Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION JULY 2013

STATUS OF THE GRF

HIGHLIGHTS

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

FY 2013 was a good year for GRF tax revenue. Tax receipts increased more than 10% compared to FY 2012, and exceeded receipts in FY 2006 for the first time since that year. Strong revenue, coupled with GRF spending that was $1.07 billion below the estimate released by the Office of Budget and Management in August 2012, due primarily to Medicaid, ensured a healthy overall budget situation for FY 2013.

The GRF finished the fiscal year with an unobligated cash balance of $2.11 billion. Of this amount, $996 million will be transferred to the Budget Stabilization Fund (BSF) to bring the fund's balance to $1.48 billion – the statutory target amount. The remainder will be used to meet the required ending fund balance and help fund the FY 2014-FY 2015 biennial budget pursuant to H.B. 59 of the 130th General Assembly.

Simplified GRF Cash Statement, as of June 28, 2013 ($ in millions)	
Beginning Cash Balance	**$973.4**
Plus Actual Revenues and Transfers In	$29,558.7
Less Actual Expenditures and Transfers Out	$27,892.9
Ending Cash Balance	**$2,639.2**
Less Encumbrances	$361.0
Less Year-end Transfers Out per H.B. 59	$171.3
Unobligated Ending Cash Balance	**$2,106.9**
Plus BSF Balance	$482.0
Combined GRF and BSF Unobligated Ending Balance	**$2,588.9**

VOLUME 36, NUMBER 11

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

Next Issue:
September 2013
Have a Great Summer!

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Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of June 2013
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on July 8, 2013)

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$89,265	$94,400	-$5,135	-5.4%
Nonauto Sales and Use	$642,531	$643,300	-$769	-0.1%
Total Sales and Use Taxes	$731,797	$737,700	-$5,903	-0.8%
Personal Income	$877,266	$859,204	$18,063	2.1%
Corporate Franchise	-$12,072	$5,000	-$17,072	-341.4%
Public Utility	$108	$300	-$192	-63.9%
Kilowatt Hour Excise	$18,945	$19,800	-$855	-4.3%
Natural Gas Consumption (MCF)	$196	$2,500	-$2,304	-92.2%
Commercial Activity Tax	$3,034	$2,700	$334	12.4%
Foreign Insurance	-$2,393	-$800	-$1,593	-199.1%
Domestic Insurance	$11,811	$53,100	-$41,289	-77.8%
Business and Property	$3,966	$10,900	-$6,934	-63.6%
Cigarette	$56,905	$68,300	-$11,395	-16.7%
Alcoholic Beverage	$7,547	$5,400	$2,147	39.8%
Liquor Gallonage	$3,659	$3,500	$159	4.5%
Estate	$4,675	$1,900	$2,775	146.0%
Total Tax Revenue	**$1,705,445**	**$1,769,504**	**-$64,059**	**-3.6%**
NONTAX REVENUE				
Earnings on Investments	$3,130	$1,500	$1,630	108.6%
Licenses and Fees	$742	$928	-$185	-20.0%
Other Revenue	$1,141	$13,242	-$12,100	-91.4%
Total Nontax Revenue	**$5,013**	**$15,669**	**-$10,656**	**-68.0%**
TRANSFERS				
Liquor Transfers**	$0	$19,000	-$19,000	-100.0%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$304,763	$22,334	$282,429	1264.6%
Total Transfers In	**$304,763**	**$41,334**	**$263,429**	**637.3%**
TOTAL STATE SOURCES	**$2,015,221**	**$1,826,507**	**$188,714**	**10.3%**
Federal Grants	$221,207	$564,121	-$342,913	-60.8%
TOTAL GRF SOURCES	**$2,236,428**	**$2,390,627**	**-$154,199**	**-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 June 28, 2013.

Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Actual vs. Estimate
FY 2013 as of June 30, 2013
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on July 8, 2013)

	Actual	Estimate*	Variance	Percent	FY 2012	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$1,096,689	$1,075,000	$21,689	2.0%	$1,053,479	4.1%
Nonauto Sales and Use	$7,348,162	$7,350,000	-$1,838	0.0%	$7,033,523	4.5%
Total Sales and Use Taxes	$8,444,851	$8,425,000	$19,851	0.2%	$8,087,002	4.4%
Personal Income	$9,507,826	$8,970,000	$537,826	6.0%	$8,432,909	12.7%
Corporate Franchise	$261,905	$150,000	$111,905	74.6%	$117,079	123.7%
Public Utility	$96,666	$115,000	-$18,334	-15.9%	$113,894	-15.1%
Kilowatt Hour Excise	$307,231	$305,000	$2,231	0.7%	$294,829	4.2%
Natural Gas Consumption (MCF)	$57,804	$60,000	-$2,196	-3.7%	$60,191	-4.0%
Commercial Activity Tax	$789,983	$850,000	-$60,017	-7.1%	$417,130	89.4%
Foreign Insurance	$274,637	$270,000	$4,637	1.7%	$266,488	3.1%
Domestic Insurance	$206,371	$195,000	$11,371	5.8%	$189,072	9.1%
Business and Property	$38,429	$25,000	$13,429	53.7%	$19,872	93.4%
Cigarette	$827,440	$815,000	$12,440	1.5%	$843,180	-1.9%
Alcoholic Beverage	$56,499	$58,000	-$1,501	-2.6%	$57,615	-1.9%
Liquor Gallonage	$40,648	$40,000	$648	1.6%	$39,438	3.1%
Estate	$105,202	$66,000	$39,202	59.4%	$66,522	58.1%
Total Tax Revenue	**$21,015,491**	**$20,344,000**	**$671,491**	**3.3%**	**$19,005,221**	**10.6%**
NONTAX REVENUE						
Earnings on Investments	$10,509	$5,500	$5,009	91.1%	$5,418	94.0%
Licenses and Fees	$70,231	$46,000	$24,231	52.7%	$65,299	7.6%
Other Revenue	$536,644	$48,000	$488,644	1018.0%	$164,774	225.7%
Total Nontax Revenue	**$617,385**	**$99,500**	**$517,885**	**520.5%**	**$235,491**	**162.2%**
TRANSFERS						
Liquor Transfers**	$88,000	$160,000	-$72,000	-45.0%	$92,638	-5.0%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$314,014	$27,500	$286,514	1041.9%	$489,697	-35.9%
Total Transfers In	**$402,014**	**$187,500**	**$214,514**	**114.4%**	**$582,335**	**-31.0%**
TOTAL STATE SOURCES	**$22,034,889**	**$20,631,000**	**$1,403,889**	**6.8%**	**$19,823,047**	**11.2%**
Federal Grants	$7,525,842	$8,151,329	-$625,487	-7.7%	$7,362,952	2.2%
TOTAL GRF SOURCES	**$29,560,731**	**$28,782,329**	**$778,402**	**2.7%**	**$27,185,999**	**8.7%**

*Estimates of the Office of Budget and Management as of August 2012.
**Liquor Transfers based on a report run in OAKS as of June 28, 2013.
Detail may not sum to total due to rounding.

FY 2013 tax receipts were $671.5 million above OBM's August 2012 estimate.

REVENUES

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

Overview

Total GRF sources of $29.56 billion in FY 2013 were $778.4 million above the estimates released by the Office of Budget and Management (OBM) in August 2012.[1] GRF tax sources, nontax revenues, and total transfers in were $671.5 million, $517.9 million, and $214.5 million, respectively, above estimates. Those positive variances were partly offset by a shortfall of $625.5 million in federal grants. Tables 1 and 2 show GRF sources for the month of June and for FY 2013 through June, 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 human service programs such as Medicaid that receive federal funding.

June GRF sources were $154.2 million below OBM's August 2012 estimate.

For the month of June, total GRF sources were $154.2 million below estimate, largely due to negative variances of $342.9 million in federal grants and $64.1 million in GRF tax sources. However, total transfers in were $263.4 million above estimate, due mainly to transfers of $185.0 million in commercial activity tax (CAT) revenue in excess of amounts required for local government property replacement funds. The revenue performance in June reduced to $778.4 million the year-to-date positive variance of $932.6 million in GRF total sources recorded through May.

June 2013 receipts from several tax sources were below estimates, including the domestic insurance tax ($41.3 million, which was due to timing as there was a $47.5 million positive variance in May), the corporate franchise tax (CFT) $17.1 million, the cigarette tax ($11.4 million), the business and property tax ($6.9 million), and the sales and use tax ($5.9 million). On the other hand, the personal income tax was $18.1 million above estimate for the month.

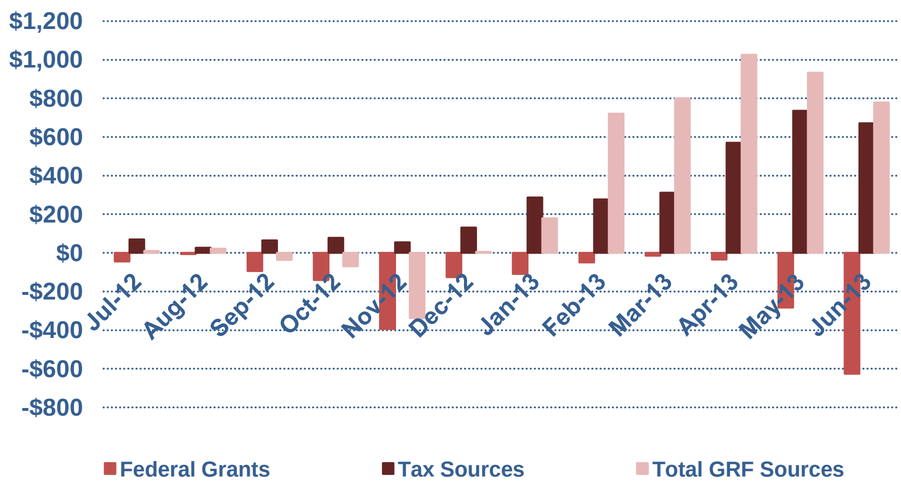
As mentioned above, state-source nontax revenues were substantially above their FY 2013 estimates. This positive variance was primarily due to a deposit of $495.0 million to the GRF made February 1, 2013, from proceeds of a $1.57 billion bond sale that had been delayed for several months. The bond sale was related to the transfer of

[1] In February 2013, OBM revised upward by $432.0 million estimated FY 2013 total GRF sources. However, OBM did not revise monthly revenue estimates published in August 2012, which were used the remainder of the fiscal year.

the state liquor franchise to JobsOhio.[2] The fiscal year-long negative variance in federal grants was due to lower than expected expenditures in Medicaid (see the **EXPENDITURES** section of this report for additional information).

Chart 1 below shows the cumulative FY 2013 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)



FY 2013 GRF tax receipts were $2.01 billion above such receipts in FY 2012.

