Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION JANUARY 2015

STATUS OF THE GRF

HIGHLIGHTS

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

The GRF budget appears to be in good condition at the midpoint of FY 2015. GRF state source revenue was $209 million above estimate through the end of December. The largest tax revenue sources were above estimates, though two taxes on financial institutions had a combined shortfall of $48 million for the fiscal year to date. On the spending side of the ledger, total GRF uses were $421.0 million below estimate.

Ohio's unemployment rate declined to 5.0% in November, down from 5.3% in October, and payroll employment grew by nearly 18,000. Over the past year employment grew by just over 65,000, or 1.2%.

Through December 2014, GRF sources totaled $15.26 billion:

- Revenue from the personal income tax was $124.0 million above estimate;
- Sales and use tax receipts were $78.4 million above estimate;
- Commercial activity tax receipts were $50.5 million above estimate.

Through December 2014, GRF uses totaled $17.00 billion:

- Medicaid expenditures were $387.4 million below estimate;
- Health and Human Services expenditures were $49.9 million below estimate while Primary and Secondary Education expenditures were $41.5 million above estimate.

VOLUME 38, NUMBER 5

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

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Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of December 2014
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on January 5, 2015)

STATE SOURCES	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$108,685	$98,900	$9,785	9.9%
Nonauto Sales and Use	$778,031	$793,500	-$15,469	-1.9%
Total Sales and Use Taxes	**$886,716**	**$892,400**	**-$5,684**	**-0.6%**
Personal Income	$816,532	$802,800	$13,732	1.7%
Corporate Franchise	$1,534	$0	$1,534	---
Financial Institution	-$335	$0	-$335	---
Public Utility	$952	-$200	$1,152	575.9%
Kilowatt-Hour Excise	$20,493	$20,000	$493	2.5%
Natural Gas Consumption (MCF)	$2	$0	$2	---
Commercial Activity Tax	$5,975	$1,800	$4,175	232.0%
Petroleum Activity Tax	$1,944	$200	$1,744	872.0%
Foreign Insurance	-$705	-$300	-$405	-135.1%
Domestic Insurance	$0	$0	$0	---
Business and Property	$0	$0	$0	---
Cigarette	$77,536	$70,900	$6,636	9.4%
Alcoholic Beverage	$4,403	$5,400	-$997	-18.5%
Liquor Gallonage	$3,526	$3,400	$126	3.7%
Estate	$95	$0	$95	---
Total Tax Revenue	**$1,818,669**	**$1,796,400**	**$22,269**	**1.2%**
NONTAX REVENUE				
Earnings on Investments	$3	$0	$3	---
Licenses and Fees	$520	$447	$73	16.4%
Other Revenue	$2,230	$2,579	-$349	-13.5%
Total Nontax Revenue	**$2,753**	**$3,026**	**-$273**	**-9.0%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$0	$200	-$200	-100.0%
Total Transfers In	**$0**	**$200**	**-$200**	**-100.0%**
TOTAL STATE SOURCES	**$1,821,421**	**$1,799,626**	**$21,796**	**1.2%**
Federal Grants	$788,181	$839,696	-$51,515	-6.1%
TOTAL GRF SOURCES	**$2,609,603**	**$2,639,322**	**-$29,719**	**-1.1%**

*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 December 31, 2014
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on January 5, 2015)

STATE SOURCES	Actual	Estimate*	Variance	Percent	FY 2014	Percent Change
TAX REVENUE						
Auto Sales	$653,917	$616,600	$37,317	6.1%	$589,538	10.9%
Nonauto Sales and Use	$4,357,013	$4,315,900	$41,113	1.0%	$3,922,959	11.1%
Total Sales and Use Taxes	**$5,010,930**	**$4,932,500**	**$78,430**	**1.6%**	**$4,512,497**	**11.0%**
Personal Income	$4,141,908	$4,017,900	$124,008	3.1%	$4,274,081	-3.1%
Corporate Franchise	-$25,738	$0	-$25,738	---	-$18,543	-38.8%
Financial Institution	-$22,826	$0	-$22,826	---	$120	-19122.0%
Public Utility	$36,837	$48,800	-$11,963	-24.5%	$48,134	-23.5%
Kilowatt-Hour Excise	$144,330	$152,500	-$8,170	-5.4%	$147,947	-2.4%
Natural Gas Consumption (MCF)	$18,427	$16,300	$2,127	13.0%	$18,708	-1.5%
Commercial Activity Tax	$421,936	$371,400	$50,536	13.6%	$388,627	8.6%
Petroleum Activity Tax	$1,944	$6,800	-$4,856	-71.4%	$0	---
Foreign Insurance	$153,834	$147,900	$5,934	4.0%	$146,638	4.9%
Domestic Insurance	$7,638	$1,800	$5,838	324.3%	$105	7194.2%
Business and Property	$20	$0	$20	---	$455	-95.6%
Cigarette	$365,138	$357,600	$7,538	2.1%	$370,880	-1.5%
Alcoholic Beverage	$28,924	$28,200	$724	2.6%	$28,460	1.6%
Liquor Gallonage	$21,576	$20,300	$1,276	6.3%	$20,919	3.1%
Estate	$2,186	$0	$2,186	---	$29,119	-92.5%
Total Tax Revenue	**$10,307,063**	**$10,102,000**	**$205,063**	**2.0%**	**$9,968,148**	**3.4%**
NONTAX REVENUE						
Earnings on Investments	$5,069	$4,500	$569	12.6%	$3,764	34.7%
Licenses and Fees	$9,267	$11,812	-$2,545	-21.5%	$10,859	-14.7%
Other Revenue	$21,733	$21,568	$165	0.8%	$17,532	24.0%
Total Nontax Revenue	**$36,069**	**$37,880**	**-$1,811**	**-4.8%**	**$32,155**	**12.2%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$11,785	$6,200	$5,585	90.1%	$52,730	-77.7%
Total Transfers In	**$11,785**	**$6,200**	**$5,585**	**90.1%**	**$52,730**	**-77.7%**
TOTAL STATE SOURCES	**$10,354,917**	**$10,146,080**	**$208,837**	**2.1%**	**$10,053,033**	**3.0%**
Federal Grants	$4,908,483	$5,183,275	-$274,792	-5.3%	$4,586,145	7.0%
TOTAL GRF SOURCES	**$15,263,400**	**$15,329,355**	**-$65,956**	**-0.4%**	**$14,639,178**	**4.3%**

*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 $66.0 million below estimate.

Halfway through FY 2015, total GRF sources[1] were $15.26 billion, $66.0 million below the estimate released by the Office of Budget and Management (OBM) in August 2014. GRF tax receipts had a positive variance of $205.1 million, but federal grants were $274.8 million below estimate due to lower than expected spending in Medicaid.[2] For the month of December, GRF receipts from state taxes were $22.3 million above estimate. That performance, however, was offset by a shortfall of $51.5 million in federal grants. GRF sources as a whole were $2.61 billion in December, $29.7 million below anticipated receipts. Tables 1 and 2 show GRF sources for the month of December and for FY 2015 through December, respectively.

In December, most tax sources recorded positive variances. The personal income tax was above estimate by $13.7 million, the auto sales and use tax by $9.8 million, the cigarette tax by $6.6 million, and the commercial activity tax (CAT) by $4.2 million; also ahead of anticipated revenues were the petroleum activity tax (PAT, $1.7 million), the corporate franchise tax ($1.5 million), and the public utility tax ($1.2 million). Taxes with notable negative variances in December included the nonauto sales and use tax ($15.5 million), and the alcoholic beverage tax ($1.0 million). Other taxes experienced relatively smaller variances.

FY 2015 GRF tax receipts were $205.1 million above estimate.

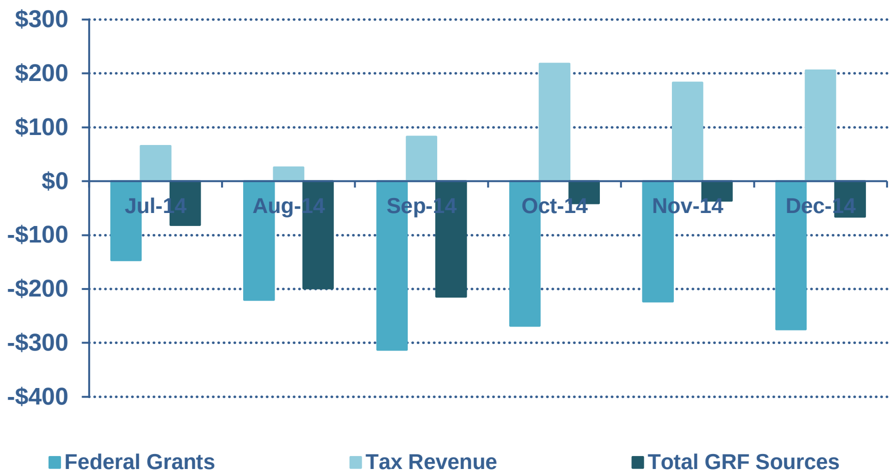
Chart 1 below shows FY 2015 cumulative variances against estimates for federal grants, tax revenue, and total GRF sources. As seen in Table 2, while tax receipts were ahead of projections, both federal grants and total GRF sources were below estimates. The personal income tax had the largest positive year-to-date variance at $124.0 million, followed by the CAT ($50.5 million), the nonauto sales and use tax ($41.1 million), the auto sales and use tax ($37.3 million), the cigarette tax ($7.5 million), the foreign insurance tax ($5.9 million), and the domestic insurance tax ($5.8 million). The natural gas consumption tax

[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 generally associated with Medicaid spending. Through December, year-to-date GRF Medicaid expenditures were $387.4 million below estimate.

($2.1 million) and the estate tax ($2.2 million) had more modest positive variances. The corporate franchise tax (CFT) and the financial institutions tax (FIT), on the other hand, had the largest negative year-to-date variances of $25.7 million and $22.8 million, respectively.[3] The public utility tax ($12.0 million), the kilowatt-hour tax ($8.2 million), and the PAT ($4.9 million) were also below anticipated receipts by large amounts.

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



GRF sources grew by $624.2 million from the first half of FY 2014 (see Table 2). Federal grants increased $322.3 million, tax receipts were higher by $338.9 million, and nontax revenues increased by $3.9 million. However, transfers in fell $40.9 million compared to revenue in this category in the corresponding period in FY 2014, due to an outsized transfer into the GRF from the Commercial Activity Motor Fuel Receipts Fund in November 2013. Among tax sources, revenue from the sales and use tax increased $498.4 million, while receipts from the personal income tax fell $132.2 million. The decrease in income tax revenue was due primarily to an 8.5% reduction in income tax rates for tax year (TY) 2013 enacted in H.B. 59 (the current operating budget act), which required a change in withholding rates in September 2013. 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, also enacted in H.B. 59.

FY 2015 GRF sources were $624.2 million above GRF sources in FY 2014.

[3] The GRF typically pays out refunds under both the FIT and the CFT during the first half of a fiscal year, as taxpayers make adjustments to their earlier tax filings. The negative variance for the CFT, however, is likely to persist for the remainder of the fiscal year, as no additional revenue from the tax is expected.

FY 2015 income tax receipts were $124.0 million above estimate.

Personal Income Tax

The personal income tax provided $816.5 million in revenue to the GRF in December 2014. That amount was $13.7 million (1.7%) above estimate, and $23.4 million (2.9%) above revenue in December 2013. 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. For the month of December, quarterly estimated payments were above estimate by $42.5 million. This positive variance was partially offset by a negative variance of $15.6 million in revenue from monthly employer withholdings. Additionally, refunds were $16.7 million higher than anticipated in December.

Year to date, FY 2015 GRF receipts from the personal income tax were $4.14 billion, which was $124.0 million (3.1%) 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 $9.2 million.

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

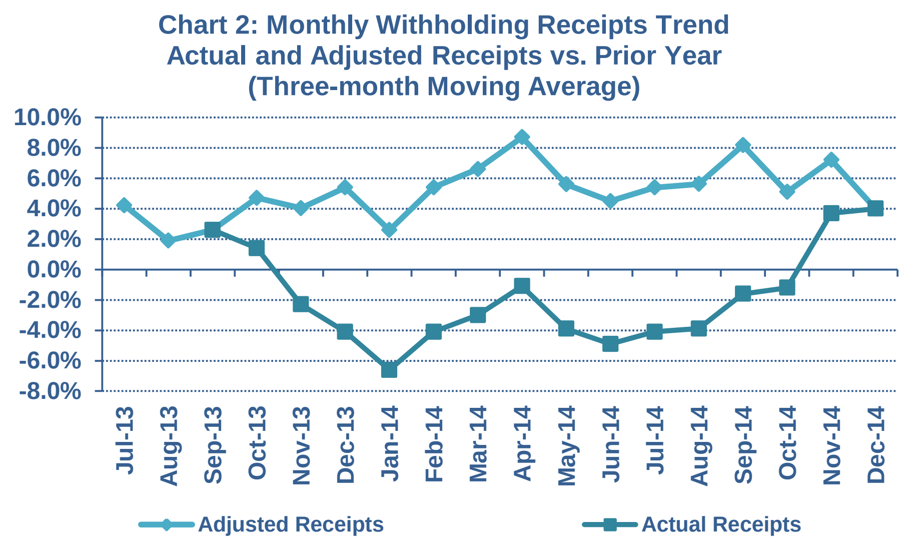
Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2014	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	$9.2	0.2%	$44.9	1.1%
Quarterly Estimated Payments	$63.8	17.9%	-$70.6	-14.4%
Trust Payments	$1.8	15.2%	$0.7	5.7%
Annual Return Payments	$8.3	8.2%	-$48.1	-30.6%
Miscellaneous Payments	-$5.1	-10.2%	-$2.5	-5.2%
Gross Collections	$78.0	1.7%	-$75.6	-1.6%
Less Refunds	-$48.1	-17.2%	$53.6	30.1%
Less LGF Distribution	$2.1	1.2%	$2.9	1.7%
Income Tax Revenue	$124.0	3.1%	-$132.2	-3.1%

As seen from the above table, the positive variance of the personal income tax was mostly due to better than anticipated quarterly estimated payments ($63.8 million) and less than expected refunds ($48.1 million),

[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 withholding receipts were slightly above target. First-half GRF receipts in FY 2015 from the personal income tax were $132.2 million (3.1%) below receipts through December in FY 2014. Continuing trends established in previous months, employer withholdings and refunds increased $44.9 million and $53.6 million, respectively, this fiscal year when compared to last. On the other hand, quarterly estimated payments fell $70.6 million, and annual return payments decreased by $48.1 million. Chart 2 illustrates the trend in employer withholding receipts since July 2013. The chart also includes withholding receipts adjusted for a 9% reduction in withholding rates.

FY 2015 GRF income tax receipts were $132.2 million below FY 2014 revenue.



Sales and Use Tax

Receipts from the sales and use tax of $886.7 million in December 2014 were $5.7 million (0.6%) below estimate, but $52.5 million (6.3%) above receipts in December 2013. 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.

FY 2015 sales and use tax receipts were $78.4 million above estimate.

For the first half of FY 2015, GRF sales and use tax receipts totaled $5.01 billion, $78.4 million (1.6%) above estimate, with both tax sources

[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.

FY 2015 nonauto sales and use tax receipts were $41.1 million above estimate.

