Budget Footnotes

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Legislative Service Commission
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STATUS OF THE GRF

HIGHLIGHTS

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

April GRF revenue from the income tax was a healthy $1.65 billion, $260 million above the August 2012 estimate made by the Office of Budget and Management (OBM). Through April, GRF tax revenue was about $570 million above that estimate. With the 2012 tax filing season now history, it seems safe to project that GRF tax revenue for FY 2013 will exceed, not only the August estimate, but very likely the updated estimate for the year that OBM provided in February in conjunction with presenting the executive budget.

March labor market indicators for Ohio were disappointing, though. Ohio's unemployment rate remained at 7.1%, and payroll employment decreased by 20,400 for the month. Ohio's unemployment rate remained below the national rate in March, but the gap fell to half a percentage point; in December it was over a full percentage point lower.

Through April 2013, GRF sources totaled $24.71 billion:

- Revenue from the personal income tax was $431.2 million above estimate;
- Sales and use tax receipts were $38.0 million below estimate.

Through April 2013, GRF uses totaled $24.26 billion:

- Program expenditures were $136.7 million below estimate, due primarily to Justice and Public Protection ($71.3 million).

Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of April 2013
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on May 3, 2013)

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$114,015	$111,500	$2,515	2.3%
Nonauto Sales and Use	$615,794	$643,500	-$27,706	-4.3%
Total Sales and Use Taxes	$729,809	$755,000	-$25,191	-3.3%
Personal Income	$1,647,242	$1,387,122	$260,120	18.8%
Corporate Franchise	$29,058	$28,000	$1,058	3.8%
Public Utility	$0	$100	-$100	-100.0%
Kilowatt Hour Excise	$25,747	$26,800	-$1,053	-3.9%
Natural Gas Consumption (MCF)	$3,993	$3,400	$593	17.4%
Commercial Activity Tax	$18,798	$22,300	-$3,502	-15.7%
Foreign Insurance	$368	$1,100	-$732	-66.5%
Domestic Insurance	$1	$0	$1	---
Business and Property	$28,806	$0	$28,806	---
Cigarette	$71,699	$69,300	$2,399	3.5%
Alcoholic Beverage	$4,380	$5,100	-$720	-14.1%
Liquor Gallonage	$3,407	$3,400	$7	0.2%
Estate	$16,433	$18,400	-$1,967	-10.7%
Total Tax Revenue	**$2,579,740**	**$2,320,022**	**$259,719**	**11.2%**
NONTAX REVENUE				
Earnings on Investments	$2,883	$1,500	$1,383	92.2%
Licenses and Fees	$5,203	$4,234	$969	22.9%
Other Revenue	$1,442	$3,967	-$2,525	-63.6%
Total Nontax Revenue	**$9,529**	**$9,701**	**-$173**	**-1.8%**
TRANSFERS				
Liquor Transfers**	$0	$13,000	-$13,000	-100.0%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$0	$0	$0	---
Total Transfers In	**$0**	**$13,000**	**-$13,000**	**-100.0%**
TOTAL STATE SOURCES	**$2,589,269**	**$2,342,723**	**$246,546**	**10.5%**
Federal Grants	$645,385	$666,123	-$20,738	-3.1%
TOTAL GRF SOURCES	**$3,234,653**	**$3,008,846**	**$225,808**	**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 May 1, 2013.
Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Actual vs. Estimate
FY 2013 as of April 30, 2013
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on May 3, 2013)

	Actual	Estimate*	Variance	Percent	FY 2012	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$897,062	$885,100	$11,962	1.4%	$868,633	3.3%
Nonauto Sales and Use	$6,055,958	$6,105,900	-$49,942	-0.8%	$5,830,837	3.9%
Total Sales and Use Taxes	$6,953,020	$6,991,000	-$37,980	-0.5%	$6,699,471	3.8%
Personal Income	$7,900,122	$7,468,964	$431,158	5.8%	$6,958,354	13.5%
Corporate Franchise	$231,540	$104,000	$127,540	122.6%	$90,073	157.1%
Public Utility	$68,501	$75,000	-$6,499	-8.7%	$79,515	-13.9%
Kilowatt Hour Excise	$272,135	$276,500	-$4,365	-1.6%	$262,193	3.8%
Natural Gas Consumption (MCF)	$27,932	$34,600	-$6,668	-19.3%	$34,690	-19.5%
Commercial Activity Tax	$629,047	$652,000	-$22,953	-3.5%	$312,001	101.6%
Foreign Insurance	$288,924	$283,000	$5,924	2.1%	$279,316	3.4%
Domestic Insurance	$4,949	-$200	$5,149	2574.7%	$150	3202.3%
Business and Property	$33,610	-$1,100	$34,710	3155.5%	-$1,594	2209.2%
Cigarette	$630,118	$622,200	$7,918	1.3%	$641,641	-1.8%
Alcoholic Beverage	$45,347	$48,100	-$2,753	-5.7%	$47,562	-4.7%
Liquor Gallonage	$33,779	$33,300	$479	1.4%	$32,834	2.9%
Estate	$92,432	$53,500	$38,932	72.8%	$56,320	64.1%
Total Tax Revenue	**$17,211,459**	**$16,640,864**	**$570,595**	**3.4%**	**$15,492,526**	**11.1%**
NONTAX REVENUE						
Earnings on Investments	$7,374	$4,000	$3,374	84.4%	$4,021	83.4%
Licenses and Fees	$65,994	$44,368	$21,627	48.7%	$58,564	12.7%
Other Revenue	$529,871	$31,997	$497,874	1556.0%	$28,009	1791.8%
Total Nontax Revenue	**$603,240**	**$80,365**	**$522,875**	**650.6%**	**$90,594**	**565.9%**
TRANSFERS						
Liquor Transfers**	$91,500	$124,000	-$32,500	-26.2%	$92,638	-1.2%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$5,751	$5,166	$585	11.3%	$229,555	-97.5%
Total Transfers In	**$97,251**	**$129,166**	**-$31,915**	**-24.7%**	**$322,193**	**-69.8%**
TOTAL STATE SOURCES	**$17,911,949**	**$16,850,395**	**$1,061,554**	**6.3%**	**$15,905,313**	**12.6%**
Federal Grants	$6,800,687	$6,836,036	-$35,349	-0.5%	$6,252,877	8.8%
TOTAL GRF SOURCES	**$24,712,636**	**$23,686,431**	**$1,026,204**	**4.3%**	**$22,158,190**	**11.5%**

*Estimates of the Office of Budget and Management as of August 2012.
**Liquor Transfers based on a report run in OAKS as of May 1, 2013.
Detail may not sum to total due to rounding.

Through April, FY 2013 GRF tax sources were $570.6 million above OBM's August 2012 estimate.

Through April, FY 2013 GRF sources were $1.03 billion above OBM's August 2012 estimate.

REVENUES

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

Overview

The April 2013 tax filing season concluded with a positive variance of $260.1 million for the personal income tax, which nearly matched that of $259.7 million for all GRF tax sources for the month.[1] This performance boosted the fiscal year's overage for GRF tax sources to $570.6 million, up from $310.9 million at the end of March. The positive variance in GRF tax sources in April was partially offset by negative variances of $13.0 million in liquor transfers[2] and $20.7 million in federal grants, raising the shortfall for the latter GRF source to $35.3 million for the fiscal year to date from $14.6 million at the end of March. As a whole, total GRF sources were $225.8 million above estimates for the month and $1.03 billion above projections for the fiscal year through April.

Tables 1 and 2 show GRF sources for the month of April and for FY 2013 through April, 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.

The sales and use tax, continuing its string of uneven performance, was $25.2 million below anticipated receipts in April 2013. Also below projections were receipts from the commercial activity tax (CAT) (by $3.5 million), the estate tax ($2.0 million), and the kilowatt hour excise tax ($1.1 million). On the other hand, tax sources performing well for the month in addition to the personal income tax included the business and property tax, the cigarette tax, and the corporate franchise tax (CFT), which were above estimates by $28.8 million, $2.4 million, and $1.1 million, respectively. April receipts confirmed what may probably turn out to be a strong yearly performance for both the CFT and the business and property tax.

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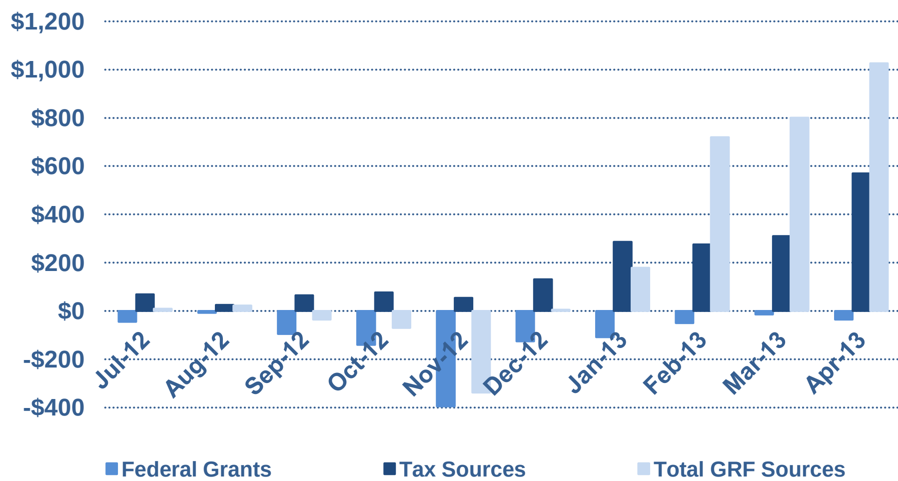
[1] Actual receipts are compared with estimates released by the Office of Budget and Management (OBM) in August 2012. In February 2013, OBM revised upward by $432.0 million estimated FY 2013 total GRF sources, but did not revise the original monthly revenue estimates.