FY 2013 total GRF sources increased $2.37 billion compared to FY 2012 receipts. Gains of $2.01 billion in GRF tax revenue, $381.9 million in nontax revenue, and $162.9 million in federal grants were partly offset by a decline of $180.3 million in total transfers in. Receipts from the personal income tax grew $1.07 billion, while revenue from the CAT and the sales and use tax increased $372.9 million and $357.8 million, respectively. Growth in FY 2013 tax revenues, compared to receipts a year ago, was due to the continuing economic recovery and to changes in H.B. 153 (129th General Assembly) to the allocation of tax receipts. Collectively, H.B. 153 changes increased GRF tax receipts by about $625 million, or about 31% of the total FY 2013 increase in tax revenue.

[2] H.B. 153 of the 129th General Assembly, the operating budget act for the FY 2012-FY 2013 biennium, authorized the transfer of the state liquor operation to JobsOhio, a private nonprofit entity created by H.B. 1 of the 129th General Assembly. The bond sale and GRF deposit were originally scheduled to occur in FY 2012.

FY 2013 GRF income tax receipts were $537.8 million above estimate.

FY 2013 withholding receipts were $109.0 million above OBM's August 2012 estimate.

Personal Income Tax

June GRF receipts from the personal income tax of $877.3 million were $18.1 million (2.1%) above estimate. Monthly receipts were also $38.2 million (4.5%) above receipts in June 2012. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the Local Government Fund (LGF). Gross collections are the sum of employer withholding, quarterly estimated payments,[3] trust payments, payments associated with annual returns, and miscellaneous payments.

Among the components of the tax, monthly employer withholdings and taxes due with annual returns were $15.6 million (2.4%) and $4.5 million (27.8%) below estimates, respectively. However, estimated quarterly payments were above estimate by $36.7 million (15.7%). For the fiscal year, the GRF received $9.51 billion from the personal income tax, $537.8 million (6.0%) above estimate. The table below summarizes year-to-date FY 2013 income tax revenue variances from estimates and from a year earlier by component.

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

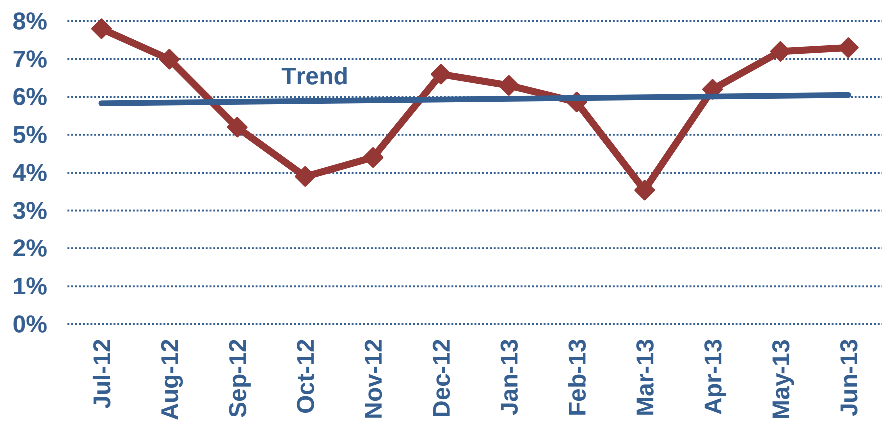
Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2012	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	$109.0	1.4%	$431.3	5.6%
Quarterly Estimated Payments	$226.0	18.8%	$173.2	13.8%
Trust Payments	$45.0	77.7%	$44.9	77.4%
Annual Return Payments	$295.1	27.3%	$279.1	25.4%
Miscellaneous Payments	-$38.9	-26.9%	-$38.8	-26.9%
Gross Collections	$636.3	6.0%	$889.7	8.7%
Less Refunds	$93.3	7.8%	$58.3	4.7%
Less Local Government Fund Distribution	$5.1	1.5%	-$243.6	-40.5%
Income Tax Revenue	$537.8	6.0%	$1,074.9	12.7%

FY 2013 GRF receipts from the income tax were $1.07 billion (12.7%) above receipts in FY 2012. Growth in income tax receipts was mainly due to gains in employer withholding and annual return

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

payments, and reduced distributions to the LGF. Revenues from employer withholding were $431.3 million (5.6%) above receipts in this category in FY 2012, and payments due with annual returns increased $279.1 million (25.4%). Chart 2 below illustrates the trend in employer withholding receipts in FY 2013 and shows growth accelerating in the last quarter of the fiscal year. Distributions to the LGF were $243.6 million (40.5%) below amounts in that category in FY 2012, due to H.B. 153 which reduced revenue sharing of state tax revenues with local governments.

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



FY 2013 GRF sales and use tax receipts were $19.9 million above OBM's August 2012 estimate.

Sales and Use Tax

June GRF receipts from the sales and use tax of $731.8 million were $5.9 million (0.8%) below estimate, but $22.0 million (3.1%) above receipts in June 2012. FY 2013 GRF sales and use tax receipts totaled $8.44 billion, $19.9 million (0.2%) above estimate and $357.8 million (4.4%) 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 tax.

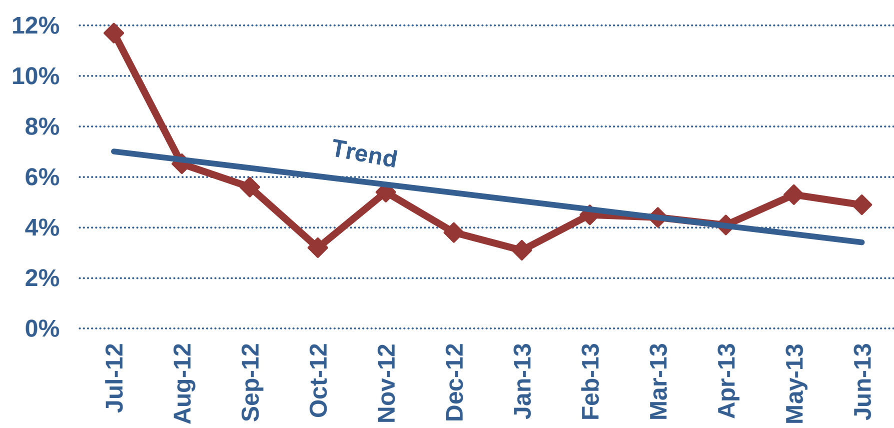
[4] The clerks of court generally make auto sales and use tax payments on Monday for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled. Therefore, auto sales and use tax receipts largely reflect vehicles sold and titled during the month.

FY 2013 GRF receipts from the nonauto sales and use tax were $1.8 million below OBM's August 2012 estimate.

Nonauto Sales and Use Tax

Monthly GRF receipts from the nonauto sales and use tax were $642.5 million, $0.8 million (0.1%) below estimate, but $20.5 million (3.3%) above June 2012 receipts. For the fiscal year, GRF nonauto sales and use tax receipts were $7.35 billion, $1.8 million (0.03%) below estimate. However, those receipts were $314.6 million (4.5%) above receipts in FY 2012. Yearly receipts included $383.0 million in tax payments by Medicaid health insuring corporations, up $29.6 million (8.4%) compared to FY 2012. Chart 3 below shows an increase in FY 2013 nonauto sales and use tax monthly receipts against prior-year receipts in the same month. The tax base grew, though the monthly performance of the tax was uneven earlier in the fiscal year, growth rates have been between 4% and 6% in the latest months.

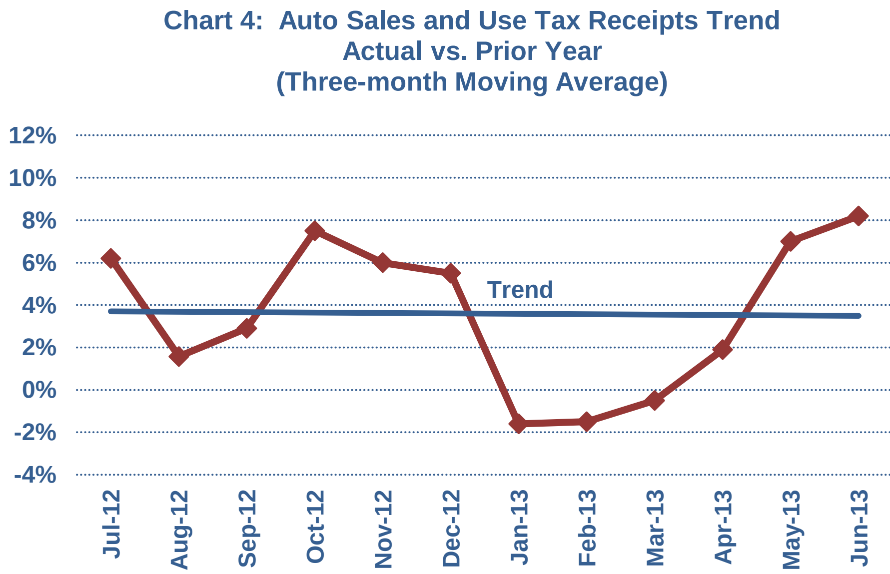
Chart 3: Nonauto Sales and Use Tax Receipts Trend
Actual vs. Prior Year
(Three-month Moving Average)



FY 2013 auto sales and use tax receipts were $21.7 million above OBM's August 2012 estimate.

Auto Sales and Use Tax

The auto sales and use tax provided GRF receipts of $89.3 million in June. Those receipts were $5.1 million (5.4%) below estimate. However, receipts were $1.5 million (1.7%) above revenue in the corresponding month in FY 2012. For the fiscal year, the auto sales and use tax provided $1.10 billion, $21.7 million (2.0%) above estimate, and $43.2 million (4.1%) above receipts 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 reversed weaker revenues earlier in 2013 and improved markedly in the last quarter of the fiscal year.



On a seasonally adjusted annualized basis, nationwide sales of light vehicles (autos and light trucks) jumped to 15.9 million units in June, their best monthly pace since 2007, and up from 15.3 million units in May. For the fiscal year, nationwide light vehicle sales grew by about 1.3 million units (9.6%) over FY 2012. Sales of autos grew 10.8% and those of light trucks increased 8.4%, helped by a resurgent housing industry and increased availability of consumer credit.

Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax of $56.9 million in June 2013 were $11.4 million (16.7%) below estimate and $15.2 million (21.1%) below receipts in the corresponding month in FY 2012. FY 2013 total receipts of $827.4 million were $12.4 million (1.5%) above estimate. Receipts from cigarette sales were $773.3 million, and sales of products other than cigarettes provided $54.1 million. Compared to FY 2012, total receipts this year were $15.7 million (1.9%) lower. Receipts from the sale of cigarettes decreased $16.3 million and those from the sale of other tobacco products increased $0.6 million. Generally, cigarette tax receipts experience a sustained downward trend on a year-ago basis, though the decline in FY 2013 was less severe than those in recent years.

FY 2013 cigarette tax receipts were $12.4 million above OBM's August 2012 estimate.

