Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION JULY 2015

STATUS OF THE GRF

HIGHLIGHTS

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

The GRF finished the fiscal year with an unobligated cash balance of $1.29 billion. The favorable budget situation was due to higher than expected revenue from federal grants and a strong performance of the income tax, which yielded $311 million and $279 million, respectively, more than the August 2014 estimate by the Office of Budget and Management (OBM). Other big contributors were the commercial activity tax ($81 million) and a net negative variance ($57 million) on the expenditure side of the budget.

In addition to meeting the required ending fund balance, pursuant to H.B. 64 of the 131st General Assembly, $425.5 million of the year-end surplus, along with $101.1 million cash from the Medicaid Reserve Fund, will be transferred to the Budget Stabilization Fund (BSF); H.B. 64 increases the statutory target for the BSF from 5% to 8.5% of total GRF revenues. The remainder will be used to help offset the cost of the income tax reduction and fund various specified programs during the FY 2016-FY 2017 biennium.

Simplified GRF Cash Statement, as of June 30, 2015 ($ in millions)	
Beginning Cash Balance	**$1,700.1**
Plus Actual Revenues, Transfers in, and Receivables	$31,473.1
Less Actual Expenditures and Transfers Out	$31,461.5
Ending Cash Balance	**$1,711.7**
Less Encumbrances	$425.2
Unobligated Ending Cash Balance	**$1,286.5**
Plus Budget Stabilization Fund (BSF) Balance	$1,477.9
Combined GRF and BSF Unobligated Ending Balance	**$2,764.4**

VOLUME 38, NUMBER 11

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

Next Issue:
September 2015

Have a great summer!

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Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of June 2015
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on July 2, 2015)

STATE SOURCES	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$124,942	$109,500	$15,442	14.1%
Nonauto Sales and Use	$690,306	$753,400	-$63,094	-8.4%
Total Sales and Use Taxes	**$815,248**	**$862,900**	**-$47,652**	**-5.5%**
Personal Income	$796,319	$822,100	-$25,781	-3.1%
Corporate Franchise	$1,126	$0	$1,126	---
Financial Institution	$28,755	$29,500	-$745	-2.5%
Public Utility	$559	$0	$559	---
Kilowatt-Hour Excise	$16,388	$17,300	-$912	-5.3%
Natural Gas Consumption (MCF)	$83	$900	-$817	-90.8%
Commercial Activity Tax	$3,926	$400	$3,526	881.6%
Petroleum Activity Tax	$1,097	$200	$897	448.7%
Foreign Insurance	-$17,911	-$1,800	-$16,111	-895.1%
Domestic Insurance	$71,980	$12,300	$59,680	485.2%
Business and Property	$13	$0	$13	---
Cigarette	$77,815	$64,700	$13,115	20.3%
Alcoholic Beverage	$5,598	$5,800	-$202	-3.5%
Liquor Gallonage	$3,855	$3,700	$155	4.2%
Estate	$43	$0	$43	---
Total Tax Revenue	**$1,804,895**	**$1,818,000**	**-$13,105**	**-0.7%**
NONTAX REVENUE				
Earnings on Investments	$5,247	$5,500	-$253	-4.6%
Licenses and Fees	$644	$725	-$81	-11.1%
Other Revenue	$9,142	$12,996	-$3,854	-29.7%
Total Nontax Revenue	**$15,033**	**$19,221**	**-$4,188**	**-21.8%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$617,356	$641,186	-$23,830	-3.7%
Total Transfers In	**$617,356**	**$641,186**	**-$23,830**	**-3.7%**
TOTAL STATE SOURCES	**$2,437,284**	**$2,478,407**	**-$41,123**	**-1.7%**
Federal Grants	$677,146	$368,975	$308,171	83.5%
TOTAL GRF SOURCES	**$3,114,430**	**$2,847,382**	**$267,048**	**9.4%**

*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 June 30, 2015
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on July 2, 2015)

STATE SOURCES	Actual	Estimate*	Variance	Percent	FY 2014	Percent Change
TAX REVENUE						
Auto Sales	$1,316,600	$1,264,500	$52,100	4.1%	$1,209,879	8.8%
Nonauto Sales and Use	$8,643,630	$8,644,500	-$870	0.0%	$7,955,923	8.6%
Total Sales and Use Taxes	**$9,960,230**	**$9,909,000**	**$51,230**	**0.5%**	**$9,165,802**	**8.7%**
Personal Income	$8,506,665	$8,227,900	$278,765	3.4%	$8,064,922	5.5%
Corporate Franchise	$2,496	$0	$2,496	---	-$11,380	121.9%
Financial Institution	$182,134	$205,000	-$22,866	-11.2%	$197,837	-7.9%
Public Utility	$97,473	$105,000	-$7,527	-7.2%	$106,012	-8.1%
Kilowatt-Hour Excise	$292,327	$298,200	-$5,873	-2.0%	$306,294	-4.6%
Natural Gas Consumption (MCF)	$74,735	$60,000	$14,735	24.6%	$76,110	-1.8%
Commercial Activity Tax	$853,987	$772,500	$81,487	10.5%	$794,205	7.5%
Petroleum Activity Tax	$5,533	$20,000	-$14,467	-72.3%	$0	---
Foreign Insurance	$266,627	$289,200	-$22,573	-7.8%	$286,483	-6.9%
Domestic Insurance	$251,647	$238,700	$12,947	5.4%	$196,894	27.8%
Business and Property	$55	$0	$55	---	$476	-88.4%
Cigarette	$808,164	$794,100	$14,064	1.8%	$813,984	-0.7%
Alcoholic Beverage	$56,574	$55,000	$1,574	2.9%	$55,519	1.9%
Liquor Gallonage	$43,365	$41,000	$2,365	5.8%	$41,832	3.7%
Estate	$3,071	$0	$3,071	---	$39,391	-92.2%
Total Tax Revenue	**$21,405,085**	**$21,015,600**	**$389,485**	**1.9%**	**$20,134,381**	**6.3%**
NONTAX REVENUE						
Earnings on Investments	$23,174	$20,000	$3,174	15.9%	$17,341	33.6%
Licenses and Fees	$57,659	$62,000	-$4,341	-7.0%	$57,303	0.6%
Other Revenue	$44,841	$42,000	$2,841	6.8%	$39,871	12.5%
Total Nontax Revenue	**$125,674**	**$124,000**	**$1,674**	**1.4%**	**$114,515**	**9.7%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$641,628	$648,386	-$6,758	-1.0%	$405,710	58.1%
Total Transfers In	**$641,628**	**$648,386**	**-$6,758**	**-1.0%**	**$405,710**	**58.1%**
TOTAL STATE SOURCES	**$22,172,387**	**$21,787,986**	**$384,401**	**1.8%**	**$20,654,606**	**7.3%**
Federal Grants	$9,301,325	$8,990,764	$310,561	3.5%	$8,575,562	8.5%
TOTAL GRF SOURCES	**$31,473,712**	**$30,778,750**	**$694,961**	**2.3%**	**$29,230,168**	**7.7%**

*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 $695.0 million above estimate.