[2] Estimated monthly liquor transfers for May and June 2013 (at $17.0 million and $19.0 million, respectively) are unlikely due to the completion of the transfer of the state liquor franchise to JobsOhio and a deposit of $495.0 million to the GRF in February 2013. (See the March 2013 issue of *Budget Footnotes*).

Through April, those tax sources posted year-to-date positive variances of, respectively, $127.5 million and $34.7 million. CFT and business and property tax receipts were also $141.5 million and $35.2 million above receipts through April in FY 2012.

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

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



Compared to receipts in the corresponding period in FY 2012, year-to-date FY 2013 total GRF sources increased $2.55 billion. Gains of $1.72 billion in GRF tax revenue, $512.6 million in nontax revenue, and $547.8 million in federal grants were partly offset by a decline of $224.9 million in transfers in. Receipts from the personal income tax grew $941.8 million, while revenue from the CAT and the sales and use tax increased $317.0 million and $253.6 million, respectively. Growth in GRF receipts from the income tax and the CAT was due in part to changes that H.B. 153 made to revenue sharing with local governments.

Through April, FY 2013 GRF income tax receipts were $431.2 million above OBM's August 2012 estimate.

Personal Income Tax

In April, GRF personal income tax receipts of $1.65 billion were $260.1 million (18.8%) above estimate, mostly due to higher than expected receipts from taxes paid with annual returns. Receipts in April 2013 were also $354.0 million (27.4%) above receipts in the same month in 2012. The personal income tax's performance in April increased its positive year-to-date variance to $431.2 million, from $171.0 million at the end of March. 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

Through April, FY 2013 withholding tax receipts were $75.4 million above OBM's August 2012 estimate.

estimated payments,[3] trust payments, payments associated with annual returns, and miscellaneous payments.

For the month of April, payments associated with annual returns and monthly withholding receipts were $296.1 million and $18.8 million higher than projected, respectively. Refunds were $59.0 million higher than the estimate, and miscellaneous receipts were below projections by $13.0 million. For the fiscal year to date, the GRF received $7.90 billion from the personal income tax. The table below summarizes year-to-date FY 2013 income tax revenue variances from estimates and from a year earlier by component.

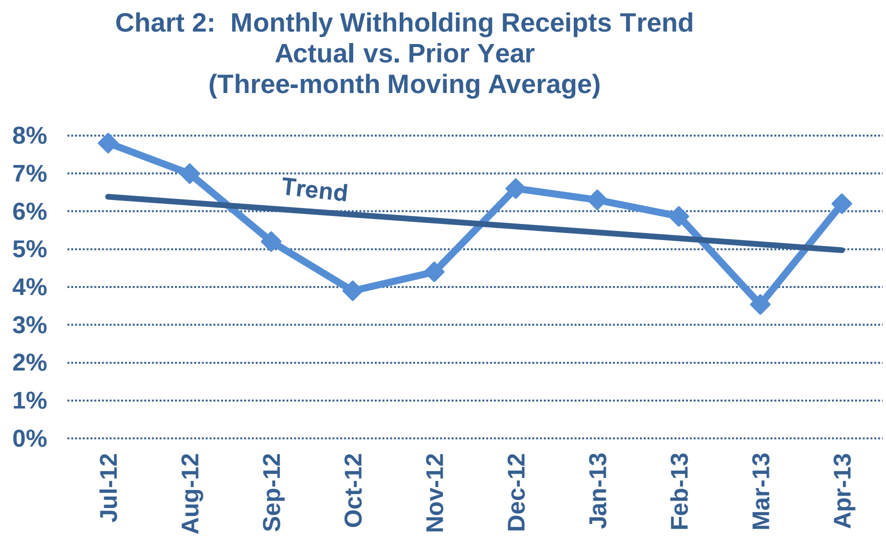
FY 2013 Year-to-Date Income Tax Revenue Variances and Changes by Component

Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2012	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	$75.4	1.1%	$377.5	5.9%
Quarterly Estimated Payments	$160.4	16.9%	$139.4	14.3%
Trust Payments	$33.8	94.2%	$33.9	94.7%
Annual Return Payments	$275.7	26.5%	$268.8	25.7%
Miscellaneous Payments	-$33.3	-29.9%	-$33.2	-29.8%
Gross Collections	$512.1	5.8%	$786.3	9.2%
Less Refunds	$76.8	6.9%	$41.8	3.6%
Less LGF Distribution	$4.1	1.5%	-$197.3	-41.2%
Income Tax Revenue	$431.2	5.8%	$941.8	13.5%

FY 2013 GRF receipts from the income tax were $941.8 million (13.5%) above receipts in the corresponding period in FY 2012. Growth in income tax receipts has been largely due to gains in employer withholding and quarterly estimated payments and reduced distributions to the LGF. Through April, revenues from employer withholding in FY 2013 were $377.5 million (5.9%) above receipts in this category in FY 2012, and quarterly estimated payments increased $139.4 million (14.3%). Chart 2 below illustrates the trend in employer withholding receipts in FY 2013. Distributions to the LGF were $197.3 million (41.2%) below amounts in that category through April in

[3] Quarterly estimated payments are due from taxpayers who expect to be underwithheld by more than 10% and who expect to have less withheld than their taxes owed in the prior year. Payments are generally due on or before April 15, June 15, and September 15 of the tax year and January 15 of the following year. Most estimated payments are made by high-income taxpayers.

FY 2012, due to H.B. 153 which reduced revenue sharing of state tax revenues with local governments.



Sales and Use Tax

April GRF receipts from the sales and use tax of $729.8 million were $25.2 million (3.3%) below estimate, but $5.8 million (0.8%) above receipts in April 2012. Through April, FY 2013 GRF sales and use tax receipts totaled $6.95 billion, $38.0 million (0.5%) below estimate, but $253.6 million (3.8%) 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. Through April, the auto sales and use tax was above projections while the nonauto sales and use tax was lagging anticipated receipts.

Through April, FY 2013 sales and use tax receipts were $38.0 million below OBM's August 2012 estimate.

Nonauto Sales and Use Tax

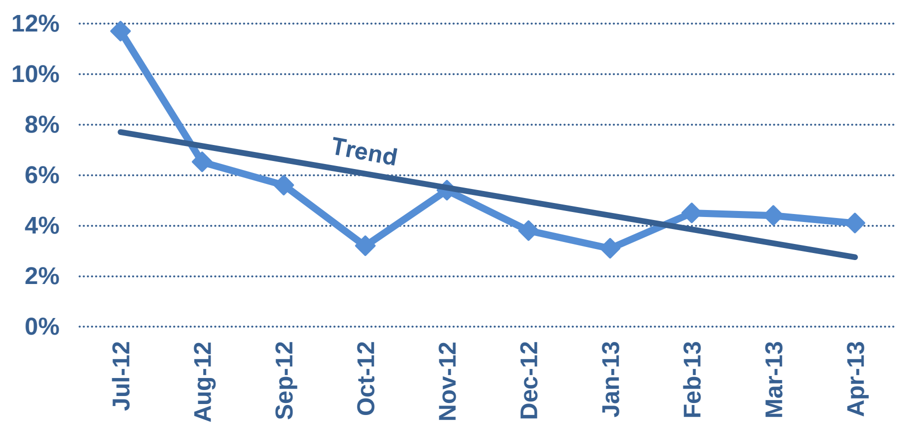
April GRF receipts from the nonauto sales and use tax were $615.8 million, $27.7 million (4.3%) below estimate. Those receipts were also $3.9 million (0.6%) below April 2012 receipts. Year to date, GRF nonauto sales and use tax receipts were $6.06 billion for FY 2013, $49.9 million (0.8%) below estimate. Through April, FY 2013 revenue was

[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.

Through April, FY 2013 nonauto sales and use tax receipts were $49.9 million below OBM's August 2012 estimate.

$225.1 million (3.9%) above receipts through April in FY 2012. Chart 3 below shows the trend in FY 2013 nonauto sales and use tax monthly receipts against prior year receipts in the same month. Though the monthly performance of the tax has been uneven, in the first four months of 2013, the tax base is still growing at about 3%, on average, compared to the corresponding period in 2012.

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

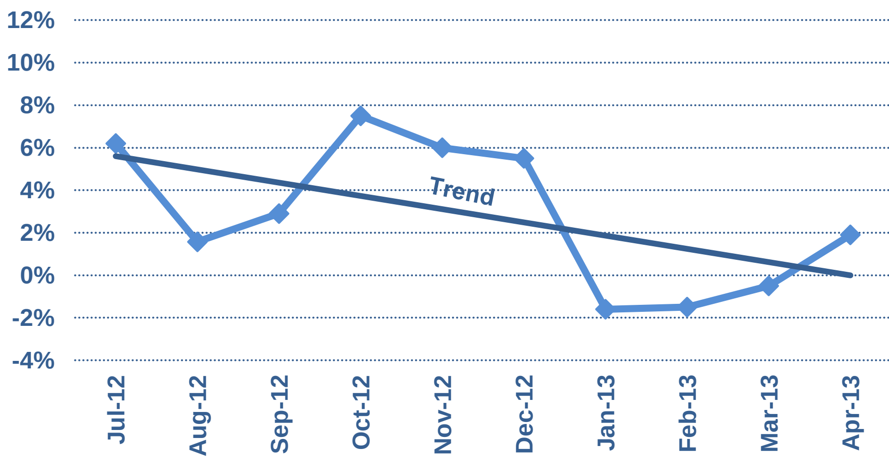


Through April, FY 2013 auto sales and use tax receipts were $12.0 million above OBM's August 2012 estimate.

Auto Sales and Use Tax

GRF receipts from the auto sales and use tax totaled $114.0 million in April. Those receipts were $2.5 million (2.3%) above estimate and $9.7 million (9.3%) above April 2012 receipts. Through April, FY 2013 GRF receipts from the auto sales and use tax of $897.1 million were $12.0 million (1.4%) above estimate and $28.4 million (3.3%) above receipts for the corresponding period in FY 2012. Chart 4 below compares FY 2013 monthly auto sales and use tax receipts with year-ago receipts in the same period. The performance of the auto sales and use tax improved in April after losing momentum in the third quarter of FY 2013 when revenues fell $1.2 million below third-quarter receipts in FY 2012.

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



U.S. auto and light truck sales decreased from a seasonally adjusted pace of 15.2 million units in March to 14.9 million units in April, and were below the 15 million mark for the first time since October. Sales are still up 5.7% from a year earlier, but year-over-year growth has been decelerating since the beginning of the year. This nationwide trend appears to have been reflected in Ohio in auto sales and use tax receipts in recent months.

Commercial Activity Tax

April receipts from CAT taxpayers were $18.8 million. Those receipts were $3.5 million (15.7%) below estimate but $8.1 million (76.2%) above April 2012 revenue. Through April, FY 2013 CAT receipts to the GRF totaled $629.0 million, $23.0 million (3.5%) below estimate, but were $317.0 million (101.6%) 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 April, all-fund CAT receipts were $1.27 billion, $4.1 million (0.3%) above revenue through April in FY 2012. Though the final payment of the fiscal year from CAT taxpayers who pay quarterly is due May 10, 2013, the tax is likely to be short of estimate for the fiscal year as a whole. 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 April, FY 2013 GRF CAT receipts were $23.0 million below OBM's August 2012 estimate.

Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax of $71.7 million in April 2013 were $2.4 million (3.5%) above estimate and $0.5 million (0.7%) above receipts in the same month in FY 2012. Through April, FY 2013 receipts of $630.1 million were $7.9 million (1.3%) above estimate. Receipts from cigarette sales were $586.6 million, and sales of products other than cigarettes provided $43.5 million. Compared to receipts through April in FY 2012, total receipts from the tax were $11.5 million (1.8%) lower. Receipts from the sale of cigarettes decreased by $9.8 million; revenue from the other tobacco products decreased $1.7 million.

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

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary, Secondary, and Other Education	$583,877	$566,157	$17,720	3.1%
Higher Education	$164,463	$163,278	$1,186	0.7%
Total Education	$748,340	$729,435	$18,905	2.6%
Public Assistance and Medicaid	$1,238,356	$1,224,682	$13,674	1.1%
Health and Human Services	$86,388	$98,966	-$12,578	-12.7%
Total Welfare and Human Services	$1,324,744	$1,323,647	$1,096	0.1%
Justice and Public Protection	$158,427	$170,249	-$11,822	-6.9%
Environment and Natural Resources	$4,759	$4,307	$452	10.5%
Transportation	$829	$947	-$118	-12.5%
General Government	$14,446	$16,050	-$1,604	-10.0%
Community and Economic Development	$3,691	$5,880	-$2,188	-37.2%
Capital	$0	$0	$0	---
Total Government Operations	$182,153	$197,432	-$15,280	-7.7%
Tax Relief and Other	$360,566	$317,820	$42,746	13.4%
Debt Service	$67,764	$69,489	-$1,725	-2.5%
Total Other Expenditures	$428,330	$387,309	$41,021	10.6%
Total Program Expenditures	**$2,683,567**	**$2,637,824**	**$45,743**	**1.7%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$277	$10,236	-$9,959	-97.3%
Total Transfers Out	$277	$10,236	-$9,959	-97.3%
TOTAL GRF USES	**$2,683,844**	**$2,648,060**	**$35,784**	**1.4%**

* 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 April 30, 2013
($ in thousands)
(Actual based on OAKS reports run May 7, 2013)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2012**	**Percent Change**
Primary, Secondary, and Other Education	$5,572,862	$5,566,897	$5,966	0.1%	$5,489,075	1.5%
Higher Education	$1,768,603	$1,778,560	-$9,958	-0.6%	$1,764,730	0.2%
Total Education	$7,341,465	$7,345,457	-$3,992	-0.1%	$7,253,805	1.2%
Public Assistance and Medicaid	$11,614,253	$11,642,022	-$27,769	-0.2%	$10,654,793	9.0%
Health and Human Services	$833,959	$866,315	-$32,356	-3.7%	$858,378	-2.8%
Total Welfare and Human Services	$12,448,212	$12,508,337	-$60,125	-0.5%	$11,513,171	8.1%
Justice and Public Protection	$1,666,443	$1,737,732	-$71,288	-4.1%	$1,594,054	4.5%
Environment and Natural Resources	$59,552	$61,314	-$1,761	-2.9%	$59,671	-0.2%
Transportation	$8,296	$8,908	-$612	-6.9%	$8,144	1.9%
General Government	$281,331	$307,943	-$26,612	-8.6%	$240,046	17.2%
Community and Economic Development	$76,119	$85,329	-$9,209	-10.8%	$84,784	-10.2%
Capital	$137	$0	$137	---	$120	14.4%
Total Government Operations	$2,091,879	$2,201,225	-$109,346	-5.0%	$1,986,819	5.3%
Tax Relief and Other	$1,275,914	$1,216,265	$59,649	4.9%	$1,084,763	17.6%
Debt Service	$760,421	$783,260	-$22,839	-2.9%	$327,323	132.3%
Total Other Expenditures	$2,036,335	$1,999,525	$36,810	1.8%	$1,412,086	44.2%
Total Program Expenditures	**$23,917,891**	**$24,054,544**	**-$136,653**	**-0.6%**	**$22,165,881**	**7.9%**
TRANSFERS						
Budget Stabilization	$235,096	$235,096	$0	0.0%	$246,899	-4.8%
Other Transfers Out	$110,882	$113,071	-$2,189	-1.9%	$365,939	-69.7%
Total Transfers Out	$345,978	$348,167	-$2,189	-0.6%	$612,838	-43.5%
TOTAL GRF USES	**$24,263,869**	**$24,402,711**	**-$138,842**	**-0.6%**	**$22,778,719**	**6.5%**

* 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 May 6, 2013)

Medicaid (600525) Payments by Service Category	April Actual	April Estimate	April Variance	April Percent Variance	Year to Date Actual thru April	Year to Date Estimate thru April	Year to Date Variance	Year to Date Percent Variance
Managed Care Plans	$584,776	$674,829	-$90,053	-13.3%	$5,870,501	$6,325,680	-$455,179	-7.2%
Nursing Facilities	$209,797	$206,895	$2,902	1.4%	$2,044,280	$2,046,637	-$2,357	-0.1%
Hospitals	$129,329	$137,973	-$8,644	-6.3%	$1,121,961	$1,160,679	-$38,718	-3.3%
Aging Waivers	$40,760	$55,884	-$15,124	-27.1%	$453,385	$549,698	-$96,313	-17.5%
Prescription Drugs	$47,755	$53,781	-$6,026	-11.2%	$399,604	$440,372	-$40,768	-9.3%
Physicians	$31,565	$38,416	-$6,851	-17.8%	$271,079	$292,696	-$21,617	-7.4%
ODJFS Waivers	$22,878	$25,766	-$2,888	-11.2%	$211,054	$224,243	-$13,189	-5.9%
All Other	$230,366	$241,084	-$10,718	-4.4%	$1,958,766	$1,996,733	-$37,967	-1.9%
Total Payments	$1,297,226	$1,434,628	-$137,402	-9.6%	$12,330,630	$13,036,738	-$706,108	-5.4%
Total Offsets (non-GRF)	-$172,816	-$319,640	$146,824	-45.9%	-$1,627,685	-$2,346,122	$718,437	-30.6%
Total 600525 (net of offsets)	$1,124,410	$1,114,988	$9,422	0.8%	$10,702,945	$10,690,616	$12,329	0.1%
Medicare Part D (600526)	$25,356	$23,094	$2,262	9.8%	$242,088	$231,588	$10,500	4.5%
Total GRF	**$1,149,766**	**$1,138,082**	**$11,684**	**1.0%**	**$10,945,033**	**$10,922,204**	**$22,829**	**0.2%**
Total All Funds	**$1,322,582**	**$1,457,722**	**-$135,140**	**-9.3%**	**$12,572,718**	**$13,268,326**	**-$695,608**	**-5.2%**

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*

Through April, FY 2013 GRF uses were $138.8 million below OBM's August 2012 estimate.

Overview

For the first ten months of FY 2013, GRF program expenditures totaled $23.92 billion. These expenditures were $136.7 million below the estimate released by the Office of Budget and Management (OBM) in August 2012.[5] GRF transfers out totaled $346.0 million, which was $2.2 million below estimate. GRF uses as a whole amounted to $24.26 billion, which was $138.8 million below estimate. Tables 3 and 4 show GRF uses for the month of April, and for FY 2013 through April, respectively.

Program categories with significant negative year-to-date variances include Justice and Public Protection ($71.3 million), Health and Human Services ($32.4 million), Public Assistance and Medicaid ($27.8 million), General Government ($26.6 million), and Debt Service ($22.8 million). The Tax Relief and Other program category, on the other hand, registered a positive year-to-date variance of $59.6 million due largely to its April expenditures being $42.7 million above estimate. These six program categories' variances are briefly discussed below.

Year-to-date expenditures from Justice and Public Protection were $71.3 million below OBM's August 2012 estimate.