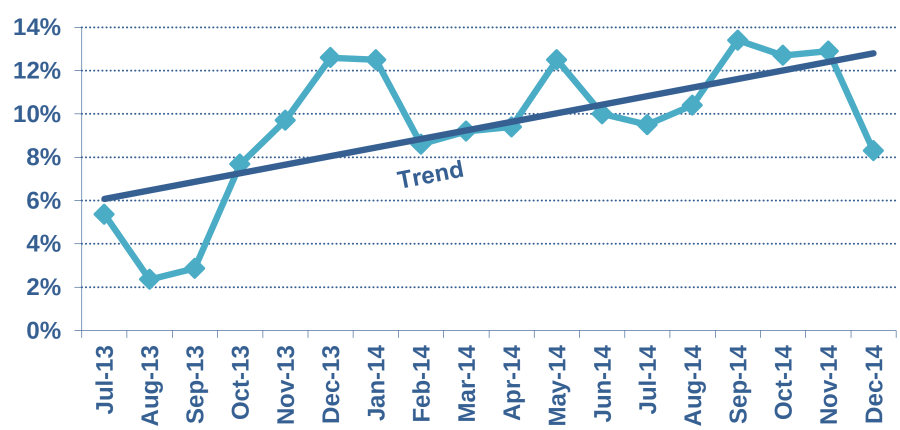
FY 2015 auto sales and use tax receipts were $37.3 million above estimate.

above their respective estimates. FY 2015 year-to-date sales and use tax receipts were also $498.4 million (11.0%) 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

Nonauto sales and use tax GRF receipts of $778.0 million in December were $15.5 million (1.9%) below estimate, but $41.3 million (5.6%) above receipts in the same month in 2013. FY 2015 first-half revenue from the nonauto sales and use tax of $4.36 billion were $41.1 million (1.0%) above projected revenue, and were also $434.1 million (11.1%) above actual revenue in FY 2014 through December. Chart 3 shows increases in nonauto sales and use tax monthly receipts against prior year receipts in the same month. The nonauto sales and use tax taxable base experienced a robust growth of 8.6% for the first half of FY 2015, compared to the first half of FY 2014. (Fiscal second-quarter growth, which is unaffected by the rate increase, was 8.3%.)

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

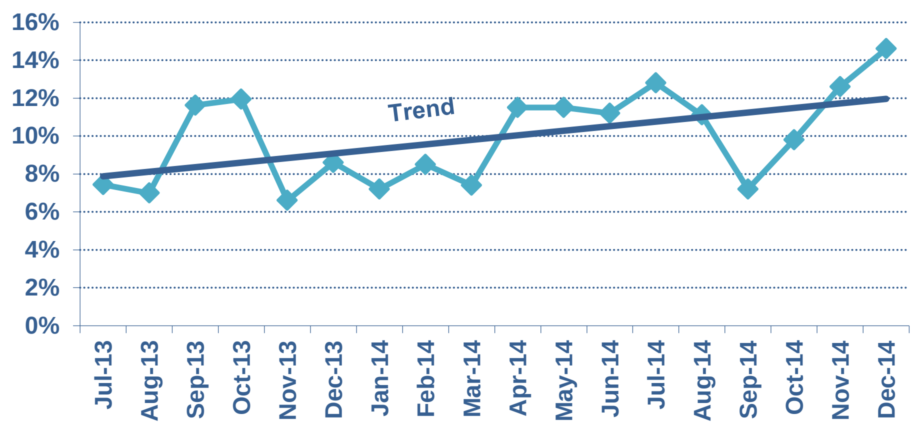


Auto Sales and Use Tax

GRF revenue of $108.7 million from the auto sales and use tax in December was above estimate by $9.8 million (9.9%), reversing a timing-related revenue shortfall of $5.9 million in the previous month. Monthly revenue was also $11.2 million (11.5%) above receipts in December 2013. In the first-half of FY 2015, GRF revenue from the auto sales and use tax totaled $653.9 million, $37.3 million (6.1%) above estimate, and $64.4 million (10.9%) 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. It shows robust growth in the most recent months and the fiscal year as a whole: the auto sales and use tax taxable base grew about 9.3% in the first half of FY 2015 compared to the corresponding period in FY 2014, and fiscal second-quarter growth of about 14.6% was remarkable.

The auto industry closed out in December one of the most robust years in nearly a decade for car and truck sales. Nationwide light vehicle sales were 16.8 million units on a seasonally adjusted annualized basis, down from 17.1 million in November 2014, but up 8.8% compared to December 2013. Yearly light vehicle sales reached 16.4 million units, up from 15.5 million in 2013, and 14.4 million in 2012. The overall pace was the best since 2006, and that of light trucks was the highest since 2005, helped by both employment growth and lower gas prices. The share of light truck unit sales was 54% in the first half of FY 2015, up from 52% and 51%, in the corresponding periods in FY 2014 and FY 2013, respectively. Increased light truck sales generally boost auto sales and use tax receipts because they have higher average prices than cars.

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



Commercial Activity Tax

FY 2015 GRF CAT receipts were $50.5 million above estimate.

December GRF receipts from the CAT were $6.0 million, $4.2 million (232.0%) above estimate, and $1.4 million (31.7%) above receipts in the same month in 2013. Through December, CAT revenues to the GRF totaled $421.9 million, $50.5 million (13.6%) above estimate, and they were also $33.3 million (8.6%) 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 $6.8 million in the first half of the fiscal year; the initial deposit of

$1.9 million in PAT revenue occurred in December 2014, thus resulting in a year-to-date shortfall of $4.9 million for this GRF source.

Cigarette and Other Tobacco Products Tax

FY 2015 cigarette tax receipts were $7.5 million above estimate.

GRF receipts from the cigarette and other tobacco products tax of $77.5 million in December 2014 were $6.6 million (9.4%) above estimate, and $2.6 million (3.4%) above receipts in the same month in FY 2014. Through December, receipts of $365.1 million in FY 2015 were $7.5 million (2.1%) above estimated revenue for the year. Receipts from cigarette sales were $332.1 million, and sales of other tobacco products (OTP) provided $33.0 million. Total receipts this year declined $5.7 million (1.5%) from the corresponding period in FY 2014. The decrease was attributable to sales of cigarettes, tax receipts from which declined $9.6 million. An increase of $3.9 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 December 2014
($ in thousands)
(Actual based on OAKS reports run January 7, 2015)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary and Secondary Education	$305,855	$293,660	$12,196	4.2%
Higher Education	$171,905	$173,132	-$1,227	-0.7%
Other Education	$2,729	$2,252	$476	21.1%
Total Education	$480,489	$469,044	$11,445	2.4%
Medicaid	$1,388,917	$1,373,059	$15,859	1.2%
Health and Human Services	$108,674	$110,086	-$1,412	-1.3%
Total Welfare and Human Services	$1,497,592	$1,483,145	$14,447	1.0%
Justice and Public Protection	$154,284	$126,442	$27,842	22.0%
General Government	$24,793	$25,028	-$235	-0.9%
Total Government Operations	$179,077	$151,470	$27,607	18.2%
Property Tax Reimbursements	$750	$33,997	-$33,248	-97.8%
Capital Outlay	$0	$0	$0	---
Debt Service	$9,906	$10,302	-$396	-3.8%
Total Other Expenditures	$10,656	$44,300	-$33,644	-75.9%
Total Program Expenditures	**$2,167,814**	**$2,147,958**	**$19,856**	**0.9%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$0	$7,846	-$7,846	-100.0%
Total Transfers Out	$0	$7,846	-$7,846	-100.0%
TOTAL GRF USES	**$2,167,814**	**$2,155,805**	**$12,010**	**0.6%**

