Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION FEBRUARY 2013

VOLUME 36, NUMBER 6

STATUS OF THE GRF

HIGHLIGHTS

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

U.S. inflation-adjusted gross domestic product (real GDP) decreased by 0.1% in the fourth quarter of calendar year 2012, though most economic forecasters expect the continuation of the business cycle expansion in 2013. Most other recent indicators have implied slow but consistent economic growth. For example, consumer spending grew by 2.2% for the quarter, slightly faster than during the preceding two quarters.

National employment grew by 1.6% in 2012; for Ohio the comparable figure is 1.8%, representing an increase of slightly over 90,000 jobs. Most of Ohio's economic sectors experienced job gains for the year. Ohio's unemployment rate has declined slowly but steadily, from a high of 10.6% in late 2009 and January 2010, to 6.7% in December 2012.

On February 5, 2013, the Office of Budget and Management (OBM) revised both GRF revenues and expenditure estimates for FY 2013 as a whole. Whereas GRF revenues were revised upward, GRF expenditures were revised downward. OBM now expects to deposit about $978.7 million cash into the Budget Stabilization Fund (BSF) to bring the BSF balance to $1.46 billion, reaching the statutory target of 5% of FY 2013 GRF revenues. OBM also anticipates that additional surplus will be transferred into the Income Tax Reduction Fund to allow for a reduction in personal income tax rates for TY 2013 as prescribed by current law.

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

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Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of January 2013
($ in thousands)
Actual based on report run in OAKS Actuals Ledger on February 7, 2013

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$86,421	$88,400	-$1,979	-2.2%
Nonauto Sales and Use	$686,235	$712,300	-$26,065	-3.7%
Total Sales and Use Taxes	$772,656	$800,700	-$28,044	-3.5%
Personal Income	$1,235,414	$1,027,839	$207,575	20.2%
Corporate Franchise	$28,117	$62,000	-$33,883	-54.7%
Public Utility	$1,030	-$1,000	$2,030	203.0%
Kilowatt Hour Excise	$23,689	$25,400	-$1,711	-6.7%
Natural Gas Consumption (MCF)	$1,770	$0	$1,770	---
Commercial Activity Tax	$32,768	$26,400	$6,368	24.1%
Foreign Insurance	$444	$200	$244	121.9%
Domestic Insurance	$0	$0	$0	---
Business and Property	$11	$0	$11	---
Cigarette	$70,313	$68,500	$1,813	2.6%
Alcoholic Beverage	$3,360	$4,400	-$1,040	-23.6%
Liquor Gallonage	$4,165	$4,200	-$35	-0.8%
Estate	$207	$200	$7	3.4%
Total Tax Revenue	**$2,173,943**	**$2,018,839**	**$155,104**	**7.7%**
NONTAX REVENUE				
Earnings on Investments	$2,190	$1,000	$1,190	119.0%
Licenses and Fees	$5,740	$4,668	$1,072	23.0%
Other Revenue	$1,569	$2,739	-$1,170	-42.7%
Total Nontax Revenue	**$9,498**	**$8,407**	**$1,092**	**13.0%**
TRANSFERS				
Liquor Transfers**	$10,000	$10,000	$0	0.0%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$379	$0	$379	---
Total Transfers In	**$10,379**	**$10,000**	**$379**	**3.8%**
TOTAL STATE SOURCES	**$2,193,820**	**$2,037,245**	**$156,575**	**7.7%**
Federal Grants	$655,783	$639,356	$16,427	2.6%
TOTAL GRF SOURCES	**$2,849,603**	**$2,676,601**	**$173,002**	**6.5%**

*Estimates of the Office of Budget and Management as of August 2012.

**Liquor Transfers based on a report run in OAKS as of February 1, 2013.

Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Actual vs. Estimate
FY 2013 as of January 31, 2012
($ in thousands)
Actual based on report run in OAKS Actuals Ledger on February 7, 2013

	Actual	Estimate*	Variance	Percent	FY 2012	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$617,573	$614,000	$3,573	0.6%	$595,751	3.7%
Nonauto Sales and Use	$4,360,126	$4,409,500	-$49,374	-1.1%	$4,197,109	3.9%
Total Sales and Use Taxes	$4,977,698	$5,023,500	-$45,802	-0.9%	$4,792,860	3.9%
Personal Income	$5,515,063	$5,231,294	$283,769	5.4%	$4,890,372	12.8%
Corporate Franchise	$79,776	$62,000	$17,776	28.7%	$68,352	16.7%
Public Utility	$45,005	$49,900	-$4,895	-9.8%	$53,358	-15.7%
Kilowatt Hour Excise	$182,119	$187,200	-$5,081	-2.7%	$182,310	-0.1%
Natural Gas Consumption (MCF)	$16,959	$18,100	-$1,141	-6.3%	$18,172	-6.7%
Commercial Activity Tax	$430,251	$437,000	-$6,749	-1.5%	$209,143	105.7%
Foreign Insurance	$142,882	$137,900	$4,982	3.6%	$134,482	6.2%
Domestic Insurance	$4,625	-$500	$5,125	1025.0%	$0	--
Business and Property	$371	-$1,200	$1,571	130.9%	-$1,783	120.8%
Cigarette	$438,452	$439,400	-$948	-0.2%	$444,756	-1.4%
Alcoholic Beverage	$32,059	$34,400	-$2,341	-6.8%	$33,839	-5.3%
Liquor Gallonage	$24,416	$24,000	$416	1.7%	$23,632	3.3%
Estate	$73,579	$34,000	$39,579	116.4%	$36,084	103.9%
Total Tax Revenue	**$11,963,257**	**$11,676,994**	**$286,263**	**2.5%**	**$10,885,578**	**9.9%**
NONTAX REVENUE						
Earnings on Investments	$4,474	$2,500	$1,974	78.9%	$2,440	83.4%
Licenses and Fees	$17,094	$17,793	-$700	-3.9%	$25,569	-33.1%
Other Revenue	$19,607	$23,457	-$3,850	-16.4%	$19,369	1.2%
Total Nontax Revenue	**$41,174**	**$43,751**	**-$2,576**	**-5.9%**	**$47,377**	**-13.1%**
TRANSFERS						
Liquor Transfers**	$91,500	$88,000	$3,500	4.0%	$72,632	26.0%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$5,751	$5,166	$585	11.3%	$229,561	-97.5%
Total Transfers In	**$97,251**	**$93,166**	**$4,085**	**4.4%**	**$302,193**	**-67.8%**
TOTAL STATE SOURCES	**$12,101,682**	**$11,813,911**	**$287,771**	**2.4%**	**$11,235,149**	**7.7%**
Federal Grants	$4,815,589	$4,924,613	-$109,024	-2.2%	$4,500,858	7.0%
TOTAL GRF SOURCES	**$16,917,271**	**$16,738,524**	**$178,746**	**1.1%**	**$15,736,007**	**7.5%**

*Estimates of the Office of Budget and Management as of August 2012.

**Liquor Transfers based on a report run in OAKS as of February 1, 2013.

Detail may not sum to total due to rounding.

REVENUES

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

Overview

Through January GRF tax receipts in FY 2013 were $286.3 million above OBM's August 2012 estimate.

On February 5, 2013, OBM revised upward by $432.0 million estimated FY 2013 total GRF sources. OBM increased estimated GRF tax receipts by $260.6 million, transfers in by $214.1 million, and nontax revenue by 500.0 million, while decreasing estimated federal grants by $542.7 million. However, OBM also indicated that monthly revenue estimates published in August 2012 are likely not to be revised. Thus, those earlier monthly revenue projections will continue to be used in this and future editions of *Budget Footnotes*.

Through January, FY 2013 GRF tax receipts were $286.3 million above estimate, federal grants were $109.0 million below expected revenues, and total GRF sources were $178.7 million ahead of projections. Tables 1 and 2 show GRF sources for the month of January and for FY 2013 through January, 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.