Tables 1 and 2 show GRF sources for the month of June and for FY 2015 through June, respectively. GRF sources mainly consist of state-source receipts (including tax revenue, nontax revenue, and transfers in) but also include certain federal grants. In June, GRF sources of $3.11 billion were $267.0 million above the estimate released by OBM in August 2014,[1] due to a positive variance of $308.2 million in federal grants. This positive variance was partially offset by shortfalls of $13.1 million from tax revenue and $28.0 million from state nontax receipts. For the full fiscal year, total GRF sources of $31.47 billion were $695.0 million above estimate. GRF tax revenue of $21.41 billion was $389.5 million above estimate. State non-tax receipts of $767.3 million, however, were $5.1 million below estimate. Federal grants of $9.30 billion were $310.6 million above the estimate for FY 2015, and 8.5% higher than the FY 2014 amount. Federal grants mainly consist of Medicaid reimbursements that are deposited into the GRF. GRF Medicaid expenditures for FY 2015 were 9.5% higher than the spending level in FY 2014.

FY 2015 GRF tax receipts were $389.5 million above estimate.

For the month of June, the domestic insurance tax was above estimate by $59.7 million, reversing a timing-related shortfall of $52.3 million in the previous month. A strong performance from the auto sales tax resulted in a positive variance of $15.4 million. In addition, the cigarette tax was above anticipated receipts by $13.1 million, the commercial activity tax (CAT), by $3.5 million, the corporate franchise tax, by $1.1 million, and the petroleum activity tax (PAT), by $0.9 million. Those positive variances were offset, however, by negative variances from the nonauto sales and use tax, the personal income tax, and the foreign insurance tax: these taxes were, respectively, $63.1 million, $25.8 million, and $16.1 million, below estimates. Other taxes experienced smaller variances.

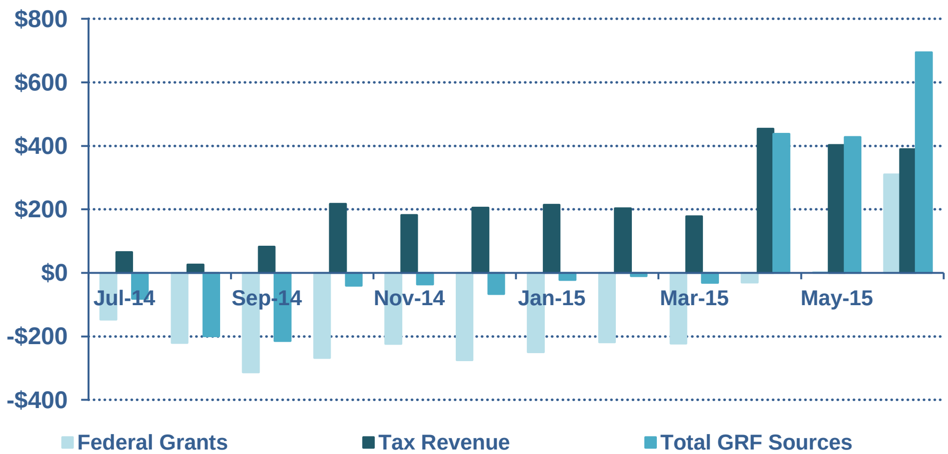
Regarding the remaining GRF sources, June nontax revenue was below estimate by $4.2 million, and transfers in of $617.4 million were below anticipated transfers by $23.8 million. June transfers in consisted

[1] Comparisons below of actual receipts to estimates are to OBM's August 2014 estimates, unless otherwise indicated. OBM had subsequently revised upward the FY 2015 total tax revenue estimate, but did not revise the original monthly revenue estimates.

primarily of excess CAT reimbursements to the GRF ($235 million), CAT motor fuel receipts-related transfers ($69.2 million), and transfers from the Small Business Deduction Augmentation Fund (Fund 5PN0, $221 million).

Chart 1 below shows FY 2015 cumulative variances against estimates for federal grants, tax revenue, and total GRF sources, which were, as stated above, all above estimates for the fiscal year. As seen in Table 2, the personal income tax had the largest positive tax variance at $278.8 million, followed by the CAT ($81.5 million), the sales and use tax ($51.2 million), the natural gas consumption (MCF) tax ($14.7 million), the cigarette tax ($14.1 million), and the domestic insurance tax ($12.9 million). Notable negative variances for the year were generated by the financial institutions tax (FIT, $22.9 million), the foreign insurance tax ($22.6 million), the PAT ($14.5 million), the public utility tax ($7.5 million), and the kilowatt-hour tax ($5.9 million).

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



FY 2015 GRF sources were $2.24 billion above GRF sources in FY 2014.

Compared to FY 2014, FY 2015 GRF sources grew by $2.24 billion (Table 2). Receipts were higher for all categories, including tax receipts ($1.27 billion), federal grants ($725.8 million), transfers in ($235.9 million), and nontax revenues ($11.2 million). Among the most important tax sources, revenue from the sales and use tax, the personal income tax, and the CAT increased $794.4 million, $441.7 million, and $59.8 million, respectively. However, reflecting long-term trends, revenue from the cigarette tax declined $5.8 million. 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.

FY 2015 income tax receipts were $278.8 million above estimate.

FY 2015 withholding tax receipts were below estimate by $19.1 million.

Personal Income Tax

For a second consecutive month, GRF receipts from the personal income tax were below estimate. June receipts of $796.3 million were $25.8 million (3.1%) below estimate, following a negative variance of $37.6 million in May 2015. The shortfall in each month was due primarily to poor monthly employer withholdings, and more than anticipated refunds to taxpayers. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the Local Government Fund (LGF). Gross collections are the sum of employer withholding, quarterly estimated payments,[2] trust payments, payments associated with annual returns, and miscellaneous payments.

In June 2015, quarterly estimated payments and payments with annual returns were ahead of estimates by $13.2 million and $2.8 million, respectively. However, those positive variances were offset by a shortfall of $21.0 million in monthly employer withholdings. In addition, taxpayer refunds were $18.0 million more than anticipated for the month. Through June, FY 2015 GRF receipts from the personal income tax were $8.51 billion, $278.8 million (3.4%) above estimate. The table below summarizes year-to-date FY 2015 income tax revenue variances from estimates and annual changes by component.

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

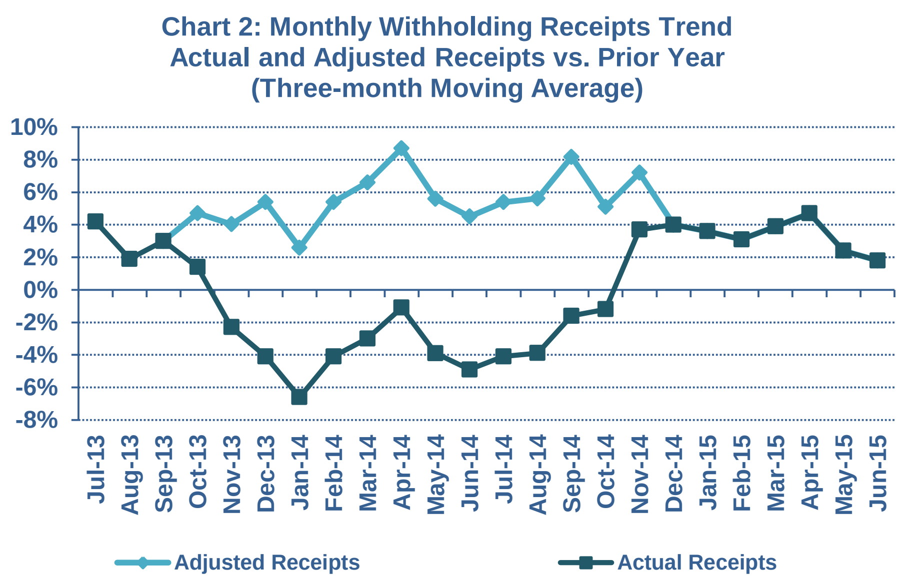
Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2014	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	-$19.1	-0.2%	$196.0	2.5%
Quarterly Estimated Payments	$98.0	9.8%	-$98.7	-8.3%
Trust Payments	$5.6	8.6%	$5.1	7.8%
Annual Return Payments	$289.8	40.8%	$196.2	24.4%
Miscellaneous Payments	-$27.2	-20.2%	-$16.8	-13.5%
Gross Collections	$347.1	3.5%	$281.8	2.8%
Less Refunds	$63.8	4.4%	-$178.0	-10.5%
Less LGF Distribution	$4.6	1.3%	$18.1	5.2%
Income Tax Revenue	$278.8	3.4%	$441.7	5.5%

[2] 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.

For the fiscal year, annual return payments and quarterly estimated payments were above estimate by $289.8 million and $98.0 million, respectively. On the other hand, employer withholding and miscellaneous receipts were short of estimates by $19.1 million and $27.2 million, respectively.

FY 2015 GRF income tax receipts were $441.7 million above FY 2014 revenue.

Through June, FY 2015 GRF receipts from the personal income tax were $441.7 million (5.5%) above receipts in FY 2014. Employer withholdings and annual return payments increased $196.0 million and $196.2 million, respectively, this fiscal year when compared to last. However, quarterly estimated payments fell by $98.7 million and miscellaneous payments by $16.8 million. Gross collections were $281.8 million higher in FY 2015, but taxpayer refunds were $178.0 million less than in FY 2014.[3] 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. It shows a noticeable slowdown in payroll growth in recent months.



[3] FY 2014 refunds were unusually high due to an 8.5% reduction in tax rates for tax year (TY) 2013 and other tax changes enacted in H.B. 59 of the 130th General Assembly. Tax rates were reduced an additional 1.6% (or 1.5% compared to TY 2012 rates) in TY 2014.

FY 2015 sales and use tax receipts were $51.2 million above estimate.

Sales and Use Tax

GRF receipts from the sales and use tax of $815.2 million in June 2015 were $47.7 million (5.5%) below estimate, but $10.2 million (1.3%) above receipts in June 2014. For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[4] generally arise from the sale of motor vehicles, 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, GRF sales and use tax receipts totaled $9.96 billion, $51.2 million (0.5%) above estimate, due to strong results from the auto tax, which fully accounted for the yearly positive variance for the overall sales tax. Total sales and use tax receipts were $794.4 million (8.7%) above receipts in FY 2014, due, in part, to the state sales tax rate increase from 5.5% to 5.75%, which provided an extra boost to receipts in the first quarter of FY 2015 compared to the corresponding quarter of FY 2014.

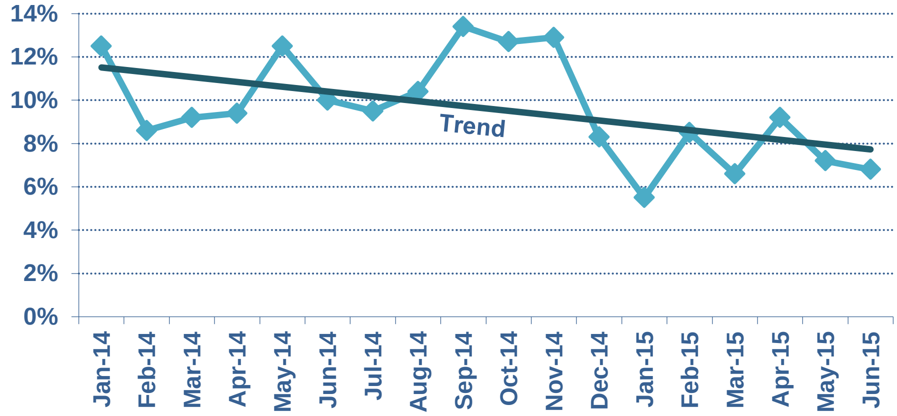
FY 2015 nonauto sales and use tax receipts were $0.9 million below estimate.

Nonauto Sales and Use Tax

A disappointing performance from the nonauto sales and use tax in June concluded a poor six-month period for this tax source. June GRF receipts from the nonauto sales and use tax of $690.3 million were $63.1 million (8.4%) below estimate and $9.8 million (1.4%) below revenue in June 2014, a surprising result as the economy appears to continue to grow. For the fiscal year, total GRF receipts of $8.64 billion were $0.9 million (0.0%) below estimate, but $687.7 million (8.6%) above FY 2014 receipts. The nonauto sales and use tax was about $42.0 million below estimate in the second half of the year, reversing a positive variance of $41.1 million in the July-December period. Also, compared to the corresponding period in FY 2014, growth of the taxable base slowed in the second half of FY 2015, and was roughly two percentage points below that of the first half. Chart 3 shows increases in nonauto sales and use tax monthly receipts against prior year receipts in the same month.

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

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

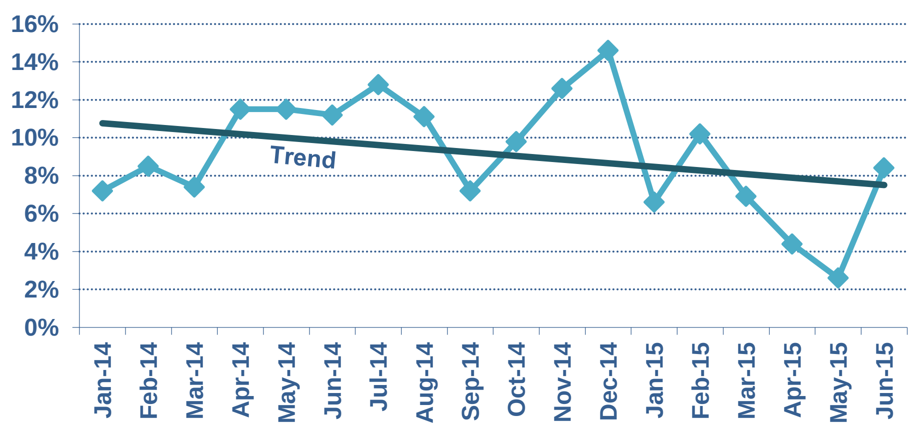


Auto Sales and Use Tax

GRF receipts from the auto sales and use tax of $124.9 million were $15.4 million (14.1%) above estimate in June, and $20.1 million (19.1%) above receipts in June 2014. After a slowdown in the third quarter, receipts from the auto sales and use tax surged in the final quarter of FY 2015. For the fiscal year as a whole, revenue totaled $1.32 billion, $52.1 million (4.1%) above estimate, and $106.7 million (8.8%) above receipts in FY 2014. Chart 4 below compares FY 2015 monthly auto sales and use tax receipts with year-ago receipts in the same period, and it shows a sharp rebound in revenue growth in recent months.

FY 2015 auto sales and use tax receipts were $52.1 million above estimate.

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



FY 2015 GRF CAT receipts were $81.5 million above estimate.

Nationwide light vehicle (auto and light truck) sales remained at a healthy pace of 17.1 million units (at a seasonally adjusted annual rate) in June, though below the pace of 17.7 million recorded in May (the highest since 2005). For 2015 through June, sales are averaging 16.9 million units, about 4.8% above sales in the corresponding period in 2014. However, sales of autos fell 1.3% compared to last year, while sales of light trucks rose 10.2%, and were about 56% of total light vehicle sales in 2015.

Commercial Activity and Petroleum Activity Taxes

GRF receipts from the CAT were $3.9 million, $3.5 million more than anticipated in June, but $4.1 million (51.2%) below revenue in June 2014. For the fiscal year, CAT revenues to the GRF totaled $854.0 million, $81.5 million (10.5%) above estimate, and $59.8 million (7.5%) above receipts in FY 2014. This positive revenue variance was due, in part, to fewer credits claims than anticipated against the tax, according to the Department of Taxation. A share of CAT revenue is deposited into local government funds used to reimburse school districts and other units of local government for lost revenue from the phase-out in tangible personal property taxes. Under current law, receipts not needed for the required payments are transferred to the GRF; thus, the GRF received about $235 million in transfers in June 2015.

FY 2015 GRF PAT receipts were $14.5 million below estimate.

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, but only $5.5 million was deposited in the GRF, thus resulting in a shortfall of $14.5 million (72.3%) for the fiscal year; the shortfall is presumably due to the decrease in oil prices during this fiscal year.

Cigarette and Other Tobacco Products Tax

FY 2015 cigarette tax receipts were $14.1 million above estimate.

GRF receipts from the cigarette and other tobacco products tax of $77.8 million in June 2015 were $13.1 million (20.3%) above estimate, more than reversing the negative variance of $7.3 million recorded the previous month. June revenue was also $13.4 million (20.8%) above receipts in the same month in FY 2014. Through June, FY 2015 receipts of $808.2 million were $14.1 million (1.8%) above estimate. Receipts from cigarette sales and sales of other tobacco products (OTP) were $746.0 million and $62.2 million, respectively. Total receipts this year declined $5.8 million (0.7%) from FY 2014, from a decline of $11.0 million in cigarette revenue, which was partially offset by an increase of $5.2 million in receipts from OTP. Generally, cigarette tax receipts experience a downward trend, while revenue from OTP is closely tied to price increases of those products.

Financial Institutions and Corporate Franchise Taxes

H.B. 510 of the 129th General Assembly eliminated the corporate franchise tax (CFT) and the dealers in intangibles tax at the end of 2013, and replaced both taxes with the FIT, in TY 2014, with tax payments starting in January 2014. Though GRF receipts were not anticipated from the CFT in FY 2015, adjustments to tax filings in previous years resulted in revenue of $2.5 million for this tax.

For FY 2015, GRF revenues from the FIT totaled $182.1 million, $22.9 million (11.2%) below estimates, and $15.7 million (7.9%) below FY 2014 receipts. Therefore, in the first two years of this tax, revenue was below the target tax amount of $200 million.

FY 2015 receipts from the FIT were $22.9 million below estimate.

The FIT specifies three tax rates: a rate of 0.8% which applies to the first $200 million of a taxpayer's total Ohio equity capital; a rate of 0.4% of equity capital between $200 million and $1.3 billion; and a rate of 0.25% which applies to the amount of total Ohio equity capital in excess of $1.3 billion. H.B. 510 also specified revenue targets, and prescribed a tax rate adjustment mechanism if yearly FIT revenue exceeded 110% or was less than 90% of the target tax amounts. Revenue of $197.8 million in FY 2014 was within the range specified in current law for the first revenue target of $200 million, and so the FIT tax rate was unchanged for FY 2015. The second target tax amount ($212 million) is to apply for FIT receipts in FY 2016, and if needed, a new rate would be calculated to apply to tax years beginning on or after January 1, 2017.

Utility-Related Taxes

Receipts from the public utility excise tax totaled $97.5 million in FY 2015, $7.5 million (7.2%) less than the estimate and $8.5 million (8.1%) less than in FY 2014. Taxes paid by natural gas companies account for about 95% of total tax receipts from the public utility excise tax.[5] Revenues from this tax are based on utilities' gross receipts, which have been held down by low natural gas prices in recent years.

FY 2015 receipts from utility-related taxes were $1.3 million above estimate.

MCF tax receipts of $74.7 million in FY 2015 were $14.7 million (24.6%) above estimate, but $1.4 million (1.8%) below FY 2014 revenue. H.B. 153 (129th General Assembly) credited all receipts from this excise tax levied on natural gas distribution companies to the GRF, starting in FY 2013.

[5] Other utilities liable for the tax include heating, pipeline, telegraph, water transportation, and waterworks companies.

FY 2015 receipts from the insurance taxes were $9.6 million below estimate.

GRF receipts from the kilowatt-hour tax in FY 2015 were $292.3 million, $5.9 million (2.0%) below estimate and $14.0 million (4.6%) lower than FY 2014 receipts. Total FY 2015 kilowatt-hour tax collections (revenues on an all-funds basis), net of refunds, were $539.9 million, $4.9 million (1.8%) lower than total collections in FY 2014. Under current law, 88% of total receipts are distributed to the GRF, 9% to the School District Property Tax Replacement Fund (Fund 7053), and 3% to the Local Government Property Tax Replacement Fund (Fund 7054). From the amount distributed to the GRF, a portion is subsequently transferred to the Public Library Fund (PLF, Fund 7065). The PLF received 1.66% of revenue from all GRF taxes in FY 2015, of which half is debited against the kilowatt-hour tax and half is debited against the nonauto sales and use tax.

Foreign and Domestic Insurance Taxes

GRF foreign insurance tax receipts (paid by insurance companies whose headquarters are located outside of Ohio) of $266.6 million in FY 2015 were $22.6 million (7.8%) below estimate and $19.9 million (6.9%) lower than receipts in FY 2014. This decline is primarily due to tax credits claimed by foreign insurers, which were significantly larger in value in FY 2015 than were claimed in FY 2014, and significantly larger than expected.

FY 2015 receipts from the alcoholic beverage and liquor gallonage taxes were $4.0 million above estimate.

GRF domestic insurance tax receipts (paid by insurance companies whose headquarters are in Ohio) were $251.6 million in FY 2015, $12.9 million (5.4%) above estimate. FY 2015 receipts from the tax were above FY 2014 receipts by $54.8 million (27.8%). The growth in FY 2015 was due primarily to premiums paid to domestic health insuring corporations, which have grown rapidly due to the Medicaid expansion. The growth was due in part also to a $6.7 million payment due in June 2014 that was received during FY 2015.

Alcoholic Beverage and Liquor Gallonage Taxes

Receipts from the alcoholic beverage tax were $56.6 million in FY 2015, $1.6 million (2.9%) above estimate, and $1.1 million (1.9%) above FY 2014 receipts. The increase was due to increased sales of wine and mixed beverages, as sales of beer and malt beverages were flat. Beer and malt beverages generated about 78% of the total alcoholic beverage tax receipts in FY 2015.

Liquor gallonage tax receipts of $43.4 million in FY 2015 were $2.4 million (5.8%) above estimate, and $1.5 million (3.7%) higher than FY 2014 receipts. Liquor sales have increased steadily each year.

Estate Tax

H.B. 153 of the 129th General Assembly eliminated the estate tax starting with dates of death on or after January 1, 2013, thus no revenue was anticipated for this tax in FY 2015. However, due to the length of time required for settling certain estates, the state GRF received $3.1 million from the estate tax. This amount was $36.3 million (92.2%) below FY 2014 receipts. The total estate tax revenue is shared by the state GRF (20%) and the municipality or township in which the decedent resided (80%).

Earnings on Investments

In FY 2015, GRF earnings on investments of $23.2 million were $3.2 million (15.9%) above estimate and $5.9 million (33.6%) above FY 2014 earnings. Earnings on investments grew due to an increase in the amount of available state cash for investment.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of June 2015
($ in thousands)
(Actual based on OAKS reports run July 2, 2015)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary and Secondary Education	$324,868	$296,685	$28,184	9.5%
Higher Education	$170,647	$166,930	$3,717	2.2%
Other Education	$2,214	$2,541	-$327	-12.9%
Total Education	$497,729	$466,156	$31,573	6.8%
Medicaid	$866,686	$610,945	$255,742	41.9%
Health and Human Services	$50,445	$59,858	-$9,413	-15.7%
Total Welfare and Human Services	$917,131	$670,803	$246,328	36.7%
Justice and Public Protection	$128,317	$134,948	-$6,631	-4.9%
General Government	$20,430	$38,978	-$18,548	-47.6%
Total Government Operations	$148,747	$173,926	-$25,179	-14.5%
Property Tax Reimbursements	$215,190	$338,830	-$123,641	-36.5%
Capital Outlay	$0	$0	$0	---
Debt Service	$48,899	$50,097	-$1,199	-2.4%
Total Other Expenditures	$264,088	$388,928	-$124,840	-32.1%
Total Program Expenditures	**$1,827,695**	**$1,699,812**	**$127,883**	**7.5%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$4,614	$8,146	-$3,532	-43.4%
Total Transfers Out	$4,614	$8,146	-$3,532	-43.4%
TOTAL GRF USES	**$1,832,309**	**$1,707,959**	**$124,351**	**7.3%**

*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 June 30, 2015
($ in thousands)
(Actual based on OAKS reports run July 2, 2015)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2014**	**Percent Change**
Primary and Secondary Education	$7,246,517	$7,268,445	-$21,928	-0.3%	$6,762,680	7.2%
Higher Education	$2,139,555	$2,138,471	$1,084	0.1%	$2,085,040	2.6%
Other Education	$52,934	$56,738	-$3,805	-6.7%	$50,551	4.7%
Total Education	$9,439,006	$9,463,654	-$24,649	-0.3%	$8,898,271	6.1%
Medicaid	$14,863,212	$14,778,038	$85,173	0.6%	$13,570,528	9.5%
Health and Human Services	$1,249,822	$1,284,704	-$34,882	-2.7%	$1,235,828	1.1%
Total Welfare and Human Services	$16,113,034	$16,062,742	$50,292	0.3%	$14,806,357	8.8%
Justice and Public Protection	$1,850,280	$1,888,478	-$38,198	-2.0%	$1,836,987	0.7%
General Government	$340,119	$371,473	-$31,354	-8.4%	$348,556	-2.4%
Total Government Operations	$2,190,399	$2,259,951	-$69,552	-3.1%	$2,185,543	0.2%
Property Tax Reimbursements	$1,801,479	$1,819,658	-$18,179	-1.0%	$1,785,239	0.9%
Capital Outlay	$0	$0	$0	---	$0	---
Debt Service	$1,287,681	$1,306,352	-$18,670	-1.4%	$1,226,413	5.0%
Total Other Expenditures	$3,089,160	$3,126,009	-$36,849	-1.2%	$3,011,652	2.6%
Total Program Expenditures	**$30,831,598**	**$30,912,356**	**-$80,758**	**-0.3%**	**$28,901,823**	**6.7%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$995,930	-100.0%
Other Transfers Out	$629,876	$606,390	$23,487	3.9%	$274,236	129.7%
Total Transfers Out	$629,876	$606,390	$23,487	3.9%	$1,270,167	-50.4%
TOTAL GRF USES	**$31,461,475**	**$31,518,746**	**-$57,271**	**-0.2%**	**$30,171,990**	**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 July 1, 2015)

	Month of June 2015				Year to Date Through June 2015			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid	**$1,692,552**	**$1,657,770**	**$34,782**	**2.1%**	**$20,984,184**	**$21,514,964**	**-$530,780**	**-2.5%**
GRF	$830,259	$585,658	$244,601	41.8%	$14,342,938	$14,251,127	$91,810	0.6%
Non-GRF	$862,293	$1,072,112	-$209,819	-19.6%	$6,641,247	$7,263,837	-$622,590	-8.6%
Developmental Disabilities	**$183,680**	**$186,955**	**-$3,275**	**-1.8%**	**$2,262,234**	**$2,393,929**	**-$131,695**	**-5.5%**
GRF	$31,047	$20,372	$10,675	52.4%	$444,438	$442,823	$1,614	0.4%
Non-GRF	$152,633	$166,582	-$13,949	-8.4%	$1,817,796	$1,951,106	-$133,310	-6.8%
Job and Family Services	**$21,348**	**$29,586**	**-$8,238**	**-27.8%**	**$187,852**	**$173,348**	**$14,505**	**8.4%**
GRF	$4,765	$4,344	$420	9.7%	$67,140	$75,659	-$8,519	-11.3%
Non-GRF	$16,583	$25,242	-$8,658	-34.3%	$120,713	$97,689	$23,023	23.6%
Aging	**$361**	**$540**	**-$180**	**-33.2%**	**$5,795**	**$8,358**	**-$2,563**	**-30.7%**
GRF	$269	$260	$9	3.3%	$3,385	$3,385	$0	0.0%
Non-GRF	$92	$280	-$188	-67.2%	$2,410	$4,973	-$2,563	-51.5%
Health	**$3,500**	**$1,840**	**$1,660**	**90.2%**	**$24,564**	**$25,800**	**-$1,236**	**-4.8%**
GRF	$340	$310	$30	9.8%	$3,576	$3,308	$268	8.1%
Non-GRF	$3,159	$1,530	$1,629	106.5%	$20,989	$22,493	-$1,504	-6.7%
Mental Health and Addiction	**$556**	**$1,361**	**-$805**	**-59.1%**	**$7,390**	**$7,671**	**-$282**	**-3.7%**
GRF	$7	$0	$7	N/A	$1,737	$1,737	$0	0.0%
Non-GRF	$550	$1,361	-$812	-59.6%	$5,653	$5,935	-$282	-4.7%
Total GRF	**$866,686**	**$610,945**	**$255,742**	**41.9%**	**$14,863,212**	**$14,778,038**	**$85,173**	**0.6%**
Total Non-GRF	**$1,035,310**	**$1,267,108**	**-$231,797**	**-18.3%**	**$8,608,807**	**$9,346,032**	**-$737,225**	**-7.9%**
Total All Funds	**$1,901,997**	**$1,878,052**	**$23,945**	**1.3%**	**$23,472,019**	**$24,124,070**	**-$652,051**	**-2.7%**

*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 July 1, 2015)

	June				Year to Date Through June			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	$853,241	$923,973	-$70,732	-7.7%	$10,445,316	$10,906,363	-$461,047	-4.2%
Nursing Facilities	$110,736	$86,677	$24,059	27.8%	$1,399,679	$1,123,308	$276,371	24.6%
DDD Services	$173,830	$183,301	-$9,471	-5.2%	$2,196,236	$2,323,541	-$127,304	-5.5%
Hospitals	$59,713	$91,686	-$31,973	-34.9%	$1,404,126	$2,241,925	-$837,800	-37.4%
Behavioral Health	$55,035	$77,176	-$22,141	-28.7%	$737,425	$942,576	-$205,151	-21.8%
Administration	$83,000	$99,431	-$16,431	-16.5%	$841,746	$1,045,610	-$203,864	-19.5%
Aging Waivers	$19,491	$17,392	$2,099	12.1%	$278,859	$254,227	$24,633	9.7%
Prescription Drugs	$31,765	$36,649	-$4,884	-13.3%	$396,844	$466,922	-$70,078	-15.0%
Medicare Buy-In	$36,441	$42,268	-$5,827	-13.8%	$436,351	$485,372	-$49,022	-10.1%
Physicians	$15,715	$22,788	-$7,073	-31.0%	$473,815	$553,004	-$79,190	-14.3%
Medicare Part D	$24,187	$25,706	-$1,519	-5.9%	$290,003	$301,021	-$11,018	-3.7%
Home Care Waivers	$10,184	$9,950	$234	2.4%	$155,517	$137,448	$18,070	13.1%
ACA Expansion	$327,462	$178,517	$148,944	83.4%	$3,423,326	$2,077,817	$1,345,508	64.8%
All Other	$101,197	$82,537	$18,659	22.6%	$992,776	$1,264,936	-$272,160	-21.5%
Total All Funds	**$1,901,997**	**$1,878,052**	**$23,945**	**1.3%**	**$23,472,019**	**$24,124,070**	**-$652,051**	**-2.7%**

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

FY 2015 GRF uses were $57.3 million below OBM's August 2014 estimate.

Year-end GRF encumbrances totaled $425.2 million for FY 2015.

EXPENDITURES

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Overview

GRF program expenditures totaled $30.83 billion for FY 2015. These expenditures were $80.8 million below the estimate released by OBM in August 2014. GRF transfers out totaled $629.9 million, $23.5 million above estimate. GRF uses as a whole totaled $31.46 billion, $57.3 million below estimate. Tables 3 and 4 show GRF uses for the month of June and for FY 2015, respectively.

For reporting purposes, GRF program expenditures were grouped into ten categories. Medicaid, which comprises close to half of all GRF program expenditures, was $85.2 million above its fiscal year estimate, and FY 2015 GRF Medicaid expenditures were 9.5% above the FY 2014 amounts. The combined expenditures from the other eight program categories[6] were $165.9 million below OBM's fiscal year estimate; these expenditures were 4.2% above the prior year's combined total. Overall, GRF program expenditures in FY 2015 were $1.93 billion (6.7%) higher than expenditures in FY 2014.

Justice and Public Protection had the largest negative variance at $38.2 million, followed by Health and Human Services ($34.9 million), General Government ($31.4 million), Primary and Secondary Education ($21.9 million), Debt Service ($18.7 million), and Property Tax Reimbursements ($18.2 million). These six program categories' variances as well as the variance in Medicaid will be briefly discussed below.

In addition to program expenditures and transfers out, 44 state agencies encumbered a total of $425.2 million in GRF funding, as of June 30, 2015, for expenditure in FY 2016. These encumbrances were $49.6 million above OBM's August 2014 estimate. The Encumbrances section of this report provides additional information on FY 2015 year-end encumbrances

Medicaid

Medicaid is mainly funded by the GRF, but is also supported by various non-GRF funds. In June, a larger share of Medicaid payments came from the GRF versus non-GRF funds than was originally estimated by

[6] There were no expenditures made from the Capital Outlay program category in FY 2015.

OBM in September 2014.[7] GRF Medicaid expenditures were $255.7 million above the estimate for the month of June, which changed the GRF Medicaid's year-to-date variance from a negative $170.6 million at the end of May to a positive $85.2 million (0.6%) at the end of June. Non-GRF Medicaid expenditures in June were $231.8 million below estimate, which increased the non-GRF Medicaid's year-to-date negative variance from $505.4 million at the end of May to $737.2 million (7.9%) at the end of June. For the full fiscal year, GRF and non-GRF Medicaid expenditures were $14.86 billion and $8.61 billion, respectively, for a total of $23.47 billion across all funds. FY 2015 all-funds Medicaid expenditures were $652.1 million below 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.

FY 2015 GRF Medicaid expenditures were $85.2 million above estimate; all-funds Medicaid expenditures were $652.1 million below estimate.

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 FY 2015, ODM's GRF Medicaid expenditures were $14.34 billion, which were $91.8 million (0.6%) above estimate, while its non-GRF Medicaid expenditures were $6.64 billion, which were $622.6 million (8.6%) below estimate. Across all funds, ODM's Medicaid expenditures totaled $20.98 billion in FY 2015, which were $530.8 million (2.5%) below estimate. GRF Medicaid expenditures from the Department of Developmental Disabilities (DDD), the second largest agency within this program category, were largely in line with the estimate for the fiscal year ($1.6 million, or 0.4%, above estimate). DDD's non-GRF Medicaid expenditures, however, were $133.3 million below estimate. Together, ODM and DDD account for about 99% of the Medicaid expenditure total.

Table 6 details all-funds Medicaid expenditures by payment category. Hospitals had the largest negative annual variance of $837.8 million (37.4%), followed by Managed Care ($461.0 million, 4.2%), All Other ($272.2 million, 21.5%), Behavioral Health ($205.2 million, 21.8%), Administration ($203.9 million, 19.5%), and DDD Services ($127.3 million, 5.5%).

[7] A larger share of Medicaid payments came from the GRF versus non-GRF funds than was originally estimated in April also, although in May the reverse happened.

Excluding ACA Expansion, all-funds Medicaid expenditures were $2.00 billion below the fiscal year estimate.

Payment delays for the Hospital Care Assurance Program (HCAP) accounted for most of the negative variances in the Hospitals category; lower than anticipated Aged, Blind, and Disabled caseload also contributed to the negative variances in this category.

There were several contributors to the negative variance in Managed Care, including 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 both Medicaid and Medicare, lower than anticipated Aged, Blind, or Disabled (ABD) capitated rates, and lower than projected caseloads due to the program's eligibility redetermination process. Managed Care is the largest Medicaid payment category. This category's payments totaled $10.45 billion across all-funds in FY 2015, representing 44.5% of the total all-funds Medicaid expenditures for the same year.

The negative variance in All Other was due in large part to various budgeted initiatives which were either replaced by Medicaid expansion (i.e., the Metro Health Medicaid waiver in Cuyahoga County) or not implemented. Lower than anticipated expenditures in home health, private duty nurses, and hospice care also contributed to the negative variance in this category. 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. Finally, lower than expected payroll and contract costs contributed to the negative variance in the Administration category.

FY 2015 all-funds expenditures for ACA Expansion were $1.35 billion above estimate.

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. Excluding ACA Expansion, all-funds Medicaid expenditures were $2.00 billion below the year-to-date estimate.

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 FY 2015, all-funds expenditures for ACA Expansion totaled $3.42 billion, $1.35 billion (64.8%) above estimate. This positive variance was due to higher than expected caseloads and per person costs.

The ACA expansion is fully funded by the federal government in FY 2015. On October 21, 2013, the Controlling Board authorized a $2.00 billion expenditure increase in FY 2015 for federally funded line item 651623, Medicaid Services - Federal, in the ODM budget for the ACA expansion. FY 2015 expenditures for the expansion exceeded that increase by $1.42 billion. However, the appropriation for item 651623 totaled $5.20 billion for FY 2015. This item's total expenditures in FY 2015, including the expansion, were $4.75 billion. In other words, item 651623 had sufficient appropriation in FY 2015 for ACA Expansion payments.

All-funds expenditures for Nursing Facilities were $1.40 billion in FY 2015, $276.4 million (24.6%) 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.

Justice and Public Protection

GRF expenditures from the Justice and Public Protection program category totaled $1.85 billion in FY 2015, $38.2 million (2.0%) below estimate. The Department of Rehabilitation and Correction (DRC) accounted for $18.5 million of the category's total negative variance in FY 2015. Expenditures from DRC's appropriation item 505321, Institution Medical Services, were $26.6 million below the fiscal year estimate. This negative variance was partially offset by positive variances in items 501321, Institutional Operations ($4.1 million), 501405, Halfway House ($3.5 million), and 501407, Community Nonresidential Programs ($2.1 million). The Department of Youth Services (DYS) contributed another $15.2 million to the category's total negative variance in FY 2015. Expenditures from appropriation item 470401, RECLAIM Ohio, within the DYS budget, were $13.7 million below the estimate for FY 2015.

Health and Human Services

GRF expenditures from the Health and Human Services program category totaled $1.25 billion in FY 2015, $34.9 million below estimate. The Ohio Department of Mental Health and Addiction Services (ODMHAS) accounted for $14.3 million of the category's total negative variance in FY 2015. ODMHAS's appropriation item 335507, Community Behavioral Health, had the largest negative variance at $6.1 million, followed by item 335506, Residential State Supplement, at $4.5 million, and item 335421, Continuum of Care Services, at $2.0 million.

The Ohio Department of Job and Family Services (ODJFS) contributed another $11.6 million to the category's total negative variance in FY 2015. Nearly all of this negative variance occurred in appropriation items 600416, Information Technology Projects ($6.0 million), and 600321, Program Support ($5.4 million).

In addition to ODMHAS and ODJFS, the Ohio Department of Health (ODH) contributed $6.6 million to the Health and Human Services program category's total negative variance. Expenditures from ODH's appropriation item 440418, Immunizations, were $3.9 million below the fiscal year estimate. Several other ODH appropriation items had smaller negative variances.

General Government

GRF expenditures from the General Government program category totaled $340.1 million in FY 2015. These expenditures were $31.4 million below estimate, of which $18.5 million occurred in the month of June. While there were no expenditures made in June from the appropriations made to the Controlling Board, the OBM estimate assumed $17.3 million in expenditures for that month. H.B. 483, the mid-biennium review act of the 130th General Assembly, appropriated $10.0 million for adult protective services and another $6.8 million for children services for FY 2015. The act placed these two appropriations within the Controlling Board budget to be transferred to ODJFS pending the recommendations of the Adult Protective Services and Child Protective Services Funding workgroups, respectively. In October 2014, the Controlling Board approved transfers of $10.0 million to appropriation item 600534, Adult Protective Services, and $6.8 million to appropriation item 600523, Children Services, for expenditure in FY 2015. The Controlling Board does not directly spend any of the funds appropriated to it.

In addition, the Development Services Agency (DSA) and the Department of Taxation contributed $5.0 million and $4.1 million, respectively, to the FY 2015 negative variance in the General Government program category.

Primary and Secondary Education

GRF expenditures from the Primary and Secondary Education program category were $28.2 million (9.5%) above estimate in June. For FY 2015 as a whole, Primary and Secondary Education expenditures totaled $7.25 billion, $21.9 million (0.3%) below estimate. The Ohio Department of Education (ODE) is the only agency that is included in this program category. Foundation funding for schools is the largest program within the ODE budget. School foundation payments are mainly supported by GRF appropriation items 200550, Foundation Funding, and 200502, Pupil Transportation, but are also supplemented by lottery profits appropriation item 200612, Foundation Funding. The combined expenditures from items 200550 and 200502 totaled $6.68 billion in FY 2015, just $1.3 million above estimate. Funds were also encumbered in items 200550 and 200502 for expenditure in FY 2016 for purposes of making year-end adjustments to school foundation payments for FY 2015.

This small positive variance was offset by negative variances in most other items. Items with significant negative variances in FY 2015 include 200408, Early Childhood Education ($8.6 million), 200421, Alternative Education Programs ($5.2 million), and 200540, Special Education Enhancements ($4.4 million).

Debt Service

GRF debt service expenditures totaled $1.29 billion in FY 2015, $18.7 million (1.4%) below estimate. The Public Works Commission (PWC) accounted for the majority ($15.3 million) of the negative variance in this program category. General obligation bonds issued for the programs 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.

Property Tax Reimbursements

As expected, property tax reimbursements were $123.6 million (36.5%) below the estimate for the month of June. The timing of reimbursement requests from county auditors was somewhat different than the one assumed in the OBM estimate. As a result, this program category posted several significant monthly variances throughout FY 2015. For the fiscal year as a whole, however, property tax reimbursements totaled $1.80 billion, just $18.2 million (1.0%) below the OBM estimate.

The Property Tax Reimbursements program category consists of two GRF appropriation items: item 200901, Property Tax Allocation – Education, and item 110901, Property Tax Allocation – Taxation. Items 200901 and 110901 are used to reimburse school districts and other local governments, respectively, for losses incurred as a result of the 10% and 2.5% "rollback" reductions in real property taxes and as a result of the "homestead exemption" reduction in real property taxes. The reimbursement payments are made twice per year, one based on the February property tax settlement and one based on the August property tax settlement.

Encumbrances

As indicated earlier, as of June 30, 2015, state agencies encumbered a total of $425.2 million in GRF funds for expenditure in FY 2016. An agency generally has five months to spend prior-year encumbrances for operating expenses. Any unspent operating expense encumbrances generally will lapse at the end of the five-month period and will become part of the GRF cash balance. Subject to the approval of the Director of Budget and Management, an agency may carry funds encumbered for

The majority (88.9%) of the $425.2 million year-end encumbrances were originally appropriated in FY 2015.

purposes other than operating expenses beyond the five-month period. Encumbrances for some grant and aid payments may be carried for several months or even years.

The table below summarizes the encumbrances by the fiscal year for which funds were originally appropriated. As seen from the table, the majority of the encumbrances were originally appropriated in FY 2015, but smaller amounts were first appropriated for earlier years back to FY 2006.

FY 2015 Year-End Encumbrances by Fiscal Year for Which Appropriations Were Originally Made		
Fiscal Year	**Amount (in thousands)**	**Percentage of Total**
2006-2008	$3,060	0.7%
2009	$6,679	1.6%
2010	$1,487	0.3%
2011	$1,329	0.3%
2012	$2,960	0.7%
2013	$3,388	0.8%
2014	$28,217	6.6%
2015	$378,089	88.9%
Total	**$425,210**	**100.0%**

The encumbrance amounts vary greatly from agency to agency. As shown in the table below, ODE has the largest encumbrance amount at $120.4 million, 28.3% of the total, followed by ODM at $73.8 million, 17.3% of the total. Four other agencies with significant encumbrance amounts are ODJFS at $68.1 million (16.0% of the total), DRC at $48.8 million (11.6%), DSA at $27.8 million (6.5%), and the Department of Higher Education (DHE) at $16.1 million (3.8%). Together, these six agencies account for $355.0 million (83.5%) of the total encumbrances. These six agencies' encumbrances are briefly discussed below. Thirty-eight other agencies encumbered the remaining $70.2 million, 16.5% of the total.

FY 2015 Year-End Encumbrances by Agency		
Agency	**Amount (in thousands)**	**Percentage of Total**
Education	$120,378	28.3%
Medicaid	$73,751	17.3%
Job and Family Services	$68,094	16.0%
Rehabilitation and Correction	$48,838	11.6%
Development Services	$27,795	6.5%
Higher Education	$16,149	3.8%
All Other Agencies	$70,206	16.5%
Total	**$425,210**	**100.0%**

Ohio Department of Education

ODE encumbered $120.4 million for expenditure in FY 2016. Five appropriation items with significant encumbrances are: (1) item 200550, Foundation Funding, at $57.6 million, (2) item 200437, Student Assessment, at $15.5 million, (3) item 200408, Early Childhood Education, at $12.6 million, (4) item 200540, Special Education Enhancements, at $12.5 million, and (5) item 200502, Pupil Transportation, at $5.9 million. These five items' encumbrances account for $104.1 million of the total. The remaining $16.3 million was encumbered in various other items for outstanding obligations, including career technical education enhancement grants.

Funds encumbered in items 200502 and 200550 will be used mainly to meet year-end school foundation payment adjustments. Foundation payments are allocated to districts based on a variety of data. Some of these data are not finalized until the following fiscal year. Funds are generally encumbered each year in order to make adjusted payments based on these updated data.

Education and Medicaid accounted for 45.6% of the total year-end GRF encumbrances.

Funds encumbered in item 200437 will be used to pay contractors for scoring tests this summer that were administered in the spring and other bills not yet received from vendors. Funds encumbered in item 200408 will mainly be used to pay providers who provide early childhood education services to children from lower-income families. Funds encumbered in item 200540 will mainly be used for outstanding subsidy payments to county boards of developmental disabilities that provide preschool special education services.

Ohio Department of Medicaid

ODM encumbered a total of $73.8 million for expenditure in FY 2016, including $40.6 million against item 651525, Medicaid/Health Care Services, and $33.2 million against item 651425, Medicaid Program Support – State. Item 651525 is the primary funding source for Ohio Medicaid. Funds encumbered in this item will primarily be used for the Targeted Case Management (TCM) services provided by DDD through an interagency agreement. TCM services assist Medicaid recipients in gaining access to needed medical, social, educational, and certain other services. Funds encumbered in item 651425 will be mainly used to pay ODM's outstanding obligations for operating various Medicaid related information technology systems, including the integrated eligibility determination system, Ohio Benefits.

Ohio Department of Job and Family Services

ODJFS encumbered a total of $68.1 million for expenditure in FY 2016. The encumbrances in six appropriation items account for $53.1 million of the total. These six items are: (1) item 655522, Medicaid Program Support - Local ($12.0 million), (2) item 600416, Information Technology Projects ($11.8 million), (3) item 600525, Health Care/Medicaid ($9.5 million), (4) item 655523, Medicaid Program Support – Local Transportation ($6.9 million), (5) item 600534, Adult Protective Services ($6.8 million), (6) and item 600321, Program Support ($6.2 million).

Funds encumbered in item 655522 will be used to pay for the remaining state share of county allocations for Medicaid information management services. Funds encumbered in item 655523 will mainly be used for the remaining state share of county allocations for providing non-emergency transportation services to individuals enrolled in Medicaid and for providing various Healthchek services for children who are younger than age 21 and enrolled in Medicaid. All funds encumbered in item 600525 were originally appropriated in fiscal years prior to FY 2014. Beginning in FY 2014, item 600525 has been replaced by item 651525 as a result of the establishment of ODM in that year. No disbursement activities are expected from item 600525.

Funds encumbered in item 600416 will be used for the development, implementation, and maintenance of information technology systems used by ODJFS and the 88 county departments of job and family services. Funds encumbered in item 600321 will be used to pay certain operating expense obligations incurred but not yet paid by ODJFS.

Finally, funds encumbered in item 600534 will be used to provide supplemental funding to county departments of job and family services for adult protective services.

Department of Rehabilitation and Correction

DRC encumbered $48.8 million for expenditure in FY 2016, of which $32.2 million occurred in item 505321, Institution Medical Services, and another $14.9 million in item 501321, Institutional Operations. Funds encumbered in item 505321 will be used to pay various outstanding bills for providing medical services to inmates. Funds were encumbered from item 501321 for a mix of purchased personal services, supplies, maintenance, repairs, materials, and other minor expenditures at DRC and institutions.

Development Services Agency

DSA encumbered $27.8 million for expenditure in FY 2016. These encumbrances are largely attributable to various economic development incentive grants that have been awarded but not yet disbursed. