Budget Footnotes

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STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

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STATUS OF THE GRF

HIGHLIGHTS

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

March GRF tax revenue came in about $26 million below the August 2014 estimate released by the Office of Budget and Management. Despite this shortfall, FY 2015 tax revenue was $178.0 million above estimate over the first nine months. GRF uses as a whole were $240.7 million below estimate for the year. It appears likely that the GRF will end the year with a significant positive balance, as anticipated in the executive budget.

The unemployment rate in Ohio remained 5.1% in February, below the national rate of 5.5% that month. State income tax withholding receipts during February and March imply that Ohio wages and salaries are about 6.1% higher than a year ago.

Through March 2015, GRF sources totaled $22.57 billion:

- Revenue from the personal income tax was $114.3 million above estimate;
- Sales and use tax receipts were $33.2 million above estimate.

Through March 2015, GRF uses totaled $24.43 billion:

- Medicaid expenditures were $359.4 million below estimate due to various factors, including lower than expected caseloads for certain eligibility groups;
- Primary and secondary education spending was $187.9 million above estimate, due primarily to timing.

Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of March 2015
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on April 1, 2015)

STATE SOURCES	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$113,458	$117,100	-$3,642	-3.1%
Nonauto Sales and Use	$613,193	$632,900	-$19,707	-3.1%
Total Sales and Use Taxes	**$726,651**	**$750,000**	**-$23,349**	**-3.1%**
Personal Income	$497,889	$519,500	-$21,611	-4.2%
Corporate Franchise	$24,904	$0	$24,904	---
Financial Institution	$35,145	$42,600	-$7,455	-17.5%
Public Utility	$2,104	$1,500	$604	40.3%
Kilowatt-Hour Excise	$30,929	$29,800	$1,129	3.8%
Natural Gas Consumption (MCF)	$115	$0	$115	---
Commercial Activity Tax	$3,335	$2,800	$535	19.1%
Petroleum Activity Tax	$2,492	$200	$2,292	1146.0%
Foreign Insurance	$126,441	$125,300	$1,141	0.9%
Domestic Insurance	$123	$200	-$77	-38.6%
Business and Property	$0	$0	$0	---
Cigarette	$61,932	$64,700	-$2,768	-4.3%
Alcoholic Beverage	$3,970	$5,200	-$1,230	-23.7%
Liquor Gallonage	$3,152	$3,100	$52	1.7%
Estate	$49	$0	$49	---
Total Tax Revenue	**$1,519,230**	**$1,544,900**	**-$25,670**	**-1.7%**
NONTAX REVENUE				
Earnings on Investments	$3	$0	$3	---
Licenses and Fees	$35,359	$29,894	$5,465	18.3%
Other Revenue	$1,319	$2,051	-$731	-35.7%
Total Nontax Revenue	**$36,681**	**$31,945**	**$4,736**	**14.8%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$4,509	$200	$4,309	2154.3%
Total Transfers In	**$4,509**	**$200**	**$4,309**	**2154.3%**
TOTAL STATE SOURCES	**$1,560,419**	**$1,577,045**	**-$16,626**	**-1.1%**
Federal Grants	$768,856	$772,878	-$4,022	-0.5%
TOTAL GRF SOURCES	**$2,329,275**	**$2,349,923**	**-$20,648**	**-0.9%**

*Estimates of the Office of Budget and Management as of August 2014.
Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Actual vs. Estimate
FY 2015 as of March 31, 2015
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on April 1, 2015)

STATE SOURCES	Actual	Estimate*	Variance	Percent	FY 2014	Percent Change
TAX REVENUE						
Auto Sales	$942,787	$908,500	$34,287	3.8%	$862,116	9.4%
Nonauto Sales and Use	$6,402,980	$6,404,100	-$1,120	0.0%	$5,858,369	9.3%
Total Sales and Use Taxes	**$7,345,768**	**$7,312,600**	**$33,168**	**0.5%**	**$6,720,485**	**9.3%**
Personal Income	$5,936,561	$5,822,300	$114,261	2.0%	$5,866,951	1.2%
Corporate Franchise	$218	$0	$218	---	-$5,804	103.8%
Financial Institution	$97,067	$129,100	-$32,033	-24.8%	$124,611	-22.1%
Public Utility	$62,738	$73,200	-$10,462	-14.3%	$72,370	-13.3%
Kilowatt-Hour Excise	$229,109	$235,500	-$6,391	-2.7%	$236,169	-3.0%
Natural Gas Consumption (MCF)	$36,524	$28,400	$8,124	28.6%	$36,680	-0.4%
Commercial Activity Tax	$647,395	$578,000	$69,395	12.0%	$592,359	9.3%
Petroleum Activity Tax	$4,436	$13,500	-$9,064	-67.1%	$0	---
Foreign Insurance	$299,221	$304,600	-$5,379	-1.8%	$304,431	-1.7%
Domestic Insurance	$7,537	$2,000	$5,537	276.9%	$153	4828.8%
Business and Property	$38	$0	$38	---	$476	-92.1%
Cigarette	$543,890	$538,400	$5,490	1.0%	$554,989	-2.0%
Alcoholic Beverage	$41,320	$40,500	$820	2.0%	$41,256	0.2%
Liquor Gallonage	$32,539	$30,700	$1,839	6.0%	$31,333	3.9%
Estate	$2,406	$0	$2,406	---	$30,739	-92.2%
Total Tax Revenue	**$15,286,767**	**$15,108,800**	**$177,967**	**1.2%**	**$14,607,197**	**4.7%**
NONTAX REVENUE						
Earnings on Investments	$11,416	$9,500	$1,916	20.2%	$8,447	35.2%
Licenses and Fees	$52,938	$54,268	-$1,330	-2.5%	$48,372	9.4%
Other Revenue	$24,636	$27,289	-$2,654	-9.7%	$22,621	8.9%
Total Nontax Revenue	**$88,990**	**$91,057**	**-$2,068**	**-2.3%**	**$79,440**	**12.0%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$22,283	$6,800	$15,483	227.7%	$52,730	-57.7%
Total Transfers In	**$22,283**	**$6,800**	**$15,483**	**227.7%**	**$52,730**	**-57.7%**
TOTAL STATE SOURCES	**$15,398,040**	**$15,206,657**	**$191,382**	**1.3%**	**$14,739,368**	**4.5%**
Federal Grants	$7,167,352	$7,389,687	-$222,335	-3.0%	$6,835,804	4.9%
TOTAL GRF SOURCES	**$22,565,392**	**$22,596,344**	**-$30,953**	**-0.1%**	**$21,575,172**	**4.6%**

*Estimates of the Office of Budget and Management as of August 2014.
Detail may not sum to total due to rounding.

REVENUES

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

Overview

FY 2015 GRF sources were $31.0 million below estimate.

With one quarter left in the current year, FY 2015 total GRF sources[1] of $22.57 billion were $31.0 million below the estimate released by the Office of Budget and Management (OBM) in August 2014, due to a negative variance of $222.3 million in federal grants.[2] That shortfall was partially offset by a positive variance of $178.0 million for GRF tax sources. For the month of March 2015, however, both GRF tax revenues and federal grants were below estimates by $25.7 million and $4.0 million, respectively, and total monthly GRF sources of $2.33 billion were $20.6 million below projected revenue. Tables 1 and 2 show GRF sources for the month of March and for FY 2015 through March, respectively.

FY 2015 GRF tax receipts were $178.0 million above estimate.

Excluding the commercial activity tax (CAT) which was $0.5 million above estimate, the most important GRF tax sources fell below anticipated revenue in March 2015. The shortfalls were $23.3 million for the sales and use tax, $21.6 million for the personal income tax, and $2.8 million for the cigarette tax. Also, the second tax payment for the financial institutions tax (FIT), due March 31, was $7.5 million below estimate, which increased that tax source's year-to-date negative variance to $32.0 million, from $24.6 million at the end of February. On the other hand, receipts from the corporate franchise tax (CFT) were $24.9 million in March when no revenue was expected, and that performance erased a fiscal year negative variance of $24.7 million through February.[3] Additionally, the petroleum activity tax (PAT), the kilowatt-hour tax, and the foreign insurance tax were ahead of estimates, respectively, by $2.3 million, and $1.1 million each for the latter two taxes. Other taxes experienced smaller variances. Regarding nontax GRF sources, nontax revenue and transfers in had positive variances of $4.7 million and $4.3 million, respectively.

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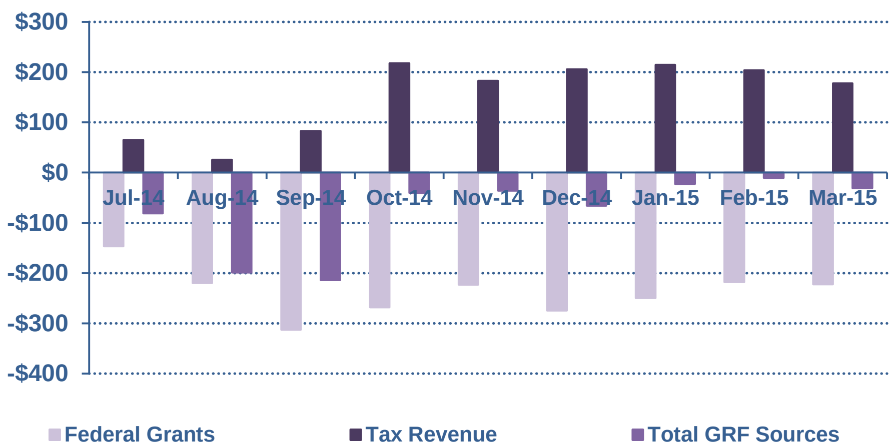
[1] GRF sources mainly consist of state-source receipts but also include certain federal grants. State-source receipts include tax revenue, nontax revenue, and transfers in.

[2] GRF revenue from federal grants is associated primarily with Medicaid spending. Through March, year-to-date GRF Medicaid expenditures were $359.4 million below estimate.

[3] H.B. 510 of the 129th General Assembly eliminated the CFT at the end of 2013. However, prior tax return activity may result in additional payments or refunds in subsequent years. CFT revenue in March was from an audit payment, according to the Department of Taxation.

Chart 1 below shows FY 2015 cumulative variances against estimates for federal grants, tax revenue, and total GRF sources. Tax receipts were ahead of projections, but both federal grants and total GRF sources were below estimates for the fiscal year to date. As seen in Table 2, the personal income tax had the largest positive year-to-date variance at $114.3 million, followed by the CAT ($69.4 million), the auto sales and use tax ($34.3 million), the natural gas consumption (MCF) tax ($8.1 million), the cigarette tax and the domestic insurance tax ($5.5 million each), and the estate tax ($2.4 million). On the other hand, the FIT had the largest negative variance, $32.0 million. Shortfalls were also recorded for the public utility tax ($10.5 million), the PAT ($9.1 million), the kilowatt-hour tax ($6.4 million), and the foreign insurance tax ($5.4 million); the foreign insurance tax typically is debited for refunds during the final quarter of the year, implying that that tax may end the year below estimate.

Chart 1: Cumulative Variances of GRF Sources in FY 2015
(Variance from Estimates, in millions)



FY 2015 GRF sources were $990.2 million above GRF sources in FY 2014.

Compared to the corresponding period last year, FY 2015 year-to-date GRF sources grew by $990.2 million (Table 2). Tax receipts increased by $679.6 million, federal grants grew by $331.5 million, and nontax revenues were higher by $9.6 million, but transfers in fell $30.4 million compared to revenue in this category in the corresponding period in FY 2014. Among the most important tax sources, revenue from the sales and use tax, the personal income tax, and the CAT increased $625.3 million, $69.6 million, and $55.0 million, respectively. The increase in sales and use tax receipts over FY 2014 reflects, in part, the increase in the tax rate from 5.5% to 5.75% in September 2013, enacted in H.B. 59. The increases in the other two taxes reflect a generally improving economy over last year, with growth in income tax revenue partially offset by a reduction in tax rates.

Personal Income Tax

The personal income tax provided $497.9 million in revenue to the GRF in March 2015. That amount was $21.6 million (4.2%) below estimate, but $115.4 million (30.2%) above revenue in March 2014. This growth compared to a year ago in revenue for the month was due to lower income tax refunds, but also strong growth in withholding receipts this month. 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,[4] trust payments, payments associated with annual returns, and miscellaneous payments.

FY 2015 income tax receipts were $114.3 million above estimate.

In March 2015, payments with annual returns and employer withholding recorded positive variances of $13.9 million and $8.8 million, respectively. However, those positive variances were partially offset by shortfalls of $2.5 million in miscellaneous payments and $1.6 million in quarterly estimated payments. In addition, taxpayer refunds were $41.0 million more than anticipated in March. Through March, FY 2015 GRF receipts from the personal income tax were $5.94 billion, which was $114.3 million (2.0%) above estimate. The table below summarizes year-to-date FY 2015 income tax revenue variances from estimates and annual changes by component.

FY 2015 withholding tax receipts were above estimate by $4.4 million.

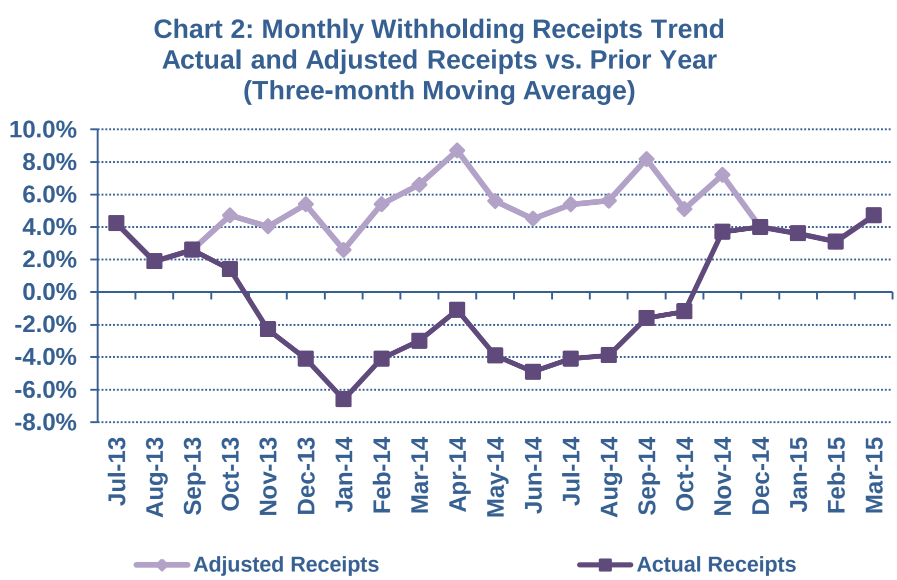
FY 2015 Year-to-Date Income Tax Revenue Variances and Changes by Component

Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2014	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	$4.4	0.1%	$131.0	2.2%
Quarterly Estimated Payments	$85.3	12.8%	-$111.4	-12.9%
Trust Payments	-$2.3	-8.0%	$0.0	0.1%
Annual Return Payments	$13.9	7.1%	-$52.5	-20.1%
Miscellaneous Payments	-$14.3	-15.5%	-$10.2	-11.6%
Gross Collections	$86.9	1.2%	-$43.1	-0.6%
Less Refunds	-$29.1	-2.9%	-$120.5	-11.0%
Less LGF Distribution	$1.8	0.7%	$7.8	3.0%
Income Tax Revenue	$114.3	2.0%	$69.6	1.2%

[4] 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.

As seen in the table above, and continuing trends established in previous months, the positive variance of the personal income tax was mostly due to better than anticipated quarterly estimated payments ($85.3 million), less than expected refunds ($29.1 million), and higher than anticipated payments with annual returns ($13.9 million). Withholding receipts were $4.4 million above estimate through March, but miscellaneous receipts were short of estimates by $14.3 million. For the fiscal year, GRF receipts from the personal income tax were $69.6 million (1.2%) above receipts through March in FY 2014. Employer withholdings increased $131.0 million this fiscal year when compared to last, but quarterly estimated payments fell $111.4 million and annual return payments by $52.5 million, resulting in a reduction of $43.1 million in gross collections. However, taxpayer refunds were $120.5 million less this year than in FY 2014 through March. Chart 2 illustrates the trend in employer withholding receipts since July 2013, and also includes withholding receipts adjusted for a 9% reduction in withholding rates. Payroll growth, after slowing at the end of 2014, has turned up and averaged about 4.7% in the last quarter.

FY 2015 GRF income tax receipts were $69.6 million above FY 2014 revenue.



Results of the individual income tax filing season in April and receipts from the first and second quarterly estimated payments (due in April and June, respectively) will determine the extent of the fiscal year's performance of this tax source. Generally, fourth-quarter personal income tax receipts may be as high as a third of total fiscal year receipts.

Sales and Use Tax

FY 2015 sales and use tax receipts were $33.2 million above estimate.