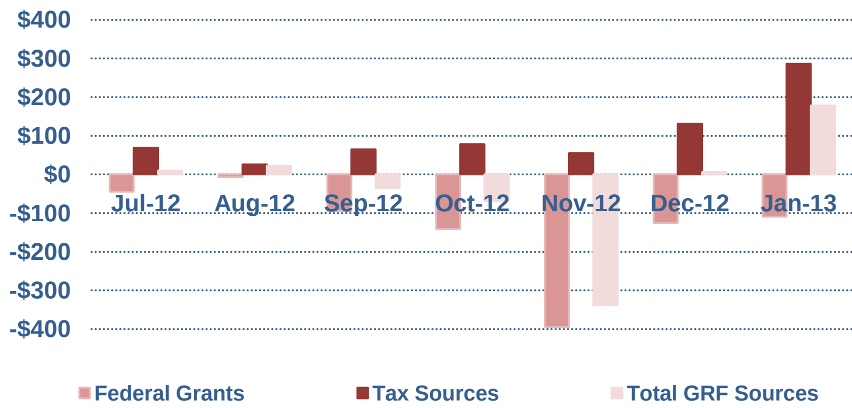
For the month of January, GRF sources totaled $2.85 billion, $173.0 million above the August 2012 estimate, due to positive variances of $155.1 million in tax revenues and $16.4 million in federal grants. January's results reduced the year-to-date shortfall of federal grants to $109.0 million, down from $125.5 million through December.

The personal income tax was $207.6 million above anticipated receipts, while the sales and use tax was $28.0 million below estimate. Additionally, the commercial activity tax (CAT), the public utility tax, and the cigarette tax were above estimates, respectively, by $6.4 million, $2.0 million, and $1.8 million. Receipts from the natural gas consumption tax were $1.8 million for the month, though no revenue was expected. Conversely, the first corporate franchise tax (CFT) payment for FY 2013 was poor.[1] This tax had a large negative variance of $33.9 million in January, which reduced its year-to-date positive variance to $17.8 million, down from $51.7 million through December. Tax revenues in January raised the year-to-date positive variance in GRF tax sources and also contributed to the overall positive variance for total GRF sources through January 2013.

[1] The CFT is paid in three installments: January 31, March 31, and May 31.

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

Chart 1: Cumulative Variances of GRF Sources in FY 2013 (Variance from Estimates, in millions)



Through January, FY 2013 GRF sources were $178.7 million above estimate.

Compared to the first seven months of FY 2012, year-to-date FY 2013 total GRF sources increased $1.18 billion. Declines of $204.9 million in transfers in and $6.2 million in nontax revenues partly offset gains of $1.08 billion in GRF tax revenues and $314.7 million in federal grants. Receipts from the personal income tax grew $624.7 million, while those from the CAT and the sales and use tax increased $221.1 million and $184.8 million, respectively. Growth in GRF receipts from the income tax and the CAT was due in part to changes that H.B. 153 (the current operating budget act) made to revenue sharing with local governments.

Personal Income Tax

In January, GRF personal income tax receipts were $1.24 billion; $207.6 million (20.2%) above estimate, with more than half of this positive variance, $119.4 million, from quarterly estimated payments. Receipts in January 2013 were also $262.2 million (26.9%) above receipts in the same month last year. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the Local Government Fund (LGF). Gross collections are the sum of employer withholding, quarterly estimated payments,[2] trust payments, payments associated with annual returns, and miscellaneous payments.

[2] Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than $500. 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.

Through January, FY 2013 GRF income tax receipts were $283.8 million above estimate.

In anticipation of the potential "fiscal cliff" in early 2013, some firms made bonus payments and issued dividends in late 2012 earlier than usual. Individuals and firms also realized income from increased sales of assets in late 2012. These activities boosted January quarterly estimated tax payments. The positive variance this month was also due to lower than expected refunds (by $86.6 million) and higher than expected receipts from trusts (by $26.3 million). Conversely, monthly employer withholding and tax due with annual returns were short of estimates by $11.7 million and $8.4 million, respectively.

For the fiscal year to date, the GRF received $5.52 billion from the personal income tax, an amount that was $283.8 million above estimates. The table below summarizes year-to-date FY 2013 income tax revenue variances from estimates and from a year earlier by component. All components, except for receipts from annual tax returns, were above estimates.

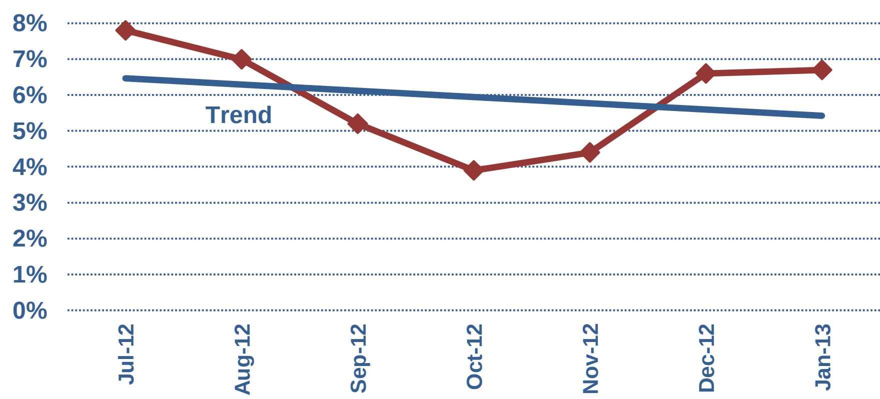
FY 2013 Year-to-Date Income Tax Revenue Variances and Changes by Component

Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2012	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	$40.1	0.8%	$271.9	6.1%
Quarterly Estimated Payments	$149.2	19.8%	$114.4	14.5%
Trust Payments	$31.7	157.8%	$31.8	159.1%
Annual Return Payments	-$11.2	-7.8%	-$11.1	-7.7%
Miscellaneous Payments	$1.6	2.8%	$1.7	2.9%
Gross Collections	$211.5	3.7%	$408.6	7.4%
Less Refunds	-$77.7	-28.3%	-$77.7	-28.3%
Less LGF Distribution	$5.4	2.8%	-$138.4	-41.0%
Income Tax Revenue	$283.8	5.4%	$624.7	12.8%

Through January, FY 2013 withholding tax receipts were $40.1 million above estimate.

FY 2013 GRF receipts from the income tax were $624.7 million (12.8%) above receipts in the corresponding period in FY 2012. As in previous months, growth in income tax receipts was largely due to gains in employer withholding and quarterly estimated payments, and reduced distributions to the LGF. Through January, revenues from employer withholding in FY 2013 were $271.9 million (6.1%) above receipts in this category in FY 2012, and quarterly estimated payments increased $114.4 million (14.5%). Chart 2, below, which illustrates the trend in employer withholding receipts in 2012, indicates an upturn in the latest months after a slowdown experienced in the summer months. Distributions to the LGF were $138.4 million (41.0%) below amounts in that category through January in FY 2012, due to H.B. 153 which reduced revenue sharing of state tax revenues with local governments.[3]

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



Sales and Use Tax

January GRF receipts from the sales and use tax of $772.7 million were $28.0 million (3.5%) below estimate and $3.1 million (0.4%) above receipts in January 2012. Through January, FY 2013 GRF sales and use tax receipts totaled $4.98 billion, $45.8 million (0.9%) below estimate, but $184.8 million (3.9%) 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[4] 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

Through January, FY 2013 sales and use tax receipts were $45.8 million below estimate.

[3] Whereas LGF distributions are debited from personal income tax receipts, Public Library Fund distributions are debited from the kilowatt hour tax (50%) and the nonauto sales and use tax (50%). Thus, H.B. 153 also enhances GRF receipts to the latter two tax sources.

[4] 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.

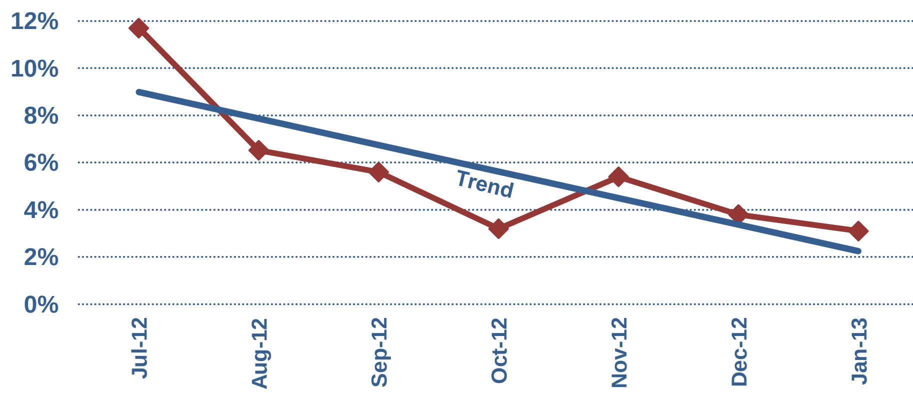
tax. Through January, the auto sales tax was above projections while the nonauto sales tax was lagging anticipated receipts.

