\$341,417	-31.7%	\$11,440,224	\$11,768,572	-\$328,348	-2.8%
Medicare Part D (600526)	\$26,158	\$23,163	\$2,995	12.9%	\$268,246	\$254,751	\$13,495	5.3%
<b>Total GRF</b>	<b>\$762,698</b>	<b>\$1,101,120</b>	<b>-\$338,422</b>	<b>-30.7%</b>	<b>\$11,708,470</b>	<b>\$12,023,323</b>	<b>-\$314,853</b>	<b>-2.6%</b>
<b>Total All Funds</b>	<b>\$1,285,441</b>	<b>\$1,365,845</b>	<b>-\$80,404</b>	<b>-5.9%</b>	<b>\$13,859,341</b>	<b>\$14,634,170</b>	<b>-\$774,829</b>	<b>-5.3%</b>

Estimates from the Ohio Department of Job and Family Services (ODJFS)

# EXPENDITURES

– Russ Keller, Economist, 614-644-1751

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

## Overview

Through May, FY 2013 GRF program expenditures totaled \$26.10 billion. These expenditures were \$662.6 million below the estimate released by the Office of Budget and Management (OBM) in August 2012.<sup>6</sup> GRF transfers out totaled \$354.0 million, which was \$5.8 million above estimate. GRF uses as a whole amounted to \$26.45 billion, which was \$656.7 million below estimate. Tables 3 and 4 show GRF uses for the month of May, and for FY 2013 through May, respectively.

Program categories with significant negative year-to-date variances include Public Assistance and Medicaid (\$363.3 million), Primary, Secondary, and Other Education (\$146.4 million), Justice and Public Protection (\$73.8 million), Higher Education (\$30.8 million), and General Government (\$28.9 million). Together, these five program categories account for \$643.1 million (97.9%) of the total negative year-to-date variance in GRF uses. These variances are briefly discussed below.

## Public Assistance and Medicaid

Year-to-date GRF expenditures for the Public Assistance and Medicaid program category totaled \$12.43 billion, \$363.3 million (2.8%) below estimate. Medicaid, including both state and federal shares, accounts for about 94% of expenditures in this program category. Table 5 details Medicaid GRF expenditures by service category and also summarizes Medicaid expenditures across all funds. Medicaid is mainly funded with the GRF but is also supported by various non-GRF funds. Through May, FY 2013 Medicaid GRF expenditures totaled \$11.71 billion, which was \$314.9 million (2.6%) below estimate. The federal share of Medicaid expenditures is about 64% and the state's share is about 36%. Across all funds, year-to-date Medicaid expenditures amounted to \$13.86 billion, which was \$774.8 million (5.3%) below estimate.

<sup>6</sup> In February 2013, as part of the executive budget process, OBM revised GRF expenditure estimates, mainly Medicaid, for FY 2013 as a whole. However, for purposes of this report, the variance analysis will continue to be based on OBM's August 2012 estimate. The monthly GRF expenditure estimates for the remaining months of FY 2013 were not revised.

Through

May,

FY 2013

GRF uses

were

\$656.7 million

below OBM's

August 2012

estimate.

Year-to-date

GRF

Medicaid

expenditures

were

\$363.3 million

below OBM's

August 2012

estimate.

As seen from Table 5, Medicaid expenditures were below their year-to-date estimates for all but two categories. The Managed Care Plans category had the largest variance at \$550.2 million (7.9%), primarily due to lower than expected caseloads and capitated rates. The Aging Waivers category had the next largest negative variance of \$107.1 million (17.7%), due partially to the timing of payments and partially to lower than estimated service costs per member.

For the month of May, GRF expenditures totaled \$762.7 million, which was \$338.4 million (30.7%) below estimate. Most of this negative GRF variance is the result of higher than estimated non-GRF Medicaid payments, which totaled \$522.7 million and was above estimate by \$258.0 million (97.5%). More non-GRF dollars were available in May due to the collection of hospital assessment revenue in that month. The Ohio Department of Job and Family Services (ODJFS) had expected to receive the assessment revenue earlier in the fiscal year and had planned to use it for Medicaid expenditures incrementally each month. The delay in collecting the hospital assessment revenue resulted in positive GRF variances for Medicaid payments from December through April. In those months, expenditures of non-GRF funds were below estimate by roughly \$141 million each month. The negative GRF Medicaid variance is expected to increase in the last month of the fiscal year as more hospital assessment revenue will be used for Medicaid payments in that month.

### Primary, Secondary, and Other Education

Year-to-date GRF expenditures for Primary, Secondary, and Other Education total \$6.19 billion, \$146.4 million (2.3%) below estimate. This variance was primarily due to a timing issue related to school foundation payments, which are made twice per month. The first payment for the month of June was originally anticipated to be processed through the state accounting system at the end of May, but it was actually booked into the system in early June. School foundation payments are expected to total \$6.33 billion for FY 2013. They are mainly supported by GRF appropriation items 200550, Foundation Funding, and 200502, Pupil Transportation, in the Ohio Department of Education budget. In May, expenditures from these two items were below estimates by \$136.3 million and \$11.8 million, respectively. Total expenditures from the Primary, Secondary, and Other Education program category were \$616.0 million in May, \$152.4 million (19.8%) below estimate. This monthly variance changed the category's year-to-date variance from a positive \$6.0 million at the end of April to a negative \$146.4 million at the end of May.

Across all funds, year-to-date Medicaid expenditures were \$774.8 million below OBM's August 2012 estimate.

Year-to-date  
Justice and  
Public  
Protection  
expenditures  
were  
\$73.8 million  
below OBM's  
August 2012  
estimate due  
partially to  
personnel  
decreases at  
DRC and  
DYS.