Justice and Public Protection

Year-to-date GRF expenditures for Justice and Public Protection were $1.67 billion, $71.3 million (4.1%) below estimate. This negative variance widened from that of the previous month because April expenditures for this program category were $11.8 million below the monthly estimate. The Department of Rehabilitation and Correction (DRC) contributed $52.5 million to this category's negative year-to-date variance. The Department of Youth Services (DYS) accounted for another $11.1 million. The remaining negative year-to-date variance occurred across several other agencies included in this program category, including the Supreme Court of Ohio and the Office of the Attorney General. Expenditures from DRC's two main appropriation items - Institutional Operations (501321) and Mental Health

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

Services (502321) – have been below estimates for most months in FY 2013. Through April, these negative year-to-date variances stood at $43.6 million and $6.2 million, respectively. As indicated in several issues of OBM's *Monthly Financial Report,* these negative variances were mainly due to an overall personnel decrease and the implementation of various cost savings initiatives in medical services. Likewise, OBM has reported that the negative year-to-date variance in the DYS budget was largely due to lower than expected expenditures in personnel costs. Through April, DYS's main appropriation item RECLAIM Ohio (470401) was $8.5 million below its year-to-date estimate.

Health and Human Services

Year-to-date GRF expenditures for Health and Human Services totaled $834.0 million, $32.4 million (3.7%) below estimate. The Department of Mental Health (DMH) accounted for $20.0 million of this program category's negative year-to-date variance. The Department of Health (DOH) contributed another $8.3 million. The remaining negative variance occurred across several other agencies included in this program category.

The majority of DMH's negative variance occurred in the month of April. In that month, DMH's expenditures were $18.5 million below estimate due largely to a subsidy payment of $14.8 million from appropriation item Local Mental Health Systems of Care (335505) that did not occur in April, as originally anticipated. Item 335505 provides subsidy dollars to the state's 50 community behavioral health boards to help fund an integrated system of mental health care that meets locally determined needs. DMH's April negative variance, which was partially offset by a positive monthly variance in DOH, was also the key contributor to the $12.6 million negative monthly variance for the Health and Human Services program category.

Although DOH posted a positive variance of $3.2 million in the month of April, its year-to-date expenditures were $8.3 million below estimate. As reported in prior issues of *Budget Footnotes*, due largely to timing, expenditures from DOH's appropriation items Immunizations (440418), AIDS Prevention and Treatment (440444), and Help Me Grow (440459) have been slower than originally anticipated. As expenditures from these three items have started accelerating, the negative variance in the DOH budget will continue to narrow.

Public Assistance and Medicaid

Year-to-date GRF expenditures for Public Assistance and Medicaid totaled $11.61 billion, $27.8 million (0.2%) below estimate. Medicaid, Year-to-date GRF Medicaid expenditures were $22.8 million above OBM's August 2012 estimate; across all funds, year-to-date Medicaid expenditures were $695.6 million below estimate.

including both state and federal shares, accounts for about 94% of expenditures in this program category. Table 5 details Medicaid GRF expenditures by service category and also summarizes Medicaid expenditures across all funds. Medicaid is mainly funded with the GRF, but is also supported by various non-GRF funds. Through April, FY 2013 Medicaid GRF expenditures totaled $10.95 billion, which was $22.8 million (0.2%) above estimate. Across all funds, year-to-date Medicaid expenditures amounted to $12.57 billion, which was $695.6 million (5.2%) below estimate. The federal share of Medicaid expenditures is about 64% and the state's share is about 36%.

According to the Ohio Department of Job and Family Services (ODJFS), in recent months more GRF dollars than non-GRF dollars have been used for Medicaid expenditures due to a delay in collecting hospital assessment revenue (the assessment amount for FY 2013 has not yet been finalized). This accounts for the positive year-to-date variance in GRF expenditures compared to the negative variance in all funds expenditures. It also accounts for the positive GRF variance in April ($11.7 million, 1.0%) compared to the negative variance in all funds for the month ($135.1 million, 9.3%). Until the assessment is collected, ODJFS expects that expenditures from non-GRF funds will be below estimate by more than $141 million each month.

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 $455.2 million (7.2%), primarily due to lower than expected caseloads and capitated rates. The Aging Waivers category had the next largest negative variance of $96.3 million (17.5%), due partially to the timing of payments and partially to lower than estimated service costs per member.

The Public Assistance and Medicaid program category consists of only one agency – ODJFS. Although year-to-date GRF Medicaid expenditures were above estimate by $22.8 million, year-to-date GRF expenditures for ODJFS, and the category as whole, were below estimate by $27.8 million. This implies that year-to-date expenditures for non-Medicaid items as a whole in ODJFS were below estimates. In fact, expenditures from almost all of ODJFS's non-Medicaid items were below their year-to-date estimates. Five items had negative year-to-date variances close to $5.0 million or higher. These items are: Disability Financial Assistance (600511, $11.7 million), Program Support (600321, $9.6 million), Early Care and Education (600535, $5.4 million), Family Assistance – Local (600521, $5.1 million), and Adoption Services (600528, $4.8 million). Item 600511 provides cash assistance to individuals who are unemployable due to a physical or mental impairment and who are not receiving cash assistance from other public assistance programs. Item 600321 is the primary source of funding for the operations of ODJFS. Item 600535 helps support publicly funded child care. Item 600521 is used to advance to counties the state's share of county administrative expenses for Medicaid, Food Assistance, and Disability Assistance programs. Item 600528 provides subsidies to families who adopt children with special needs.

General Government

Year-to-date GRF expenditures for General Government totaled $281.3 million, $26.6 million (8.6%) below estimate. This program category includes six executive agencies, four out of the five statewide elected offices,[6] and all six legislative agencies. The six executive agencies registered a combined negative year-to-date variance of $14.2 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 $4.1 million below their estimates. Finally, the six legislative agencies accounted for a combined negative year-to-date variance of $8.2 million.

Debt Service

Year-to-date GRF debt service expenditures totaled $760.4 million, which was $22.8 million (2.9%) below estimate. Of this total, $14.5 million was attributable to debt service paid by the Public Works Commission (PWC) and $5.2 million was attributable to the Development Services Agency (DSA). PWC and DSA 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.

Tax Relief and Other

Year-to-date expenditures for Tax Relief and Other totaled $1.28 billion, $59.6 million (4.9%) above estimate. As indicated earlier, this variance mainly occurred in the month of April. This category's April expenditures of $360.6 million were $42.7 million (13.4%) above estimate due likely to timing. The property tax relief reimbursements are made twice per year, one based on the February property tax settlement and the

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

other one based on the August property tax settlement. The reimbursements based on the February 2013 settlement started in March and will continue through the remainder of the fiscal year. The reimbursements based on the August 2012 settlement were completed in December and were $7.4 million higher than estimate.

ISSUE UPDATES

Office of TourismOhio Announces Results of 2012 Tourism Marketing Study

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

On March 31, 2013, the Office of TourismOhio within the Development Services Agency announced the findings of a study on 2012 tourism marketing promotions for the state, which primarily consisted of the advertising campaign "Too Much Fun for Just One Day" to promote overnight visits to Ohio's attractions. Conducted on behalf of the Office by Longwood International, the study concluded that for every $1 spent on tourism marketing in calendar year 2012, Ohio received a return of $9 in state taxes and $6 in local taxes for a total return of $15 in tax revenue from tourism industries during the same year. Of the approximately $29.8 million in taxes collected from tourism industries in 2012, $17.4 million was received by the state, and $12.4 million went to local governments, according to the research. The Longwood International study also reports that the $15 return on investment in tourism marketing in 2012 was an increase from returns of $13 in 2009 and 2010 and $14 in 2011.

The Office of TourismOhio is currently funded by the GRF, with a FY 2013 appropriation of $5.0 million. Beginning in the FY 2014-FY 2015 biennium, however, TourismOhio will be funded by a new mechanism created in S.B. 314 of the 129th General Assembly over a five-year pilot period. The concept is for TourismOhio to be financed based on the growth in sales tax revenue collected from certain tourism-related industries. During the period from FY 2014 to FY 2018, up to $10.0 million in sales tax proceeds credited to the GRF annually will be transferred to the Tourism Fund (Fund 5MJ0). The $10.0 million cap includes an annual inflation adjustment based on the Consumer Price Index – all urban consumers, Midwest region.

Controlling Board Approves Initial Funding for Department of Agriculture's High Volume Dog Breeders Licensing Program

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

On April 22, 2013, the Controlling Board provided the Department of Agriculture (AGR) with start-up funding of just over $222,000 to begin a licensing and registration program for high volume dog breeders, kennel operators, retailers, and dog rescues under the requirements of S.B. 130 of the 129th General Assembly. Specifically, S.B. 130 requires the Department to implement an oversight and inspection program to ensure that licensees and registrants are maintaining proper standards of care for dogs. This initial funding comes from the Controlling Board Emergency Purposes Fund

(Fund 5KM0) through a cash transfer to the High Volume Breeder Kennel Control License Fund (Fund 5MR0) under the Department of Agriculture's budget. The funding will be used to pay staffing costs ($69,050), purchase vehicles and computer equipment ($150,914), and pay for travel and other miscellaneous expenses ($2,225) to begin implementing the licensing program in FY 2013.

In addition to the start-up money approved by the Controlling Board and license revenue that will be collected starting in FY 2014, H.B. 59, As Passed by the House, provides supplemental GRF funding of $400,000 in FY 2014 and $200,000 in FY 2015 to operate the program. Altogether, AGR intends to employ nine people under the program, including administrative and field staff. S.B. 130 institutes a biennial spending cap of $2.5 million and requires the Department to submit a spending plan for the program to the Controlling Board for approval. The applicable license fees are listed in the table below.