GRF receipts from the sales and use tax of $726.7 million in March 2015 were $23.3 million (3.1%) below estimate, but $0.6 million (0.1%) above receipts in March 2014. For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[5] generally arise from the sale of motor vehicles, but auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax instead of the auto tax.

For the fiscal year to date, GRF sales and use tax receipts totaled $7.35 billion, $33.2 million (0.5%) above estimate, with the auto sales and use tax above, and the nonauto sales and use tax below, estimates. Sales and use tax receipts were also $625.3 million (9.3%) above receipts in the corresponding period in FY 2014, due, in part, to the state sales tax rate increase from 5.5% to 5.75%.

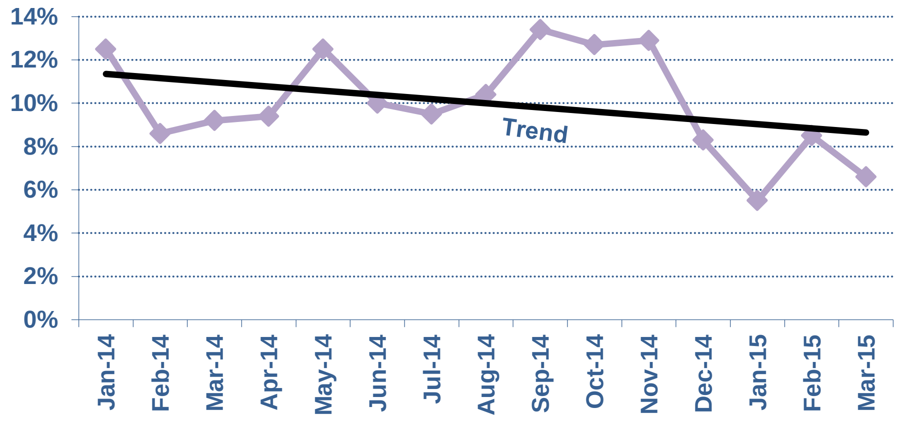
Nonauto Sales and Use Tax

FY 2015 nonauto sales and use tax receipts were $1.1 million below estimate.

March GRF receipts from the nonauto sales and use tax of $613.2 million were $19.7 million (3.1%) below estimate, and also $1.3 million (0.2%) below March 2014 receipts. The nonauto sales and use tax concluded in March a dismal quarter in which this GRF source was $42.2 million (2.2%) below estimate and erased a positive variance of $41.1 million through December. For the fiscal year to date, total GRF receipts of $6.40 billion were $1.1 million (0.0%) below estimate, but were $544.6 million (9.3%) above FY 2014 receipts through March. Chart 3 shows increases in nonauto sales and use tax monthly receipts against prior year receipts in the same month. For the fiscal year as a whole, growth of the nonauto sales and use tax taxable base was about 7.6% compared to the corresponding period in FY 2014, though third-quarter growth was slower, at about 5.7%.

[5] 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.

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

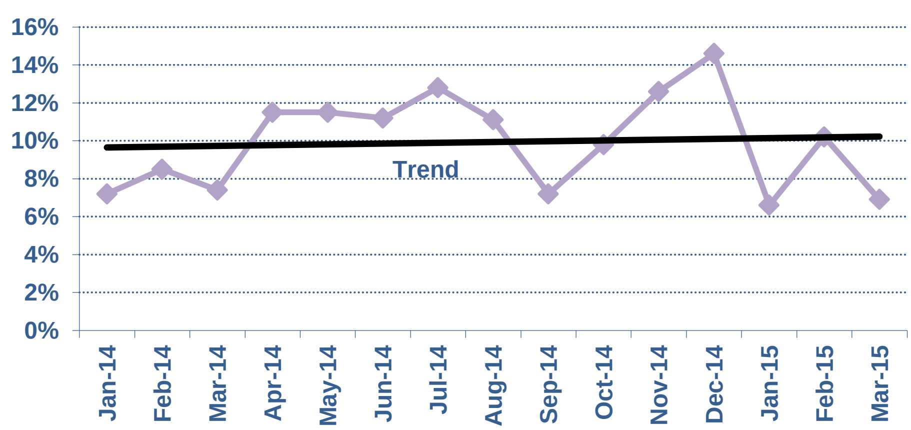


Auto Sales and Use Tax

GRF revenue of $113.5 million from the auto sales and use tax in March was $3.6 million (3.1%) below estimate, but $1.9 million (1.7%) above receipts in March 2014. Through March, FY 2015 GRF revenue from the auto sales and use tax totaled $942.8 million, $34.3 million (3.8%) above estimate, and $80.7 million (9.4%) above receipts in the corresponding period in FY 2014. Chart 4 below compares FY 2015 monthly auto sales and use tax receipts with year-ago receipts in the same period. Though third-quarter growth in auto sales and use tax receipts fell to 6.0% compared to the corresponding period in FY 2014, for the fiscal year as a whole, the auto sales and use tax taxable base grew about 8.1%, compared to last year through March.

FY 2015 auto sales and use tax receipts were $34.3 million above estimate.

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



Nationwide light vehicle sales bounced back vigorously in March 2015, to 17.2 million units on a seasonally adjusted annual rate, up from 16.2 million units in February. The March sales pace was about 4% higher than the March 2014 pace, and quarterly sales were up 6% from the first quarter in 2014. First-quarter sales in 2015 averaged 16.6 million units, which was somewhat weaker than the pace of 16.7 million units recorded in the second half of 2014, but still considered healthy. Some portion of the trend in tax revenues likely reflects that Ohioans are participating in a nationwide trend of shifting purchases toward sport utility vehicles and light trucks (from cars) in response to lower gasoline prices.

FY 2015 GRF CAT receipts were $69.4 million above estimate.

Commercial Activity and Petroleum Activity Taxes

GRF receipts from the CAT were $3.3 million in March. This revenue was $0.5 million (19.1%) above estimate, and was $3.3 million higher than receipts in March 2014. Through March, FY 2015 CAT revenues to the GRF totaled $647.4 million, $69.4 million (12.0%) above estimate, and they were also $55.0 million (9.3%) above receipts in the corresponding period in FY 2014.

Beginning July 1, 2014, the CAT as applied to receipts from the sale or exchange of motor fuel was replaced by the PAT, which has a rate of 0.65% on a motor fuel supplier's adjusted gross receipts. OBM estimated GRF revenue of $20.0 million for the PAT in FY 2015, with $13.5 million of that total in the first three quarters. The GRF received initial revenue of $1.9 million in December 2014, and another $2.5 million in March, for a total of $4.4 million for the fiscal year to date; thus, the shortfall for this GRF source was $9.1 million for the fiscal year. The shortfall is presumably due to the sharp decrease in oil prices during this fiscal year.

FY 2015 cigarette tax receipts were $5.5 million above estimate.

Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax of $61.9 million in March 2015 were $2.8 million (4.3%) below estimate, and $2.2 million (3.4%) below receipts in the same month in FY 2014. Through March, receipts of $543.9 million in FY 2015 were $5.5 million (1.0%) above estimates. Receipts from cigarette sales were $497.1 million, and sales of other tobacco products (OTP) provided $46.8 million. Total receipts this year declined $11.1 million (2.0%) from the corresponding period in FY 2014. The decrease was attributable to sales of cigarettes, tax receipts from which declined $15.7 million. An increase of $4.6 million in receipts from OTP partially offset that decline. Generally, cigarette tax receipts experience a downward trend, while revenue from OTP is closely tied to price increases of those products.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of March 2015
($ in thousands)
(Actual based on OAKS reports run April 6, 2015)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary and Secondary Education	$668,443	$551,996	$116,447	21.1%
Higher Education	$179,171	$171,050	$8,120	4.7%
Other Education	$4,799	$2,306	$2,494	108.2%
Total Education	$852,413	$725,351	$127,062	17.5%
Medicaid	$1,262,976	$1,264,913	-$1,937	-0.2%
Health and Human Services	$91,377	$76,338	$15,039	19.7%
Total Welfare and Human Services	$1,354,352	$1,341,250	$13,102	1.0%
Justice and Public Protection	$122,137	$131,459	-$9,322	-7.1%
General Government	$22,195	$24,511	-$2,316	-9.4%
Total Government Operations	$144,332	$155,970	-$11,637	-7.5%
Property Tax Reimbursements	$28,270	$20,156	$8,114	40.3%
Capital Outlay	$0	$0	$0	---
Debt Service	$163,763	$164,355	-$592	-0.4%
Total Other Expenditures	$192,032	$184,511	$7,522	4.1%
Total Program Expenditures	**$2,543,130**	**$2,407,082**	**$136,048**	**5.7%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$5,000	$8,146	-$3,146	-38.6%
Total Transfers Out	$5,000	$8,146	-$3,146	-38.6%
TOTAL GRF USES	**$2,548,130**	**$2,415,229**	**$132,902**	**5.5%**