## Justice and Public Protection

Year-to-date GRF expenditures for Justice and Public Protection were \$1.79 billion, \$73.8 million (4.0%) below estimate. The Department of Rehabilitation and Correction (DRC) contributed \$59.0 million to the category's negative year-to-date variance. The Department of Youth Services (DYS) and the Supreme Court of Ohio accounted for another \$7.3 million and \$5.2 million, respectively. DRC's GRF appropriation item 501321, Institutional Operations, was below its 11-month estimate by \$48.3 million, and items 502321, Mental Health Services, and 505321, Institution Medical Services, were below estimates by \$6.8 million and \$4.4 million, respectively. The largest GRF appropriation within the DYS budget, item 470401, RECLAIM Ohio, was below its year-to-date estimate by \$4.9 million. Expenditures from DRC and DYS were below estimates for many months in FY 2013. As reported in several issues of OBM's *Monthly Financial Report*, these negative variances were mainly due to an overall personnel decrease in these two agencies, and also due to the implementation of various cost savings initiatives in medical services in the case of DRC. Year-to-date expenditures from the Supreme Court's GRF appropriation item 005321, Operating Expenses, were \$5.0 million below estimate. This item helps support the salaries and benefits of Ohio's judges and employees of Ohio's appellate courts as well as the Supreme Court's administration.

## Higher Education

Year-to-date GRF expenditures for Higher Education totaled \$1.94 billion. These expenditures were below estimate by \$30.8 million (1.6%), of which \$20.8 million occurred in the month of May. The Board of Regents (BOR) is the only agency that is included in this program category. Many GRF appropriation items contributed to BOR's negative variance in the month of May. Two items that had the largest monthly negative variances were items 235563, Ohio College Opportunity Grant, and 235438, Choose Ohio First Scholarship. Their expenditures in May were \$6.4 million and \$3.1 million below estimate, respectively. Item 235438 also had the largest year-to-date negative variance at \$14.7 million. Items 235599, National Guard Scholarship, and 235563 were also \$7.8 million and \$5.7 million, respectively, below their year-to-date estimates. Scholarship disbursements may vary from estimate from time to time as they are somewhat dependent on timing of requests for disbursements from individual scholarship recipients and institutions that receive scholarship disbursements.

## General Government

Year-to-date GRF expenditures for General Government totaled \$294.1 million, \$28.9 million (8.9%) below estimate. This program category includes six executive agencies, four out of the five statewide elected offices,<sup>7</sup> and all six legislative agencies. The six executive agencies registered a combined negative year-to-date variance of \$14.9 million, of which \$11.2 million was attributable to the Department of Administrative Services. Total year-to-date expenditures from the Auditor of State, the Office of the Governor, the Secretary of State, and the Treasurer of State were \$5.1 million below their estimates. Finally, the six legislative agencies accounted for a combined negative year-to-date variance of \$8.8 million.

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<sup>7</sup> The other statewide elected office, the Office of the Attorney General, is included in the Justice and Public Protection category.

# ISSUE UPDATES

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## **DAS Launches "Ohio Marketplace" eProcurement System**

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

In February 2013, the Department of Administrative Services (DAS) awarded a three-year, \$4.5 million contract with SciQuest to implement the Ohio Marketplace system, an electronic catalog and invoicing procurement system for use by state agencies. The system is intended to streamline the procure-to-pay process and improve compliance with state term contracts. Additionally, the system will standardize invoice processing, improving state agencies' ability to take advantage of "2/10 net 30" discount terms.<sup>8</sup> The system will also increase the accuracy and availability of procurement spending data. Implementation is planned in two phases and will be piloted by a limited number of state agencies. Electronic catalog functions will begin in July 2013, followed by the electronic invoicing functions in October 2013. In addition to state agencies, the system has the potential to be extended to political subdivisions and nonprofit organizations that are members of the Cooperative Purchasing Program. The Cooperative Purchasing Program, overseen by DAS, allows political subdivisions and nonprofit organizations to receive state negotiated discounts on goods and services by making purchases through state term contracts.

Based in North Carolina, SciQuest provides source-to-settle supply chain on-demand software solutions to help organizations improve procurement of goods and services. The contract with SciQuest was made available to DAS through the National Association of State Procurement Officials' Western States Contracting Alliance (WSCA). WSCA is a multistate purchasing consortium intended to improve strategic purchasing through collaboration between states. In a manner similar to the way political subdivisions in Ohio may purchase on state negotiated contracts through the Cooperative Purchasing Program, DAS was able to contract with SciQuest through WSCA's formal multistate cooperative solicitation. The contract with SciQuest will be jointly funded by DAS and the Office of Budget and Management using GRF and non-GRF funds supported by fees paid by state agencies.

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<sup>8</sup> This is a discount widely used in business-to-business sales wherein buyers can opt for a 2% discount for payment within ten days or pay the full purchase price in 30 days.

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## **Department of Education Announces Winners of Early Literacy and Reading Readiness Competitive Grants**

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

On April 30, 2013, the Ohio Department of Education (ODE) announced the 91 awardees of the Early Literacy and Reading Readiness Grant Program created in H.B. 487 of the 129th General Assembly. Under the program, \$13 million of lottery profits was set aside in FY 2013 for competitive grants to school districts, community schools, and consortia consisting of three or more partners to support reading intervention efforts that assist students in improving reading skills so that they are able to read at grade level by the end of the third grade. Pursuant to H.B. 487, priority was given to applications submitted by consortia, which could include school districts, community schools, educational service centers, early childhood centers, libraries, and other educational entities. As a result, consortia received nearly 90% of the funding awarded. The maximum award amount for a consortium was \$250,000 while individual applicants were limited to \$100,000. Of the 91 grant recipients, 71 are consortia, which received an average of \$162,851, and 20 are individual districts or community schools, which received an average of \$71,878.