Through January, FY 2013 nonauto sales and use tax receipts were $49.4 million below estimate.

Nonauto Sales and Use Tax

January GRF receipts from the nonauto sales and use tax were $686.2 million, $26.1 million (3.7%) below estimate. Year to date, GRF nonauto sales and use tax receipts were $4.36 billion for FY 2013, $49.4 million (1.1%) below estimate, but $163.0 million (3.9%) above receipts through January in FY 2012. Chart 3, below, shows the trend in 2012 nonauto sales and use tax monthly receipts against prior year receipts in the same month. As seen from the chart, the rate of growth in nonauto sales and use tax receipts has continually decreased throughout the fiscal year, though the tax base is still growing.

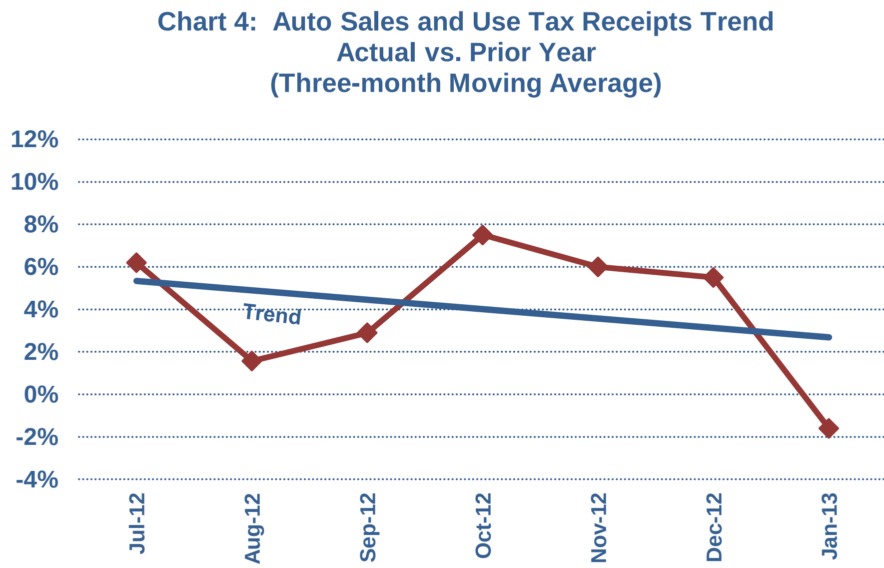
Chart 3: Nonauto Sales and Use Tax Receipts Trend
Actual vs. Prior Year
(Three-month Moving Average)



Through January, FY 2013 auto sales and use tax receipts were $3.6 million above estimate.

Auto Sales and Use Tax

GRF receipts from the auto sales and use tax totaled $86.4 million in January. Those receipts were $2.0 million (2.2%) below estimate, but $1.9 million (2.3%) above January 2012 receipts. Through January 2013, FY 2013 GRF receipts from the auto sales and use tax of $617.6 million were $3.6 million (0.6%) above estimate and $21.8 million (3.7%) above receipts for the corresponding period in FY 2012. Chart 4 compares 2012 monthly auto sales and use tax receipts with year-ago receipts in the same period. It shows that auto sales tax growth weakened considerably in the last few months, though total receipts for the fiscal year are ahead of FY 2012 results through January.



Commercial Activity Tax

January GRF receipts from the CAT were $32.8 million, $6.4 million (24.1%) above estimate, also $20.1 million (159.3%) above January 2012 revenue. The third payment of the fiscal year for taxpayers who pay quarterly on a calendar year basis was due February 8.

Through January, FY 2013 CAT receipts to the GRF totaled $430.3 million, $6.7 million (1.5%) below estimate, but were $221.1 million (105.7%) 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. Through January, all-fund CAT receipts were $874.6 million, $21.8 million (2.6%) above revenue through January 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.

Through January FY 2013 GRF CAT receipts were $6.7 million below estimate.

Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax of $70.3 million in January 2013 were $1.8 million (2.6%) above estimate and $4.1 million (6.2%) above receipts in the same month in FY 2012. Through January, FY 2013 receipts of $438.5 million were $0.9 million (0.2%) below estimate. Receipts from cigarette sales were $407.5 million, and sales of products other than cigarettes provided $31.0 million. Compared to the first seven months of FY 2012, total receipts from the tax were $6.3 million

(1.4%) lower. Receipts from the sale of cigarettes and other tobacco products decreased by $6.9 million; revenue from the other tobacco products increased $0.6 million.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of January 2013
($ in thousands)
(Actual based on OAKS reports run February 7, 2013)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary, Secondary, and Other Education	$603,752	$569,148	$34,604	6.1%
Higher Education	$163,009	$165,415	-$2,406	-1.5%
Total Education	$766,761	$734,563	$32,198	4.4%
Public Assistance and Medicaid	$1,051,367	$1,003,777	$47,590	4.7%
Health and Human Services	$99,736	$107,368	-$7,631	-7.1%
Total Welfare and Human Services	$1,151,103	$1,111,144	$39,959	3.6%
Justice and Public Protection	$177,475	$181,635	-$4,160	-2.3%
Environment and Natural Resources	$5,896	$6,091	-$195	-3.2%
Transportation	$745	$849	-$104	-12.2%
General Government	$17,011	$19,976	-$2,965	-14.8%
Community and Economic Development	$6,705	$5,267	$1,439	27.3%
Capital	$0	$0	$0	---
Total Government Operations	$207,833	$213,817	-$5,984	-2.8%
Tax Relief and Other	$4,927	$5,190	-$263	-5.1%
Debt Service	$101,046	$104,818	-$3,772	-3.6%
Total Other Expenditures	$105,973	$110,008	-$4,035	-3.7%
Total Program Expenditures	**$2,231,670**	**$2,169,532**	**$62,138**	**2.9%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$51	$10,461	-$10,410	-99.5%
Total Transfers Out	$51	$10,461	-$10,410	-99.5%
TOTAL GRF USES	**$2,231,720**	**$2,179,993**	**$51,727**	**2.4%**

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

Table 4: General Revenue Fund Uses
Actual vs. Estimate
FY 2013 as of January 31, 2013
($ in thousands)
(Actual based on OAKS reports run February 7, 2013)

PROGRAM	Actual	Estimate*	Variance	Percent	FY 2012	Percent Change
Primary, Secondary, and Other Education	$3,891,959	$3,894,803	-$2,844	-0.1%	$4,095,049	-5.0%
Higher Education	$1,243,697	$1,258,182	-$14,485	-1.2%	$1,253,920	-0.8%
Total Education	$5,135,656	$5,152,985	-$17,329	-0.3%	$5,348,970	-4.0%
Public Assistance and Medicaid	$8,170,436	$8,321,827	-$151,391	-1.8%	$7,681,178	6.4%
Health and Human Services	$613,383	$637,914	-$24,531	-3.8%	$662,063	-7.4%
Total Welfare and Human Services	$8,783,819	$8,959,741	-$175,922	-2.0%	$8,343,241	5.3%
Justice and Public Protection	$1,187,639	$1,222,491	-$34,851	-2.9%	$1,124,272	5.6%
Environment and Natural Resources	$47,260	$49,163	-$1,903	-3.9%	$47,774	-1.1%
Transportation	$6,333	$6,409	-$77	-1.2%	$5,918	7.0%
General Government	$194,462	$217,611	-$23,149	-10.6%	$177,346	9.7%
Community and Economic Development	$57,566	$61,198	-$3,631	-5.9%	$59,108	-2.6%
Capital	$137	$0	$137	---	$120	14.4%
Total Government Operations	$1,493,398	$1,556,872	-$63,474	-4.1%	$1,414,538	5.6%
Tax Relief and Other	$886,780	$879,284	$7,496	0.9%	$870,051	1.9%
Debt Service	$532,787	$545,908	-$13,121	-2.4%	$229,937	131.7%
Total Other Expenditures	$1,419,567	$1,425,192	-$5,625	-0.4%	$1,099,987	29.1%
Total Program Expenditures	**$16,832,440**	**$17,094,789**	**-$262,349**	**-1.5%**	**$16,206,735**	**3.9%**
TRANSFERS						
Budget Stabilization	$235,096	$235,096	$0	0.0%	$246,899	-4.8%
Other Transfers Out	$97,163	$94,213	$2,950	3.1%	$320,808	-69.7%
Total Transfers Out	$332,259	$329,310	$2,950	0.9%	$567,707	-41.5%
TOTAL GRF USES	**$17,164,699**	**$17,424,099**	**-$259,400**	**-1.5%**	**$16,774,442**	**2.3%**