*August 2014 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 2015 as of March 31, 2015
($ in thousands)
(Actual based on OAKS reports run April 6, 2015)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2014**	**Percent Change**
Primary and Secondary Education	$5,651,344	$5,463,428	$187,916	3.4%	$5,263,794	7.4%
Higher Education	$1,618,779	$1,618,032	$747	0.0%	$1,572,292	3.0%
Other Education	$45,695	$45,019	$676	1.5%	$42,249	8.2%
Total Education	$7,315,818	$7,126,479	$189,338	2.7%	$6,878,335	6.4%
Medicaid	$11,720,518	$12,079,967	-$359,449	-3.0%	$10,710,286	9.4%
Health and Human Services	$1,028,250	$1,038,238	-$9,988	-1.0%	$960,752	7.0%
Total Welfare and Human Services	$12,748,768	$13,118,205	-$369,437	-2.8%	$11,671,039	9.2%
Justice and Public Protection	$1,420,933	$1,452,203	-$31,271	-2.2%	$1,397,534	1.7%
General Government	$263,027	$277,107	-$14,080	-5.1%	$269,712	-2.5%
Total Government Operations	$1,683,960	$1,729,311	-$45,351	-2.6%	$1,667,246	1.0%
Property Tax Reimbursements	$936,404	$933,507	$2,896	0.3%	$914,665	2.4%
Capital Outlay	$0	$0	$0	---	$0	---
Debt Service	$1,157,118	$1,173,740	-$16,622	-1.4%	$1,090,222	6.1%
Total Other Expenditures	$2,093,521	$2,107,248	-$13,726	-0.7%	$2,004,888	4.4%
Total Program Expenditures	**$23,842,067**	**$24,081,243**	**-$239,176**	**-1.0%**	**$22,221,507**	**7.3%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$995,930	-100.0%
Other Transfers Out	$587,835	$589,380	-$1,545	-0.3%	$216,476	171.5%
Total Transfers Out	$587,835	$589,380	-$1,545	-0.3%	$1,212,407	-51.5%
TOTAL GRF USES	**$24,429,902**	**$24,670,623**	**-$240,721**	**-1.0%**	**$23,433,914**	**4.3%**

*August 2014 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

Table 5: Medicaid Expenditures by Department
Actual vs. Estimate
($ in thousands)
(Actuals based on OAKS report run on April 6, 2015)

	Month of March 2015				Year to Date Through March 2015			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid	**$1,760,290**	**$2,136,979**	**-$376,689**	**-17.6%**	**$15,379,706**	**$15,862,505**	**-$482,799**	**-3.0%**
GRF	$1,220,647	$1,219,498	$1,149	0.1%	$11,323,919	$11,662,084	-$338,165	-2.9%
Non-GRF	$539,643	$917,480	-$377,838	-41.2%	$4,055,787	$4,200,420	-$144,633	-3.4%
Developmental Disabilities	**$224,103**	**$237,620**	**-$13,517**	**-5.7%**	**$1,726,573**	**$1,833,797**	**-$107,224**	**-5.8%**
GRF	$35,345	$38,991	-$3,646	-9.3%	$339,191	$349,306	-$10,115	-2.9%
Non-GRF	$188,758	$198,630	-$9,872	-5.0%	$1,387,383	$1,484,491	-$97,108	-6.5%
Job and Family Services	**$17,475**	**$14,360**	**$3,115**	**21.7%**	**$133,703**	**$116,704**	**$16,998**	**14.6%**
GRF	$6,436	$5,779	$656	11.4%	$51,138	$61,746	-$10,608	-17.2%
Non-GRF	$11,039	$8,581	$2,458	28.7%	$82,565	$54,958	$27,606	50.2%
Aging	**$440**	**$661**	**-$221**	**-33.5%**	**$4,532**	**$6,630**	**-$2,098**	**-31.6%**
GRF	$289	$391	-$102	-26.1%	$2,593	$2,604	-$11	-0.4%
Non-GRF	$151	$271	-$119	-44.1%	$1,939	$4,026	-$2,087	-51.8%
Health	**$3,308**	**$2,822**	**$486**	**17.2%**	**$18,590**	**$19,538**	**-$948**	**-4.9%**
GRF	$249	$254	-$5	-2.0%	$2,741	$2,490	$251	10.1%
Non-GRF	$3,059	$2,568	$491	19.1%	$15,849	$17,048	-$1,199	-7.0%
Mental Health and Addiction	**$2,003**	**$355**	**$1,649**	**464.8%**	**$5,277**	**$4,601**	**$677**	**14.7%**
GRF	$11	$0	$11	N/A	$937	$1,737	-$799	-46.0%
Non-GRF	$1,993	$355	$1,638	461.8%	$4,340	$2,864	$1,476	51.5%
Total GRF	**$1,262,976**	**$1,264,913**	**-$1,937**	**-0.2%**	**$11,720,518**	**$12,079,967**	**-$359,449**	**-3.0%**
Total Non-GRF	**$744,643**	**$1,127,884**	**-$383,241**	**-34.0%**	**$5,547,863**	**$5,763,807**	**-$215,945**	**-3.7%**
Total All Funds	**$2,007,619**	**$2,392,797**	**-$385,178**	**-16.1%**	**$17,268,381**	**$17,843,774**	**-$575,393**	**-3.2%**

*Estimates of the Office of Budget and Management as of September 2014.
Detail may not sum to total due to rounding.

Table 6: All-Funds Medicaid Expenditures by Payment Category
Actual vs. Estimate
($ in thousands)
(Actuals based on OAKS report run on April 6, 2015)

	March				Year to Date Through March			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	$878,789	$922,679	-$43,890	-4.8%	$7,873,570	$8,135,159	-$261,590	-3.2%
Nursing Facilities	$104,743	$78,627	$26,116	33.2%	$1,060,939	$866,103	$194,835	22.5%
DDD Services	$215,384	$233,085	-$17,701	-7.6%	$1,676,687	$1,780,371	-$103,684	-5.8%
Hospitals	$87,334	$523,112	-$435,778	-83.3%	$623,148	$1,305,136	-$681,988	-52.3%
Behavioral Health	$73,472	$85,597	-$12,125	-14.2%	$560,296	$713,032	-$152,736	-21.4%
Administration	$65,933	$84,171	-$18,238	-21.7%	$656,876	$773,596	-$116,720	-15.1%
Aging Waivers	$27,521	$17,648	$9,873	55.9%	$214,112	$201,764	$12,348	6.1%
Prescription Drugs	$39,649	$44,931	-$5,282	-11.8%	$299,299	$356,036	-$56,737	-15.9%
Medicare Buy-In	$36,341	$41,794	-$5,453	-13.0%	$327,042	$359,031	-$31,989	-8.9%
Physicians	$21,773	$30,128	-$8,355	-27.7%	$424,902	$483,261	-$58,359	-12.1%
Medicare Part D	$24,198	$25,541	-$1,343	-5.3%	$217,239	$223,937	-$6,698	-3.0%
Home Care Waivers	$14,907	$12,471	$2,436	19.5%	$122,397	$107,579	$14,818	13.8%
ACA Expansion	$323,382	$175,592	$147,790	84.2%	$2,479,872	$1,545,190	$934,681	60.5%
All Other	$94,191	$117,421	-$23,230	-19.8%	$732,003	$993,578	-$261,575	-26.3%
Total All Funds	**$2,007,619**	**$2,392,797**	**-$385,178**	**-16.1%**	**$17,268,381**	**$17,843,774**	**-$575,393**	**-3.2%**

* Estimates of the Office of Budget and Management as of September 2014.
Detail may not sum to total due to rounding.

EXPENDITURES

– Russ Keller, Senior Economist, 614-644-1751

– Gregory Craig, Economist, 614-728-3218

Overview

Tables 3 and 4 show GRF uses for the month of March and for FY 2015 through March, respectively. GRF uses mainly consist of program expenditures but also include transfers out. Through March, FY 2015 program expenditures were $23.84 billion. These expenditures were $239.2 million below the estimate released by OBM in August 2014. During the same period, GRF transfers out were $587.8 million, $1.5 million below estimate. GRF uses as a whole totaled $24.43 billion, $240.7 million below their year-to-date estimate.

For the first three quarters of FY 2015, GRF uses were $240.7 million below estimate.

The four program categories that accounted for over 90% of the variances in total GRF uses are: Medicaid, Primary and Secondary Education, Justice and Public Protection, and Debt Service. GRF Medicaid expenditures were $359.4 million below their year-to-date estimate. Justice and Public Protection and Debt Service expenditures were also below their year-to-date estimates by $31.3 million and $16.6 million, respectively. Primary and Secondary Education, on the other hand, posted a positive year-to-date variance of $187.9 million, due largely to timing. The variances in these four program categories are briefly discussed below.

Medicaid

Medicaid is mainly funded by the GRF, but is also supported by various non-GRF funds. For the first three quarters of FY 2015, GRF Medicaid expenditures totaled $11.72 billion, which was $359.4 million (3.0%) below estimate. Non-GRF Medicaid expenditures totaled $5.55 billion, $215.9 million (3.7%) below estimate. Across all funds, Medicaid expenditures totaled $17.27 billion, $575.4 million (3.2%) below their year-to-date estimate. Medicaid is a joint federal-state program. The federal and state shares of Medicaid expenditures are about 64% and 36%, respectively. Both GRF and non-GRF Medicaid expenditures contain federal and state moneys.

Year-to-date GRF and all-funds Medicaid expenditures were below estimates by $359.4 million and $575.4 million, respectively.

The Ohio Department of Medicaid (ODM) is primarily responsible for administering Medicaid, with the assistance of five other state agencies – Developmental Disabilities, Job and Family Services, Aging, Health, and Mental Health and Addiction Services. Table 5 details the GRF and non-GRF portions of Medicaid expenditures from each of the six agencies that take part in administering Ohio Medicaid. As seen from the table, ODM, the largest agency within this program category, also had the largest year-to-date variance. For the month of March, ODM's GRF Medicaid expenditures were $1.1 million (0.1%) above estimate, which slightly reduced the negative year-to-date variance in GRF Medicaid expenditures to $338.2 million (2.9%), while its non-GRF Medicaid expenditures were $377.8 million (41.2%) below estimate, which changed the year-to-date variance in non-GRF Medicaid expenditures from a positive $233.2 million (7.1%) at the end of February to a negative $144.6 million (3.4%) at the end of March. Across all funds, ODM's Medicaid expenditures totaled $15.38 billion during the first three quarters of FY 2015, which was $482.8 million (3.0%) below estimate. GRF and non-GRF Medicaid expenditures from the Department of Developmental Disabilities (DDD), the second largest agency within this program category, were $10.1 million (2.9%) and $97.1 million (6.5%), respectively, below their year-to-date estimates. Together, ODM and DDD account for about 99% of the Medicaid expenditure total.

Table 6 details all-funds Medicaid expenditures by payment category. As seen from the table, Hospitals had the largest negative year-to-date variance of $682.0 million (52.3%), followed by Managed Care ($261.6 million, 3.2%), All Other ($261.6 million, 26.3%), Behavioral Health ($152.7 million, 21.4%), Administration ($116.7 million, 15.1%), and DDD Services ($103.7 million, 5.8%).

The majority ($435.8 million or 63.9%) of the negative year-to-date variance in the Hospitals payment category occurred in the month of March. This was mainly due to later than expected payments to hospitals under the upper payment limit and hospital care assurance program. The estimate for the month of March assumes payments totaling $409.7 million from these two programs. Lower than anticipated Aged, Blind, and Disabled caseloads also contributed to the negative year-to-date variance in the Hospitals category.

The negative variance in Managed Care was due in part to lower than expected enrollment in the MyCare Ohio program, which is a three-year pilot program that provides managed care services to individuals covered by Medicaid and Medicare. The negative variance in All Other was due in large part to various budgeted initiatives which either were replaced by Medicaid expansion (i.e., the Metro Health Medicaid waiver in Cuyahoga County) or have not yet been implemented. Lower than expected expenditures on home health, private duty nurses, and hospice care also contributed to the negative variance in this category. Finally, the negative variance in Behavioral Health was largely due to the canceling of phase two of the planned expansion of health homes throughout the state.

The ACA Expansion and Nursing Facilities were the two payment categories with significant positive year-to-date variances that substantially offset the negative variances in other categories. The ACA Expansion category contains expenditures for individuals who became eligible for coverage on January 1, 2014, through the federal Patient Protection and Affordable Care Act (ACA). Through March, all-funds expenditures for ACA Expansion totaled $2.48 billion, $934.7 million (60.5%) above estimate. This positive variance was due to higher than expected caseloads and per person costs. For the first nine months of FY 2015, all-funds expenditures for Nursing Facilities were $1.06 billion, $194.8 million (22.5%) above estimate. This positive variance was due largely to lower than expected enrollment in MyCare Ohio. As indicated before, MyCare Ohio is a three-year pilot program that provides managed care services to individuals covered by Medicaid and Medicare. These individuals are otherwise generally served by nursing facilities.

Through March, all-funds expenditures for ACA Expansion were $934.7 million above estimate.

Justice and Public Protection

GRF expenditures from the Justice and Public Protection program category were $122.1 million for the month of March, $9.3 million (7.1%) below estimate. Through March, this category's expenditures totaled $1.42 billion, $31.3 million (2.2%) below estimate. The majority of this negative year-to-date variance occurred in the Department of Youth Services (DYS, $12.6 million) and the Department of Rehabilitation and Correction (DRC, $12.5 million).

Expenditures from item 470401, RECLAIM Ohio, the largest item within the DYS budget, were $11.4 million below their year-to-date estimate. This item funds a variety of services and activities associated with institutional operations, juvenile court subsidies, community programs, and central office operations.

Within the DRC budget, expenditures from item 505321, Institution Medical Services, was $26.5 million below their year-to-date estimate. This item is used to provide needed health care services to inmates in the state's prison system. Year-to-date expenditures from DRC's main operating expense item 501321, Institutional Operations, on the other hand, was $12.3 million above estimate, which partially offset the negative year-to-date variance in item 505321.

Debt Service

GRF debt service expenditures were $163.8 million in March, $592,000 (0.4%) below estimate. Through March, FY 2015 GRF debt service expenditures totaled $1.16 billion, $16.6 million (1.4%) below estimate. Year-to-date debt service payments from the Public Works Commission (PWC) were $15.3 million below estimate. General obligation bonds issued for the program administered by PWC are backed by the full faith and credit of the state. The state is obligated to fully fund any debt service payments required by those bonds

Due primarily to timing, Primary and Secondary Education was $187.9 million above the year-to-date estimate.

Primary and Secondary Education

GRF expenditures for Primary and Secondary Education were $668.4 million in March. These expenditures were $116.4 million (21.1%) above estimate, which increased the category's positive year-to-date variance from $71.5 million (1.5%) at the end of February to $187.9 million (3.4%) at the end of March. Timing was the main factor behind these positive variances. Primary and Secondary Education is expected to finish the fiscal year below estimate.

The Ohio Department of Education (ODE) is the only agency that is included in the Primary and Secondary Education program category. March and year-to-date expenditures from item 200550, Foundation Funding, were $114.4 million (23.6%) and $202.8 million (4.4%), respectively, above estimates. Item 200550 is the primary funding source of school foundation payments. This item's positive year-to-date variance was somewhat offset by the net negative variance from all other items within the ODE budget.

School foundation payments are made twice per month for traditional school districts and monthly for joint vocational school districts and community schools. In the second March payment for traditional school districts, ODE incorporated the new annualized full-time equivalent (FTE) enrollment system required by H.B. 59 of the 130th General Assembly for the first time.[6] Prior to this, FY 2014 enrollment data was used in calculating each school's foundation payments. While some districts experience enrollment increases in FY 2015, which increase their foundation payments, other districts experience enrollment decreases, which lower their foundation payments. ODE's standard practice for adjusting over and under

[6] For more information on this new student enrollment count system, please see the article titled "ODE Implements New Student Count Methodology," which can be found in the Issue Updates section of this publication.

payments for schools is to include retroactive payments for the already completed portion of the fiscal year when the new calculations indicate an annual funding increase for a school and to spread any reductions across the remainder of the fiscal year when the new calculations indicate an annual decrease for a school. The second March payments included the retroactive payments for districts with increases in total funding allocations for FY 2015, which resulted in a large positive variance in item 200550. This variance should narrow continually in the remainder of FY 2015.

ISSUE UPDATES

Ohio Awarded $11.9 million in Federal Grant to Provide Housing Assistance to Low Income Ohioans with Disabilities

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

In March 2015, the Ohio Housing Finance Agency (OHFA) was awarded a new federal grant of $11.9 million to support a five-year rental assistance program that expands affordable housing choices for low income Ohioans with disabilities. OHFA will partner with the Ohio Department of Medicaid (ODM) to administer rental assistance contracts for 508 housing units throughout the state. Approximately 60% of the units will be located in Cuyahoga, Franklin, Hamilton, Lucas, Mahoning, Stark, and Summit counties. The remaining 40% will be distributed throughout the state, based on the availability of housing units. OHFA will use the grant funding to provide rental subsidies to eligible property owners. Multifamily developments will be required to reserve up to 25% of units for individuals with disabilities. ODM will work with the Department of Developmental Disabilities and the Department of Mental Health and Addiction Services to create and maintain a referral network to match eligible Ohioans with available housing units. To be eligible, a household must earn less than 30% of the area median income and have at least one family member who suffers from physical disabilities, developmental disabilities, or chronic mental illness.

Ohio is one of the 25 states that were awarded rental assistance grants totaling $150 million from the U.S. Department of Housing and Urban Development (HUD) under a collaborative initiative between HUD and the U.S. Department of Health and Human Services. The initiative aims to prevent individuals with disabilities from being institutionalized or becoming homeless.

Ohio History Connection Awards $130,000 in Local History Grants

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

On Ohio's Statehood Day, March 4, 2015, the Ohio History Connection (OHC) announced awards totaling $130,000 from its History Fund grant program, which is funded through tax check-off donations. Out of 33 applications requesting a total of $388,000 in funding, OHC awarded 13 grants ranging from $2,730 to $17,900 to local Ohio historical societies, organizations, and institutions. Grants must be used for organizational development initiatives, bricks-and-mortar projects, or program and collections activities for projects that illuminate, conserve, or perpetuate Ohio's history.

H.B. 153 of the 129th General Assembly created the income tax check-off program by which Ohio taxpayers can donate a portion of their refunds to OHC. H.B. 112 of the 130th General Assembly further amended the tax check-off program by requiring that the fund (and all tax check-off funds) raise a minimum of $150,000 per year in order to remain on the tax form. In tax year 2014, OHC's tax check-off fund received a little over $170,000 in revenue. Tax contributions to OHC are one of four tax donation opportunities available. Taxpayers can also choose to contribute to the Department of Natural Resources' Nongame and Endangered Wildlife Fund or Natural Areas and Preserves Fund or the Department of Job and Family Services' Military Injury Relief Fund.

ODE Implements New Student Count Methodology

– Jason Phillips, Fiscal Supervisor, 614-466-9753

In late March 2015, the Ohio Department of Education (ODE) made the first set of school foundation aid payments for FY 2015 under the new annualized full-time equivalent (FTE) enrollment system required by H.B. 59 of the 130th General Assembly. In general, the new system counts a student based on the percentage of the normal school day that the student is enrolled using the school calendar reported for the student and the student's enrollment and withdrawal dates.[7] Thus, the new system allows for adjustments in funding reflecting the students transferring into or out of the district throughout the school year. For example, a full-time student who transfers from one district to another one-quarter of the way through the school year will be counted as 0.25 FTE in the first district and 0.75 FTE in the second district.

Annualized enrollment must be reported by school districts by the last day of October, March, and June each year. Nevertheless, ODE reports that school districts are able to continuously update student data as changes in enrollment status occur and a district's payments over the balance of the school year will reflect the adjustments. As a result, a district's calculated state foundation aid for the fiscal year may change from payment to payment as enrollment data is updated.[8] Prior to the late March payments, 2013-2014 school year data under the former student count methodology was used to calculate state foundation payments for FY 2015. The former method counted students based on their attendance during one week in October and calculated the daily average.

[7] Recently, an exception was made to the count methodology for students in grades 9-12 pursuant to H.B. 367 of the 130th General Assembly. A provision in that act requires ODE to consider a student in any of grades 9-12 as one FTE if the student is enrolled in at least five units (credits) per school year. To qualify for inclusion, a credit must count toward high school graduation.

[8] School foundation aid payments are made twice per month for traditional school districts and monthly for joint vocational school districts and community schools.

Ohio Children's Trust Fund Awards $90,000 in Human Trafficking Prevention Grants

– Gregory Craig, Economist, 614-728-3218

On January 29, 2015, the Ohio Children's Trust Fund (OCTF), in collaboration with the Ohio Human Trafficking Task Force, awarded $90,000 in grants to eight organizations across the state to develop antihuman trafficking prevention programs (see table below). The grants are intended to assist the organizations in developing and implementing human trafficking prevention programs to identify at-risk youth populations and provide them with services to help prevent human trafficking. Funds for these grant awards are spent out of federally funded appropriation item 600648, Children Trust Fund Federal.

Housed in the Department of Job and Family Services, OCTF is the state's primary funding agent for programs designed to prevent child abuse and neglect. OCTF is governed by a 15-member board which consists of state agency administrators, gubernatorial appointees, and legislators. In addition to federally funded item 600648, OCTF receives state funding through Fund 1980 appropriation item 600647, Children's Trust Fund. Fund 1980 receives its revenues from fees charged for copies of birth and death certificates and for filing a decree of divorce or dissolution. For FY 2015, combined expenditures from items 600647 and 600648 are estimated at $4.6 million.

Human Trafficking Prevention Grant Award Recipients		
Organization	**Counties Served**	**Award Amount**
Bellefaire JCB	Cuyahoga	$15,000
Crime Victim Services	Allen, Defiance, Putnam	$15,000
Sisters in Shelter	Crawford, Defiance, Fulton, Hancock, Henry, Huron, Ottawa, Paulding, Putnam, Sandusky, Seneca, Williams, Wood, Wyandot	$15,000
University of Toledo	Lucas	$14,999
The Children's Advocacy Center of Guernsey County	Guernsey, Noble	$10,633
Gallia and Lawrence County Family and Children First Councils	Gallia, Lawrence	$8,750
Ottawa County Department of Job and Family Services	Ottawa	$7,300
Power 2 Global Impact Foundation DBA Ohio Youth Empowerment Program	Franklin	$3,318
	Total	**$90,000**

Attorney General Releases Sexual Assault Kit Testing Initiative Update

– Anthony Kremer, Budget Analyst, 614-466-5654

On March 5, 2015, the Ohio Attorney General's Office issued a status update on the progress of DNA testing conducted as part of the Sexual Assault Kit (SAK) Testing Initiative. The initiative, which began in 2011, permits previously untested sexual assault examination kits collected by law enforcement agencies statewide to be tested for DNA evidence free of charge using the Combined DNA Index System (CODIS).[9] Since 2011, 152 of the state's 928 law enforcement agencies have submitted a total of 9,237 kits to the Bureau of Criminal Investigation (BCI) for testing. Of the total number of kits submitted, almost 80%, or 7,281, were submitted by three law enforcement agencies: Cleveland (4,353, or 47%), Toledo (1,502, or 16%), and Akron (1,426, or 15%). Testing has been performed on 6,577, or 71%, of the kits, and resulted in 2,465 DNA matches. In Cuyahoga County, 259 defendants have been indicted following DNA testing conducted as part of the initiative.

The initiative was developed by the Attorney General in response to a backlog of sexual assault examination kits in the possession of local law enforcement agencies throughout the state that had never been submitted for DNA testing, some of which were associated with crimes that occurred decades ago. The Attorney General hired ten additional forensic scientists and increased laboratory supply contracts for the explicit purpose of processing these untested kits without slowing down the testing of kits associated with crimes that have occurred since 2011. With the enactment of S.B. 316 of the 130th General Assembly, effective March 23, 2015, law enforcement agencies are now required within either one year or 30 days, depending on specified circumstances, to submit the contents of a kit to BCI or another crime laboratory for DNA analysis.

Attorney General Releases "Moving Ohio Forward" Demolition Grant Program Report

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

On February 27, 2015, the Ohio Attorney General's Office released its report of the "Moving Ohio Forward" Demolition Grant Program, under which all 88 counties were allocated funds to demolish vacant, abandoned, and blighted properties. The program, initiated in the middle of 2012 and concluded in December 2014, was financed by a $75 million allocation from the $93 million that the Attorney General received from

[9] CODIS is a national system of computer databases designed by the FBI to store DNA profiles from convicted offenders, arrestees, and crime scene evidence. DNA profiles from a criminal case are entered into the database and searched against offenders and other evidence profiles for a DNA hit.

the National Mortgage Settlement to which 49 states, including Ohio, and the District of Columbia were parties. The settlement was with five of the nation's largest mortgage servicers over foreclosure abuses, fraud, and unfair and deceptive mortgage practices.

The Attorney General allocated the $75 million based on the number of foreclosures filed in each county between 2008 and 2011. The first $500,000 allocated to each county did not require a match. There was a one-to-one match requirement for any amounts over $500,000 for 53 counties while the remaining 35 counties were not required to make any match payments. Of the 53 counties required to make a match, the lowest amount was paid by Highland County ($260) and the highest amount was paid by Cuyahoga County ($11,380,840).

Statewide, the amount used for the demolition grant program totaled $119 million, including $75 million in state grants and $44 million in local match payments, and 14,608 properties were demolished. Of the total amount expended statewide, the largest amount paid for demolition contractors ($84.5 million, or 71%) and secondarily for asbestos abatement ($26.2 million, or 22%). The table below lists the top five counties based on the total amount of funds used for the program.

Top Five County Demolition Grant Programs

County	Attorney General Payment	County Payment	Total Funds Used for Program	Properties Demolished
Cuyahoga	$12,904,931	$11,380,840	$24,285,711	3,449
Franklin	$8,619,466	$7,850,216	$16,469,682	1,800
Hamilton	$6,357,205	$5,354,832	$11,712,037	1,626
Montgomery	$4,150,002	$3,438,646	$7,588,648	938
Summit	$3,971,632	$3,425,621	$7,397,253	872
Top Five Total	**$36,003,236**	**$31,450,155**	**$67,453,331**	**8,685**
Statewide Total	**$75,014,534**	**$44,028,786**	**$119,036,940**	**14,608**

ODOT Releases Public Transit Needs Study

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

On February 18, 2015, the Ohio Department of Transportation (ODOT) published the findings and recommendations of state public transportation stakeholders in a report titled the *Ohio Statewide Transit Needs Study*.[1] The report assessed current funding needs, evaluated trends, and projected future demand for public transit services across the state. Broadly, the study recommended doubling the amount of local, state, and federal funding devoted to public transportation in Ohio, from $893 million spent on

[1] The *Ohio Statewide Transit Needs Study* can be found on ODOT's website by visiting http://www.dot.state.oh.us/Divisions/Planning/Transit/TransitNeedsStudy/Pages/StudyReports.aspx.

transit in 2012 to $1.84 billion by 2025. Specifically, the report suggested increasing the proportion of transit funding derived from the state from 3% (approximately $26.8 million) as was the case in 2012 to 10% (approximately $180 million) in 2025. Shorter-term goals included boosting GRF funding by $2.5 million in the FY 2016-FY 2017 biennium for transit incentive grants. These grants would be used to (1) promote coordination of services between public transit agencies and human service agencies, (2) encourage transit agencies to collaborate on regional transit services, and (3) pay for IT enhancements for tracking transit system performance and improving passenger information systems. (Current GRF funding for public transit is $14.6 million over the FY 2014-FY 2015 biennium.) The study also suggested increasing the amount of Federal Highway Administration (FHWA) moneys that ODOT allocates for public transit from $20 million per year as is the case currently to $50 million per year. According to the study, the extra $30 million per year could be used to accelerate the replacement of transit vehicles in aging fleets. The *Ohio Statewide Transit Needs Study* was produced by the transportation planning firm of Nelson\Nygaard at a cost of $1.5 million from the Highway Operating Fund (Fund 7002).

Department of Commerce Launches Upgrades to Liquor Sales and Inventory Control System

– Shannon Pleiman, Budget Analyst, 614-466-1154

On February 1, 2015, the Division of Liquor Control within the Department of Commerce launched a major component of the Liquor Modernization Project, an initiative to replace the 30-year-old IT-infrastructure for managing liquor sales across the state. The February launch consists of upgrades to the retail part of the system that deals with liquor agency sales to consumers. The Department foresees implementing the upgrades to the part of the system that deals with wholesale sales to restaurants and bars in the fall of 2015. The overhaul of the Division's accounting, merchandising, and supply chain management systems is designed to improve cash flow and profitability. Liquor profits are used to sustain various economic development incentives overseen by JobsOhio, the state nonprofit economic development corporation.

Once completed, the Department estimates that the total cost of the project, which began in FY 2013, will be about $20 million. Approximately $18.0 million of this amount has been spent thus far, with the remaining amount to be spent this fiscal year and FY 2016. Funding for the project comes from quarterly payments from JobsOhio under the Operating Services Agreement that are deposited into the Liquor Operating Services Fund (Fund 5LN0).

TRACKING THE ECONOMY

– Gregory Craig, Economist, 614-728-3218

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

Overview

The slowdown in the economy appears to be due in part to factors that will likely prove temporary.

Slower job growth this past month and lower housing starts and a decrease in consumer spending in February point to slow economic growth in the first quarter. Manufacturing output fell in the most recent three months and mining output dropped in the latest two months. The slowdown in the economy appears to be due in part to factors that will likely prove temporary, such as cold weather disruptions, the West Coast dock slowdown, and adjustments to energy price changes. March unemployment remained unchanged from February at a rate of 5.5%. Growth of inflation adjusted gross domestic product (real GDP) slowed to a 2.2% annual rate in the fourth quarter after strong growth in the second and third quarters, by 4.6% and 5.0%, respectively. However, the Federal Reserve still expects to raise rates later in the year, indicating a positive longer-term economic outlook.

The National Economy

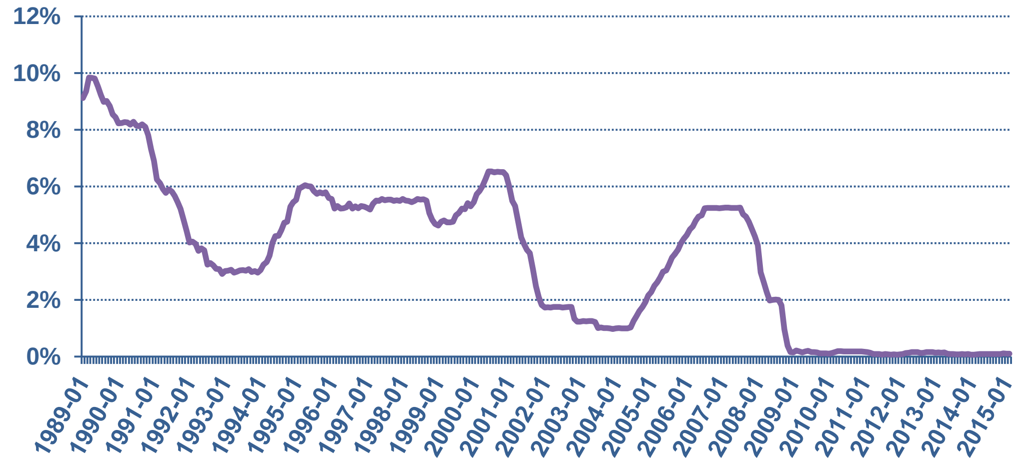
Monetary Policy

The Federal Reserve, the country's central bank, signaled last month that most members of its main decision-making body, the Federal Open Market Committee (FOMC), expect to raise the federal funds rate later this year. The federal funds rate is the short-term interest rate at which depository institutions lend reserve balances to other depository institutions overnight and is guided by the FOMC. The federal funds rate has been held at near-zero since late 2008 in response to economic conditions following the Great Recession. This strategy was employed in combination with a Federal Reserve policy of longer-term securities purchases, sometimes referred to as "quantitative easing" (QE), which was designed to "support the functioning of credit markets, put downward pressure on longer-term interest rates, and help to make broader financial conditions more accommodative."[10] The QE program ended in October 2014; altogether, since 2008 the QE program added

[10] Board of Governors of the Federal Reserve System. *The Federal Reserve's response to the financial crisis and actions to foster maximum employment and price stability.* January 8, 2014. Web.

roughly $3.6 trillion in assets to the Federal Reserve's balance sheet. The Federal Reserve continues to reinvest principal payments from its securities. The Federal Reserve adjusted its monetary policy, as described above, as the U.S. economy improved and moved closer to the Federal Reserve's dual mandate of maintaining full employment and a 2% annual rate of inflation.

Chart 5: Average Monthly Federal Funds Rate, January 1989 through February 2015



Employment and Unemployment

In March, nonfarm payroll employment nationwide at business establishments increased 126,000, according to initial estimates from the Bureau of Labor Statistics (BLS). March marked the first month since February 2014 that monthly job gains were less than 200,000. The 12 months from March 2014 through February 2015 was the longest period that employment had increased by 200,000 or more since the 19 months that ended in March 1995; monthly gains in employment have averaged 261,000 over the past 12 months as well as 261,000 over the past six months. Employment gains in March were concentrated in professional and business services, health care, and retail trade. The mining industry continued to create a drag on total employment gains in March; losses in this industry are due in large part to the scale down of oil and gas industry operations in response to lower oil prices. The BLS revised downward its estimate of employment gains in January, from 239,000 to 201,000, and in February, from 295,000 to 264,000. For the months of January and February combined, employment gains were 69,000 lower than previously reported.

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The U.S. economy has added a net total of 3.13 million jobs over the past 12 months. The national unemployment rate remained unchanged in March from 5.5% in February, and declined by 1.1 percentage points from 6.6% one year earlier. Average hourly earnings of all employees on private, nonagricultural payrolls increased by 0.3% in March. Average hourly earnings are up 2.1% over the past year.

Production

Real GDP grew at an annual rate of 2.2% in the fourth quarter of 2014, according to a third estimate from the Bureau of Economic Analysis (BEA). Annual growth in 2014 (2.4%) was higher than 2013 annual growth (2.2%) and the highest in any year since 2010. Personal consumption expenditures grew, as did other major final demand sectors, with the exception of federal government spending.

Industrial production, after declining in December and January, increased 0.1% in February, held in check by decreases in two of the three major industry groups (manufacturing and mining) that compose the total index. Utility production increased 7.3% in February, driven primarily by colder than usual temperatures for the month.

Activity in the manufacturing sector expanded in March for the 27th consecutive month, according to the latest report from the Institute for Supply Management based on reports from purchasing managers. Ten out of 18 manufacturing sectors report growth in the March survey. Participants said that congestion at West Coast ports from a labor dispute, the strong dollar, and weather-related slowdowns negatively impacted various industries.

Consumer Spending and Personal Incomes

Real consumer spending decreased -0.1% (seasonally adjusted) in February, but was still 3.0% higher than one year ago. Twelve-month consumer spending rates have remained above 2.5% since last August, even as the February personal saving rate (5.8%) rose to the highest level since December 2012. Personal income, in current dollars (not adjusted for inflation) increased by 0.4% in February, its 14th straight monthly increase.

Sales of light vehicles rose in March to a seasonally adjusted annual rate of 17.1 million units, up from an annual rate of 16.2 million units in February. Twelve-month sales of light vehicles are at their highest level since 2006.

Housing

Housing starts, at a seasonally adjusted annual rate, dropped to 897,000 units in February, 17.0% below January's revised rate. In seven of the last 12 months, housing starts were above 1 million units. However, this is still considerably lower than historical rates, which peaked in recent years at 2.1 million units, in 2005. Starts on structures with five units or more were 9.5% lower in February than a year earlier, while single-family homes were 0.7% higher than a year earlier.

Existing home sales in February increased 1.2%, to a seasonally adjusted annual rate of 4.88 million homes, according to the National Association of Realtors (NAR). Unit sales were 4.7% higher than a year earlier, while unsold inventory was 0.5% lower than year ago levels and at a 4.6 month supply.

New residential home sales in February were at a seasonally adjusted annual rate of 539,000, 7.8% above January's rate and 24.8% above year ago rates. Annual sales of 436,000 units in 2014, still substantially lower than sales from 1983 through 2008, have not topped 500,000 since 2007.

In seven of the last 12 months, housing starts were above 1 million units.

Inflation

Import Prices

U.S. import prices finally increased in February (0.4%) after seven straight months of decline led by declines in fuel import prices. Drops in prices of imported fuel in December (-14.9%) and January (-19.5%) were the largest single-month declines since December 2008. Fuel prices decreased 43.0% over the past 12 months.

Consumer Prices

The consumer price index (CPI) increased 0.2% in February, on a seasonally adjusted basis, its first positive change since October 2014, according to BLS. The energy index rose 1.0% in February after declining seven straight months. Specifically, the gasoline index increased 2.4% in January, while the index for all items less food and energy rose 0.2%, an increase equal to January's rate. Over the last 12 months, the all-items index remained unchanged.

Producer Prices

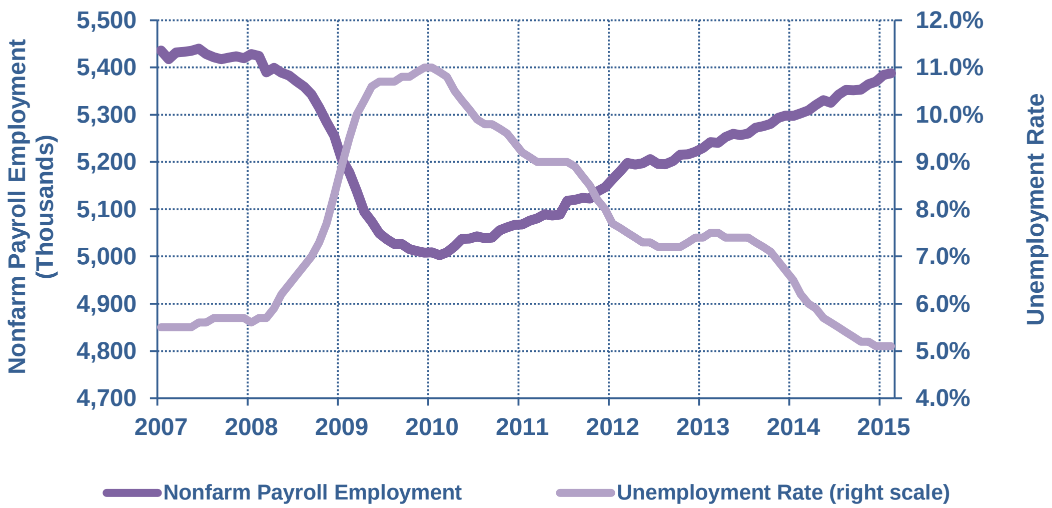
The producer price index (PPI) for final demand decreased 0.5% in February, seasonally adjusted. Monthly percent changes of the final demand price index have been negative for all months starting in August 2014, except for October. In February, the 12-month percent change in PPI for final demand dropped below zero, declining 0.6%, the first year-over-year drop in the history of this series that started in 2009.

The Ohio Economy

Employment and Unemployment

Total nonfarm payroll employment increased by 3,300 (0.1%) in February, while the state's rate of unemployed job-seekers remained unchanged at 5.1%, as shown in Chart 6 below. Unemployment rates decreased from January in 26 states, while six states and the District of Columbia experienced increases in the unemployment rate. The number of Ohioans counted as unemployed dropped by 66,000 over the past 12 months, while nonagricultural wage and salary employment grew by 84,400 (1.6%); 46 states saw decreases in the unemployment rate during the same period. On the year, goods-producing industries (except mining) added 18,300 (2.1%) jobs, including 13,600 (2.0%) jobs in manufacturing. The number of public-sector jobs fell 2,200 (0.3%) during this period.

Chart 6: Ohio Employment and Unemployment



Personal income growth in Ohio has roughly kept pace with the U.S. since 2009.

Personal Income

Personal income growth in Ohio has roughly kept pace with the U.S. since 2009 after typically trailing for the previous half century. Ohio's personal income growth accelerated to 3.9% in 2014, according to the BEA, compared to 2.2% growth in 2013. Ohio's 2014 personal income growth matched the national average of 3.9% during the same period. Growth accelerated in 45 states in 2014 compared to 2013. Nationwide personal income growth outpaced inflation (as measured by the national price index for personal consumption expenditures, or PCE) by about a 3-to-1 margin (3.9% to 1.3%).

State personal income growth in Ohio slowed slightly in the fourth quarter of 2014. The BEA estimates that Ohio personal income grew 0.9% in the fourth quarter, slower than the revised 1.1% growth in the third quarter. Personal income grew slightly faster nationwide, by 1.0%, than in Ohio during the fourth quarter. The 1.0% national personal income growth rate was flat compared with the previous quarter. Personal income growth also slowed in 14 other states.

State personal income growth in Ohio slowed slightly in the fourth quarter of 2014.

Home Sales

The number of homes sold in Ohio in February was 7,460, 5.3% higher than the 7,085 sold a year earlier, while year-to-date sales of 14,584 were 3.6% higher than the 14,076 sold in the comparable period in 2014. The year-to-date average sales price in the state was $137,250, 6.7% higher than the $128,656 figure from a year earlier, according to the Ohio Association of Realtors.