According to ODE, the applicants with the most creative concepts and greatest potential for impact were awarded funding. Awardees may spend the funds on school-based intervention programs and services, outside service providers for intervention services to retained third graders, research-based reading intervention resources and materials, and technology-based reading intervention programs. Within these programs and services, eligible uses of the funds include instruction (up to 100% of the grant award), support services (up to 20%), professional development (up to 20%), family and community engagement (up to 15%), and student transportation to intervention opportunities (up to 10%). The list of awardees may be accessed on ODE's web site by clicking on "Learning Supports" in the navigation bar at the top of the page and then clicking on "The Third Grade Reading Guarantee" link. A link to the list of awardees is found on that page under the heading "Early Literacy and Reading Readiness Competitive Grant."

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## **DNR Has Set Aside \$2.5 million in FY 2013 Funding for Programs that Mitigate Algae Blooms**

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

As of May 2013, the Ohio Department of Natural Resources (DNR) has encumbered nearly \$2.5 million in FY 2013 GRF funding for the implementation of agricultural practices to reduce runoff that has been contributing to harmful algae blooms in the Western Lake Erie Basin. These funds were originally appropriated in

GRF line item 725505, Healthy Lake Erie Fund, which was established in H.B. 487 of the 129th General Assembly to implement recommendations of the Agriculture Nutrients and Water Quality Working Group, with priority given to "4R" nutrient stewardship practices (4R stands for the right fertilizer source at the right rate, at the right time, and in the right place). Funds may also be used for enhanced soil testing in the Western Lake Erie Basin, monitoring the quality of Lake Erie and its tributaries, and conducting research and establishing pilot projects that have the goal of reducing algae blooms in Lake Erie. H.B. 487 appropriated \$3.35 million overall for FY 2013, of which up to \$350,000 was set aside for monitoring inland lakes and stream water quality.

Of the nearly \$2.5 million encumbered so far, approximately \$1.4 million is designated for the implementation of best management practices for agricultural nutrient application, about \$960,000 is for the installation of drainage control structures, and \$145,000 is for technical services to be performed by local soil and water conservation districts (SWCDs). In addition, of the total amount encumbered, about \$851,000 has actually been distributed to SWCDs for reimbursement to producers for best management practices that have been implemented since the program's inception. According to DNR, funds that have not yet been encumbered for FY 2013 will be carried over to FY 2014 for the establishment of water quality monitoring stations on the Maumee River and select tributaries.

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### **Lake Erie Commission Awards Research Grants to Improve Water Quality in Lake's Watershed**

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

In April, the Ohio Lake Erie Commission announced the award of two grants totaling \$60,000 to conduct research aimed at improving water quality in the Lake Erie watershed. Case Western Reserve University received a \$30,000 grant to investigate internal phosphorus loading in Lake Erie to improve the ability of resource managers to assess their strategies and make informed decisions regarding nutrients and hypoxia in Lake Erie. A second \$30,000 grant was awarded to Cleveland State University to create and analyze an inventory of water conservation measures by different industries using water in the Lake Erie basin. The results are intended to assist the state of Ohio in developing a water conservation and efficiency program.

The grant funding is being drawn from the Lake Erie Protection Fund (Fund 4C00) in support of the Commission's "targeted grants" program. The amounts available for this purpose and eligible projects change annually to reflect the current challenges facing the Lake Erie watershed. The primary revenue source of Fund 4C00 is a \$15 contribution paid by Ohio motorists for the issuance of a Lake Erie license plate displaying the Marblehead Lighthouse. After netting in excess of \$600,000 annually prior to FY 2007, license plate revenues have declined to less than \$250,000 annually in recent years.

## State Library Awards \$115,000 in "Mini-Grants" to Seven Libraries and Organizations

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

In late March, the State Library of Ohio (LIB) announced that the State Library Board awarded seven libraries and organizations nearly \$115,000 in federal Library Services and Technology Act (LSTA) mini-grants. According to LIB, awards can be used for items and activities that will assist a library or organization in meeting two purposes of LSTA: (1) technological innovation and electronic linkages and (2) services in underserved populations. Each recipient must provide a match of 25% of the total project amount in order to be eligible for the LSTA award. The current mini-grant program began April 1, 2013 and will run through August 31, 2013. The entities receiving the grant, the amounts each was awarded, and descriptions of the program's activities are listed below.