Commercial Activity Tax

The CAT ended FY 2013 with a large shortfall, though June GRF receipts were $0.3 million (12.4%) above estimate. CAT receipts to the GRF totaled $790.0 million for the fiscal year, $60.0 million (7.1%) below

FY 2013 GRF CAT receipts were $60.0 million below OBM's August 2012 estimate.

estimate, but $372.8 million (89.4%) above receipts in FY 2012. The revenue increase compared to FY 2012 is 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 poor performance of the tax this fiscal year was due to larger than expected refunds from tax credits, but also a one-time large decrease in revenue from a change in the application of the $1 million exclusion from taxable gross receipts enacted by H.B. 508 (129th General Assembly).[5] The impact of H.B. 508 decreased FY 2013 all-funds CAT revenues below the level of FY 2012. All-funds CAT revenue of $1.59 billion was $51.6 million (3.1%) below receipts in the corresponding period last year. Under current law, if CAT receipts are insufficient for the required reimbursements, the GRF subsidizes the replacement funds. Alternatively, receipts not needed for the required payments are transferred to the GRF; thus, the GRF received about $185 million in transfers in June 2013.

Corporate Franchise Tax

FY 2013 CFT receipts were $111.9 million above OBM's August 2012 estimate.

FY 2013 receipts from the CFT were $261.9 million, $111.9 million (74.6%) above estimate and more than doubling the revenue in FY 2012. CFT receipts grew $144.8 million (123.7%) compared to last year's revenues.[6] FY 2012 receipts were depressed, in part, due to large refunds totaling $149.8 million. The strong performance of this tax this year is due to lower than expected refund activity combined with an unexpected

[5] 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.

[6] Actual collections in a fiscal year vary from tax liabilities reported by taxpayers due to tax credits, tax payments that may fall into another fiscal year such as additional payments after audits, refunds from taxes overpaid, and other tax reconciliations from prior tax years.

level of one-time settlements according to OBM. H.B. 510 of the 129th General Assembly eliminates the CFT and the dealers in intangibles tax (DIT), (also known as the business and property tax) at the end of 2013, and replaces both taxes with a new tax, the financial institutions tax (FIT), in tax year (TY) 2014. Receipts from the FIT, similarly to those of the CFT and the DIT, will be deposited in the GRF.

Public Utility Excise Tax

Receipts from the public utility excise tax totaled $96.7 million in FY 2013, $18.3 million (15.9%) less than the estimate and $17.2 million (15.1%) less than in FY 2012. Taxes paid by natural gas companies account for about 95% of total tax receipts from the public utility excise tax. Revenues from this tax are based on utilities' gross receipts, which have been depressed in part by low natural gas prices, though prices have recovered somewhat in recent months.

Kilowatt Hour Tax

GRF receipts from the kilowatt hour (KWh) tax were $18.9 million in June 2013, $0.9 million (4.3%) below estimate. For the fiscal year, GRF receipts from the KWh tax were $307.2 million, $2.2 million (0.7%) above estimate. FY 2013 GRF receipts were $12.4 million (4.2%) higher than FY 2012 receipts, from increased electricity consumption and reduced revenue distributions to the Public Library Fund (PLF). FY 2013 total KWh tax collections (all funds revenue) were $547.5 million, $9.6 million (1.8%) higher than total collections in FY 2012, primarily due to improved economic conditions. Under current law, 88% of total receipts are distributed to the GRF, 9% to the School District Property Tax Replacement Fund, and 3% to the Local Government Property Tax Replacement Fund.

FY 2013 GRF receipts from the KWh tax were $2.2 million above OBM's August 2012 estimate.

Natural Gas Consumption Tax

Natural gas consumption (MCF) tax receipts of $57.8 million in FY 2013 were $2.2 million (3.7%) below estimate, and $2.4 million (4.0%) below those in FY 2012. H.B. 153 of the 129th General Assembly credited all receipts from this excise tax levied on natural gas distribution companies to the GRF, starting in FY 2012. Under previous law, revenue from the MCF tax was credited to the School District Property Tax Replacement Fund (68.7%) and the Local Government Property Tax Replacement Fund (31.3%).

Foreign and Domestic Insurance Taxes

FY 2013 GRF receipts from the domestic insurance tax were $206.4 million, $11.4 million (5.8%) above the estimate, and $17.3 million

(9.1%) greater than FY 2012 receipts. Contributing to both the variance and the growth was a payment due in FY 2012 that was received in FY 2013. That payment, of approximately $4.5 million, held down FY 2012 revenue and increased FY 2013 receipts, leading to the unusually large year-over-year percentage growth. The remaining growth derived from premiums paid to health insuring corporations (HICs); receipts attributable to other lines of business decreased for the year. Recent policy changes in Medicaid managed care have fueled growth in premiums paid to HICs, and thereby in receipts from this tax.

FY 2013 receipts from the foreign insurance tax were $274.6 million, $4.6 million (1.7%) above estimate and $8.1 million (3.1%) above FY 2012 receipts. Revenue from this tax was not affected by anything out of the ordinary, and the year-over-year growth was only slightly below the long-term trend.

The domestic insurance tax is paid by insurance companies whose headquarters are located in Ohio, while the foreign insurance tax is paid by those headquartered in other states.

FY 2013 receipts from the business and property tax were $13.4 million above OBM's August 2012 estimate.

Business and Property Tax

The business and property tax, also called the DIT, is imposed on businesses (excluding financial institutions and insurance companies) engaged in lending money or buying and selling notes, mortgages, and securities. GRF receipts from the business and property tax were $38.4 million, $13.4 million (53.7%) above estimate, and $18.6 million (93.4%) above FY 2012 revenue. (FY 2012 revenue was $18.1 million below estimate due to a high level of refunds, and $6.1 million below FY 2011 revenue.)

Alcoholic Beverage and Liquor Gallonage Taxes

Receipts from the alcoholic beverage tax totaled $56.5 million in FY 2013, $1.5 million (2.6%) below estimate, and $1.1 million (1.9%) below FY 2012 revenue. Sales of beer and malt beverages accounted for $44.7 million, down from $46.5 million in FY 2012; and sales of wine and mixed beverages accounted for $11.8 million, $0.3 million above receipts in the previous fiscal year. In FY 2013, beer and malt beverages generated about 80% of the total alcoholic beverage tax receipts.

Receipts from the liquor gallonage tax of $40.6 million in FY 2013 were $0.6 million (1.6%) above estimate, and above FY 2012 revenue by $1.2 million (3.1%). Liquor sales have increased steadily each year.

Estate Tax

The GRF received $105.2 million from the estate tax in FY 2013. This amount was $39.2 million (59.4%) above estimate, and higher than FY 2012 receipts by $38.7 million (58.1%). Estate tax receipts vary from year to year because they depend on the net taxable value of a decedent's estate at the time of death, which depends on financial market conditions and the time of settlement made by each county with the state. The total estate tax revenue is shared by the state GRF (20%) and the municipality or township in which the decedent resided (80%). Though H.B. 153 of the 129th General Assembly eliminated the estate tax starting with dates of death on or after January 1, 2013, an uncertain amount will be received under this tax from settlements occurring in FY 2014.

FY 2013 GRF receipts from the estate tax were $39.2 million above OBM's August 2012 estimate.

Earnings on Investments

In FY 2013, GRF earnings on investment of $10.5 million were $5.0 million (91.1%) above estimate and $5.1 million (94.0%) higher than FY 2012 earnings. The increased earnings were due to higher state revenue collections, which increase the amount of available cash for investment, and slightly higher than anticipated average yields.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of June 2013
($ in thousands)
(Actual based on OAKS reports run July 1, 2013)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary, Secondary, and Other Education	$385,277	$278,674	$106,603	38.3%
Higher Education	$164,871	$159,372	$5,499	3.5%
Total Education	$550,148	$438,046	$112,102	25.6%
Public Assistance and Medicaid	$359,936	$930,116	-$570,179	-61.3%
Health and Human Services	$51,097	$37,659	$13,438	35.7%
Total Welfare and Human Services	$411,033	$967,775	-$556,742	-57.5%
Justice and Public Protection	$137,450	$136,380	$1,070	0.8%
Environment and Natural Resources	$1,984	$4,007	-$2,023	-50.5%
Transportation	$351	$1,046	-$695	-66.5%
General Government	$16,243	$15,224	$1,019	6.7%
Community and Economic Development	$2,815	$3,715	-$900	-24.2%
Capital	$0	$20	-$20	-100.0%
Total Government Operations	$158,844	$160,392	-$1,549	-1.0%
Tax Relief and Other	$166,255	$189,447	-$23,192	-12.2%
Debt Service	$54,559	$57,297	-$2,738	-4.8%
Total Other Expenditures	$220,814	$246,744	-$25,930	-10.5%
Total Program Expenditures	**$1,340,838**	**$1,812,956**	**-$472,118**	**-26.0%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$99,609	$44,814	$54,795	122.3%
Total Transfers Out	$99,609	$44,814	$54,795	122.3%
TOTAL GRF USES	**$1,440,448**	**$1,857,770**	**-$417,323**	**-22.5%**

* 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 June 30, 2013
($ in thousands)
(Actual based on OAKS reports run July 1, 2013)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2012**	**Percent Change**
Primary, Secondary, and Other Education	$6,574,162	$6,613,951	-$39,789	-0.6%	$6,457,827	1.8%
Higher Education	$2,101,896	$2,127,182	-$25,286	-1.2%	$2,102,675	0.0%
Total Education	$8,676,058	$8,741,133	-$65,075	-0.7%	$8,560,501	1.3%
Public Assistance and Medicaid	$12,794,750	$13,728,227	-$933,477	-6.8%	$12,465,739	2.6%
Health and Human Services	$969,788	$965,238	$4,549	0.5%	$968,945	0.1%
Total Welfare and Human Services	$13,764,538	$14,693,465	-$928,927	-6.3%	$13,434,684	2.5%
Justice and Public Protection	$1,930,146	$2,002,853	-$72,707	-3.6%	$1,862,984	3.6%
Environment and Natural Resources	$83,492	$70,291	$13,201	18.8%	$70,072	19.2%
Transportation	$9,006	$11,001	-$1,995	-18.1%	$10,334	-12.8%
General Government	$310,335	$338,171	-$27,836	-8.2%	$272,949	13.7%
Community and Economic Development	$83,440	$97,008	-$13,569	-14.0%	$98,099	-14.9%
Capital	$137	$20	$117	586.4%	$140	-1.9%
Total Government Operations	$2,416,556	$2,519,344	-$102,788	-4.1%	$2,314,578	4.4%
Tax Relief and Other	$1,767,124	$1,779,512	-$12,388	-0.7%	$1,728,464	2.2%
Debt Service	$815,063	$840,557	-$25,494	-3.0%	$356,523	128.6%
Total Other Expenditures	$2,582,187	$2,620,069	-$37,882	-1.4%	$2,084,987	23.8%
Total Program Expenditures	**$27,439,338**	**$28,574,011**	**-$1,134,673**	**-4.0%**	**$26,394,750**	**4.0%**
TRANSFERS						
Budget Stabilization	$235,096	$235,096	$0	0.0%	$246,899	-4.8%
Other Transfers Out	$218,500	$157,885	$60,615	38.4%	$414,855	-47.3%
Total Transfers Out	$453,596	$392,981	$60,615	15.4%	$661,754	-31.5%
TOTAL GRF USES	**$27,892,935**	**$28,966,992**	**-$1,074,058**	**-3.7%**	**$27,056,504**	**3.1%**