Annual License and Renewal Fees Under the High Volume Dog Breeders Licensing Program	
High Volume Breeder (9-15 litters)	$150
High Volume Breeder (16-25 litters)	$250
High Volume Breeder (26-35 litters)	$350
High Volume Breeder (36-45 litters)	$500
High Volume Breeder (46+ litters)	$750
Dog Retailers	$500
Animal Rescues	No fee, but must register

DAS Awards IT Contract for State of Ohio Computer Center Improvements

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

On February 6, 2013, the Department of Administrative Services (DAS) awarded IBM Corporation a ten-year $257.3 million contract to make improvements to and provide ongoing project management services for many of the state's data processing functions housed within the State of Ohio Computer Center (SOCC) located in Columbus. The enhancements include upgrading the building's available power supply and updating the heating and cooling systems to provide adequate climate control for the various IT resources located at the 358,000 square foot building. Additionally, IBM will update IT hardware and processes to create a "cloud" computing environment for state agencies, boards, and commissions. The project is part of DAS's ongoing IT Optimization Plan to increase the efficiency and reduce costs of the state's IT infrastructure by consolidating the state's disparate IT networks, data centers, and applications.

The ameliorations will be paid for through a combination of capital and operating funds. H.B. 482 of the 129th General Assembly, the capital bill for the FY 2013-FY 2014 biennium, provided $15.5 million from the Administrative Building Fund (Fund 7026) to make the power and HVAC upgrades and to implement industry IT management best practices at the SOCC. On April 8, 2013, the Controlling Board supplemented this funding by approving the transfer of $7.5 million in capital money slated for an existing building renovation project to the SOCC project instead.[7] Specifically, this additional money will be used to relocate IT equipment to the second floor of the building and cover related IT inventory control and software security associated with this move. Ongoing operational funding for the project will be paid for by IT user charges assessed to state agencies that are deposited into the Information Technology Fund (Fund 1330), as well as rental payments made by state agencies with equipment occupying space at the SOCC that are deposited into the Building Fund (Fund 1320).

Board of Regents and Department of Education Celebrate Early College High Schools

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

The Ohio Board of Regents (BOR) and the Ohio Department of Education (ODE) recently observed Early College High School Week, celebrating those high schools designed to increase graduation rates and college readiness among students – often low-income, minority and/or first-generation college students – through academic rigor and college-level courses, rather than remediation. Currently, Ohio has ten "founding" early college high schools that have had at least one graduating class, and six "emerging" early college high schools that have been funded largely by federal Race to the Top funding. Statistics have shown Ohio's early college high schools to be successful. Of the students at the original ten early college high schools, 77% of their graduates enroll in college, as compared to 50% for low-income students nationwide and 68% for all students nationwide; 85% enroll in a public four-year institution; and 80% of graduates who start college return for their second year, besting the national average by 11 percentage points. Ohio's early college high school students have also, on average, earned 44 college credits by the time they graduate. Many Ohio students earn enough college credit at an early college high school to graduate with both a high

[7] The transferred funds were originally slated for continuing improvements to the North High Building Complex in downtown Columbus that houses the Department of Health, eTech Ohio, and veterans' organizations.

school diploma and an associate degree. Nationally, early college high schools were launched in 2003 after an initial investment of $18 million in seed funding to nine schools by KnowledgeWorks and the Bill and Melinda Gates Foundation. Ohio has invested more than $20 million in early college high schools since 2006.

ODE Establishes Academic Distress Commission for Lorain City School District and Accepts Waiver for Cleveland Municipal School District

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

In April 2013, the Ohio Department of Education (ODE) announced the formation of an academic distress commission for the Lorain City School District. Generally, ODE must establish an academic distress commission for a district in academic emergency that failed to make adequate yearly progress for a specified number of years.[8] Each commission consists of five voting members who can establish a budget for a district, appoint school building administrators and reassign administrative personnel, and terminate the contracts of administrators and administrative personnel. The Lorain commission will next meet to develop an improvement plan for the district.

ODE also announced, in April, that they had accepted a request to waive the formation of a commission for the Cleveland Municipal School District. According to ODE's announcement, Cleveland's exemption was granted based, in part, on passage of H.B. 525 of the 129th General Assembly, which was enacted with the intent of improving Cleveland's academic performance. Among its numerous provisions, the act authorizes the creation of a nonprofit Transformation Alliance, which must confirm and monitor implementation of Cleveland's transformation education plan. Cleveland must also develop several additional accountability measures to evaluate district performance, including measures to assess overall student achievement, student progress over time, college and career readiness, and the achievement and progress over time of each subgroup of students. Based on these measures, ODE is required to evaluate Cleveland's performance and to issue a report to the Governor and the General Assembly by November 15, 2017, which is the same date the waiver will expire. According to the terms of the waiver, if the H.B. 525 plan is terminated, ODE's waiver will no longer be in effect and Cleveland will be subject to the creation of a commission.

Prior to Cleveland and Lorain meeting the criteria for development of a commission, Youngstown City School District was the only other district in the state to

[8] H.B. 555 of the 129th General Assembly revised the criteria for which ODE must establish an academic distress commission for a district by reducing the number of years a district must be low performing from four to three and adding new performance measures. These changes went into effect on March 22, 2013.

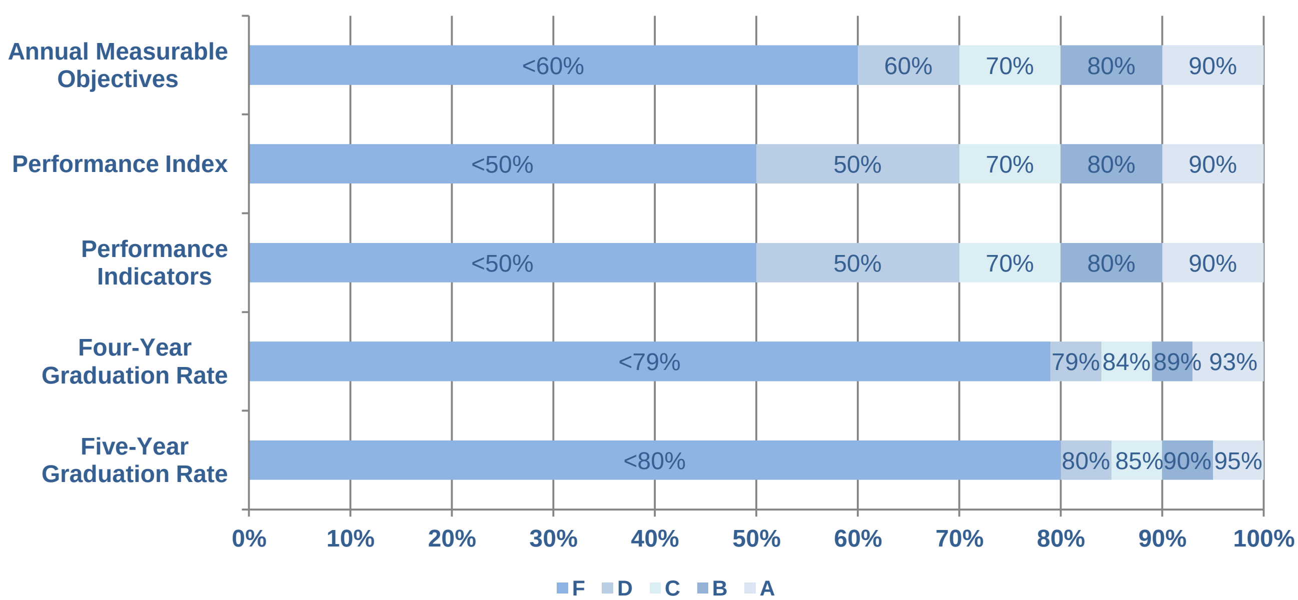
have one. In January 2010, ODE established Youngstown's commission, which then adopted an education recovery plan later that year. Youngstown's plan has recently been updated and can be found by going to ODE's web site, searching for "Youngstown Academic Recovery Plan," and selecting "Academic Recovery Plan Update – April 19, 2013."

State Board of Education Approves Resolution Outlining 2012-2013 Local Report Card Benchmarks

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

On April 9, 2013, the State Board of Education adopted a resolution describing the performance measures, benchmarks, and grading system for the 2012-2013 school year report cards. The resolution also declares the State Board's intent to adopt the proposed report card rules by June 30, 2013. H.B. 555 of the 129th General Assembly, which revised Ohio's local report card system, required nine performance measures to be graded for the 2012-2013 school year. Unlike report cards in previous years, no overall or component grades will be computed until the report cards for the 2014-2015 school year. The five percentage-based benchmarks described in the proposed rules are illustrated in the chart below, with the minimum percentage necessary to achieve the letter grade indicated within each grade band.

Chart 5: State Board-Proposed Local Report Card Benchmarks, 2012-2013



In addition, the 2012-2013 report cards will include four performance measures related to the value-added progress dimension. Grades will be assigned for overall score and the disaggregated scores for students identified as gifted, students with disabilities, and students whose performance places them in the lowest 20% for achievement on a statewide basis. H.B. 555 specifies benchmarks for these performance measures, which are based on how the school district or building compares to the average score.

As new performance measures, components, and overall letter grades are integrated into the local report card over the next several years, the state board is tasked with adopting additional rules to establish the method for determining those grades and, as with the rules for the 2012-2013 school year, conducting a public presentation before the House and Senate education committees concerning the benchmarks at least 45 days prior to the date that the rules are adopted.