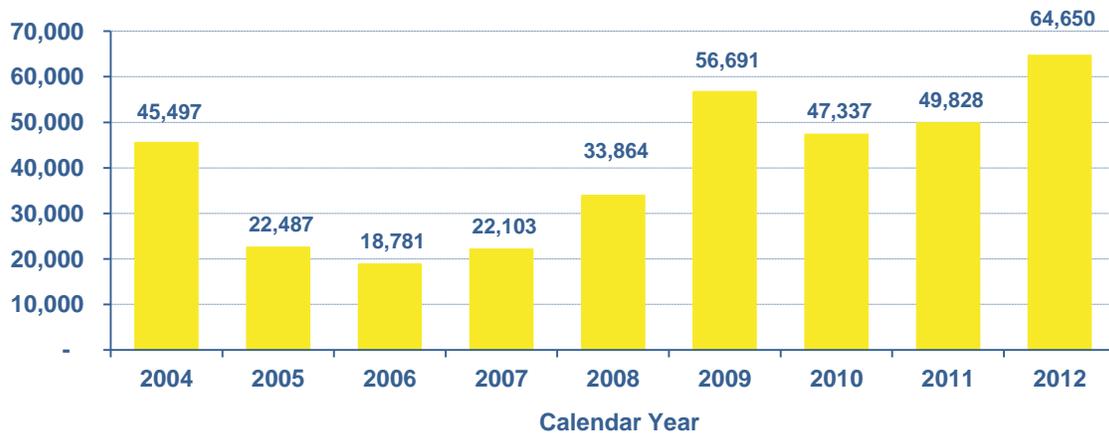
- **Adams County Library (\$24,000).** Funds will be used to purchase a mobile library to deliver library materials to underserved populations, including senior citizens living in senior or nursing homes, students attending schools with no libraries, and residents in remote townships.
- **Andover Public Library (\$24,000).** Funds will allow six area independent public libraries in Ashtabula County to participate in the CLEVENET, a consortium of 38 public library systems located across 11 counties in Northeast Ohio.
- **Grand Valley Public Library (\$16,928).** Funds will allow the library and the area high school library to join the Serving Every Ohio (SEO) Library consortium, which consists of 89 library systems located in over 200 physical locations in 46 counties across Ohio.
- **Miami University Middletown (\$21,212).** Funds will allow the university to develop a technology lending hub at the Gardner-Harvey Library.
- **Ohio Historical Society (\$7,329).** Funds will be used to develop an application to increase access to quality resources regarding Ohio's Native American history.
- **Ohioana Library Association (\$2,081).** Funds will be used to digitize seven scrapbooks in the Ohioana collection and to make the scrapbooks available through the Ohio Memory Project.
- **Portage County District Library (\$18,922).** Funds will be used to partner with the Deerfield Township Trustees to establish a part-time computer lab in the township hall. A reference librarian will be made available to provide computer training, to promote library resources, and to answer reference requests.

## Number of New Concealed Carry Licenses Issued Reaches Peak in First Quarter of 2013

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

According to a May 2013 report from the Ohio Attorney General's office, county sheriffs across the state issued a total of 31,407 new regular concealed carry licenses from January 1 through March 31, 2013,<sup>9</sup> which was the highest number issued in one quarter since the licenses first became available in 2004. The chart below shows the number of new licenses issued each year since 2004. After the initial year, the number of new licenses fell until reaching a new high in 2009 and again in 2012. Although 2012 saw the highest number of new licenses so far, the number issued in the first quarter of 2013 was almost 50% of the total for the entire 2012 calendar year and almost double the 16,823 issued for the first quarter of 2012. In addition to new licenses, 6,354 regular licenses were renewed during the first quarter of 2013 compared with 1,300 renewals in the first quarter of 2012. Licenses must be renewed every five years to remain valid.

**Chart 5: Number of New Regular Licenses Issued**



Clermont County issued the most regular (new and renewal) licenses in the first quarter of 2013 with 2,055, followed by Lake (1,775), Hamilton (1,580), Montgomery (1,505), Summit (1,451), Franklin (1,420), and Geauga (1,126) counties. Gallia County issued the least number of licenses at 27. During the first quarter of 2012, the only county that issued more than 1,000 regular licenses was Franklin; it issued 1,206 regular licenses. During the first quarter of 2013, county sheriffs also suspended 283 regular licenses, revoked 64 regular licenses, and denied 342 applications for regular licenses. The comparable numbers for the first quarter of 2012 were 245 suspensions, 54 revocations, and 263 denials.

<sup>9</sup> In addition to regular licenses, sheriffs also issued temporary emergency concealed carry licenses. Quarterly and annual concealed carry statistical reports are available under the Publications tab at [www.ohioattorneygeneral.gov](http://www.ohioattorneygeneral.gov).

## **Kinship Permanency Incentive Program Subsidies Increased**

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

In February 2013, the Ohio Department of Job and Family Services (ODJFS) increased the amount of monthly subsidies issued under the Kinship Permanency Incentive (KPI) Program. The initial benefit, which is provided at the time of placement, was increased from \$450 to \$525, and subsequent payments, which are provided every six months, were increased from \$250 to \$300. The amounts were increased as a result of an increase in appropriations for the program in FY 2013. The KPI Program is funded at \$4.7 million in FY 2013, an increase of about \$1.4 million (42.2%) from FY 2012 expenditures. The program is primarily funded through the GRF and is supplemented with federal Temporary Assistance for Needy Families dollars.

The KPI Program provides financial assistance to family members or friends who are caring for children who cannot live with their parents. Families may receive up to six payments (including the initial payment) over three years. To be eligible, the caregiver's household income may not exceed 300% of federal poverty guidelines (\$58,590 for a family of three). In FY 2012, more than 6,900 children living in kinship families received benefit payments through the KPI Program. Prior to February 2013, payments were last adjusted in July 2011 when initial benefit payments were reduced from \$500 to \$450 and subsequent payments were reduced from \$300 to \$250.

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## **Ohio's Workforce Investment Act Allocation for FY 2014 Decreases by \$13.8 million**

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

Ohio's federal Workforce Investment Act (WIA) allocation will decrease from \$93.6 million in FY 2013 to \$79.8 million in FY 2014, a decrease of \$13.8 million (15%). This is mainly due to a reduction in the state's unemployment rate as compared to other states as well as a reduction in the national WIA allocation, which is set by Congress each year. The decrease in Ohio's allocation for FY 2014 will impact both the WIA dollars allocated to local workforce investment boards and the dollars retained by ODJFS for administration and statewide activities. The allocation of WIA dollars to the state's 20 workforce investment boards, which are used for locally based employment and training services, will decrease by \$11.2 million. The amount retained by ODJFS will decrease by \$2.6 million. Statewide activities administered by ODJFS include employment services to areas experiencing mass layoffs and customized training to incumbent workers to help prevent layoffs.