* 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 February 6, 2013)

	January				Year to Date			
Medicaid (600525) Payments by Service Category	**Actual**	**Estimate**	**Variance**	**Percent Variance**	**Actual thru Jan**	**Estimate thru Jan**	**Variance**	**Percent Variance**
Managed Care Plans	$591,468	$668,105	-$76,637	-11.5%	$4,091,219	$4,307,144	-$215,925	-5.0%
Nursing Facilities	$209,617	$209,994	-$377	-0.2%	$1,449,015	$1,444,581	$4,434	0.3%
Hospitals	$120,738	$103,246	$17,492	16.9%	$763,597	$803,129	-$39,532	-4.9%
Aging Waivers	$42,572	$55,051	-$12,479	-22.7%	$321,977	$382,856	-$60,879	-15.9%
Prescription Drugs	$35,084	$41,631	-$6,547	-15.7%	$275,184	$304,550	-$29,366	-9.6%
Physicians	$24,969	$28,350	-$3,381	-11.9%	$179,831	$188,613	-$8,782	-4.7%
ODJFS Waivers	$19,204	$20,598	-$1,394	-6.8%	$148,681	$158,239	-$9,558	-6.0%
All Other	$189,206	$195,257	-$6,051	-3.1%	$1,329,651	$1,355,408	-$25,757	-1.9%
Total Payments	$1,232,858	$1,322,232	-$89,374	-6.8%	$8,559,155	$8,944,520	-$385,365	-4.3%
Total Offsets (non-GRF)	-$275,163	-$415,741	$140,578	-33.8%	-$1,002,961	-$1,291,100	$288,139	-22.3%
Total 600525 (net of offsets)	$957,695	$906,491	$51,204	5.6%	$7,556,194	$7,653,420	-$97,226	-1.3%
Medicare Part D (600526)	$25,202	$23,059	$2,143	9.3%	$166,627	$162,529	$4,098	2.5%
Total GRF	**$982,897**	**$929,550**	**$53,347**	**5.7%**	**$7,722,821**	**$7,815,949**	**-$93,128**	**-1.2%**
Total All Funds	**$1,258,060**	**$1,345,291**	**-$87,231**	**-6.5%**	**$8,725,782**	**$9,107,049**	**-$381,267**	**-4.2%**

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 January, FY 2013 GRF uses of $17.16 billion were $259.4 million below OBM's August 2012 estimate.

GRF program expenditures will finish FY 2013 well below the estimate released by OBM in August 2012. As a part of the executive budget process, OBM revised GRF expenditure estimates, mainly Medicaid, for FY 2013 as a whole. The latest expenditure estimates for the two main Medicaid GRF appropriation items, items 600525 and 600526 in the Ohio Department of Job and Family Services (ODJFS) budget, were $747.9 million lower than their FY 2013 appropriations. For purposes of this report, however, the variance analysis will continue to be based on OBM's August 2012 estimate. According to OBM, the monthly GRF expenditure estimates for the remaining months of FY 2013 will not be revised.

Through January, FY 2013 GRF program expenditures totaled $16.83 billion, $262.3 million below the August 2012 estimate. Year-to-date GRF transfers out totaled $332.3 million, $3.0 million above estimate. GRF uses as a whole were $17.16 billion, $259.4 million below estimate for the year to date. Tables 3 and 4 show GRF uses for the month of January and for FY 2013 through January, respectively.

Categories that had significant negative year-to-date variances include Public Assistance and Medicaid ($151.4 million), Justice and Public Protection ($34.9 million), Health and Human Services ($24.5 million), and General Government ($23.1 million). These variances will be briefly discussed below.

Negative Variance in Public Assistance and Medicaid

Year-to-date GRF expenditures for Public Assistance and Medicaid totaled $8.17 billion, $151.4 million (1.8%) below estimate. Medicaid, including both state and federal shares, accounts for about 95% 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 January, FY 2013 Medicaid GRF expenditures totaled $7.72 billion, which was $93.1 million (1.2%) 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 $8.73 billion, which was $381.3 million (4.2%) below estimate.

As seen from Table 5, Medicaid expenditures were below their year-to-date estimates for all but one category. The Managed Care Plans category had the largest variance at $215.9 million (5.0%), due primarily to lower than expected caseloads and capitated rates. The Aging Waiver category had the next largest negative variance of $60.9 million (15.9%), due partially to the timing of payments and partially to lower than estimated service costs per member. The Hospitals category had a negative variance of $39.5 million (4.9%) due largely to lower than expected expenditures from prior year encumbrances. Other significant negative variances include Prescription Drugs ($29.4 million, 9.6%), and All Other ($25.8 million, 1.9%).

Through January, FY 2013 Medicaid all-fund spending was $381.3 million below OBM's August 2012 estimate.

For the month of January, Medicaid expenditures were $87.2 million (6.5%) below estimate across all funds. However, GRF expenditures for the month were $53.3 million (5.7%) above estimate due to lower than estimated spending from non-GRF funds. Expenditures from non-GRF funds were $140.6 million (33.8%) below estimate in January. According to the ODJFS, this was due to a delay in collecting hospital assessment revenue (the assessment amount has not yet been finalized). Until the assessment is collected, ODJFS estimates that spending from non-GRF funds will be about $141 million below estimate each month.

Other Significant Negative Variances

For first seven months of FY 2013, GRF expenditures from the Justice and Public Protection program category totaled $1.19 billion, which was $34.9 million (2.9%) below estimate. The Department of Rehabilitation and Correction (DRC) contributed $25.1 million to the total negative year-to-date variance. As in prior months, DRC's GRF appropriation item 501321, Institutional Operations, continued to be the main source of this variance. This item's year-to-date expenditures were $32.1 million below estimate, which was partially offset by a positive year-to-date variance of $6.9 million in item 505321, Institution Medical Services. In addition to DRC, the Department of Youth Services contributed $6.5 million to this program category's negative year-to-date variance.

Through January GRF expenditures from the General Government program category totaled $194.5 million, $23.1 million (10.6%) below estimate. Within this program category, the Department of Administrative Services (DAS) had the largest year-to-date negative variance at $14.3 million. The Legislative Service Commission contributed another $4.6 million to the total. The variance in DAS was mainly due to a slower than expected process for DAS to finalize the FY 2013 rates for operating and maintaining various state office buildings, thereby delaying payments for those expenses.

Year-to-date GRF expenditures for the Health and Human Services program category totaled $613.4 million, $24.5 million (3.8%) below estimate. The Department of Health (DOH) was the primary source of this variance, accounting for $14.4 million of the total. The Department of Mental Health (DMH) contributed another $8.2 million to the total. As reported in prior issues of *Budget Footnotes*, the negative variance in DOH was largely due to timing. The vaccine purchase activities and grant disbursements from DOH's GRF appropriation items 440418, Immunizations, 440444, AIDS Prevention and Treatment, and 440416, Mother and Children Safety Net Services, had been slower than originally anticipated. The variance in DMH mainly occurred in GRF appropriation item, 334412, Hospital Services, due likely to timing. This item funds state mental health hospitals' operating expenses and mental hospital services purchased by community mental health boards.

ISSUE UPDATES

Development Services Agency Begins Accepting Applications for New Ohio Incumbent Workforce Training Voucher Program

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

On January 7, 2013, the Development Services Agency (DSA) began accepting applications for the new Ohio Incumbent Workforce Training Voucher Program. The program reimburses employers' costs to train their existing workers, up to $4,000 per employee. Eligible employees must be Ohio residents who earn at least 150% of the federal minimum wage (currently $10.88 per hour) and work in one of the following business functions: production, back-office operations, information technology, logistics, or research and development. The training subsidized under the program must relate to the employee's position or future advancement within the company. The types of eligible training include credit or noncredit classroom education related to the employee's field of work, computer proficiency, training related to new equipment, or instruction that leads to an industry-recognized certificate. Companies must match at least 50% of the training costs, and may receive up to $500,000 in aggregate per fiscal year. Currently the program targets companies within ten industries displayed in the table below.