Department of Youth Services Releases Juvenile Probation Officer Training Standards

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

On March 19, 2013, the Department of Youth Services (DYS) released minimum standards for the training of juvenile probation officers,[9] which were developed to comply with a provision of S.B. 337 of the 129th General Assembly. Under these standards, any juvenile probation officer hired after January 1, 2014, will be required to complete 40 hours of training during their first year of employment. Specifically, new officers will be required to complete a minimum of five hours of training in juvenile justice, ten hours in probation officer basic practices, and ten hours in orientation to evidence based practices. The remaining 15 hours are discretionary, to be based on the needs of the court and the experience of the officer. In addition, all juvenile probation officers, beginning January 1, 2014, are required to complete 20 hours of continuing education annually.

The standards were created by a committee consisting of DYS, county juvenile probation staff, and the Supreme Court of Ohio, and are intended to complement existing training standards for probation officers, including existing local requirements and standards of the American Correctional Association. Adoption of these standards also brings DYS in line with minimum training standards for adult probation officers developed by the Department of Rehabilitation and Correction. According to DYS, implementing such training standards for probation and parole officers in other states has been shown to effectively reduce recidivism, improve resource allocation, and increase public safety.

[9] The standards are available under the "Featured Links" tab at: www.dys.ohio.gov.

Attorney General Awards Grants to Support Recommendations for Improving the State's Foster Care System

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

In April 2013, the Office of the Attorney General awarded two grants totaling $3.0 million in support of the Foster Care Advisory Group's recommendations for improving the state's foster care system. A $2.0 million grant was awarded to the Ohio Court Appointed Special Advocate (CASA)/guardian ad litem (GAL) Association to expand the number of counties that offer CASA. Ohio Reach, which connects persons who have aged out of foster care to higher education opportunities, was awarded $1.0 million. The grants were supported from Ohio's portion of the National Mortgage Settlement, which was reached in March 2012.

The Attorney General established the Foster Care Advisory Group in December 2012 to make recommendations within 90 days. As reported in the January 2013 issue of *Budget Footnotes*, this group was formed at the conclusion of a year-long series of child safety summits which were held throughout the state. The group issued 31 recommendations.[10] They are generally related to creating added accountability, efficiencies, and programming for foster care system participants, including:

- Lowering the number of times a child comes in and out of foster care;
- Providing and focusing on training for foster parents, child welfare professionals, and judges to encourage foster parent participation;
- Creating a statewide fund to match local funding to ensure that all children in custody of county public children services agencies are provided with minimum services; and
- Establishing a central registry where pediatricians treating youth in foster care can input and retrieve a foster youth's medical file to provide greater continuity in care.

RSC Partners with ODJFS to Hire Consumer Support Advocates

– Jacquelyn Schroeder, LSC Fellow, 614-466-3279

The Rehabilitation Services Commission (RSC) has partnered with the Ohio Department of Job and Family Services (ODJFS) to hire Consumer Support Advocates (CSAs) to aid Ohioans with disabilities in using the Ohio Benefit Bank and obtaining other community services. ODJFS provided $200,000 to RSC in FY 2013, which enabled

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[10] The complete report is available on the Ohio Attorney General's web site: www.ohioattorneygeneral.gov/Media/News-Releases.

RSC to draw down $738,967 in federal matching vocational rehabilitation dollars to fund the work of the CSAs, including payroll, training, and travel costs. RSC has 25 CSAs currently on staff, and has at least one CSA per RSC office throughout the state. The CSAs work approximately 20 hours each week at $14.85 per hour.

The CSAs are individuals with disabilities who are participating in the vocational rehabilitation program. They are trained to assist other Ohioans with disabilities who are receiving vocational rehabilitation services or who are on RSC's waiting list with contacting the Ohio Benefit Bank, which aid families with moderate to low incomes in finding tax credits and other work supports, including childcare and transportation services. In the meantime, the CSAs obtain work experience and develop customer service skills for their own future job opportunities. Since the start of the CSA program in July 2012, a total of 36 individuals have been hired as CSAs and have helped 200 Ohioans with disabilities file applications with the Ohio Benefit Bank. Eight of them have left their positions after gaining work experience for full-time employment at an average wage of $14.20 per hour.

Ohio Receives State Innovation Model Design Award

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

In February 2013, the Office of Health Transformation (OHT) announced that Ohio received a $3.0 million State Innovation Model Design Award grant from the Centers for Medicare and Medicaid Services (CMS). The federal grant, along with $4.1 million in state and private funding and in-kind resources, will be used to design a state health care innovation plan that aims at improving the system's overall performance by addressing multi-payer payment and service delivery strategies.

OHT has selected McKinsey & Co., Inc. as the vendor to coordinate, with input from public and private stakeholders, the six-month design phase of the plan. The vendor will develop a payment model and implementation plan to increase access to patient-centered medical homes. It will also design an episode-based payment system that would reimburse providers for anticipated costs associated with treating an acute medical event. The plan would be applicable to patients covered by Medicaid and would be implemented within three to five years. OHT expects that some or all aspects of the plan might be adopted by commercial insurance companies since they are collaborating on the plan design. After the design phase, the vendor will be required to complete a federal Model Testing Award application for implementation grants.

CMS has awarded almost $300 million to states to support the development and testing of the state innovation models. The goal is to develop and test payment and service delivery models that have the potential to lower costs of Medicaid and Medicare while maintaining or improving quality of care for program participants. Ohio was one of 16 states that received a State Innovation Model Design Award. In addition to these awards, CMS issued six Model Testing and three Model Pre-Testing Awards.

TRACKING THE ECONOMY

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

Overview

The U.S. economy continues to grow. Economic activity expanded in the first quarter of 2013 at an annualized rate of 2.5%, adjusted for inflation, according to the initial estimate. Growth was led by gains in consumer spending (mainly for services and durable goods), farm inventories, exports, and residential investment. Nationwide nonfarm employment increased by about 196,000 on average each month for the the first four months of the year. The national unemployment rate decreased to 7.5% in April from 7.6% in March and 7.9% in January, though some of the decreases are attributable to job searchers exiting the labor force. Unemployment claims for the last week of April, when seasonally adjusted, fell to their lowest level since January 2008. In March, housing starts reached its highest annualized rate in almost five years, led by gains in multifamily units. Lower gasoline prices pushed down the consumer price index in March.

Economic activity expanded in the first quarter of 2013 at an annualized rate of 2.5%, adjusted for inflation.

Several developments could adversely affect economic growth later in the year. Some economists expect that the impacts of sequestration, under which the federal government reduces spending by about $85 billion from March through September, could lower economic growth rates in the second and third quarters. Though Congress suspended the national debt ceiling in January, allowing the U.S. Treasury to continue to borrow (for purposes other than refinancing bonds previously issued), the debt ceiling could become an issue again later in the year. International economic issues, such as high unemployment in the Eurozone (including recent record high unemployment rates in France and Spain) and oil price volatility could also slow future growth.

Total nonfarm payroll employment in Ohio fell in March and was only 0.1% higher than in March of last year. Employment in the state has not grown since mid-2012, after recovering for more than two years.

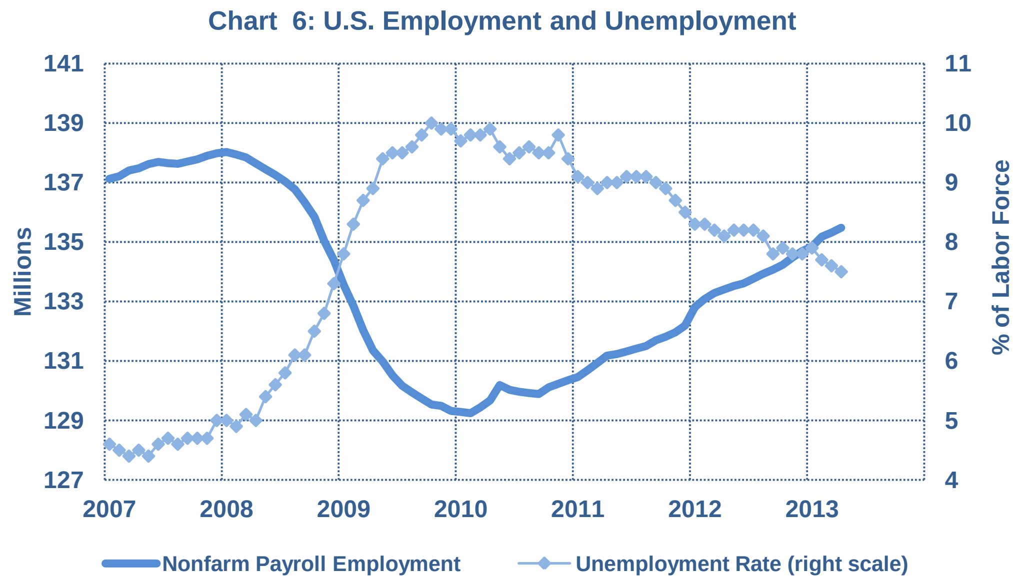
The National Economy

Employment and Unemployment

U.S. total nonfarm employment rose by 165,000 (0.1%) in April from March's revised total. Unemployment decreased to 7.5% of the labor force from 7.6% in March. Trends in nationwide employment and

U.S. total nonfarm employment rose by 165,000 (0.1%) in April from March's revised total.

unemployment are shown in Chart 6 below.



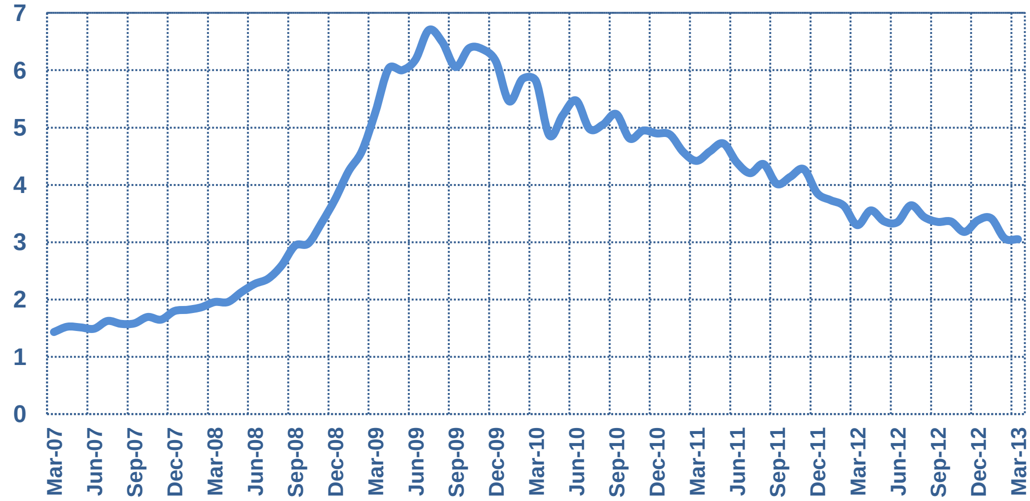
The chart reflects revised employment estimates for February and March made by the Bureau of Labor Statistics. In both months the changes in employment were revised upward, from 268,000 to 332,000 in February and from 88,000 to 138,000 in March. This revision results in estimated employment being 114,000 higher in March than previously reported.

In April, the largest gains in employment among major industries were in professional and business services, food services and drinking places, retail trade, and health care. There were decreases in government, information services, construction, and mining and logging. Employment held level in manufacturing.

Nationally, the number of unemployed individuals looking for work fell slightly in April, remaining at 11.7 million, seasonally adjusted. The labor force increased from about 155.0 million in March to 155.2 million in April. The workforce participation rate of 63.3% held level from March to April.

The number of job openings decreased from about 3.9 million in February to about 3.8 million in March, the latest month for which data are available. The ratio of unemployed job searchers per job opening has decreased over the past three years. In 2009 it was over 6 to 1. Prior to the recession, in February 2007, the ratio was about 1.4 to 1. The chart below shows the ratio of unemployed job searches to job openings over the past six years.

Chart 7: Monthly Ratio of Unemployed Job Searchers to Job Openings, March 2007-March 2013



The ratio of unemployed job searchers per job opening has decreased over the past three years.

As shown in the chart, as of March, the ratio reached its lowest point since October 2008, at about three job searchers per reported job opening.

Nationally, unemployment claims continue to fall. For the week ending April 27, the advance estimate of seasonally adjusted unemployment claims was 324,000. Previously, the last week seasonally adjusted claims were below 325,000 was the week ending January 19, 2008. During the recession, unemployment claims peaked at 670,000 the week ending March 28, 2009. In the first three months of 2013, unemployment claims have averaged about 355,600 per week, seasonally adjusted.

Production

Gross domestic product (GDP), adjusted for inflation, increased in the first quarter of 2013 at an annual rate of 2.5%, according to the "advance" estimate of real GDP growth from the U.S. Bureau of Economic Analysis. This rate follows 0.4% growth in the fourth quarter of 2012. First quarter economic growth was the result of increases in consumer spending, private inventories (particularly farm inventories), investment in business equipment and residential structures, and exports. Gains in these areas more than offset decreases in government expenditures. Reductions in overall government spending have reduced real GDP growth in 11 of the last 13 quarters. Imports increased, which subtracts from calculated GDP growth. According to some news sources, the 2.5% growth rate was lower than the 3.0% rate many economists expected.

Manufacturing output expanded in the first quarter at an annualized rate of 5.3%, seasonally adjusted.

Industrial production expanded in the first quarter at an annualized rate of 5.0%, seasonally adjusted, according to the Federal Reserve. This follows annualized rates of 2.3% in the fourth quarter of 2012 and 0.3% in the third quarter of that year. The highest percentage increases in production from the fourth quarter of 2012 to the first quarter of 2013 occurred in the following market groups: construction supplies (15.0%), miscellaneous consumer durables (14.7%), automotive products (13.2%), and clothing (13.1%). Manufacturing output expanded in the first quarter at an annualized rate of 5.3%, seasonally adjusted. This follows annualized rates of 2.3% in the fourth quarter of 2012 and -0.5% in the third quarter of that year. However, for the month of March, manufacturing output decreased by 0.1%, with decreases registered in most of the major industry groups. Output of utilities increased 10.5% over March of last year, with an increase at natural gas utilities of 41.3%.

New orders and shipments decreased in March, according to the U.S. Census Bureau. New orders decreased $19.5 billion (4%) and shipments decreased $5.0 billion (1%). The declines reflect in part a drop in volatile aircraft orders and in part lower prices for crude oil and petroleum products. The series are measured in dollars, not adjusted for inflation. Inventories increased for the fifth consecutive month in March to the highest level ever.

Consumer Spending and Personal Incomes

Real consumer spending grew by 0.3%, in March, seasonally adjusted, after increasing by the same percentage in February and by 0.2% in January. The increase in March was due to a 0.6% increase in the consumption of services, with a large increase in the use of utility services, likely weather-related, offset by a 0.4% decrease in purchases of nondurable goods. In April, the seasonally adjusted annualized rate of light vehicle sales decreased to 14.9 million, from 15.2 million in March. Both rates were below the peak rate in recent years of 15.5 million in November 2012.

Real disposable personal incomes increased 0.3% in March, led by increases in services-producing payrolls; manufacturing payrolls decreased in March.

Construction and Real Estate

Housing Starts and Construction

In March, the annualized rate of housing starts reached about 1.0 million, seasonally adjusted, its highest rate since June 2008, and a 47% increase over March of last year. The gain was led by multifamily units. Starts of structures with five or more units increased 27% over

February and 82% over March of last year. The annualized rate of starts for single-family units decreased 4.8% from February to March but remained above January's rate.

The annualized rate of construction spending decreased 1.7% from February to March, seasonally adjusted, but was still 4.8% higher than in March of last year. Over the past 12 months, there were high gains in the private construction of new multifamily residential housing (53%) and single-family residential housing (38%). The decrease from February to March was due to decreases in both private (-0.6%) and public (-4.1%) construction.

In March, the annualized rate of housing starts reached about 1.0 million, seasonally adjusted, its highest rate since June 2008.

Home Sales, House Prices, Interest Rates

Existing home sales decreased in March due to limited inventories, according to the National Association of Realtors (NAR). The annualized rate of existing home sales decreased 0.6% to 4.92 million from 4.95 million in February. In March, the inventory of existing homes for sale totaled 1.93 million, which is down 16.8% from March of last year. There was a 4.7 month supply of homes in March compared to a 6.2 month supply in March of last year. Though inventories are lower, market demand for existing homes has increased, according to NAR. The national median price for existing homes rose to $184,300 and was higher than a year earlier for the 13th consecutive month.

New home sales increased in March, according to the U.S. Census Bureau. The annualized rate of new single-family home sales increased 1.5% in March, seasonally adjusted. The annualized rate of 417,000 single-family homes is 18.5% above the estimated level in March of last year. The inventory of new homes for sale is fairly low. The median sales price of new homes was $247,000, 3% higher than in March of last year.

Mortgage interest rates remain low. After increasing from 3.34% at the beginning of the year to 3.57% at the end of March, the average 30-year fixed-rate mortgage interest rate decreased to 3.40% toward the end of April, according to the Freddie Mac weekly survey. Since the series began in 1971, the lowest monthly average rates were recorded in November and December of 2012 at 3.35%.

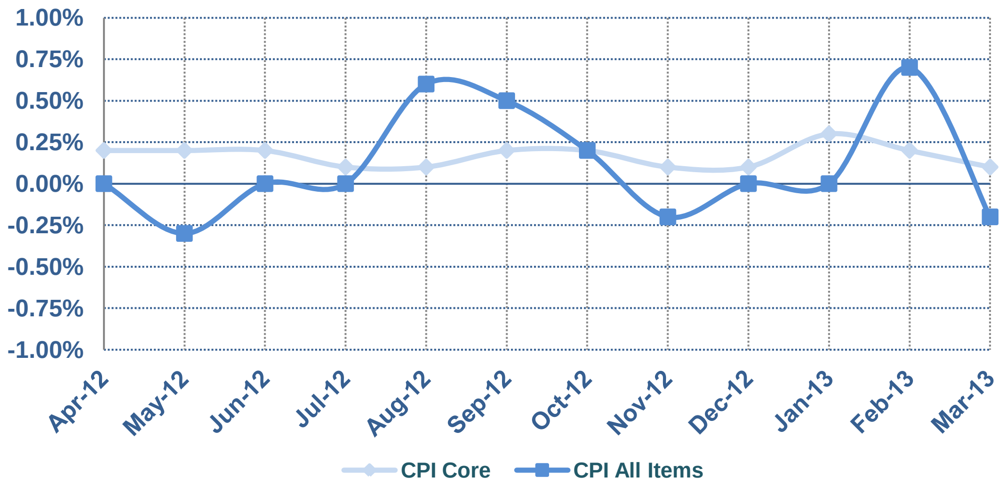
Inflation

Consumer Prices

The consumer price index (CPI) for all items less food and energy (core index) increased 0.1% in March, seasonally adjusted, after increasing 0.2% in February. In both months, the core index increases were due to increases in the prices for shelter, used cars and trucks, and medical care. The all-items CPI decreased 0.2% in March, after increasing 0.7% in

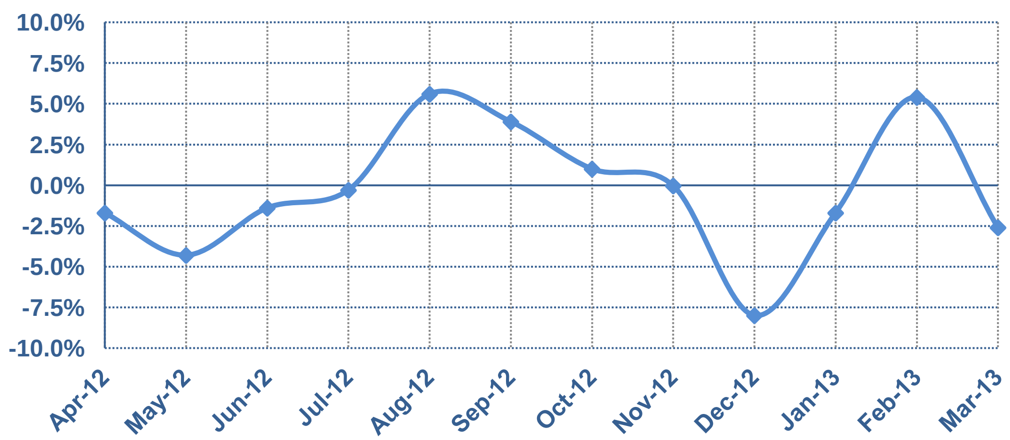
February. Fluctuations in both months were mainly driven by changes in the gasoline prices. The gasoline index increased 9.1% in February and decreased 4.4% in March. Monthly changes in core CPI are typically less volatile than changes to the all-items CPI, which include prices for food and energy products, as shown in the chart below.