Ohio's regular allocation of WIA has decreased steadily since FY 2009, when the state's regular allocation totaled \$173.7 million. From FY 2009 to FY 2011, the decreases in Ohio's regular WIA grants were mitigated by \$138.1 million in additional WIA dollars received under the federal American Recovery and Reinvestment Act of 2009 (ARRA). Most ARRA WIA funds were expended in FY 2010; all were expended by the end of FY 2011. Over the past ten years (from FY 2004 to FY 2013), Ohio's regular WIA allocation has averaged \$130.2 million per year.

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# TRACKING THE ECONOMY

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

The material that follows is from the Economic Conditions and Outlook section of the Ohio Legislative Service Commission's testimony before the Conference Committee on the pending biennial budget of the 130th General Assembly.

## **State of the Economy**

Expansion in U.S. and Ohio economic activity has been underway since 2009, when the last recession ended. Further growth is predicted for both the nation and the state, as summarized in the economic forecast tables below. Overall economic growth has been slow compared with most past recoveries, and unemployment has come down gradually but remains elevated. Nationwide employment has increased, though has not yet reached its pre-recession peak in January 2008. Consumer spending and incomes have been rising. Household debt and payment obligations have been reduced to more manageable levels relative to incomes. Unmet replacement needs are adding to spending on vehicles and other durables. Housing sales and construction are recovering, though activity remains below past peaks. Mortgage rates have been low. Business capital spending has continued to expand in most quarters. Inflation for most finished goods and services is low, though up from even lower rates in 2009 and 2010.

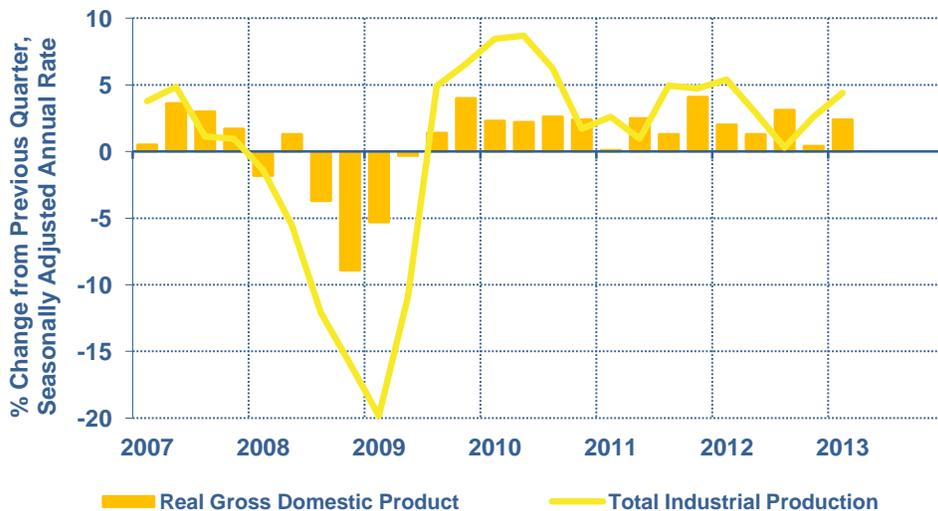
Several developments could adversely affect economic growth later in the year. Global Insight, and a number of other economic forecasters expect that the impacts of sequestration, under which the federal government is reducing spending by about \$85 billion from March through September, could lower economic growth rates in the second and third quarters. Though Congress suspended the national debt ceiling in January, allowing the U.S. Treasury to continue to borrow (for purposes other than refinancing bonds previously issued), the debt ceiling could become an issue again later in the year. International economic issues, such as high unemployment and a recession in the Eurozone, slower than expected economic growth in China, and oil price volatility could also slow future growth.

In May, the Federal Open Market Committee of the Federal Reserve indicated it will continue its policy of monetary expansion through purchasing \$85 billion in Treasury and mortgage bonds each month in order to help lower borrowing costs, 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.

### National

Growth of the national economy is continuing, but the expansion remains the slowest of the post-World War II period, averaging only a 2.1% annual rate since the 2007-2009 recession. Inflation-adjusted gross domestic product (real GDP), the total output of the economy, reached a new all-time peak at the end of 2011 and rose further in 2012 and early this year. In this year's first quarter, real GDP increased at an annual rate of 2.4%, based on the second estimate released by the U.S. Bureau of Economic Analysis (BEA). Other broad measures of U.S. economic activity, including industrial production, have not yet recovered to their peaks prior to the last recession. Chart 6 shows changes in real GDP and industrial production through the first quarter of this year.

Chart 6: United States Output Measures



Consumer spending, the largest portion of GDP, has grown since the recession trough in the second quarter of 2009, but growth has been slow, partially due to the slow recovery in employment. Since its post-recession low, employment has risen but has not yet reached its previous peak. With rising employment, unemployment has come down gradually: the national unemployment rate decreased in May to 7.6% of the labor force from 7.9% in January. Though employment growth has been slow, other impediments to consumer spending are easing. Incomes

of consumers have been supported by increases in average hours worked by those employed. Households have paid down past borrowings and reduced debt service ratios to more manageable levels. Credit availability has eased somewhat, as indicated by surveys. Replacement needs are contributing to increased spending on consumer durable goods. U.S. sales of cars and light trucks in 2012 were at the highest rate in five years, and sales during the first five months of 2013 were 7% higher than during the corresponding months of 2012.