Ohio Incumbent Workforce Training Voucher Program Targeted Industries	
Advanced Manufacturing	Energy
Aerospace & Aviation	Financial Services
Automotive	Food Processing
BioHealth	Information Technology & Services
Corporate Headquarters	Polymers & Chemicals

The source of funding for the Ohio Incumbent Workforce Training Voucher Program is casino licensing fees. Part of this revenue is shared by the Board of Regents for other job training initiatives, including cooperative education and internship programs. For the remainder of FY 2013, $20.0 million will be available for employers under the Ohio Incumbent Workforce Training Voucher Program. On January 8, the day after the program application period opened, DSA reported that employers had already submitted applications requesting a total of $21.4 million in vouchers. Although applications are accepted on a first-come, first-served basis, DSA has recommended that businesses continue to apply as some applications may not qualify.

Chancellor Announces Awards under the Choose Ohio First Co-op/Internship Program

– Mary Turocy, Senior Budget Analyst, 614-466-2927

In January 2013, the Chancellor of the Board of Regents announced the first round of Choose Ohio First Co-op/Internship Program awards. The program, also known as the Ohio Means Internships and Co-ops Program, was originally established by H.B. 554 of the 127th General Assembly. H.B. 153 of the 129th General Assembly provided an appropriation for the program from revenue collected from casino licensing fees. The program is designed to promote cooperative education and internships at Ohio institutions of higher education. Unless waived by the Chancellor, the program requires awardees to provide private funds of at least 100% of the award for an undergraduate program and of at least 150% of the award for a graduate program. For 2013, nearly $11.0 million will be provided to the 11 public universities, 10 public community colleges, and 2 private nonprofit institutions that were given awards. The following table lists the lead recipient institutions and award amounts announced by the Chancellor.

2013 Ohio Means Internships and Co-ops Program Awards			
Lead Recipient Institution	**Award**	**Lead Recipient Institution**	**Award**
University of Cincinnati	$1,822,373	University of Dayton	$253,995
Ohio State University	$1,569,637	Southern State Community College	$236,450
Wright State University	$1,304,631	Sinclair Community College	$203,140
University of Akron	$932,571	Cuyahoga Community College	$186,677
University of Toledo	$896,898	Antioch College	$140,676
Kent State University	$724,553	Cincinnati State Community College	$123,000
Bowling Green State University	$697,260	Miami University	$81,000
Youngstown State University	$573,300	Terra Community College	$69,145
Lorain County Community College and Stark State Community College	$444,813	Clark State Community College	$28,965
Cleveland State University	$385,439	Central State University	$18,000
Rhodes State College	$261,662	Marion Technical College	$6,750
Total Award: $10,960,935			

Ohio Repays Federal Government $524 million for Unemployment Benefits

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

In 2012, Ohio repaid the federal government a total of $524 million for amounts the state borrowed to pay regular unemployment benefits. Payments of $274 million and $200 million were both made by the Ohio Department of Job and Family Services (ODJFS) in May 2012. Another payment of $50 million was made in December 2012.

Payments were made from the state's Unemployment Compensation Trust Fund, as required by the federal government. The state's trust fund receives revenue from unemployment taxes paid by private employers.

In January 2009, Ohio's trust fund balance was depleted and the state began borrowing money from the federal government to pay benefits. Between January 2009 and December 2012, Ohio borrowed a total of $2.88 billion. Ohio repaid $533 million in 2011. That amount along with the 2012 payments of $524 million brought Ohio's loan balance down to $1.82 billion. The loan balance was brought down further in 2012 by a credit of $89.3 million as a result of higher federal unemployment taxes paid by employers. Ohio's loan balance at the beginning of 2013 was $1.74 billion.[5]

Regular unemployment benefits are paid from the state's trust fund for up to 26 weeks to individuals who lose their jobs through no fault of their own. Extended benefits, those beyond 26 weeks, are paid by the federal government.

Ohio's First Joint County Department of Job and Family Services Begins Operations

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

On January 1, 2013, Ohio's first joint county department of job and family services (CDJFS) began operations. The new joint CDJFS, called the South Central Department of Job and Family Services, is a collaborative between the Hocking, Ross, and Vinton CDJFSs. The joint CDJFS consolidated many administrative functions to reduce costs; for example, there is one director for the joint CDJFS instead of one for each county. According to the Ohio Job and Family Services Directors' Association, the joint CDJFS expects the consolidation to lower administrative costs by $1.8 million each year. The joint CDJFS will maintain physical locations in each of the three counties, and, according to the Directors' Association, individuals who receive services from these locations should not notice any differences.

Prior to the formation of the joint CDJFS, there were 88 CDJFSs in the state with one in each county. H.B. 225 of the 129th General Assembly permitted the boards of county commissioners of Hocking, Ross, and Vinton counties to form a joint CDJFS. Later, H.B. 487 of the 129th General Assembly permitted any two or more CDJFSs to combine to form joint CDJFSs. According to the Directors' Association, as of January 2013, two more joint projects were being analyzed for possible implementation: one between Logan and Champaign counties and another between Defiance and Paulding counties. The Directors' Association stated that smaller, rural counties would be more likely to consolidate services.

[5] Once the loan balance is fully paid, the state's federal unemployment tax will be reduced back to its standard rate.

CDJFSs administer eligibility determination for many public assistance programs such as Medicaid, the Food Assistance Program (formerly Food Stamps), and Ohio Works First cash assistance program. Some CDJFSs also serve as a county's local One-Stop location to provide employment and training services to the unemployed and disadvantaged. CDJFSs receive most of the funding for these programs from the state and federal government.

Department of Youth Services Receives $82,500 Grant to Implement Statewide Standardized Behavioral Health Screening Process

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

In December 2012, the Department of Youth Services (DYS) received an $82,500 grant from the office of the Attorney General to implement a statewide standardized behavioral health screening process for youth, which will be used by juvenile detention centers and public children services agencies. The standardized screening process will allow these entities to identify youth mental health issues and provide treatment recommendations for juveniles when they first come into contact with the juvenile justice system. The goal is to prevent those juveniles from further involvement with the system through early identification and subsequent treatment. Preparation for implementation will begin February 14, 2013 with the formation of a Statewide Screening Workgroup organized by the Governor's Office of Health Transformation. The Workgroup will be responsible for implementing a statewide mental health/trauma screening, which includes adopting common language as well as a standard tool and screening protocol. A pilot project will also be conducted prior to statewide implementation.

Implementation of a statewide standardized behavioral health screening process for youth fulfills one of the recommendations made by the Ohio Interagency Task Force on Mental Health and Juvenile Justice. As reported in the November issue of *Budget Footnotes*, the Task Force was charged under H.B. 86 of the 129th General Assembly to investigate and make recommendations on how to most effectively treat delinquent youth with serious behavioral health issues. In its report, issued in September 2012, the Task Force found a significant unmet need for behavioral health services among Ohio youth and recommended better resource sharing among state and local juvenile justice, behavioral health, and child welfare agencies, as well as schools.[6]

[6] The complete report and recommendations of the Task Force are available under the "Featured Links" tab at: www.dys.ohio.gov.

Ohio Department of Agriculture Introduces New Disease Certification Program for Sheep and Goat Producers

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

On January 14, 2013, the Ohio Department of Agriculture (AGR) introduced a voluntary disease certification program for Ohio's sheep and goat producers. The program will be overseen by the Division of Animal Health. Producers that enroll in the program can have their flocks or herds certified by AGR to have achieved test-negative status for Ovine Progressive Pneumonia or Caprine Arthritis Encephalitis after participating in a three or five-year test monitoring program.[7] In order to participate in the program, enrollees must submit annual laboratory samples to a laboratory accredited by the American Association of Veterinary Laboratory Diagnosticians. In Ohio, this is AGR's Animal Disease Diagnostic Laboratory (ADDL) situated at the Department's headquarters in Reynoldsburg.

ADDL provides regulatory testing support for disease control programs and full diagnostic laboratory services for veterinarians, livestock producers, and agribusinesses. Both the Ovine Progressive Pneumonia and the Caprine Arthritis Encephalitis tests that are necessary under this new certification program cost $4 per test sample, and take two days to complete. ADDL operations are supported by a combination of GRF moneys and laboratory testing fees deposited into the Animal and Consumer Analytical Laboratory Fund (Fund 6520). GRF appropriation item 700401, Animal Disease Control, is appropriated $3.9 million in FY 2013, while Fund 6520 appropriation item 700634, Animal and Consumer Analytical Laboratory, is appropriated $4.3 million in FY 2013.