*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 December 31, 2014
($ in thousands)
(Actual based on OAKS reports run January 7, 2015)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2014**	**Percent Change**
Primary and Secondary Education	$3,690,330	$3,648,852	$41,478	1.1%	$3,581,528	3.0%
Higher Education	$1,072,684	$1,072,648	$37	0.0%	$1,034,279	3.7%
Other Education	$31,587	$32,947	-$1,360	-4.1%	$29,756	6.2%
Total Education	$4,794,601	$4,754,447	$40,155	0.8%	$4,645,564	3.2%
Medicaid	$8,023,849	$8,411,272	-$387,423	-4.6%	$7,310,019	9.8%
Health and Human Services	$698,158	$748,073	-$49,916	-6.7%	$653,057	6.9%
Total Welfare and Human Services	$8,722,007	$9,159,345	-$437,338	-4.8%	$7,963,075	9.5%
Justice and Public Protection	$955,782	$962,996	-$7,214	-0.7%	$929,738	2.8%
General Government	$177,759	$187,606	-$9,847	-5.2%	$179,235	-0.8%
Total Government Operations	$1,133,541	$1,150,602	-$17,061	-1.5%	$1,108,973	2.2%
Property Tax Reimbursements	$907,658	$912,937	-$5,279	-0.6%	$893,067	1.6%
Capital Outlay	$0	$0	$0	---	$0	---
Debt Service	$854,938	$857,996	-$3,058	-0.4%	$771,899	10.8%
Total Other Expenditures	$1,762,596	$1,770,933	-$8,337	-0.5%	$1,664,966	5.9%
Total Program Expenditures	**$16,412,744**	**$16,835,327**	**-$422,582**	**-2.5%**	**$15,382,578**	**6.7%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$995,930	-100.0%
Other Transfers Out	$582,809	$581,234	$1,575	0.3%	$216,014	169.8%
Total Transfers Out	$582,809	$581,234	$1,575	0.3%	$1,211,944	-51.9%
TOTAL GRF USES	**$16,995,553**	**$17,416,561**	**-$421,008**	**-2.4%**	**$16,594,522**	**2.4%**

*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 January 5, 2015)

	Month of December 2014				Year to Date Through December 2014			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid	**$1,734,283**	**$1,702,964**	**$31,319**	**1.8%**	**$10,223,260**	**$10,394,326**	**-$171,065**	**-1.6%**
GRF	$1,343,808	$1,327,530	$16,278	1.2%	$7,755,564	$8,126,817	-$371,254	-4.6%
Non-GRF	$390,475	$375,434	$15,041	4.0%	$2,467,697	$2,267,508	$200,188	8.8%
Developmental Disabilities	**$216,018**	**$211,008**	**$5,010**	**2.4%**	**$1,149,264**	**$1,203,642**	**-$54,378**	**-4.5%**
GRF	$37,096	$37,445	-$350	-0.9%	$226,805	$232,648	-$5,843	-2.5%
Non-GRF	$178,922	$173,563	$5,359	3.1%	$922,459	$970,994	-$48,535	-5.0%
Job and Family Services	**$25,060**	**$14,278**	**$10,782**	**75.5%**	**$95,814**	**$81,900**	**$13,914**	**17.0%**
GRF	$7,419	$7,429	-$10	-0.1%	$36,996	$46,984	-$9,988	-21.3%
Non-GRF	$17,641	$6,850	$10,792	157.6%	$58,817	$34,915	$23,902	68.5%
Aging	**$339**	**$529**	**-$190**	**-35.9%**	**$2,975**	**$4,810**	**-$1,836**	**-38.2%**
GRF	$273	$260	$13	4.9%	$1,688	$1,693	-$5	-0.3%
Non-GRF	$66	$268	-$203	-75.6%	$1,287	$3,118	-$1,831	-58.7%
Health	**$1,410**	**$2,822**	**-$1,411**	**-50.0%**	**$12,010**	**$12,998**	**-$988**	**-7.6%**
GRF	$311	$254	$57	22.5%	$1,895	$1,608	$287	17.9%
Non-GRF	$1,099	$2,568	-$1,468	-57.2%	$10,115	$11,390	-$1,275	-11.2%
Mental Health and Addiction	**$393**	**$504**	**-$111**	**-22.0%**	**$2,328**	**$3,321**	**-$993**	**-29.9%**
GRF	$11	$140	-$129	-92.4%	$900	$1,522	-$621	-40.8%
Non-GRF	$382	$364	$19	5.1%	$1,428	$1,800	-$372	-20.7%
Total GRF	**$1,388,917**	**$1,373,059**	**$15,859**	**1.2%**	**$8,023,849**	**$8,411,272**	**-$387,423**	**-4.6%**
Total Non-GRF	**$588,585**	**$559,046**	**$29,539**	**5.3%**	**$3,461,802**	**$3,289,725**	**$172,077**	**5.2%**
Total All Funds	**$1,977,503**	**$1,932,104**	**$45,398**	**2.3%**	**$11,485,651**	**$11,700,997**	**-$215,346**	**-1.8%**

*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 January 5, 2015)

	December				Year to Date Through December			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	$891,810	$890,669	$1,141	0.1%	$5,195,596	$5,369,734	-$174,138	-3.2%
Nursing Facilities	$114,326	$85,930	$28,396	33.0%	$724,797	$610,240	$114,557	18.8%
DDD Services	$206,742	$207,354	-$612	-0.3%	$1,115,296	$1,168,598	-$53,302	-4.6%
Hospitals	$69,989	$108,679	-$38,690	-35.6%	$424,849	$600,560	-$175,711	-29.3%
Behavioral Health	$66,921	$85,732	-$18,811	-21.9%	$379,165	$480,353	-$101,188	-21.1%
Administration	$89,931	$91,399	-$1,468	-1.6%	$452,565	$523,304	-$70,739	-13.5%
Aging Waivers	$17,318	$18,308	-$990	-5.4%	$136,712	$148,125	-$11,414	-7.7%
Prescription Drugs	$37,606	$44,547	-$6,941	-15.6%	$194,115	$238,603	-$44,488	-18.6%
Medicare Buy-In	$36,695	$39,297	-$2,602	-6.6%	$217,600	$233,981	-$16,381	-7.0%
Physicians	$23,876	$30,864	-$6,988	-22.6%	$365,060	$403,820	-$38,760	-9.6%
Medicare Part D	$24,261	$24,973	-$711	-2.8%	$144,871	$147,931	-$3,061	-2.1%
Home Care Waivers	$14,892	$12,565	$2,327	18.5%	$84,328	$75,097	$9,231	12.3%
ACA Expansion	$294,922	$172,665	$122,257	70.8%	$1,559,048	$1,021,342	$537,706	52.6%
All Other	$88,214	$119,123	-$30,909	-25.9%	$491,651	$679,308	-$187,657	-27.6%
Total All Funds	**$1,977,503**	**$1,932,104**	**$45,398**	**2.3%**	**$11,485,651**	**$11,700,997**	**-$215,346**	**-1.8%**

* 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

GRF uses for the month of December were $2.17 billion, $12.0 million above the estimate released by the Office of Budget and Management (OBM) in August 2014. GRF uses mainly consist of program expenditures but also include transfers out. Through December, FY 2015 GRF program expenditures were $16.41 billion, $422.6 million below estimate. Year-to-date transfers out were $582.8 million, $1.6 million above estimate. GRF uses as a whole totaled $17.0 billion, $421.0 million below estimate. Tables 3 and 4 show GRF uses for the month of December and for FY 2015 through December, respectively.

For the first half of FY 2015, GRF uses were $421.0 million below estimate.

Medicaid accounted for over 92% of the total negative year-to-date variance in GRF uses. For the first half of FY 2015, GRF Medicaid expenditures were $387.4 million below estimate. Health and Human Services had the second largest negative year-to-date variance at $49.9 million, of which $1.4 million occurred in the month of December. As expected, property tax reimbursement payments were below estimate in December, by $33.2 million. This negative monthly variance reversed the category's year-to-date variance from a positive $28.0 million at the end of November to a negative $5.3 million at the end of December. The reimbursement payments based on the August 2014 property tax settlement were largely completed by the end of November.