Chart 8: Monthly Fluctuations in Core CPI and CPI All Items, Seasonally Adjusted, April 2012 - March 2013



The larger fluctuations in the all-items CPI is mainly due to fluctuations in the energy index, principally changes in gasoline prices. The chart below shows monthly changes in the energy index of the CPI over the past 12 months.

Chart 9: Monthly Fluctuations CPI Energy Index, Seasonally Adjusted, April 2012 - March 2013



In April, nationwide average gasoline prices for regular unleaded fuel decreased from an average $3.65 on April 1 to $3.52 on April 29, based on the U.S. Energy Information Administration's weekly surveys. Average gasoline prices have decreased consistently since February 25, when prices averaged $3.78 per gallon. At the beginning of 2013, the average price per gallon was about $3.30.

Producer Prices

The producer price index (PPI) for finished goods less food and energy (core index) increased 0.2% in March, seasonally adjusted, following the same percentage increase in February and January. The all-items PPI for finished goods decreased 0.6% in March, led by a 3.4% decrease in the energy index. This follows an increase in the all-items PPI in February, which was also largely attributable to energy prices. Over 80% of the decrease in the energy index in March was due to a 6.8% decrease in gasoline prices; there were also decreases in prices for diesel fuel and home heating oil. The core indexes for intermediate and crude goods increased in March by 0.2% and 0.9%, respectively. When food and energy are included, the PPI decreased for intermediate and crude goods by 0.9% and 2.5%, respectively, due to decreases in prices for diesel fuel, jet fuel, gasoline, and crude petroleum.

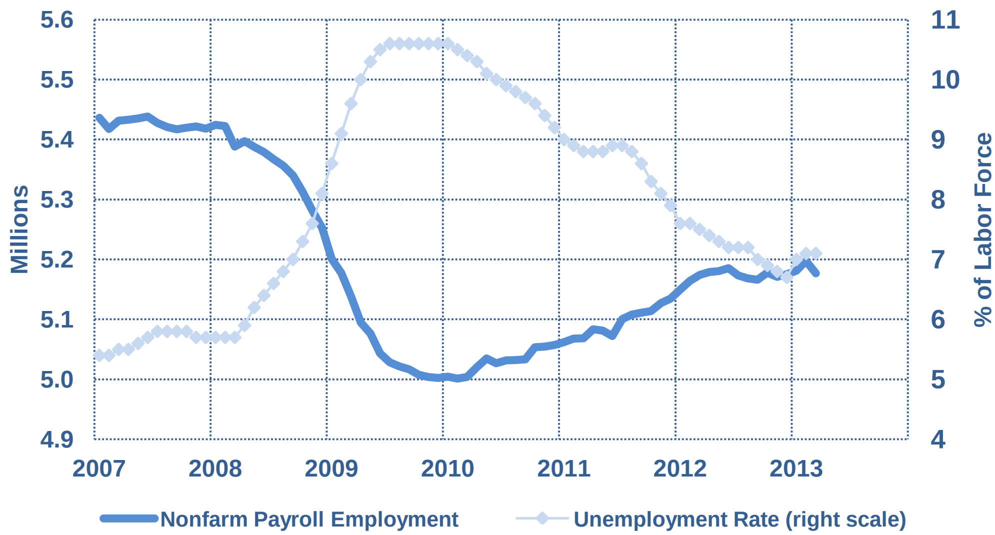
In March, Ohio's nonfarm payroll employment, seasonally adjusted, decreased 20,400 (-0.4%) from February's revised total.

The Ohio Economy

Employment and Unemployment

From February to March, Ohio's nonfarm payroll employment, seasonally adjusted, decreased 20,400 (-0.4%) from February's revised total of 5,197,300 to 5,176,900. Ohio's seasonally adjusted unemployment rate in March remained at February's revised rate of 7.1% of the labor force. Trends in Ohio employment and unemployment are shown in Chart 10 below.

Chart 10: Ohio Employment and Unemployment



Employment growth over the past 12 months has slowed compared with growth over the two prior 12-month periods.

In March, the decrease in employment occurred in all three major employment areas: private service industries (-15,400), goods-producing industries (-1,400), and government (-3,600). The private service sector registered major decreases in leisure and hospitality, professional and business services, and education and health services. The goods-producing sector registered a decrease in construction jobs, which offset smaller gains in manufacturing and mining. The decrease in government employment was due to losses in local governments and the federal government with state government employment fairly level.

Over the past 12 months, nonfarm payroll employment in Ohio is up 2,700 (0.1%) with gains in the private services sector (18,800, 0.5%), particularly in education and health care services, offsetting losses in government (-14,200, -1.9%) and the goods-producing sector (-1,900, - 0.2%). Job losses in the goods-producing sector were led by decreases in construction that offset increases in manufacturing and mining. Employment growth over the past 12 months has slowed compared with growth over the two prior 12-month periods. From March 2011 to March 2012, employment grew by 105,800, or 2.1%, and from March 2010 to March 2011, employment grew by 64,400, or 1.3%.

The number of unemployed workers in the state totaled 406,000, about 19,000 less than in March of last year. The unemployment rate has climbed from 6.7% in December, the lowest in more than four years, as more people have begun seeking jobs, thus entering the labor force.

Personal Income

From 2011 to 2012, personal income in Ohio grew 3.8%, which was above the growth of personal income nationwide at 3.5%; Ohio ranked 14th among other states in personal income growth. However, Ohio's per capita personal income of $39,289 in 2012 remains below the nationwide level of $42,639. In 2012, Ohio ranked 30th among the states in per capita personal income. Ohio's per capita personal income has remained below the national average since 1980. In 2012, personal income in Ohio accounted for 3.4% of total personal income for the nation, a percentage that has remained stable since 2007, after declining since the 1950s.

From 2011 to 2012, Ohio ranked 14th among other states in personal income growth.

Ohio Home Sales

Home sales in Ohio were 12% higher in March than a year earlier, according to the Ohio Association of Realtors, the 21st consecutive month of year-over-year increases in home sales. First quarter (January through March) home sales totaled 24,412 in the state, up 13.5% from 21,515 homes sold in the first quarter of 2012. The average sales price of $125,920 was up 5.7% from the average price in the first quarter of last year.

Manufacturing in Ohio

In April, the Ohio Department of Job and Family Services (ODJFS) released the report *Manufacturing in Ohio: A Post-Recession Employment Outlook*, which provides a comprehensive overview of Ohio's manufacturing sector and projects employment needs in manufacturing over the next ten years.[11] The report notes that in 2011, manufacturing accounted for 16.7% of Ohio's economic activity (compared to 12.3% nationally) and 12.8% of Ohio's labor force (compared to 9.0% nationally). The manufacturing sector also accounted for the largest share (among industry groups) of private wages paid in the state at about 20%. Currently, employment in manufacturing is more heavily concentrated in Ohio's urban areas, northeastern counties, and the I-75 corridor.

According to ODJFS, overall manufacturing employment is projected to decrease between 2010 and 2020 by about 2,840 (0.5%), with projected losses in some subsectors, such as machinery and chemical manufacturing, and projected gains in other subsectors, such as fabricated metal products and transportation equipment. The report also notes that in the manufacturing sector higher shares of jobs are held by older workers (from age 45 to 64) than in Ohio's economy as a whole. Manufacturing therefore will have an increased need for new workers as

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[11] The report is available to view online at the following web site: http://ohiolmi.com/research/publications/Manufacturing_in_Ohio_2013.pdf.

Home sales in the region continue to increase, with particularly strong demand for multifamily units.

older workers retire in the next ten years. However, new technologies and global competition may lessen the need for as many new workers. The report also notes that the newer technologies increase the need for higher-skilled workers.

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.[12] Manufacturing orders overall picked up in the region with the most activity for residential construction, shale gas, and transportation industries; there were decreases in manufacturing orders for defense and commercial building. Manufacturing exports to Pacific Rim countries increased while exports to Europe decreased. Retail sales expanded in the region, mainly for apparel and electronics. Home sales continue to increase, with particularly strong demand for multifamily units. Oil and gas output is expected to increase later this year when new gas processing units become operational.

[12] This Federal Reserve Bank of Cleveland report is contained in the latest Beige Book, a Federal Reserve System publication that summarizes information gathered on or before April 5, 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.