* 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 reported by ODJFS)

Medicaid (600525) Payments by Service Category	June Actual	June Estimate	June Variance	June Percent Variance	Year to Date Actual thru June	Year to Date Estimate thru June	Year to Date Variance	Year to Date Percent Variance
Managed Care Plans	$558,163	$677,766	-$119,603	-17.6%	$7,010,492	$7,680,289	-$669,797	-8.7%
Nursing Facilities	$201,739	$207,110	-$5,371	-2.6%	$2,446,010	$2,452,703	-$6,693	-0.3%
Hospitals	$103,587	$111,129	-$7,542	-6.8%	$1,333,234	$1,382,083	-$48,849	-3.5%
Aging Waivers	$42,154	$56,412	-$14,258	-25.3%	$540,927	$662,261	-$121,334	-18.3%
Prescription Drugs	$22,468	$41,562	-$19,094	-45.9%	$496,323	$523,742	-$27,419	-5.2%
Physicians	$24,849	$30,158	-$5,309	-17.6%	$323,497	$353,505	-$30,008	-8.5%
ODJFS Waivers	$19,444	$20,726	-$1,282	-6.2%	$250,435	$265,693	-$15,258	-5.7%
All Other	$198,805	$209,452	-$10,647	-5.1%	$2,362,376	$2,413,458	-$51,082	-2.1%
Total Payments	$1,171,209	$1,354,315	-$183,106	-13.5%	$14,763,294	$15,733,734	-$970,440	-6.2%
Total Offsets (non-GRF)	-$890,691	-$481,561	-$409,130	85.0%	-$3,041,633	-$3,092,408	$50,775	-1.6%
Total 600525 (net of offsets)	$280,518	$872,754	-$592,236	-67.9%	$11,721,661	$12,641,326	-$919,665	-7.3%
Medicare Part D (600526)	$24,935	$23,213	$1,722	7.4%	$293,182	$277,965	$15,217	5.5%
Total GRF	**$305,453**	**$895,967**	**-$590,514**	**-65.9%**	**$12,014,843**	**$12,919,291**	**-$904,448**	**-7.0%**
Total All Funds	**$1,196,144**	**$1,377,528**	**-$181,384**	**-13.2%**	**$15,056,476**	**$16,011,699**	**-$955,223**	**-6.0%**

Estimates and Actuals 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

For the month of June, GRF uses totaled $1.44 billion. These uses were $417.3 million below the estimate released by the Office of Budget and Management (OBM) in August 2012, due largely to a timing issue related to Medicaid expenditures (see the Public Assistance and Medicaid section for additional information). For the whole fiscal year, GRF uses totaled $27.89 billion, $1.07 billion below estimate. Tables 3 and 4 show GRF uses for the month of June and for FY 2013, respectively. As indicated in prior issues of *Budget Footnotes*, in February 2013, OBM revised GRF expenditure estimates, mainly Medicaid, for FY 2013 as a whole. The revised estimates for the two main Medicaid GRF appropriation items, items 600525 and 600626 in the Ohio Department of Job and Family Services (ODJFS) budget, were $747.9 million lower than their FY 2013 appropriations. However, OBM did not revise its monthly estimates for GRF uses. For purposes of this report, the variance analysis continues based on OBM's August 2012 estimate.

FY 2013 GRF uses were $1.07 billion below OBM's August 2012 estimate.

GRF uses consist primarily of program expenditures but also include transfers out. GRF program expenditures totaled $27.44 billion in FY 2013, which was $1.13 billion below estimate. Expenditures from nine out of the 12 program categories were below their FY 2013 estimates. Public Assistance and Medicaid had the largest negative variance at $933.5 million, accounting for 82.3% of the total negative variance in program expenditures for FY 2013. Other program categories with significant negative variances include Justice and Public Protection ($72.7 million); Primary, Secondary, and Other Education ($39.8 million); General Government ($27.8 million); Debt Service ($25.5 million); and Higher Education ($25.3 million). Together, these six program categories accounted for 99.1% ($1.12 billion) of the total negative variance in program expenditures for the fiscal year. These variances are briefly discussed in the section that follows this overview.

GRF transfers out totaled $453.6 million in FY 2013, which was $60.6 million above estimate. The majority ($54.8 million) of this positive variance occurred in the month of June, due to a transfer from the GRF to the Commercial Activity Tax Motor Fuel Receipts Fund (Fund 7019) as required by H.B. 51, the transportation budget act of the 130th General Assembly. On December 7, 2012, the Supreme Court of Ohio ruled that imposing the commercial activity tax (CAT) on gross receipts from the

Year-end GRF encumbrances totaled $361.0 million for FY 2013.

sale of motor vehicle fuel and allocating the revenues to the GRF is unconstitutional. Among other things, H.B. 51 required the Tax Commissioner to certify to the Director of Budget and Management an estimated amount of CAT revenue received between December 7, 2012 and June 30, 2013, derived from the sale of motor vehicle fuel and required the Director of Budget and Management to transfer the certified amount from the GRF to Fund 7019. On June 27, 2013, $76.5 million cash was transferred from the GRF to Fund 7019.

In addition to program expenditures and transfers out, 43 state agencies encumbered a total of $361.0 million in GRF funding, as of June 28, 2013, for expenditure in FY 2014. The **Encumbrances** section of this report provides additional information on FY 2013 year-end encumbrances.

Categories with Significant Negative Variances in FY 2013

Public Assistance and Medicaid

FY 2013 GRF Medicaid expenditures were $904.4 million below OBM's August 2012 estimate. Across all funds, annual Medicaid expenditures were $955.2 million below estimate.

GRF expenditures for Public Assistance and Medicaid totaled $12.79 billion in FY 2013, $933.5 million (6.8%) below estimate. Medicaid, including both state and federal shares, accounts for about 94% of expenditures in this program category. The federal share of Medicaid expenditures is about 64% and the state's share is about 36%. Medicaid is mainly funded with the GRF but is also supported by various non-GRF funds. In FY 2013, Medicaid GRF expenditures totaled $12.01 billion, which was $904.4 million (7.0%) below estimate. Across all funds, Medicaid expenditures amounted to $15.06 billion in FY 2013, which was $955.2 million (6.0%) below estimate. Table 5 details Medicaid GRF expenditures by service category and also summarizes Medicaid expenditures across all funds.

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 negative variance at $669.8 million (8.7%), primarily due to lower than expected caseloads and capitated rates. The Aging Waivers category had the next largest negative variance of $121.3 million (18.3%), due partially to the timing of payments and partially to lower than estimated service costs per member.

For the month of June, GRF Medicaid expenditures totaled $305.5 million, which was $590.5 million (65.9%) below estimate. Most of this negative GRF variance is the result of higher than estimated non-GRF Medicaid payments, which totaled $890.7 million and were above estimate by $409.1 million (85.0%). More non-GRF dollars were available in June due to the collection of hospital assessment revenue in April.

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.

Justice and Public Protection

FY 2013 Justice and Public Protection expenditures were $72.7 million below OBM's August 2012 estimate due partially to lower than expected personnel costs at DRC and DYS.

GRF expenditures for Justice and Public Protection totaled $1.93 billion in FY 2013, $72.7 million (3.6%) below estimate. The Department of Rehabilitation and Correction (DRC) contributed $60.7 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 $7.1 million and $4.1 million, respectively.

DRC's GRF appropriation item 501321, Institutional Operations, was below its FY 2013 estimate by $42.6 million, and items 505321, Institution Medical Services, and 502321, Mental Health Services, were below annual estimates by $9.2 million and $7.5 million, respectively. The largest GRF appropriation within the DYS budget, item 470401, RECLAIM Ohio, was below its annual estimate by $4.6 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. Note that funds were encumbered in items 501321, 505321, 502321, and 470401 to pay certain outstanding obligations that occurred in FY 2013.

Annual expenditures from the Supreme Court's GRF appropriation item 005321, Operating Expenses, were $3.8 million below its FY 2013 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.

Primary, Secondary, and Other Education

GRF expenditures for Primary, Secondary, and Other Education totaled $6.57 billion in FY 2013. These expenditures were $39.8 million (0.6%) below their year-to-date estimate despite the fact that this category's expenditures were $106.6 million above estimate in the month of June. As reported in the June issue of *Budget Footnotes*, the first school foundation 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. This timing issue caused the category's expenditures to be lower than expected in May but higher than anticipated in June. School foundation payments are expected to total $6.33 billion for FY 2013. They are mainly supported by GRF appropriation item 200550, Foundation Funding, which is the largest item in the Ohio Department of Education (ODE) budget. Item 200550 ended the fiscal year $28.7 million below estimate. Item 200540, Special Education Enhancements, contributed another $6.4 million to this category's negative year-to-date variance.

General Government

GRF expenditures for General Government totaled $310.3 million in FY 2013, $27.8 million (8.2%) below estimate. This program category includes six executive agencies, four out of the five statewide elected offices,[7] and all six legislative agencies. The six executive agencies registered a combined negative year-to-date variance of $15.8 million, of which $11.1 million was attributable to the Department of Administrative Services. Total year-to-date expenditures from the Auditor of State, the Office of Governor, the Secretary of State, and the Treasurer of State were $1.2 million below their estimates. Finally, the six legislative agencies accounted for a combined negative year-to-date variance of $10.8 million.

Debt Service

GRF debt service expenditures totaled $815.1 million in FY 2013, which was $25.5 million (3.0%) below estimate. Of this total, $14.5 million was attributable to debt service paid by the Public Works Commission (PWC), $5.2 million to the Development Services Agency (DSA), and $4.0 million to the School Facilities Commission (SFC). PWC, DSA, and SFC administer various capital improvement programs that are supported by the proceeds of general obligation bonds, which are backed by the full faith and credit of the state. The state is obligated to fully fund any debt service payments required for general obligation bonds.

Higher Education

GRF expenditures for Higher Education totaled $2.10 billion in FY 2013. These expenditures were below estimate by $25.3 million (1.2%). The Board of Regents (BOR) is the only agency that is included in this program category. GRF appropriation item 235438, Choose Ohio First Scholarship, had the largest negative variance at $10.5 million, followed by item 235563, Ohio College Opportunity Grant, at $8.4 million, and

[7] The other statewide elected office, the Office of Attorney General, is included in the Justice and Public Protection category.

item 235599, National Guard Scholarship, at $3.7 million. Note that funds were encumbered in items 235438, 235563, and 235599 to pay outstanding scholarship obligations.

Encumbrances

As indicated earlier, as of June 28, 2013, state agencies encumbered a total of $361.0 million in GRF funds for expenditure in FY 2014. An agency generally has five months to spend prior-year encumbrances for operating expenses. Any unspent operating expense encumbrances generally will lapse at the end of the five-month period and will become part of the GRF cash balance. Subject to the approval of the Director of Budget and Management, an agency may carry funds encumbered for purposes other than operating expenses beyond the five-month period. Encumbrances for some grant and aid payments may be carried for several months or even years.

The table below summarizes the encumbrances by the fiscal year for which funds were originally appropriated. As seen from the table, the majority (84.7%) of the encumbrances were originally appropriated in FY 2013, but smaller amounts were first appropriated for earlier years back to FY 2003.

The majority (84.7%) of the $361.0 million year-end encumbrances were originally appropriated in FY 2013.

FY 2013 Year-End Encumbrances by Fiscal Year for Which Appropriations Were Originally Made

Fiscal Year	Amount (in thousands)	Percentage of Total
2003–2005	$12	0.0%
2006	$310	0.1%
2007	$314	0.1%
2008	$5,463	1.5%
2009	$12,718	3.5%
2010	$10,456	2.9%
2011	$12,410	3.4%
2012	$13,606	3.8%
2013	$305,758	84.7%
Total	**$361,047**	**100.0%**

The encumbrance amounts vary greatly from agency to agency. As shown in the table below, ODE had the largest encumbrance amount at $101.4 million or 28.1% of the total, followed by ODJFS, at $83.5 million or 23.1% of the total. Four other agencies with significant encumbrance amounts were DRC at $59.0 million (16.3% of the total), DSA at $38.2 million (10.6%), BOR at $23.2 million (6.4%), and the Department of Developmental Disabilities (DDD) at $11.9 million (3.3%). Together, these

Of the total year-end encumbrances, 51.2% is attributable to the departments of Education and Job and Family Services.

six agencies account for $317.1 million (87.8%) of the total encumbrances; these encumbrances are briefly discussed below. Thirty-seven other agencies accounted for the remaining $43.9 million, 12.2% of the total year-end encumbrances.

FY 2013 Year-End Encumbrances by Agency		
Agency	**Amount (in thousands)**	**Percentage of Total**
Education	$101,389	28.1%
Job and Family Services	$83,549	23.1%
Rehabilitation and Correction	$58,999	16.3%
Development Services	$38,187	10.6%
Regents	$23,174	6.4%
Developmental Disabilities	$11,851	3.3%
All Other Agencies	$43,898	12.2%
Total	**$361,047**	**100.0%**

Ohio Department of Education

ODE encumbered a total of $101.4 million for expenditure in FY 2014. Of this total, $87.7 million (86.5%) occurred in three appropriation items: item 200550, Foundation Funding ($69.6 million); item 200540, Special Education Enhancements ($9.3 million); and item 200437, Student Assessment ($8.8 million).

Funds encumbered in item 200550 will mainly be used to meet year-end school foundation payment adjustments. School foundation payments are allocated to individual districts based on a variety of data. Some of these data are not finalized until the following fiscal year or later. Funds are generally encumbered each year in order to make adjusted payments based on the updated data. All of the encumbrances in item 200550 were originally appropriated in FY 2013.

Funds encumbered in item 200540 will primarily be used for outstanding subsidy payments to county boards of developmental disabilities that provide special education services to both school-aged and preschool students. Finally, funds encumbered in item 200437 will be used to pay contractors for scoring achievement assessments this summer that were administered in the spring and to pay other bills not yet received from vendors.

Ohio Department of Job and Family Services

ODJFS encumbered a total of $83.5 million for expenditure in FY 2014. The encumbrances in three appropriation items account for $62.5 million (74.8%) of the total. These three items are: item 600525, Health Care/Medicaid ($41.2 million); item 600416, Information Technology Projects ($13.7 million); and item 600521, Family Assistance – Local ($7.5 million). Some of the funds encumbered in item 600525 will likely be canceled and re-established against GRF appropriation item 651525, Medicaid/Health Care Services, in the newly created Department of Medicaid to reimburse various Medicaid service providers. Funds encumbered in item 600416 will be used to make payments on contracts for the electronic benefit payment system for public assistance programs, the child support payment system, and computer equipment. Funds encumbered in item 600521 will mainly be used to advance counties the state's share of county administration for public assistance programs including the Food Assistance, Medicaid, and Disability Assistance programs.

Department of Rehabilitation and Correction

DRC encumbered $59.0 million for expenditure in FY 2014, of which $56.7 million (96.2%) occurred in items 501321, Institutional Operations ($41.4 million); 505321, Institution Medical Services ($8.1 million); and 502321, Mental Health Services ($7.2 million). Funds were encumbered from item 501321 for a mix of purchased personal services, supplies, maintenance, repairs, materials, and other minor expenditures at DRC and institutions. Funds were encumbered from items 505321 and 502321 to pay various outstanding bills for providing medical and mental health services to inmates.

Development Services Agency

DSA encumbered $38.2 million for expenditure in FY 2014. These encumbrances are largely attributable to various economic development incentive grants that have been awarded but not yet disbursed. Many of DSA's grant programs are operated on a reimbursement basis, whereby grant recipients do not receive money from the state until a project has been completed or certain conditions have been met. For example, a grantee may be awarded grants in FY 2013 but not receive them until FY 2014 or later.

Appropriation item 195434, Industrial Training Grants, had the largest encumbrance at $8.9 million. These encumbered funds support a portion of the training costs of eligible companies that are expanding or undertaking new capital projects that will result in the creation or retention of jobs in targeted industries. Item 195412, Business Development Grants, is second with an encumbrance of $8.3 million. These funds will be used to fund awards to companies that undertake projects to expand in or relocate to Ohio and that intend to create or retain jobs in doing so. Item 195532, Technology Programs and Grants, which is mainly for use under the Third Frontier and Thomas Edison programs, ended the year with an encumbrance of $8.1 million. The remainder of DSA's year-end encumbrances occurs across several other items.

Board of Regents

BOR encumbered $23.2 million for expenditure in FY 2014. The majority ($10.3 million) of the total was encumbered in item 235438, Choose Ohio First Scholarship, to pay the state's obligations to scholarship receipts. Item 235563, Ohio College Opportunity Grant, ended FY 2013 with $8.4 million in encumbrances, which will be used for need-based financial aid for higher education students. Another $2.1 million was encumbered in item 235599, National Guard Scholarship Program, to pay the state's scholarship obligations to eligible Ohio National Guard members.

Department of Developmental Disabilities

DDD encumbered almost $11.9 million at the end of FY 2013. The vast majority ($11.1 million) of the total was encumbered in item 322504, Martin Settlement. These funds will be used to cover the costs of community-based services provided to Individual Options (I/O) waiver recipients in compliance with the Martin Settlement. All of the funds encumbered in item 322504 were originally appropriated in fiscal years prior to FY 2012.

ISSUE UPDATES

FY 2013 Operating and Capital Expenditures Total $58.27 Billion

– Wendy Zhan, Deputy Director, 614-728-4814

In FY 2013, the state of Ohio incurred a total of $58.27 billion in operating and capital expenditures. As seen from Table A, $53.43 billion (91.7%) of the total expenditures were authorized in the main operating budget. The transportation and capital budgets accounted for $3.65 billion (6.3%) and $868.0 million (1.5%), respectively, of the total. The remaining $316.8 million (0.5%) was authorized in the Bureau of Workers' Compensation and Industrial Commission budgets.

Table A: FY 2013 Operating and Capital Expenditures by Budget

Budget	Amount	% of Total
Main Operating	$53,430,227,446	91.7%
Transportation	$3,653,200,007	6.3%
Capital	$867,987,707	1.5%
Workers' Compensation System	$316,779,091	0.5%
Total	**$58,268,194,251**	**100.0%**

Table B shows FY 2013 expenditures by account category used in the state's accounting system. As seen from Table B, Subsidies and Shared Revenue is the largest spending area. In FY 2013, 86.0% ($23.60 billion) of total GRF expenditures were distributed as subsidies to schools, colleges and universities, local governments, and various other entities. Across all funds, this category's expenditures totaled $37.96 billion (65.2%). The vast majority of the expenditures incurred under the Capital Item category – $3.06 billion (5.3%) across all funds – supported the construction and maintenance of roads and bridges in the state as well as the construction and renovation of public K-12 schools and colleges and universities. Capital Item expenditures are mainly funded by bond proceeds. FY 2013 debt service payments totaled $368.4 million (1.3%) for the GRF and $1.59 billion (2.7%) across all funds.

For FY 2013, state payroll costs (including both salaries and fringe benefits) amounted to $4.19 billion across all funds, of which $1.79 billion was supported by the GRF. In addition to Payroll, what commonly is referred to as the state government's operating expenses also include expenditures incurred under the Purchased Personal Services and Other, Supplies and Maintenance, and Equipment categories. For FY 2013, the state government's operating expenses totaled $6.94 billion across all funds, of which $2.54 billion came from the GRF. In percentage terms, these amounts represent 11.9% and 9.3% of the respective totals.

Table B: FY 2013 Operating and Capital Expenditures by Account Category				
Account Category	**GRF Only**	**% of Total**	**All Funds**	**% of Total**
500 - Payroll	$1,794,147,164	6.5%	$4,187,604,901	7.2%
510 - Purchased Personal Services & Other	$286,883,983	1.0%	$1,101,767,698	1.9%
520 - Supplies and Maintenance	$433,666,574	1.6%	$1,475,678,978	2.5%
530 - Equipment	$29,387,441	0.1%	$173,547,027	0.3%
550 - Subsidies and Shared Revenue	$23,601,324,133	86.0%	$37,963,014,293	65.2%
560 - Goods and Services for Resale	$0	0.0%	$423,031,025	0.7%
570 - Capital Items	$277,798	0.0%	$3,061,289,446	5.3%
590 - Judgments, Settlements, & Bonds	$1,587,196	0.0%	$37,365,069	0.1%
591 - Debt Service	$368,432,768	1.3%	$1,586,620,871	2.7%
595 - Transfers & Nonexpense	$923,631,423	3.4%	$8,258,274,945	14.2%
Total	**$27,439,338,479**	**100.0%**	**$58,268,194,251**	**100.0%**

Local Public Employers to Receive over $112 Million in Workers' Compensation Premium Rebates

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

On May 30, 2013, the Bureau of Workers' Compensation (BWC) Board of Directors approved a plan to provide employers that indemnify against workers' compensation claims through the State Insurance Fund with premium rebates totaling $1.0 billion. Of this amount, approximately $112.8 million will go to nearly 3,800 local public employers. The table below shows the number and type of local government entity, along with an estimate of the total amount of rebates they will receive under the plan.[8] Overall, some 210,000 private and public employers will receive a rebate check which, according to BWC, will equate to approximately 56% of the premiums they paid in the prior policy year.

Estimated Workers' Compensation Premium Rebates for Public Employers		
Type of Entity	**Number of Policies**	**Rebate Amount**
Schools	1,118	$42,515,190
Cities	233	$37,105,210
Counties	88	$16,527,790
Townships	1,337	$7,615,760
Villages	645	$4,215,360
Other	344	$4,830,450
Total	**3,765**	**$112,809,760**

[8] Distribution of public employer rebates by county and entity can be found online at: https://www.ohiobwc.com/home/current/images/distributionofpecrebate.pdf.

In order to ensure that the State Insurance Fund will have sufficient resources available to meet obligations to injured workers, BWC has established an investment policy to maintain a funding ratio of between 1.15 and 1.35. This means that for every dollar in liabilities, the State Insurance Fund must have between $1.15 and $1.35 in assets. As of April 30, 2013, the funding ratio was 1.52. The ratio is expected to stay within its target range after this premium rebate.

Ohio EPA Releases 2011 Residential Sewer and Water Rate Survey Results

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

In April 2013, the Ohio Environmental Protection Agency's (Ohio EPA) Economic Analysis Unit released the 2011 Sewer and Water Rate Survey report.[9] According to the report, the average annual residential sewer rate increased by $21, or 3.9%, from $536 in 2010 to $557 in 2011, and the average annual residential water rate increased by $26, or 5.2%, from $503 to $529. These rates were calculated based on an assumed level of consumption to allow comparisons across different sewer and water systems. The lowest average annual residential sewer and water rates reported for 2011 were both $24 for the village of Stratton (Jefferson County). The highest average annual residential sewer rate reported for 2011 was $1,337 for the village of Fredericktown (Knox County) while the highest average annual residential water rate reported for 2011 was $1,370 for the Brunersburg Water District (Defiance County).

Ohio EPA has been conducting the annual sewer and water rate survey since 1985. As indicated in the 2011 survey report, the average annual residential sewer and water rate increases in Ohio have outpaced inflation, as measured by the change in the consumer price index (CPI), in most years since 1985. The table below shows the average annual residential sewer and water rate increases along with CPI changes from 2007 to 2011. As seen from the table, the rate increases in all those five years exceeded the annual change in CPI.

Average Annual Residential Sewer and Water Rates, 2007-2011

Year	Sewer		Water		CPI Change
	Average Rate	Increase	Average Rate	Increase	
2007	$466	5.0%	$439	6.8%	2.7%
2008	$492	5.6%	$458	4.3%	3.7%
2009	$514	4.5%	$484	5.7%	-0.6%
2010	$536	4.3%	$503	3.9%	2.0%
2011	$557	3.9%	$529	5.2%	3.2%

[9] The 2011 and other historical Sewer and Water Rate Survey reports are available on the Ohio EPA's web site: http://www.epa.state.oh.us/DivisionsandOffices/fiscaladministration.aspx.

Ohio EPA Awards Over $3.0 Million in Recycling and Litter Prevention Grants

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

On May 2, 2013, the Ohio EPA announced the award of 75 competitive grants totaling over $3.0 million to support a variety of recycling and litter prevention programs.[10] The awards were made as part of three different grant programs – Market Development, Community Recycling, and Litter Collection and Prevention – administered by the Division of Materials and Waste Management.

From the Market Development Grant Program 12 grants totaling $1,730,895 were awarded to political subdivisions to support the development of recyclable material markets. All of the recipients were partnered with either a business or nonprofit organization. The grant amounts ranged from a low of $27,457 awarded to the city of Eastlake (Lake County) to four grants of $250,000 each awarded to the Hamilton County Solid Waste Management District, the village of Lexington (Richland County), Weathersfield Township (Trumbull County), and the Wood County Solid Waste Management District. Each recipient is required to provide a 100% cash match.

From the Community Recycling Grant Program 18 grants totaling $816,647 were awarded primarily to local governments for community projects involved in the collection and processing of recyclable materials. The grant amounts ranged from a low of $1,500 awarded to the city of Hilliard (Franklin County) to $138,000 awarded to the Van Wert County Solid Waste Management District. Each recipient is required to provide a 50% cash match.

From the Litter Collection and Prevention Grant Program 45 grants totaling $527,671 were awarded to support litter collection and prevention, tire amnesty collection programs, and Keep Ohio Beautiful communities. The grant amounts ranged from a low of $315 awarded to the Keep Toledo/Lucas County Beautiful to $43,790 awarded to Keep Cincinnati Beautiful. Each recipient is required to provide a 10% cash match.

Controlling Board Approves $3.0 Million in Grants and Loans under Fifth Round of Local Government Innovation Awards

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

On July 8, 2013, the Controlling Board approved the fifth round of grants and loans awarded by the Development Services Agency under the Local Government Innovation Program. As seen from the table below, awards under the fifth round include 23 grants totaling $1.9 million and three loans totaling just over $1.0 million.

[10] The complete award lists may be found on the Ohio EPA's web site: www.epa.state.oh.us under the News Release heading.

Under the program, grants are limited to a maximum of $100,000, and no more than $100,000 in total loans may be awarded to an individual political subdivision for each project. For a project involving a group of political subdivisions, the loan maximum is $500,000, with the amount per political subdivision not to exceed $100,000. Applications for Round Six loan projects were due on June 10, 2013. In FY 2013, the first year in which awards were made under the Local Government Innovation Program, the Controlling Board approved $6.2 million in grants and $6.1 million in loans to local governments. The FY 2014 appropriation for the program is $20.7 million.

Local Government Innovation Awards – Round 5				
Project Category	**Number of Grants**	**Grant Total**	**Number of Loans**	**Loan Total**
Public Works	4	$350,000	0	$0
Public Safety	4	$287,273	0	$0
Fleet Management	1	$100,000	2	$546,800
Facilities	2	$143,000	1	$500,000
Health & Human Services	3	$300,000	0	$0
Technology	3	$293,070	0	$0
Economic Development	3	$206,803	0	$0
Administration	2	$141,725	0	$0
Educational Instructional Support	1	$100,000	0	$0
Total	**23**	**$1,921,871**	**3**	**$1,046,800**

Ohio Receives Final Allotment of $20.4 Million Federal Grant for Windstorm Cleanup Efforts in Southeast Counties

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

In May 2013, Ohio received the final allotment totaling $15.4 million from a $20.4 million federal grant for cleanup efforts in the state's southeast counties that experienced heavy damage from severe windstorms last summer (from June 30 to July 2, 2012). This final allotment follows the initial allotment of $6.0 million received in September 2012. Grant funds are received by the Department of Job and Family Services, which then disburses funds to the local workforce investment areas in the 19 counties that are eligible for assistance (listed below).

Counties Eligible for Assistance			
Athens	Harrison	Logan	Paulding
Belmont	Hocking	Meigs	Perry
Gallia	Jackson	Monroe	Putnam
Guernsey	Lawrence	Morgan	Washington
Hancock	Licking	Muskingum	

Local workforce areas use grant funds to employ workers to clear downed trees and remove debris from waterways. In order to be eligible for hire, an individual must have lost their job or home due to the storm or qualify as a veteran, dislocated worker, or have been unemployed or underemployed for 15 of the last 26 weeks. Those hired may work for up to about six months and receive compensation of up to $12,000 each; wages generally range from $10.50 to $11.50 per hour. The initial $6.0 million allocation was used to employ 407 individuals. An additional 784 individuals are expected to be hired with the new allocation.

Ohio Receives Federal Grant to Improve Criminal Background Checks

– Ivy Chen, Principal Economist, 614-644-7764

In May 2013, the Office of Health Transformation (OHT) announced that Ohio received a $2.1 million federal grant to fund a three-year demonstration project to improve criminal background checks for about 100,000 direct care workers in home- and community-based settings. The grant, along with $700,000 in state matching funds, will be used to expand the capacity of the Ohio Attorney General's existing Retained Applicant Fingerprint Database Information Exchange (RAPBACK) system and to develop a web-based portal for over 2,000 provider agencies to enroll direct care workers into RAPBACK. Currently, direct care workers undergo an initial criminal background check when they are hired and an additional check every five years. Under the expanded RAPBACK, provider agencies will receive real-time information on direct care workers convicted of a disqualifying offense.

The demonstration project will begin on July 1, 2013. While OHT and the Office of Medical Assistance will oversee the project, the Attorney General's Office will be responsible for necessary modifications to RAPBACK. The departments of Aging, Developmental Disabilities, Health, and Mental Health will assist in implementing any new background check policies.

Board of Regents Announces Woodrow Wilson Teaching Fellows

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

On May 28, 2013, the Board of Regents announced the participants of the 2013 class of the Woodrow Wilson Ohio Teaching Fellowship. This program is designed to promote high quality STEM (science, technology, engineering, and mathematics) learning experiences in high need secondary schools, by supporting teacher training. Each of the 77 participating fellows will receive a $30,000 stipend to complete a master's level training program in math and science education at one of seven participating Ohio universities.[11] The universities partner with high-need Ohio school districts and fellows commit to teaching for three years in a high-need high school. Fellows are provided with support and mentoring throughout their master's programs and three-year teaching commitments, as well as guidance in obtaining an Ohio teaching license. Current undergraduates, college graduates, and professionals who have majored in, or had careers in, STEM fields are eligible to apply for a fellowship. In 2012, more than 210 individuals applied for the program. Since the program's inaugural class in 2011, 219 fellows have been chosen to participate and serve approximately 22,000 Ohio students.

In FY 2013, Ohio Woodrow Wilson Fellowship funding totaled $4.4 million, including $0.9 million from GRF appropriation item 235438, Choose Ohio First Scholarship, $2.6 million from federal Race to the Top funding under Department of Education appropriation item 200665, Race to the Top, and $0.9 million in matching funds from participating universities. In addition, several Ohio charitable foundations have provided a total of $2.5 million for planning, implementation, and administration of the program.

Three School Districts Receive Solvency Assistance in FY 2013

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

Three school districts received solvency assistance totaling nearly $2.6 million in FY 2013. The Controlling Board approved the release of $1.1 million for Ledgemont Local (Geauga) on December 3, 2012; $427,000 for Monroe Local (Butler) on May 6, 2013; and $1.0 million for Brookfield Local (Trumbull) on June 10, 2013, for the fiscal year.

Districts declared to be in fiscal emergency may qualify for advances from the Solvency Assistance Fund. Generally, each advance is repaid by the respective school

[11] Participating universities include John Carroll University, the University of Dayton, The University of Akron, The University of Cincinnati, Ohio University, The Ohio State University, and the University of Toledo.

districts over the next two fiscal years. In FY 2013, Little Miami Local (Warren) was released from fiscal emergency. Fiscal emergency, along with fiscal watch and fiscal caution, are applied to school districts deemed to be operating under a certified or anticipated deficit or failing to meet other fiscal or budgetary guidelines established by the Superintendent of Public Instruction and the Auditor of State. Districts in fiscal emergency or fiscal watch as of the end of FY 2013 are listed in the table below.

School Districts in Fiscal Emergency or Watch, as of the End of FY 2013		
Fiscal Emergency		
Bellaire Local (Belmont)	Brookfield Local (Trumbull)	Cloverleaf Local (Medina)
Ledgemont Local (Geauga)	Liberty Local (Trumbull)	Monroe Local (Butler)
Fiscal Watch		
Coventry Local (Summit)	Mansfield City (Richland)	Niles City (Trumbull)

TRACKING THE ECONOMY

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

Overview

Over the first six months of the year, the U.S. economy has continued to show moderate growth. Employment growth has averaged about 200,000 per month this year, though the unemployment rate has remained at or near 7.6%. Industrial production has continued to expand, though output levels remain lower than prior to the recession. Light vehicle sales rose to a 15.9 million annualized rate in June, the highest sales pace recorded since 2007. Housing starts, construction activity, and home sales continue to increase, with much activity in multifamily housing units. Median prices for existing homes increased 15.4% over the past 12 months, though some of the increase is attributable to fewer distressed homes being sold and to limited supplies, as well as higher demand for homes. Mortgage interest rates have increased over the first half of the year, with the 30-year fixed-rate mortgage interest rate averaging about 4.5% at the end of June after having been near 3.3% at the beginning of January. Longer-term market interest rates, though still very low, rose recently to the highest levels in nearly two years as market participants focused on the "tapering" that will start at some point in the Federal Reserve's program of exceptional support for bond markets. In June, 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 securities each month in order to help lower borrowing costs. Thereafter, it expects to keep its short-term interest rate target for federal funds near zero at least until the national unemployment rate falls to 6.5%, as long as expected inflation is no more than half a percentage point above the 2.0% goal.

Ohio nonfarm payroll employment increased by 32,100 (0.6%) in May, which was the largest monthly gain in employment in any state in that month. However, in the 12 months ending in April 2013, Ohio employment increased by only 4,400 (0.1%). Ohio's unemployment rate in May remained at April's level of 7.0%.

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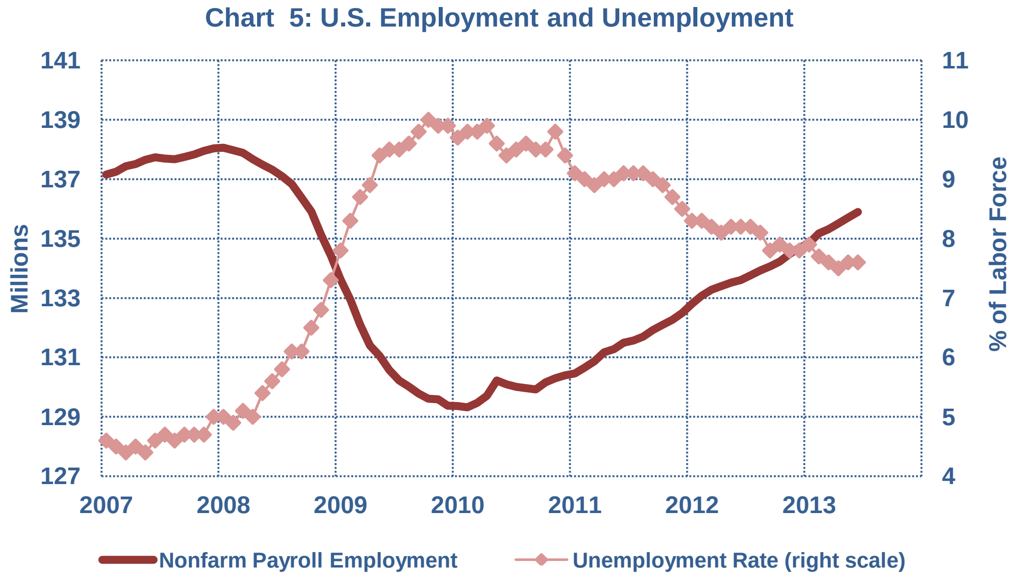
The National Economy

Employment and Unemployment

U.S. total nonfarm employment rose by 195,000 (0.1%) in June from May's revised total. Over the first six months of the year, employment

U.S. total nonfarm employment rose by 195,000 (0.1%) in June from May's revised total.

growth has averaged about 200,000 per month, which is higher than the monthly average growth in 2012 (about 183,000 per month). In June, the unemployment rate remained at 7.6%. Trends in nationwide employment and unemployment are shown in Chart 5 below.

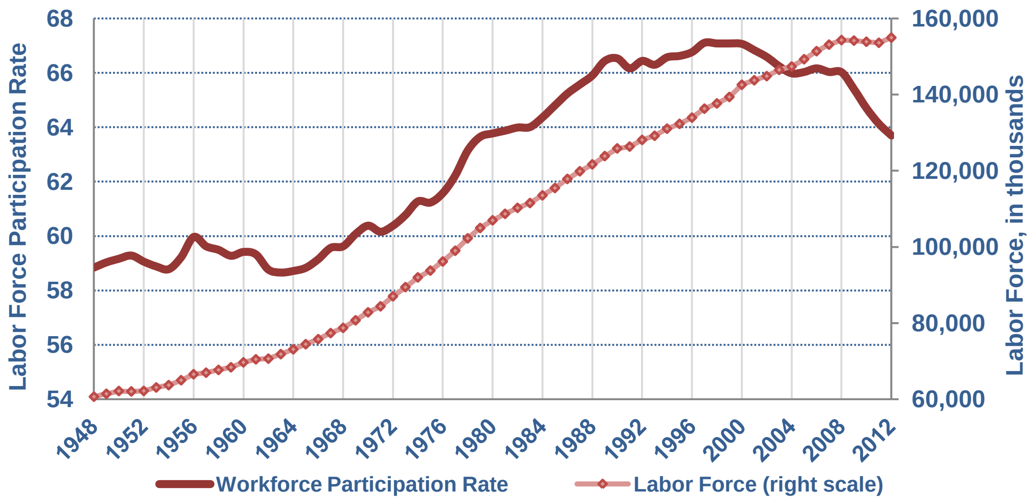


In June, the largest gains in employment were in leisure and hospitality (75,000), particularly in food services and drinking places, professional and business services (53,000), and retail trade (37,000). There were also gains in health care (20,000) and financial activities (17,000). In the government sector, losses in federal and state government employment (-20,000) outweighed gains in local government employment (13,000). Manufacturing employment decreased by 6,000, while construction employment increased by 13,000.

The number of unemployed individuals looking for work remained little changed at 11.8 million, seasonally adjusted. This number has declined from 12.3 million in January and from 12.7 million in June of last year. In June, those working part time (up to 34 hours a week) for economic reasons increased by 322,000 to 8.2 million from 7.9 million in May. This is the highest level since October of last year. In the five years prior to the recession (2003 to 2007) this number averaged about 4.4 million.

The percentage of the U.S. population in the labor force (called the labor force participation rate) was 63.5% in June. The rate includes individuals 16 and over who are either working or actively searching (and able) for work. From 2004 to 2008, the rate had held near 66%. The chart below shows historic rates beginning in 1948 based on the average of monthly rates for each year, as well as the size of the national labor force in those years.

Chart 6: Labor Force Participation Rates and Levels, 1948-2012, Annual Averages



The percentage of the U.S. population in the labor force was 63.5% in June.

As shown in the chart, the annual average rate hovered at or below 60% from 1948 through 1968, and then increased steadily to 1997, where it peaked at 67.1%. After declining from 2001 to 2004, the rate held fairly level near 66%, and then started to decrease in 2009. According to the Congressional Budget Office (CBO),[12] growth in workforce participation rates from 1948 to 2000 is largely attributable to the large "baby-boom" generation reaching ages when participation in the workforce is generally highest and to women rapidly entering the workforce. The CBO attributes the decline since 2000 to a few factors, mainly to the aging and retirement of baby-boomers, as well as the "leveling off" of participation among women ages 25 to 54, and a decline in the participation of individuals under 25. The CBO attributes the further declines since 2008 to the lower levels of job opportunities available during and after the recession.

However, it is worth noting that from 2000 to 2012, workforce participation rates have increased for both men and women ages 55 and up, while rates have decreased for both genders ages 16 to 54. The declines in the younger age groups have more than offset the increases in older age groups, resulting in a net decrease in the overall rate during that

[12] CBO's Labor Force Projections Through 2021, March 2011.

time period. The sharpest decrease in the aggregate rate among age groups has been in the 16 to 24 age range.

Production

Gross domestic product adjusted for inflation (real GDP) expanded at an annualized rate of 1.8% in the first quarter of 2013.

Gross domestic product adjusted for inflation (real GDP) expanded at an annualized rate of 1.8% in the first quarter of 2013, according to the third estimate of economic activity in that quarter made by the Bureau of Economic Analysis (BEA). The agency initially estimated an increase of 2.5% in the quarter, which was revised slightly downward in May to 2.4%. BEA issues three estimates of GDP for each quarter about one month apart, as more complete data become available. The estimate was revised downward due mainly to lower estimates for consumer spending as well as for exports and imports.

Also in the first quarter of 2013, nonfarm business sector productivity increased at an annualized rate of 0.5%, seasonally adjusted. Business unit labor costs fell due to the increase in productivity combined with a 3.8% rate of decrease in hourly compensation, which was the largest quarterly decline on record in this series that started in 1947. Compensation per hour rose sharply in the fourth quarter of 2012 due to one-time factors (such as the high level of bonuses provided to employees in late 2012). Over the past four quarters, hourly compensation is up 2.0% and unit labor costs are up 1.1%.

In May, seasonally adjusted industrial production held level according to the index published by the Federal Reserve, and was 1.6% higher than in May of last year. Manufacturing production increased slightly in May by 0.1%. Growth in total industrial output was restrained by a 1.8% decrease in the output of utilities. In May, according to the Census Bureau, new orders for manufactured goods increased 2.1% after a 1.3% increase in April. Shipments in May increased 1.0%. Inventories increased to its highest level ever. For *durable* manufactured goods, new orders increased 3.6% in April and 3.7% in May. The gains in new orders of durable manufactured goods have been driven by increases in orders for transportation equipment, particularly civilian aircraft.

Consumer Spending and Personal Incomes

In May, real consumer spending increased 0.2%, seasonally adjusted, led by an increase in expenditures for durable goods. The annualized rate of light vehicle sales was 15.2 million in May, seasonally adjusted, matching the average annualized rate since November 2012, and rose to a 15.9 million annualized rate in June, the highest sales pace recorded since 2007. In May, real disposable personal incomes increased 0.4%, seasonally adjusted, after increasing 0.3% in each of the prior two months.

Construction and Real Estate

Housing Starts and Construction

In May, the annualized rate of housing starts increased 6.8% to 914,000 from 856,000 in April, seasonally adjusted, and 28.6% from the rate recorded in May of last year of 711,000. Gains were mainly driven by multifamily units and in the South and West areas of the country. The rates of total housing starts in the Northeast and Midwest regions declined from April to May, seasonally adjusted. Over the past 12 months the rate of total starts in the Midwest are up, while total starts in the Northeast are down.

Over the past 12 months, the rate of total construction activity increased 5.4%, seasonally adjusted. Over that time, there were high gains in the construction of new private multifamily residential housing (51.7%), single-family residential housing (33.2%), and offices (22.1%). From April to May, private construction held level and the rate of public construction increased (1.8%) due to gains in transportation (5.8%), power (7.9%), and water supply (6.2%) construction.

Home Sales, House Prices, Interest Rates

The annualized rates of new and existing home sales increased in May. The table below shows annualized sales rates and median sales prices for May.

As of May, the median sales price of existing homes has increased from a year earlier for 15 consecutive months.

U.S. Home Sales Data, May 2013

	Existing Homes*	New Homes**
Annualized Sales Rate	5,180,000	476,000
% change, 12 months	12.9%	29.0%
% change, prior month	4.2%	2.1%
Median Sales Price	$208,000	$263,900
% change, 12 months	15.4%	10.3%

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

As of May, the median sales price of existing homes has increased from a year earlier for 15 consecutive months. According to the National Association of Realtors (NAR), some of the gains in prices are attributable to fewer distressed homes being sold. Distressed homes, which are homes

Mortgage interest rates increased over the first six months of the year, but still remain near the lowest levels in more than 40 years.

in foreclosure or short sales, accounted for 18% of sales in May, the same as in April and the lowest proportion since tracking began in October 2008. In May 2012, distressed homes accounted for 25% of homes sold. NAR states that the increase in prices is also due to increased demand and limited supply of homes for sale. The median time on the market for all homes was 41 days, down from 72 days recorded in May of last year.

Mortgage interest rates increased over the first six months of the year, but still remain near the lowest levels in more than 40 years. For the week ending June 27, the average 30-year fixed-rate mortgage interest rate was 4.46%, up from the 3.34% recorded in early January of this year, and higher than the average rate for 2012 of 3.66%, according to the Freddie Mac weekly survey. On a weekly average basis, mortgage rates were last above 4.0% in March 2012. Prior to November 2011, the average interest rate on 30-year fixed-rate mortgages in the Freddie Mac weekly survey did not fall below 4.0%. The series was first published in 1971. In the week ending July 4, the nationwide average rate fell to 4.29%.

Inflation

Consumer Prices

The consumer price index (CPI) for all items less food and energy (core index) increased 0.2% in May, seasonally adjusted, after increasing 0.1% in April. Core CPI is up 1.7% over May of last year mainly due to increases in the prices for shelter, transportation services, and medical care offsetting decreases in prices for used cars and trucks. The all-items CPI increased 0.1% in May, after decreasing 0.4% in April. From April to May the gasoline index held level.

U.S. gasoline prices for regular unleaded fuel have trended lower since peaking in February. For the week ending July 1, the average price per gallon was $3.50, which was above the year-to-date low point of $3.30 the first week of January and below the year-to-date peak of $3.78 the week ending February 25.

Producer Prices

In May, the producer price index (PPI) for finished goods less food and energy (core index) increased 0.1%, seasonally adjusted, after the same percentage increase in April. The all-items PPI for finished goods increased 0.5%, led by a 1.3% increase in the energy index and a 0.6% increase in the foods index. In March and April, the all-items PPI decreased by 0.6% and 0.7%, respectively, mainly due to lower energy prices. The core indexes for intermediate and crude goods decreased in May by 0.4% and 2.3%, respectively, mainly due to decreases in prices in industrial chemicals (intermediate goods) and decreases in prices for carbon steel scrap (crude goods). When food and energy are included, the PPI for crude goods increased 2.2%, mainly due to price increases for crude petroleum as well as for natural gas and coal, and the PPI for intermediate goods decreased 0.1%.

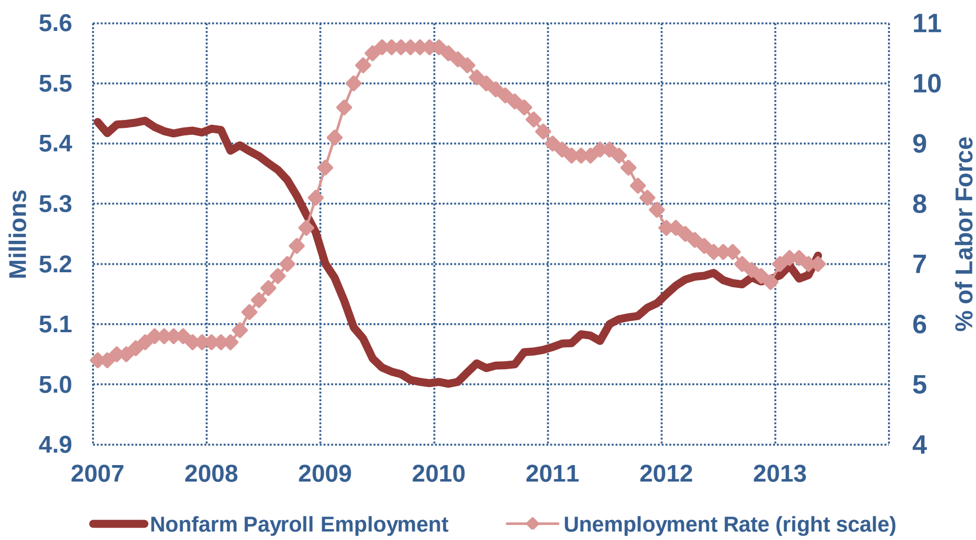
The Ohio Economy

Employment and Unemployment

In May, Ohio's nonfarm payroll employment increased 32,100 (0.6%) from April's revised total, seasonally adjusted. May is the first month since January 2009 that seasonally adjusted employment totaled more than 5.2 million in the state. The state's unemployment rate remained at 7.0%. The chart below shows trends in employment and unemployment in Ohio since 2007.

May is the first month since January 2009 that seasonally adjusted employment totaled more than 5.2 million in the state.

Chart 7: Ohio Employment and Unemployment



The unemployment rate has remained elevated from 6.7% in December, the lowest in more than four years, as more people have begun seeking jobs, thus entering the labor force.

In May, the increase in employment occurred in all three major employment areas: private service industries (20,200), goods-producing industries (4,700), and government (7,200). The private service sector registered major increases in professional and business services, education and health services, as well as leisure and hospitality. The goods-producing sector registered a large increase in construction employment, which accounted for 83% of the gains in that sector. Government employment increased at all levels: local, state, and federal.

Over the past 12 months, nonfarm payroll employment in Ohio is up 33,200 (0.6%) with most of the gains having occurred in May.

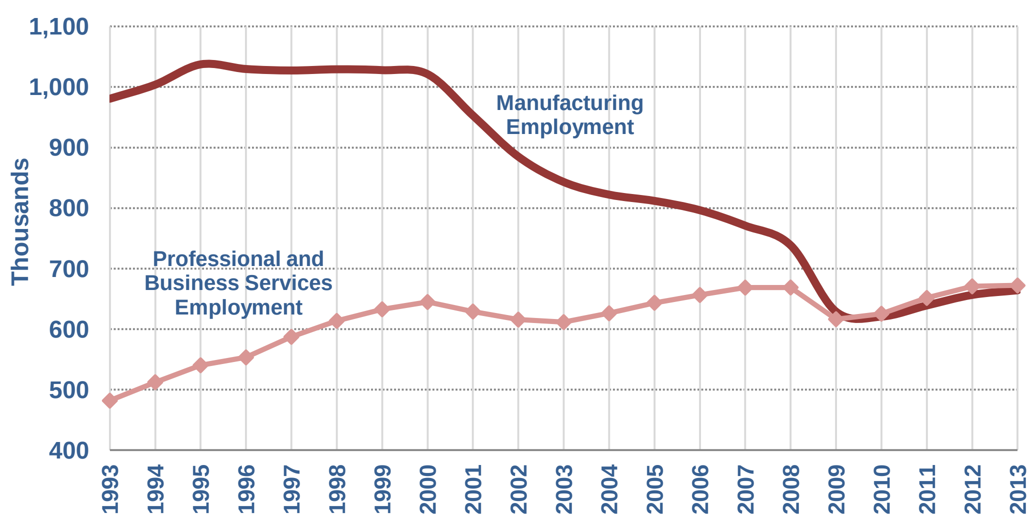
However, employment in the government sector in Ohio in April was at its lowest level in the past 16 years. Over the past 12 months, nonfarm payroll employment in Ohio is up 33,200 (0.6%) with most of the gains having occurred in May.

The largest sectors of total nonfarm payroll employment in Ohio as of May 2013 are:

- Trade, Transportation, and Utilities (974,700);
- Education and Health Services (884,400);
- Government (753,400);
- Professional and Business Services (674,800);
- Manufacturing (666,700); and
- Leisure and Hospitality (510,300).

When combined, these six sectors account for 85.6% of employment in the state (about 4.5 million). Two of these sectors, Professional and Business Services and Manufacturing, have similar levels of employment and have had similar increases in employment since 2009. However, about 20 years ago, the Manufacturing sector employed roughly 500,000 more individuals than the Professional and Business Services sector. The chart below shows average monthly employment levels in these sectors for each year since 1993.

Chart 8: Ohio Employment in Manufacturing and Professional and Business Services, Monthly Averages, 1993-2013



Nonfarm payroll employment in Ohio totaled about 4.88 million at the beginning of 1993 and now totals about 5.21 million. However, employment is currently lower than the peak reached in May 2000 at 5.64 million.

Ohio Home Sales

May marked the 23rd consecutive month of year-over-year growth in homes sold in Ohio, according to the Ohio Association of Realtors, which is the longest period of consecutive monthly growth in Ohio home sales since record-keeping began 16 years ago. About 48,260 homes were sold from January through May, a 15.8% increase from the number of homes sold in the same period a year ago.

May marked the 23rd consecutive month of year-over-year growth in homes sold in Ohio.

Ohio Personal Income

Personal income in Ohio fell 0.9%, seasonally adjusted, in the first quarter of 2013 after increasing 2.1% in the fourth quarter of 2012. Nationwide, personal incomes rose 2.7% in the fourth quarter of 2012 and fell 1.2% in the first quarter of 2013. The fluctuations over this time period in Ohio and nationwide are largely attributable to one-time factors including the expiration of the payroll tax cut for employees beginning in 2013 and the high level of bonuses provided to employees in late 2012. All states but South Dakota registered decreases in personal incomes in the first quarter of 2013, and all states registered increases in the fourth quarter of 2012.

Regional Economy

According to a report from the Federal Reserve Bank of Cleveland, economic activity expanded at a "moderate" pace in this part of the country since a previous report in April.[13] The report also noted that:

- Manufacturing activity was strongest for suppliers to oil and gas, residential construction, and transportation industries, and weaker for defense contractors and the coal industry;
- Manufacturing sales were stronger in domestic markets than in foreign markets with sharper declines in Europe than in China;
- New and existing home sales continue to increase, with particular strong demand for multifamily units;
- Though generally confident of continued growth in the housing sector, builders expressed concern with low inventories and difficulty in obtaining financing as issues that could restrain growth;

[13] This Federal Reserve Bank of Cleveland report is contained in the latest Beige Book, a Federal Reserve System publication that summarizes information gathered on or before May 24, 2013, from outside contacts. It is published about every six weeks. The Federal Reserve Bank of Cleveland's district includes all of Ohio and parts of Kentucky, Pennsylvania, and West Virginia.

- Though output from natural gas wells was flat during the past couple of months, output is expected to increase as new gas processing units begin to produce;
- Ohio issued shale gas drilling permits at a "robust pace"; and
- New motor vehicle sales increased in April compared with the same time period last year with buyers preferring fuel efficient cars, crossovers, and sport utility vehicles.