Expenditures from the Primary and Secondary Education category were $12.2 million above estimate in December, which increased the category's positive year-to-date variance to $41.5 million. Primary and Secondary Education was the only program category with a significant positive year-to-date variance that partially offset the negative year-to-date variances in Medicaid, Health and Human Services, Property Tax Reimbursements, and several other program categories. The variances in Medicaid expenditures will be briefly discussed below. For more information on the largely timing-driven variances in the Health and Human Services and Primary and Secondary Education program categories, please see the *Expenditures* report for the December issue of *Budget Footnotes*.

Medicaid

For the first half of FY 2015, GRF Medicaid expenditures totaled $8.02 billion, which was $387.4 million (4.6%) below estimate. While the

For the first half of FY 2015, GRF Medicaid expenditures were $387.4 million below estimate, while all-funds expenditures were $215.3 million below estimate.

GRF is the primary funding source for Medicaid, various non-GRF funds also help support Medicaid. Non-GRF Medicaid expenditures totaled $3.46 billion in the first half of FY 2015, $172.1 million (5.2%) above estimate. Across all funds, Medicaid expenditures totaled $11.49 billion, $215.3 million (1.8%) 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.

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. Through December, ODM's GRF expenditures totaled $7.76 billion, which was $371.3 million (4.6%) below estimate, while its non-GRF expenditures totaled $2.47 billion, which was $200.2 million (8.8%) above estimate. Across all funds, ODM's expenditures were $171.1 million (1.6%) below their year-to-date estimate. GRF and non-GRF Medicaid expenditures from the Department of Developmental Disabilities (DDD), the second largest agency within this program category, were $5.8 million (2.5%) and $48.5 million (5.0%), 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, the All Other category had the largest negative year-to-date variance of $187.7 million (27.6%), followed by Hospitals ($175.7 million, 29.3%), Managed Care ($174.1 million, 3.2%), Behavioral Health ($101.2 million, 21.1%), Administration ($70.7 million, 13.5%), and DDD Services ($53.3 million, 4.6%). The negative variance in the All Other category was due in large part to various planned initiatives which were either replaced by Medicaid expansion (i.e., the Metro Health Medicaid waiver initiative 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 this category's negative variance. Lower than expected enrollment in MyCare Ohio contributed to the negative variance in Managed Care and the positive variance in Nursing Facilities (see below). Lower than anticipated Aged, Blind, and Disabled caseloads accounted for the negative variances in the Hospitals and Physicians categories.

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). For the first half of FY 2015, all-funds expenditures for ACA Expansion totaled $1.56 billion, $537.7 million (52.6%) above estimate. This positive variance was due to higher than expected caseload and per person costs. Through December, all-funds expenditures for Nursing Facilities were $724.8 million, $114.6 million (18.8%) above estimate. This positive variance was due largely to lower than expected enrollment in MyCare Ohio, which 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.

For the first half of FY 2015, all-funds expenditures for ACA Expansion were $537.7 million above estimate.

ISSUE UPDATES

OMHAS Provides $1.5 Million for 17 Community Innovations Projects

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

In December 2014, the Ohio Department of Mental Health and Addiction Services (OMHAS) announced $1.5 million in funding for 17 projects in 30 counties as part of the "Community Innovations" initiative. These projects focus on forging collaborative partnerships between the behavioral health treatment system and the criminal justice system, with the objective of reducing recidivism, increasing public safety, and minimizing harm to those with behavioral health needs who come in contact with law enforcement. Projects include improving community linkages between recently released offenders and community behavioral health treatment services, funding case managers and behavioral health assessors to help provide treatment services to individuals in the criminal justice system, and funding behavioral health treatment services such as medication-assisted treatment, individual counseling, group counseling, and community psychiatric support treatment. The table below lists the location of each project and each project's award amount. Award amounts range from $29,998 to $116,325.

Community Innovations Projects, FY 2015

Counties	Amount	Counties	Amount
Ashland	$75,801	Fairfield	$46,200
Athens/Hocking/Vinton	$116,325	Franklin	$49,285
Champaign/Logan	$70,365	Gallia/Jackson/Meigs	$116,325
Clark/Green/Madison	$29,998	Lorain	$116,325
Clermont	$69,513	Portage	$106,970
Clinton/Warren	$87,652	Putnam	$66,551
Columbiana	$101,398	Stark	$116,325
Coshocton/Guernsey/Morgan/ Muskingum/Noble/Perry	$98,047	Trumbull	$116,325
Cuyahoga	$116,325		
	Total		**$1,499,730**

The project funding comes from annual savings of $1.5 million that was achieved by the consolidation of the Ohio Department of Mental Health and the Ohio Department of Alcohol and Drug Addiction Services into OMHAS, which occurred on July 1, 2013. Twelve projects were funded in FY 2014. Over the FY 2014-FY 2015 biennium, 29 projects in 52 counties have been awarded funding. Clinton and Warren counties received funding in both years.

New Initiatives to Reduce Infant Mortality

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

On December 4, 2014, the Governor announced the creation of two new initiatives that are intended to reduce infant mortality in Ohio. As part of the first initiative, the Ohio Medicaid Program will provide high-risk care management benefits and services to pregnant women and infants in nine communities. These nine communities have the highest rates of infant mortality in the state and are located in Cincinnati and Columbus, as well as the following counties: Butler, Cuyahoga, Lucas, Mahoning, Montgomery, Stark, and Summit. Examples of services provided under this initiative include additional preventive care and alcohol and drug addiction services and screenings. The second initiative provides $900,000 in federal funds for the establishment of two rural and two urban pregnancy projects. These projects will provide services to pregnant women and create an environment for pregnant women to meet and support each other.

Ohio's infant mortality rate, which represents the number of babies who died in the first year of life per 1,000 live births, is higher than the national average. In 2012, Ohio's rate was 7.6 for all infants versus the national rate of 6.1. The rate of death for black infants in Ohio was 14.0 and the rate for white infants was 6.4. Infant deaths occur due to a number of factors such as pregnancy complications, being born preterm and/or underweight, or being born with a serious birth defect. There are also numerous nonmedical factors such as poor nutrition and poverty.

Additional efforts have been taken by the departments of Medicaid and Health, as well as other government and community organizations, to reduce Ohio's infant mortality rate. For instance, the Ohio Perinatal Quality Collaborative aims to reduce scheduled early deliveries of infants, which lessens preterm complications and hospital admissions. The Progesterone Prematurity Prevention Project identifies and treats women at-risk of having a pre-term delivery with progesterone to reduce early delivery in certain instances. Other efforts include measures that address prenatal smoking, sleep-related deaths, and congenital heart disease screening for newborns.

Controlling Board Approves Additional Funding for Dangerous Drugs Database

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

On December 1, 2014, the Controlling Board approved the State Board of Pharmacy's request to expend in FY 2015 a new federal Department of Justice grant totaling $386,621. The grant is to enhance the Pharmacy Board's dangerous drugs database known as the Ohio Automated Rx Reporting System (OARRS). The Board established OARRS to collect information on all prescriptions for controlled substances that are issued by licensed prescribers and dispensed by pharmacies in Ohio. Information collected in the database is used by law enforcement authorities to investigate and enforce drug control laws. As of December 2014, the OARRS system contained more than 49.3 million prescription records reported by 3,501 Ohio pharmacies and prescribers for 6.1 million patients.

The OARRS enhancements to be performed with the federal grant will include: (1) providing additional reports to prescribers, (2) developing online user tutorials, (3) integrating with CliniSync, an Ohio health information exchange,[6] (4) conducting onsite prescriber education, and (5) making quarterly reviews of data to identify potential violations of drug laws. The money will be primarily allocated to fund the payroll expenses of existing staff assigned to the project, and secondarily to fund three separate contracts for system enhancements as well as training for law enforcement and healthcare professionals.

OARRS was authorized by H.B. 377 of the 125th General Assembly and began full operation in October 2006. Through November 2014, the Board has expended close to $4 million in federal grant money for the purposes of planning, implementing, and improving OARRS. Other more routine operating and maintenance expenses are paid with state money from Fund 4K90, the Occupational Licensing and Regulatory Fund, which consists of fees and fines collected by various state professional and licensing boards.