Department of Veterans Services Receives Nearly $800,000 Federal Cemetery Improvement Grant

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

In November 2012, the Ohio Department of Veterans Services announced that the state of Ohio received a grant of $798,987 from the U.S. Department of Veterans Affairs (VA). The grant will be used to make improvements to the Ohio Veterans Home Cemetery, located in Sandusky, Ohio. Improvements will include the raising, realignment, and cleaning of 4,168 headstones; turf rehabilitation; and supporting infrastructure. No state matching funds are required for this grant and much of the work will begin in March 2013. Completion of the project is expected to take about

[7] There is no cost-effective and practical treatment for either disease. Both can adversely affect animal production, since infected animals either die or must be culled from healthy flocks to avoid further spread of disease.

90 days. These improvements will help the cemetery meet the National Cemetery Administration Appearance Standards. The Ohio Veterans Home Cemetery dates to 1888 and was originally known as the Ohio Soldiers' and Sailors' Cemetery, and Soldiers' Home Cemetery. The cemetery is still actively commissioned, averaging approximately 24 burials per year.

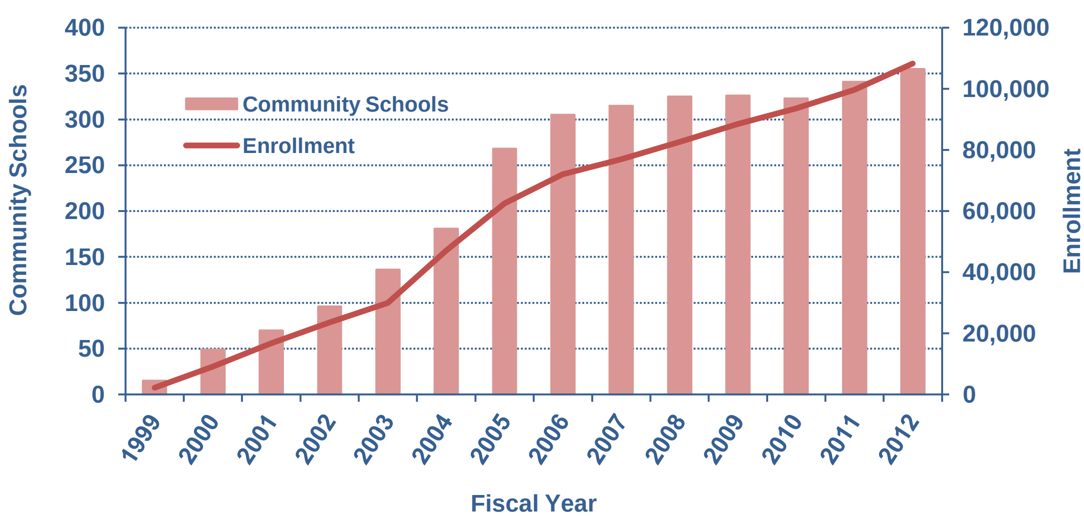
The VA Veterans Cemetery Grants Program was originally established in 1978 and is designed to complement 131 national cemeteries across the country. The program helps states, federally recognized tribal governments, and U.S. territories establish, expand, or improve veterans cemeteries. Cemeteries established under the program must conform to the VA's standards and guidelines pertaining to site selection, planning and construction. In addition to the Ohio Veterans Home Cemetery, there are two other national cemeteries in Ohio: Western Reserve National Cemetery One (located in Rittman and first opened in 2000) and Dayton National Cemetery (located in Dayton and first opened in 1867). However, the Ohio Veterans Home Cemetery is the only one that receives funding from the state.

ODE Releases 2011-2012 Annual Report on Community Schools

– Michele Perch, Budget Analyst, 614-644-1262

In December 2012, the Ohio Department of Education (ODE) released its tenth Annual Report on Ohio Community Schools. According to the report, during FY 2012, more than 108,200 students were enrolled in community schools (an 8.6% increase over FY 2011). Those students attended 355 community schools. About 67.0% (238) of the community schools in Ohio were located in five counties: Franklin (73), Cuyahoga (72), Lucas (34), Montgomery (30), and Hamilton (29). Chart 5 shows the growth of community schools and student enrollment from FY 1999 to FY 2012.

Chart 5: Community Schools and Enrollment in Ohio, FY 1999-FY 2012



In addition to highlighting the growth of community schools and enrollment, the report also outlines community school policies enacted in the second half of the 129th General Assembly. For example, S.B. 316 required the General Assembly to enact closure criteria for community schools that operate dropout prevention and recovery programs by March 2013. The legislature later enacted closure policies for schools that operate these programs through H.B. 555, which will become effective on March 22, 2013. The report also outlines provisions in H.B. 525 relating to community schools in the Cleveland Municipal School District. Notably, this bill authorized the district to propose a levy in which a portion of the revenues are allocated to the district's community schools. This is the first time that any community schools in Ohio may receive funds generated by a levy. For the complete report, please visit ODE's web site: www.ode.state.oh.us and search for "Community Schools Annual Report."

ODE Report Outlines Options for Reprioritizing State and Federal Funds for Third Grade Reading Guarantee

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

On January 1, 2013, ODE released a report discussing the options available to reprioritize state and federal funds to support the assessments and interventions associated with the third grade reading guarantee, the goal of which is to ensure that all students, with few exceptions, can read at grade level by the end of the third grade. The following provides a brief summary of the report, which was required by S.B. 316 of the 129th General Assembly.

Of the various sources of funds discussed in the report, school districts have the most flexibility in spending the proceeds of GRF formula aid and property tax replacement payments. Thus, the report recommends that local education agencies (LEAs) gain efficiencies through shared services so that general funds currently being used for administrative or back-office functions can be repurposed for instructional purposes, including the requirements associated with the reading guarantee.

The use of federal funds is much more limited. Also, ODE and LEAs must adhere to federal "supplement not supplant" requirements that ensure federal funds are not taking the place of state and local funds that would otherwise be spent. Even so, the report outlines a number of options ODE and LEAs can take with respect to federal funds. For example, ODE will seek to amend its waiver from certain requirements of the No Child Left Behind Act of 2001 to allow Title IA funds, including the 20% currently set aside for school improvement activities, to be used for additional activities that support the reading guarantee. ODE will also advocate for changes in federal law or regulations that will allow more flexibility in the use of federal funds. ODE encourages LEAs to use Title IA funds to support and supplement reading instruction and intervention programs (with the caveat that no such funds can be spent on specific state mandates), use a portion of Title IIA funds to recruit reading specialists and support teachers in obtaining various reading credentials (without specifically doing so only for the guarantee), and exercise the option to use up to 15% of their Individuals with Disabilities Education Act (IDEA), Part B funds for coordinated early intervening services for nondisabled students with reading deficiencies and/or for professional development for teachers seeking reading endorsements to provide intervention services to such nondisabled students.

H.B. 487 of the 129th General Assembly appropriated $13.0 million of lottery proceeds to specifically support the third grade reading guarantee. The funds will be awarded in the form of competitive grants to school districts and community schools to support reading intervention efforts. Grant recipients will be announced by the end of April 2013.

TRACKING THE ECONOMY

– Philip A. Cummins, Senior Economist, 614-387-1687

The material that follows is from the Economic Conditions and Outlook section of the Ohio Legislative Service Commission's February 5 testimony before the House Finance Committee on the pending biennial budget of the 130th General Assembly.

Expansion in U.S. and Ohio economic activity has been underway since 2009.

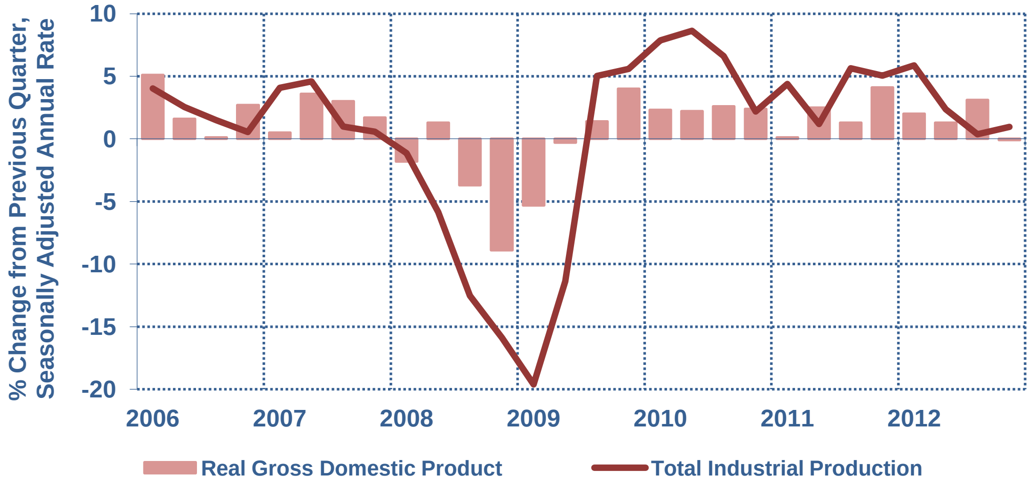
State of the Economy

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. Consumer spending has been rising. Employment and incomes have gradually recovered. 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 far below past peaks. Business capital spending has continued to expand in most quarters. Overall economic growth has been slow compared with most past recoveries, and unemployment has come down gradually but remained elevated. Inflation for most finished goods and services is low, though up from even lower rates in 2009 and 2010.