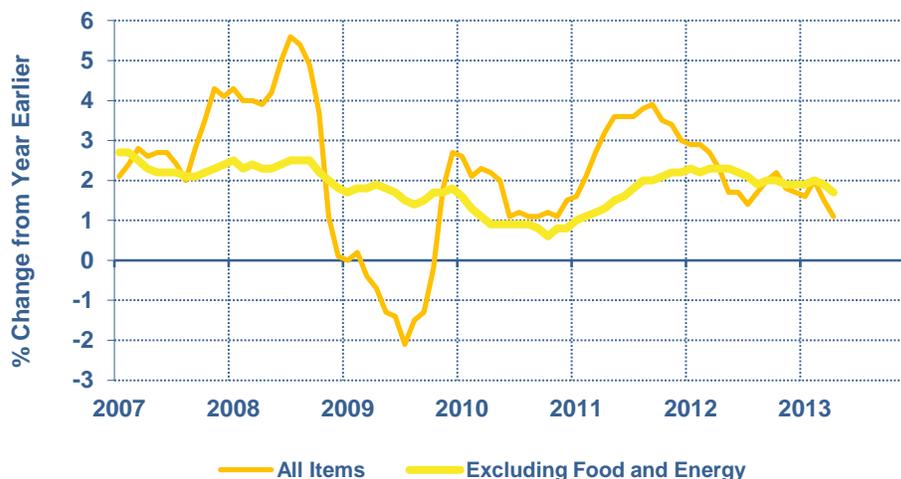
Housing markets are also recovering, though activity remains well below past peaks. In the first four months of this year, construction starts on new housing units were at the highest level since the comparable period in 2008. The upturn was strongest in apartment construction. Sales of new and older homes have increased; though, sales of existing homes have been restrained recently due to low inventories. Housing prices hit bottom in 2011 and have trended upward since, but generally remain below past peaks. Conditions vary widely among local markets.

Business investment in equipment and software grew vigorously after the end of the last recession, surpassing pre-recession levels, but increased more slowly last year and in the beginning of this year. In contrast, business investment in structures remained weak following the recession and remains below pre-recession levels. Inventory rebuilding contributed significantly to production growth during the first year of the economy's recovery, but has generally been less of a factor since then.

Export growth added substantially to demand for U.S. goods and services earlier in the economic recovery but has lagged in recent quarters. Recession in Europe and slower growth in less developed economies restrained growth of American exports last year. U.S. imports from abroad also grew rapidly early in the recovery but have slowed since then.

With significant productive resources still idle, including unemployed labor resources and equipment, inflation for finished goods and services remains low, overall, though up compared with even lower rates in 2010 and with deflation in 2009 (mainly reflecting falling energy prices). Wage inflation is also low. Recent trends in consumer prices for all items and excluding food and energy, which tend to be more volatile, are shown in Chart 7.

Chart 7: Consumer Price Index



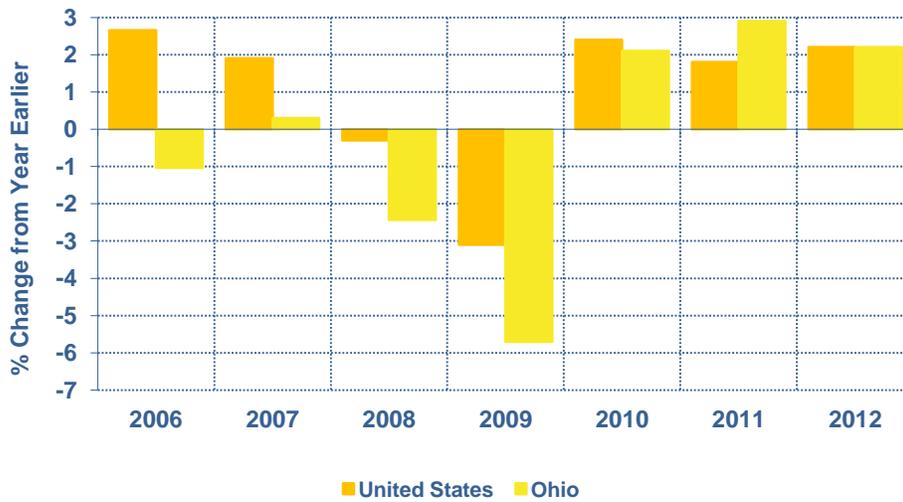
Because unemployment is still high and inflation at the finished goods level has remained low, U.S. monetary policy has held short-term interest rates at very low levels. In addition to keeping its target short-term interest rate, the federal funds rate, in a range of 0% to 0.25%, the Federal Reserve System has been buying U.S. Treasury notes and bonds and federal agency mortgage-backed securities to keep longer-term interest rates low. The central bankers expect to keep the federal funds rate target in this low range at least until the national unemployment rate falls to 6.5%, provided that inflation expectations remain low. Market interest rates remain at exceptionally low levels, but longer-term rates have been edging up in recent months.

### Ohio

Since the mid-1960s, GDP has risen more slowly in Ohio than nationwide in most years and the state's share of the nation's output has trended lower since then. The 2007-2009 recession was more severe in Ohio, as state real GDP fell 5.7% in 2009 compared with a 3.1% decline in U.S. real GDP (state real GDP also fell more sharply in 2008). Recovery in Ohio initially appeared slightly weaker, with state real GDP increasing 2.1% in 2010 in comparison with U.S. real GDP growth of 2.4%. But growth in Ohio improved relative to the nation in 2011. In 2012, based on initial estimates, Ohio real GDP grew at the same pace as U.S. GDP.

Chart 8 shows annual changes in real GDP in Ohio compared with the U.S. These numbers were updated by the BEA on June 6, based on more complete and detailed information, and therefore differ from numbers reported in LSC's Forecast Book published February 5, 2013. BEA's initial estimate of 2012 Ohio GDP (shown in the chart) will be revised next year when more complete data becomes available.

Chart 8: Real Gross Domestic Product

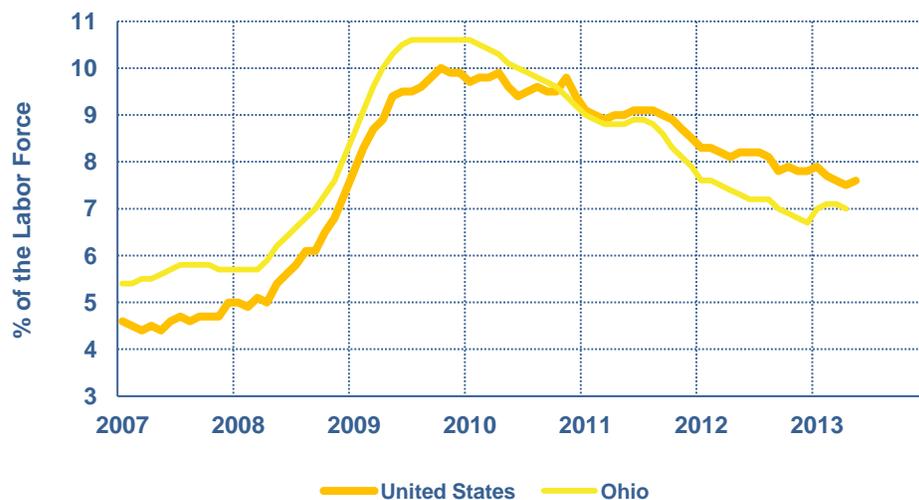


Ohio nonfarm payroll employment reached a low point in February 2010, and since then has recovered by about 182,200 jobs (3.6%) in the three years and two months since then. However, most of that growth occurred in 2010, 2011, and the first few months of 2012; in the past 12 months (April 2012 to April 2013), employment in Ohio has grown by 4,400 jobs (0.1%). U.S. nonfarm payroll employment reached its low point in February 2010, and through May 2013 had risen by 6.3 million jobs (4.9%). In both Ohio and the U.S., total nonfarm payroll employment remains below levels prior to the 2007-2009 recession. Nonfarm payroll employment in Ohio, compared with that in the U.S., is shown in Chart 9.

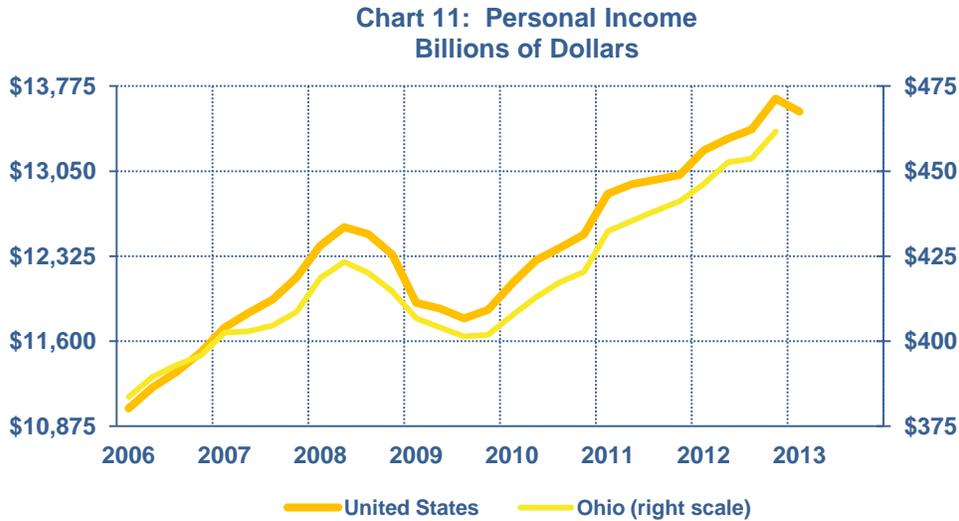
Chart 9: Total Nonfarm Payroll Employment  
Millions, Seasonally Adjusted

Though employment in this state has grown more slowly than the nation, Ohio's unemployment rate has been lower than the nationwide average since November 2010. Ohio's statewide unemployment rate, the number of people not employed and actively seeking work as a percent of the labor force, declined to 6.7% in December, its lowest level since 2008. In April, Ohio's unemployment rate was 7.0% compared to the U.S. rate of 7.5%. The unemployment rate in Ohio, compared with that in the U.S., is shown in Chart 10.

Chart 10: Unemployment Rate

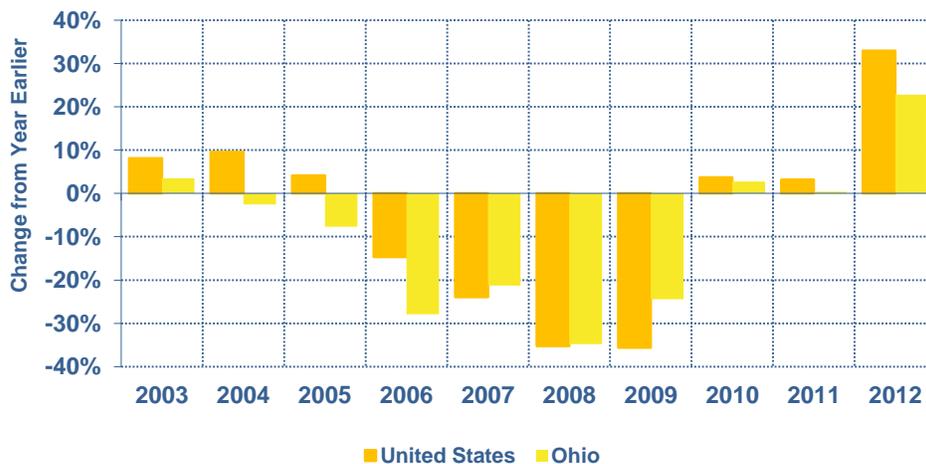


Personal income has been growing in the nation and in Ohio since 2009. From the low point in the third quarter of 2009 to the fourth quarter of 2012, Ohio personal income rose 15%, while U.S. personal income rose about 16%. U.S. personal income fell in the first quarter of 2013, due to one-time factors such as the expiration of the payroll tax cut for employees and the high level of bonuses provided to employees in late 2012. Personal income levels in Ohio and in the U.S. are shown in Chart 11. Both series are shown in dollars of current purchasing power (i.e., with no inflation adjustment). Data on personal income in Ohio in the first quarter of 2013 is not yet available.



Housing construction recovered substantially last year, in Ohio and the nation, as indicated by construction permits for new privately owned units, shown in Chart 12. Nationwide residential building activity is up more sharply than in Ohio. Previously, housing construction activity fell in Ohio for six years through 2009, then edged up in 2010 and 2011. U.S. housing construction fell for four years, from a 2005 peak, and also increased modestly in 2010 and 2011. Residential building activity remains far below past peaks, in Ohio and around the country. Average housing prices have been recovering since 2011, in Ohio and the U.S., after falling from peaks in 2006 and 2007.<sup>10</sup>

**Chart 12: New Privately Owned Housing Units  
Authorized by Building Permits**



<sup>10</sup> Prices cited here are as reported by the Federal Housing Finance Agency.

## Economic Forecasts

The predictions for the economic outlook in the tables that follow are from Global Insight's baseline forecasts released in May 2013. Economic forecasting is inherently uncertain, and projections may turn out to be too optimistic or too pessimistic. LSC's forecasts for state tax revenues for FY 2014 and FY 2015, based in part on some of the variables provided by Global Insight, could in consequence also be either too high or too low.

Quarterly changes shown, (the first line in each table except for the unemployment rate tables) are from the preceding quarter. Changes shown in the second line compare average values for the four quarters ending in the second calendar quarter, coinciding with Ohio's fiscal year, with average values for the four quarters one year earlier. The unemployment rate tables show average unemployment rates for the quarters indicated (first line) and for the four quarters ending in the second quarter (second line).

### U.S. Gross Domestic Product

Real GDP growth is projected to increase gradually into FY 2014, then rise somewhat more rapidly in FY 2015. Since the recession trough in the second quarter of 2009, through last year's fourth quarter, real GDP growth averaged a 2.1% annual rate.

Forecast	2013				2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----percent change at annual rate-----											
Global Insight	2.5	1.4	1.8	3.0	3.1	3.2	2.9	3.0	3.3	3.4	3.4	3.0
Global Insight	2.0				2.2				3.1			

### Ohio Gross Domestic Product

Economic growth in Ohio is expected to continue through 2015 but at a subdued pace. Predicted growth of real GDP in Ohio averages 1.9% in FY 2014 and FY 2015.

Forecast	2013				2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----percent change at annual rate-----											
Global Insight	0.4	0.3	1.3	2.8	2.4	2.2	1.9	2.3	2.7	2.8	2.7	2.3
Global Insight	1.9				1.4				2.3			

## U.S. Inflation

In Global Insight's May baseline forecast, consumer price inflation remains at a 2.0% annual rate or less, except for one quarter, through 2015.

### U.S. Consumer Price Index Inflation

Forecast	2013				2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----percent change at annual rate-----											
Global Insight	1.4	-0.5	2.2	1.6	1.8	1.8	1.6	1.5	1.9	1.7	1.6	1.7
Global Insight		1.6				1.4				1.7		

## U.S. Personal Income

Nationwide personal income growth is projected to average 4.5% at an annual rate in FY 2014 and FY 2015. These growth rates are based on the dollar amounts of income, not adjusted for inflation. Weakness shown in the table for the prior quarter reflects the end of the two percentage point reduction in the individual portion of Social Security taxes, which is subtracted in the national income and product accounts in calculating personal income.

### U.S. Personal Income Growth

Forecast	2013				2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----percent change at annual rate-----											
Global Insight	-3.2	3.7	4.1	5.3	6.5	4.7	4.6	4.4	5.8	4.6	4.4	4.3
Global Insight		3.4				3.9				5.0		

## Ohio Personal Income

Personal income growth in Ohio is also forecasted to grow through 2015, except for the first quarter of 2013 when the end of the temporary reduction in Social Security taxes results in lower total personal income. Growth of Ohio personal income averages 3.9% at an annual rate in FY 2014 and FY 2015, lagging behind growth of personal income nationwide.

### Ohio Personal Income Growth

Forecast	2013				2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----percent change at annual rate-----											
Global Insight	-2.6	2.7	3.5	4.5	5.8	4.0	3.9	3.7	5.4	3.8	3.6	3.5
Global Insight		3.2				3.3				4.4		

## U.S. Unemployment Rate

Unemployment nationwide is expected to decline slowly through the forecast period shown in the table. As job opportunities continue gradually to improve, additional entrants to the labor force are likely to be attracted, which will slow the decline in the unemployment rate.

Forecast	2013				2014				2015			
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
	-----percent of the labor force-----											
Global Insight	7.7	7.6	7.6	7.5	7.4	7.2	7.1	7.0	6.8	6.6	6.5	6.3
Global Insight		7.8				7.4				6.9		

## Ohio Unemployment Rate

The unemployment rate in Ohio is projected to fall slowly through the end of 2015. The state's unemployment rate is forecasted to remain below that of the nation, until late 2015.

Forecast	2013				2014				2015			
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
	-----percent of the labor force-----											
Global Insight	7.0	7.0	7.0	6.9	6.8	6.7	6.6	6.6	6.5	6.5	6.4	6.3
Global Insight		7.0				6.9				6.5		