State Fire Marshal Awards $3.0 million under MARCS Grant Program Created in Mid-Biennium Budget Review Act

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

On December 1, 2014, the Division of State Fire Marshal within the Department of Commerce announced $3.0 million in awards under the Multi-Agency Radio Communications System (MARCS) Grant program created under H.B. 483, the mid-biennium budget review act of the 130th General Assembly. Overall, 106 fire protection entities in 29 counties received awards, ranging from approximately $240 to $50,000, the maximum award amount under the program. The $3.0 million in awards represents the full amount set aside for the program for FY 2015.

The MARCS Grant funding provided under H.B. 483 is an expansion of the long-standing Fire Department Grants program that has assisted qualifying fire departments buy firefighting and rescue equipment and pay for firefighter training. The purpose of the grant program is to help offset the costs that local fire departments incur

[6] This exchange is a network that connects electronic health record systems used by different healthcare providers. The connection between OARRS and the exchange will serve as a bridge between providers, their electronic health record systems, and OARRS.

for MARCS-related radio equipment and to promote the interoperability between fire responders. The State Fire Marshal awards MARCS grants based on a variety of criteria including: (1) the fire department's annual budget, (2) the annual number of fire incidents, and (3) the resident population served by the department. Eligible grant recipients include volunteer fire departments, joint fire districts, and certain private fire companies that serve a population of 25,000 or less. Funding for both the MARCS grants and the equipment and training grants comes from taxes on insurance companies selling fire insurance in Ohio and from inspection fees, hotel permits, and fireworks licenses. The receipts from these various sources are deposited into the State Fire Marshal Fund (Fund 5460).

OAC Announces New Grant Awards for Ohio Artists and Arts Organizations

– Neil Townsend, Budget Analyst, 614-466-8742

On December 2, 2014, the Ohio Arts Council (OAC) announced over $550,000 in grant awards to 23 artists and arts organizations throughout Ohio by the National Endowment for the Arts (NEA). The NEA is an independent federal agency that supports arts projects that benefit individuals and communities. Most grants ranged from $10,000 to $30,000, with the largest award being $70,000. Sixteen organizations received a total of $450,000 in Art Works grants, which encourage public engagement, lifelong learning, and the strengthening of communities through the creation of works of art. Five organizations received $10,000 each in Challenge America grants to support arts projects in underserved areas. Two individuals were awarded Creative Writing Fellowships in Poetry and will each receive a $25,000 grant. Ohio's awards were concentrated in the Cleveland and Cincinnati metropolitan areas. Organizations in these two areas were awarded 75.6% ($417,000) of total funding – 45.7% ($250,000) to organizations in Cleveland and 29.9% ($165,000) to Cincinnati-based organizations. Another round of Art Works grants will be announced in the spring.

Ohio Expositions Commission Reports Profit of Nearly $480,000 from 2014 State Fair

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

The Ohio Expositions Commission reported a profit of almost $480,000 from the 2014 State Fair, which was held from July 23 through August 3. Overall revenue from the event was just over $8.4 million, of which $6.2 million (73.8%) was derived from admission fees, ticket sales for entertainment and attractions, and exhibition space rental fees. The remaining $2.2 million (26.2%) came from event sponsorship, parking and camping fees, and other sources such as concessions and livestock auction revenues. Total expenses for the 2014 State Fair were just under $8.0 million, with payroll and entertainment and personal service contracts accounting for approximately $4.6 million (57.5%) of that amount. The remaining $3.4 million (42.5%) was spent on advertising, fairground maintenance, supplies, utilities, and other items. The 2014 State Fair set a new attendance record with over 916,000 visitors, an increase of more than 12,000 from the 2013 State Fair.

The Exposition Commission has a FY 2015 budget of $13.4 million, of which $13.1 million is funded by anticipated revenues from the State Fair and approximately 125 other events held on the state fairgrounds throughout the year. A GRF appropriation of $250,000 is used to support the Junior Fair held in conjunction with the State Fair. Under certain conditions, the Commission may tap the State Fair Reserve Fund (Fund 6400) if receipts from the annual event fall short of expenses. The last time the Commission exercised this authority was in 2002. As of December 12, 2014, Fund 6400 had a cash balance of just over $125,000.

Controlling Board Approves $2.98 Million for Capital Improvements at County Juvenile Correctional Facilities

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

On December 1, 2014, the Controlling Board approved two requests from the Department of Youth Services (DYS) to allocate a total of $2.98 million in capital funds for building improvement projects at various county juvenile correctional facilities (see table below). Of this total, $1.73 million will be allocated for projects at seven of the 12 community corrections facilities (CCFs) located throughout the state. The state funds provide 100% of each CCF's total estimated project cost, which ranges from $25,000 to $400,000. CCFs are secure, county-operated facilities that provide post-adjudication rehabilitation for felony youth offenders in lieu of a commitment to DYS. The remaining $1.25 million will be allocated for projects at eight of the 39 county juvenile detention centers (JDCs) located throughout the state. The state generally funds 60% of each JDC's total estimated project cost, which ranges from $25,000 to $1.1 million.[7] JDCs are secure, county-operated facilities that provide short-term care and custody of alleged and adjudicated juvenile offenders.

[7] In the case of the Fairfield and Sandusky JDC projects, the state will fund 50% and 30%, respectively, of the total estimated project cost.

State Funding for Capital Improvements Projects at County Juvenile Correctional Facilities	
Type and Location of Facility	**State Funds**
Community Corrections Facility (CCF)	
Lucas County Youth Treatment Center	$400,000
Miami Valley Juvenile Rehabilitation Center (Greene County)	$394,300
Oakview Juvenile Rehabilitation Center (Belmont County)	$300,000
Perry/Multi-County Juvenile Facility	$295,300
Hocking Valley Community Rehabilitation Center (Athens County)	$188,200
Juvenile Rehabilitation Center of Northwest Ohio (Wood County)	$129,500
Montgomery Center for Adolescent Services	$25,000
CCF Total	**$1,732,300**
Juvenile Detention Center (JDC)	
Butler County	$550,464
Sandusky County	$330,000
Warren County	$162,000
Logan County	$66,000
Greene County	$60,000
Trumbull County	$48,437
Fairfield Multi-County	$20,000
Allen County	$15,000
JDC Total	**$1,251,901**

Controlling Board Approves $5.6 Million in Additional Funding for Various Federal Education Grants

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

On December 15, 2014, the Controlling Board approved a total of $5.6 million in additional funding for FY 2015 under the Ohio Department of Education's budget for various federal education grant programs. The new or increased funding will allow the Department to (1) expand professional development programs for mathematics and science teachers, (2) develop, implement, and sustain the delivery of integrated, comprehensive, and evidence-based mental health and behavioral health services for youth and families, (3) work with the Ohio Department of Public Safety to provide emergency management training and other resources to school districts, and (4) support local education agencies that are developing and enhancing implementation of Positive Behavioral Interventions and Support models to improve student behavior and school climate. The table below displays the amount of new funding for each grant as well as the funds and line items that will be used to disburse the money.

Federal Education Grant Program Appropriation Increases, FY 2015				
Federal Grant Program	**Fund**	**ALI**	**ALI Name**	**New Funding Amount**
Mathematics and Science Partnerships	3D20	200667	Math Science Partnerships	$2,500,000
Substance Abuse and Mental Health Services – Projects of Regional and National Significance	3GQ0	200679	Project AWARE	$1,924,316
Grants to States for School Emergency Management Program	3D10	200664	Drug Free Schools	$962,025
School Climate Transformation Grant Program	3GP0	200600	Positive Transformations	$260,427
			Total	**$5,646,768**

While state allocations for the Mathematics and Science Partnerships grant are based on a federal formula, the other three grants are competitively awarded and are part of the comprehensive federal "Now is the Time" initiative that aims to protect children and communities by reducing gun violence, making schools safer, and increasing access to mental health services.

TRACKING THE ECONOMY

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

– Gregory Craig, Economist, 614-728-3218

Overview

The continued uptrend in employment, manufacturing activity, and consumer spending, including strong motor vehicle sales, signal ongoing economic improvement. Growth of inflation-adjusted gross domestic product (real GDP) was at its highest rate in more than a decade. Unemployment rates across much of the U.S. including Ohio continued declining. Gasoline and other oil-related energy prices have fallen precipitously since mid-2014 as U.S. crude oil production reached its highest level in nearly 30 years. The price drop positively impacts many industries while negatively impacting others. The Federal Reserve's latest statement maintained its decision to hold its short-term interest rate target for the federal funds rate at the very low level at which it has been kept for the past six years. This follows the end of its asset buying program in October. Future policy changes remain dependent on future economic and inflation indicators.

The National Economy

Employment and Unemployment

In December, nonfarm payroll employment nationwide at business establishments increased 252,000, according to initial estimates from the Bureau of Labor Statistics (BLS). Job growth for 2014 averaged 246,000 per month, a 27% increase over the 194,000 average in 2013. December was the 11th consecutive month that employment has increased by 200,000 or more, the longest such period since the 19 months that ended in March 1995. Employment gains were broad based, including gains in professional and business services, construction, restaurants and bars, health care, and manufacturing. Additionally, BLS upwardly revised its estimates of employment gains in October and November. For those two months combined, employment gains were 50,000 more than previously reported.

The U.S. economy added a net total of 2.95 million jobs in 2014, the largest single year increase since 1999.

The U.S. economy added a net total of 2.95 million jobs in 2014, the largest single year increase since 1999. The national unemployment rate declined by 0.2 percentage points from 5.8% in November to 5.6% in December, and has declined by 1.1 percentage points from 6.7% one year ago. The December unemployment rate is the lowest since June 2008.

Real GDP grew at an annual rate of 5.0% in the third quarter of 2014.

Average hourly earnings of all employees on private, nonagricultural payrolls decreased by 0.2% in December. The gain in November average hourly earnings was revised downward by 0.2 percentage points to an increase of 0.2%. Average hourly earnings are up 1.7% over the past year.

Production

Real GDP grew at an annual rate of 5.0% in the third quarter of 2014, significantly higher than the previous estimate of 3.9%, according to the Bureau of Economic Analysis. After a decline at a 2.1% rate in the first quarter, real GDP rebounded in the second quarter with a 4.6% annual growth rate. Even if real GDP had not grown at all in the final quarter of 2014, annual growth in 2014 would still equal that in 2013 (2.2%). However, monthly statistical indicators point to further real GDP growth in the fourth quarter. Third quarter growth in real GDP was due to increases in personal consumption expenditures (3.2% at an annual rate), nonresidential fixed investment (8.9%), federal government spending (9.9%), exports (4.5%), residential fixed investments (3.2%), and state and local spending (1.1%).

Industrial production increased 1.3% in November, to 5.2% above its level a year ago. Monthly increases in both the manufacturing index (1.1%) and utilities index (5.1%) more than offset a slight drop in the Federal Reserve's index for mining (-0.1%). The mining index is still 9.3% higher than year-ago levels despite a 1.0% decline over the past two months.

Growth in the manufacturing sector continued for the 19th consecutive month in December, according to a report from the Institute for Supply Management based on a survey of manufacturing sector purchasing managers. Falling oil prices negatively impacted certain industries while also having a positive effect on others, as noted by respondents in several industries. Managers also reported less widespread growth in production, new orders, and order backlogs, as well as some disruption in shipments due to West Coast dock workers' disputes.

Oil and Gas

U.S. field production of crude oil in October reached 9.0 million barrels per day, 17.6% higher than in October of 2013 and at the highest level since 1986, according to the U.S. Energy Information Administration (EIA). Domestic production of crude oil has been on the rise since late 2008. Higher levels of domestic and foreign oil production, in excess of consumption, have driven down prices of North Sea Brent crude oil and West Texas Intermediate crude oil (widely quoted benchmark prices) from highs in June 2014 of about $115 and $108 per barrel, respectively, to prices 50% lower in December.

Crude oil prices account for roughly two-thirds of the price U.S. drivers pay for a gallon of gasoline, and falling crude oil prices have significantly driven down gasoline prices. According to the EIA, the average retail price of a gallon of regular gasoline nationwide fell on January 5 to $2.21, its lowest since May 2009. This marks a $1.12 (33.6%) decrease in price from one year ago. In Ohio, the average price of regular gasoline fell to $1.86 on January 5, the lowest since March 2009. The EIA forecasts that the average household will expend $1,962 on gasoline in 2015. This would be the lowest figure since 2004 ($1,598) and would represent a savings of $550 per household compared with 2014 average spending.[8]

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Consumer Spending and Personal Incomes

Real consumer spending increased by 0.7% (seasonally adjusted) in November, and 2.8% from one year ago. Consumer spending growth is slightly up compared to growth in 2013 (2.4%) and 2012 (1.8%). Personal income, in current dollars (not adjusted for inflation), increased by 0.4% in November, advancing 4.2% above year-ago levels.

Sales of light vehicles maintained a strong pace in December, at a seasonally adjusted annualized rate of 16.8 million units, down from a 17.1 million unit rate in November. Sales last year of autos were at the highest pace since 2006, and light truck sales were the strongest since 2005.

Housing

November housing starts, at a seasonally adjusted annual rate, remained above 1,000,000 for the third month in a row, dropping 1.6% to 1,028,000. Housing starts year to date are up 8.2%, driven primarily by increases in housing structures with five or more units (up 16.5%), rather than single-unit structures (up 4.4%). After reaching a low of 554,000 in 2009, housing starts have been rising each year, but remain a long way from peaks in 1972 (2,356,600) and 2005 (2,068,300).

Existing home sales in November dropped for the first time in three months, falling to a 4.93 million unit annual rate, seasonally adjusted, according to the National Association of Realtors (NAR). Year to date unit sales were 3.8% lower than a year earlier, after growth in home

[8] U.S. Energy Information Administration. *U.S. household gasoline expenditures in 2015 on track to be the lowest in 11 years.* December 16, 2014.

sales in both 2012 (9.4%) and 2013 (9.2%). Median sales prices of existing homes have continued to rise in 2014, but at a lower rate than 2013.

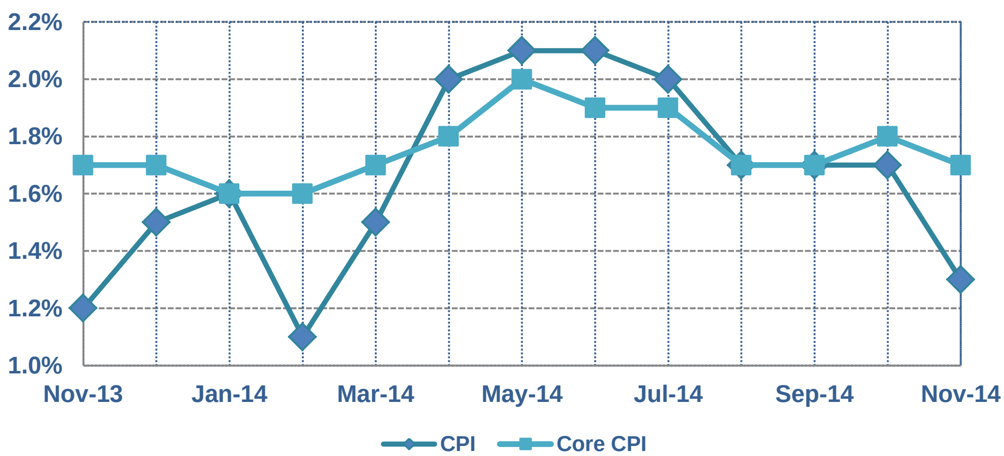
November sales of new residential homes dipped to a 438,000 seasonally adjusted annual rate, 1.6% lower than the revised October rate of 445,000. Year-to-date sales remain unchanged compared to the same period in 2013 and at only about one-third of the sales rate in the peak year (2005).

Inflation

Consumer Prices

The consumer price index (CPI) declined 0.3% in November, on a seasonally adjusted basis, according to BLS. The gasoline index, which dropped the most since 2008 (-6.6%), contributed to the decrease, as did drops in the fuel oil index (-3.5%) and the index for natural gas (-1.7%). The 12-month percent change in the CPI declined to 1.3% in November, from 1.7% maintained in August, September, and October. However, core CPI, which measures changes in prices for all items except food and energy (which typically are more volatile), increased 0.1% in November and increased 1.7% over the past 12 months.

Chart 5: 12-month Percent Change in Consumer Price Index, November 2013 - November 2014



Producer Prices

The producer price index (PPI) for final demand decreased 0.2% in November. The index for final demand goods (-0.7%) and specifically final demand energy (-3.1%) contributed the greatest portion of the decline in PPI. The index for final demand goods has not increased in any month since June 2014, reflecting the five-month decline in final demand energy prices.

The Ohio Economy

Population

On December 23, the U.S. Census Bureau reported that between July 1, 2013, and July 1, 2014, Ohio's population increased from 11.57 million to 11.59 million, a net increase of 22,158 (0.19%). Natural population increase (births less deaths), which totaled 26,766 during the period, more than accounted for the increase. Migration of people out of Ohio continued to exceed migration into the state and thus created a drag on population growth. Ohio remained the seventh most populous state in the nation. Between 2013 and 2014, Ohio ranked 22nd out of all 50 states and the District of Columbia in terms of total population change and 39th in terms of percentage population change and accounted for one-eighth of total population change in the Midwest region. Between July 2013 and July 2014, Ohio added about 56,000 nonfarm payroll jobs, more than double the rate of population growth.

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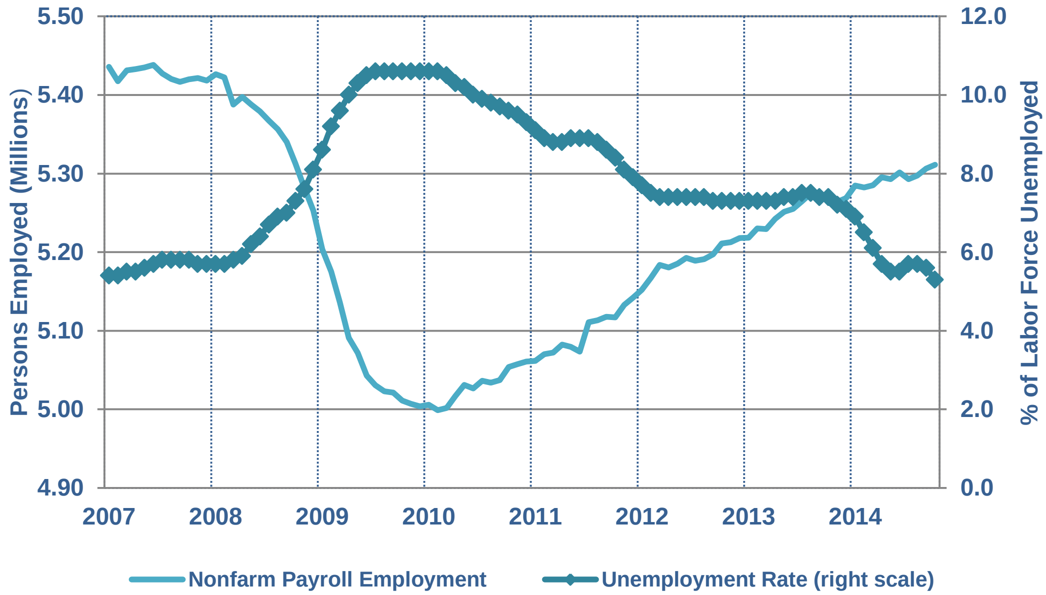
Employment and Unemployment

Total nonfarm payroll employment in Ohio increased by 17,900 (0.3%) in November, while the state's rate of unemployed job-seekers dropped to 5.0%, as shown in Chart 6 below. Unemployment rates decreased from October in 41 states and the District of Columbia, while 37 states and the District of Columbia experienced increases in employment. The number of Ohioans counted as unemployed dropped by 130,000 over the past 12 months, while nonagricultural wage and salary employment grew by 65,200 (1.2%); 43 states and the District of Columbia saw decreases in the unemployment rate during the same period. On the year, goods-producing industries added 18,000 (2.1%) jobs, including 18,400 (2.8%) jobs in manufacturing. The private service-providing sector added 48,300 (1.3%) jobs in the latest year; the number of public-sector jobs fell 1,100 (0.1%) during this period.

Chart 6: Ohio Employment and Unemployment

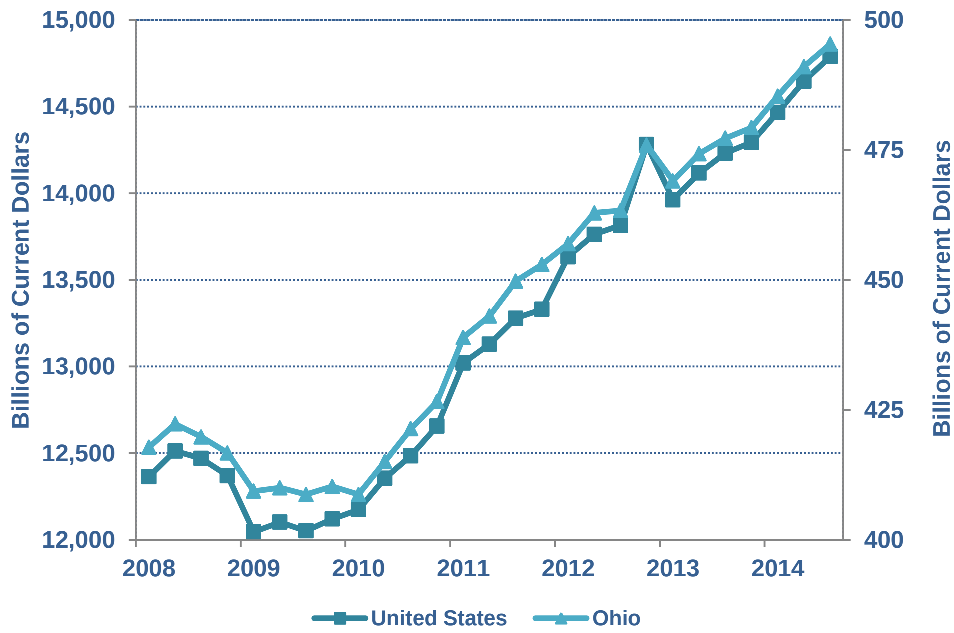


In the first three quarters of 2014, personal income growth in Ohio nearly matched that in the U.S.

Personal Income

State personal income growth slowed slightly in the third quarter of 2014. The U.S. Bureau of Economic Analysis (BEA) estimates that Ohio personal income grew 0.9% in the third quarter, less than the 1.2% estimated growth in the second quarter. Personal income growth slowed in Ohio by the same margin (0.3 percentage points) as it did nationwide. Personal income growth also slowed in 37 other states and the District of Columbia. Growth in personal income in the third quarter, however, outpaced inflation (as measured by the national price index for personal consumption expenditures) by about a 3-to-1 margin (0.9% to 0.3%, not annualized). In the first three quarters of 2014, personal income growth in Ohio nearly matched that in the U.S.

Chart 7: Personal Income



Home Sales

The number of homes sold in Ohio in November was 5.1% lower than a year earlier, and year-to-date sales were 2.6% lower than in the comparable period in 2013. The year-to-date average sales price in the state was $149,660, 4.9% higher than a year earlier, according to the Ohio Association of Realtors.