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 trough. 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. The initial report on real GDP in last year's fourth quarter showed a small decline. 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 end of last year.

Chart 6: United States Output Measures



Consumer spending has grown since the recession trough in the second quarter of 2009, but growth has been slow.

Uncertainties related to prospective large federal tax hikes and spending cuts at the start of this year (the "fiscal cliff") were resolved in part by the deal struck on January 1 by Congress. The payroll tax rate for individuals, reduced in 2011 and 2012, was returned to its prior level, placing a drag on consumer spending. Decisions on federal spending cuts were delayed two months, to March 1. The federal government is up against its debt ceiling, and efforts to reach agreement on an increase may be a further source of uncertainty later this year for business and consumers.

Consumer spending has grown since the recession trough in the second quarter of 2009, but growth has been slow. Outlays by consumers have been held back by the slow recovery in employment. The rise in employment since its post-recession low has offset only part of the decline, during and following the recession, from the previous peak. With rising employment, unemployment has come down gradually. The national unemployment rate remained high at 7.9% of the labor force in January. Growth in the number of people 16 years of age and older who are not in the labor force, neither employed nor counted as unemployed, has nearly kept pace with estimated population increases in this age group. The unemployment rate would be higher, at current employment levels, if more of these people were actively seeking work. Some 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 calendar year 2012 were at the highest rate in five years.

Housing markets are also recovering, though activity remains well below past peaks. Construction starts on new housing units last year were at the highest level since 2008, though they remained less than 40% of the rate in peak year 2005. The upturn was strongest in apartment construction. Sales of new and older homes have increased. Housing prices hit bottom in 2011 and have trended upward since, but remain below past peaks. Conditions vary widely among local markets.

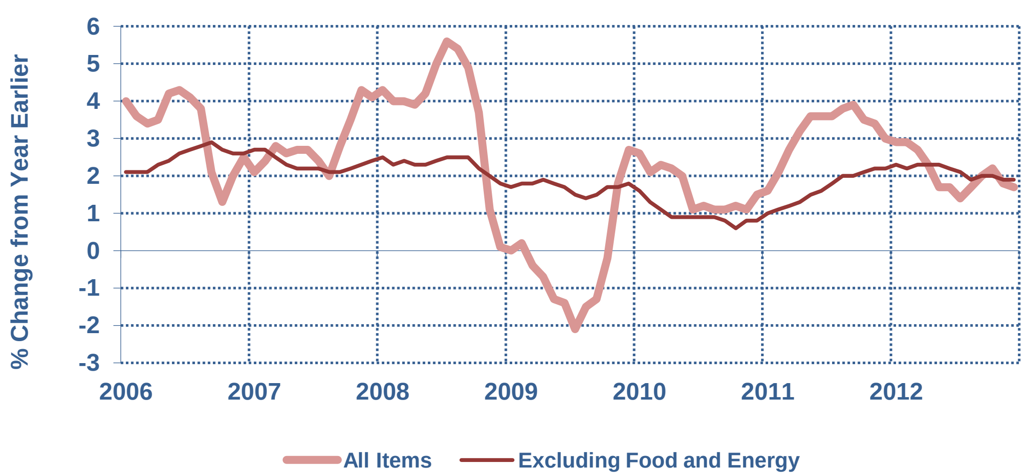
Housing markets are also recovering, though activity remains well below past peaks.

Business investment in equipment and software grew vigorously after the end of the last recession, but increased more slowly last year. In contrast, business investment in structures initially remained weak following the recession but picked up in 2011, then also grew more slowly last year. Concerns about slow growth of demand may have dampened additions to investment outlays in recent quarters. 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 as well as plant and equipment, finished goods and services inflation 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



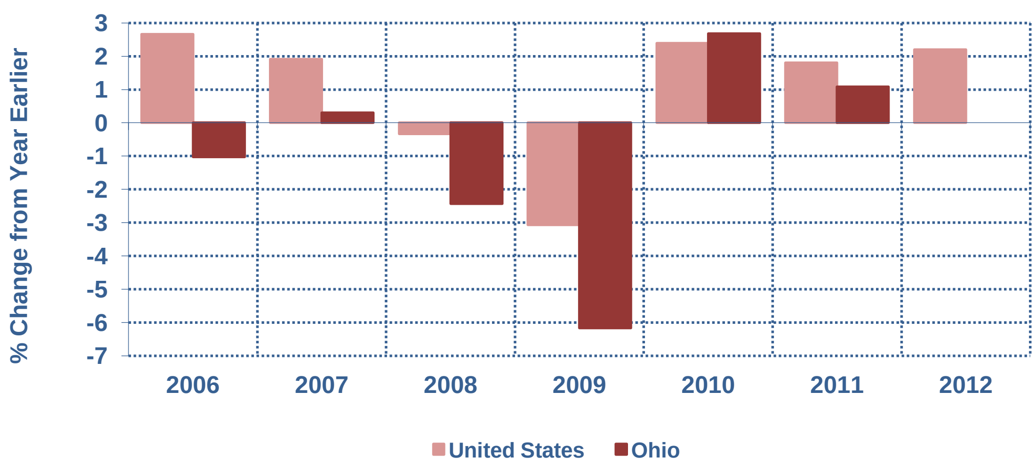
Because unemployment is still high and inflation at the finished goods level has remained low, U.S. monetary policy has held short-term interest rates at very low levels. In addition to keeping its target short-term interest rate, the federal funds rate, in a range of 0% to 0.25%, the Federal Reserve 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

The 2007-2009 recession was more severe in Ohio.

Annual changes in real GDP in Ohio compared with those for the U.S. are shown in Chart 8. The 2007-2009 recession was more severe in Ohio, as state real GDP fell 6.2% in 2009 compared with a 3.1% decline in U.S. real GDP, and as state real GDP also fell more sharply in 2008. Recovery here initially appears slightly stronger, with state real GDP increasing 2.7% in 2010 in comparison with U.S. real GDP growth of 2.4%. But growth in Ohio trailed that of the nation in 2011. GDP has risen more slowly in Ohio than nationwide in most years since the mid-1960s, and the state's share of the nation's output has trended lower since then. State GDP figures are available from the source agency, the U.S. Bureau of Economic Analysis (BEA), only annually and with a long lag. BEA's initial estimate of 2012 Ohio GDP is scheduled for next June. Quarterly estimates up to the present and forecasts are provided by Global Insight.

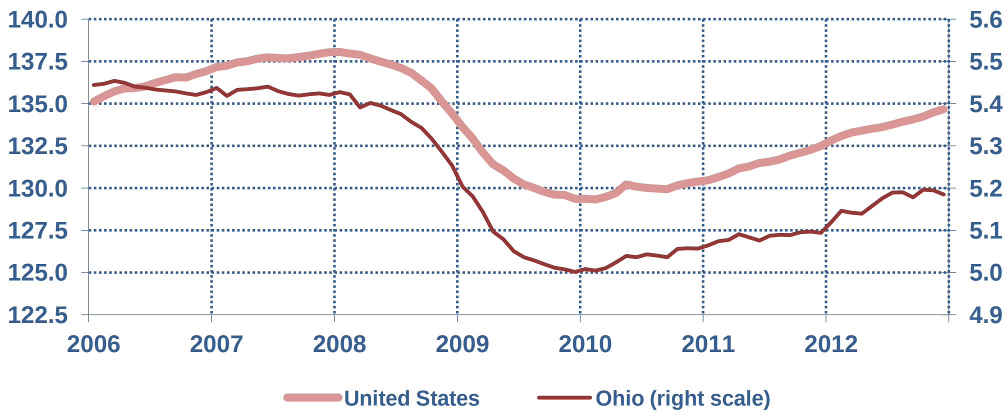
Chart 8: Real Gross Domestic Product



Nonfarm payroll employment in Ohio, compared with that in the U.S., is shown in Chart 9. Ohio nonfarm payroll employment reached a low point in December 2009, and recovered by 3.7%, about 183,000 jobs, in the three years since then. U.S. nonfarm payroll employment reached its low point in February 2010, and through December 2012 had risen 4.1%, 5.3 million jobs. In January, (not shown in Chart 4), U.S. nonfarm payroll employment rose an additional 157,000 (0.1%). In both Ohio and the U.S., total nonfarm payroll employment remains below levels prior to the 2007-2009 recession.

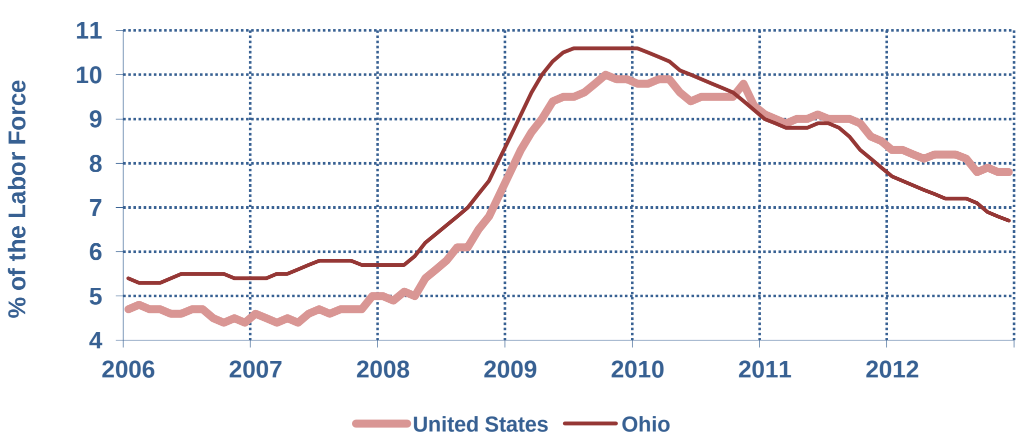
Ohio nonfarm payroll employment reached a low point in December 2009, and recovered by 3.7%, about 183,000 jobs, in the three years since then.

Chart 9: Total Nonfarm Payroll Employment
Millions, Seasonally Adjusted



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, as shown in Chart 10. The U.S. unemployment rate was 7.8% in December and 7.9% in January. Ohio's unemployment rate has been lower than the nationwide average since November 2010. The number of persons counted as unemployed has fallen faster in Ohio than nationwide since then, but total employment in this state has grown more slowly.

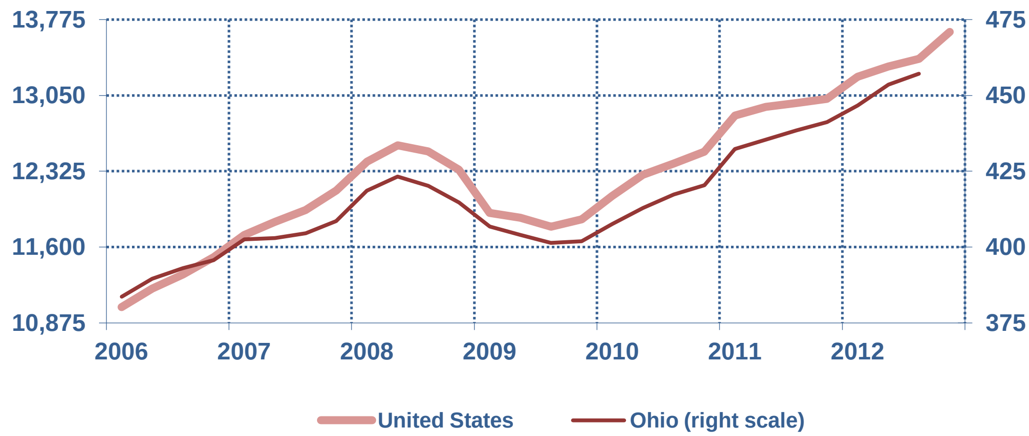
Chart 10: Unemployment Rate



Ohio's statewide unemployment rate declined to 6.7% in December, its lowest level since 2008.

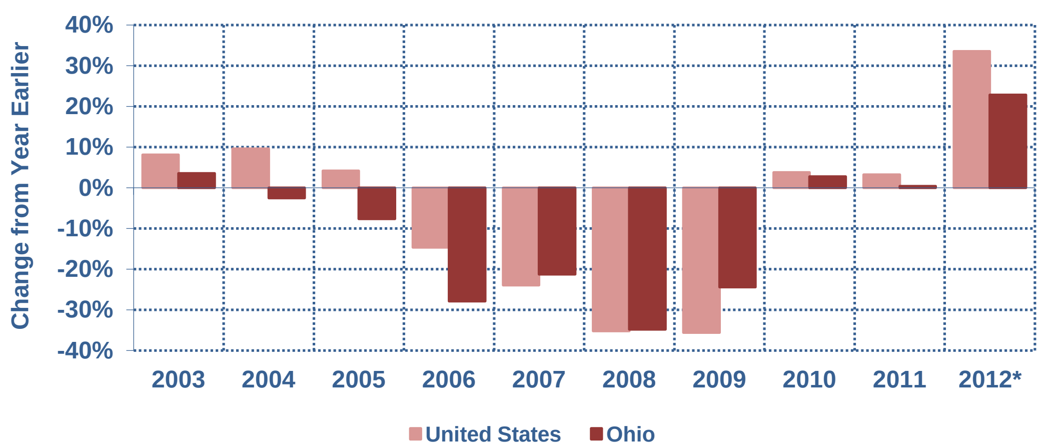
Personal income has been growing in the nation and Ohio since 2009, as shown in Chart 11. Both series in the chart are shown in dollars of current purchasing power. Ohio personal income as well as U.S. personal income rose about 14% from the low point to the third quarter of 2012. U.S. personal income rose further in the fourth quarter.

Chart 11: Personal Income
Billions of Dollars



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.

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



* Through November.

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.[8]

Economic Forecasts

The predictions for the economic outlook in the tables that follow are from Global Insight's baseline forecasts released in January 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, 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, 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.

U.S. Real GDP Growth

	2013				2014				2015			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent change at annual rate											
Global Insight	1.0	2.4	2.1	2.2	2.6	3.3	3.3	3.2	3.6	3.6	3.5	3.1
Global Insight		2.0				2.1				3.2		

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% per year in FY 2014 and FY 2015.

Ohio Real GDP Growth

	2013				2014				2015			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent change at annual rate											
Global Insight	0.9	2.0	1.6	1.9	1.7	2.2	2.3	2.5	2.6	2.7	2.7	2.4
Global Insight		2.1				1.6				2.3		

[8] Prices cited here are as reported by the Federal Housing Finance Agency.

U.S. Inflation

In Global Insight's January baseline forecast, consumer price inflation remains at a 2% annual rate or less through 2015.

U.S. Consumer Price Index Inflation

	2013				2014				2015			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent change at annual rate											
Global Insight	0.6	1.2	1.8	1.9	1.9	1.7	1.5	1.5	1.9	1.3	1.4	2.0
Global Insight		1.6				1.6				1.6		

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 current quarter reflects the end of the 2 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

	2013				2014				2015			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent change at annual rate											
Global Insight	-1.1	4.6	4.5	4.3	6.6	4.5	4.7	4.6	5.9	4.8	4.7	4.5
Global Insight		3.1				4.1				5.0		

Ohio Personal Income

Income to persons who reside in Ohio also is forecast 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 4.0% at an annual rate in FY 2014 and FY 2015, lagging behind growth of personal income nationwide.

Ohio Personal Income Growth

	2013				2014				2015			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent change at annual rate											
Global Insight	-1.2	4.2	3.7	3.5	6.3	3.9	4.2	4.0	5.5	4.1	4.0	3.9
Global Insight		3.5				3.5				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.

U.S. Unemployment Rate

	2013				2014				2015			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent of the labor force											
Global Insight	7.7	7.7	7.6	7.6	7.5	7.4	7.3	7.1	6.9	6.7	6.6	6.4
Global Insight		7.8				7.5				7.0		

Ohio Unemployment Rate

The unemployment rate in Ohio is projected to fall slowly through the end of 2015. The state's unemployment rate remains below that of the nation.

Ohio Unemployment Rate

	2013				2014				2015			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent of the labor force											
Global Insight	6.8	6.8	6.7	6.7	6.6	6.6	6.6	6.5	6.5	6.5	6.4	6.3
Global Insight		6.9				6.6				6.5		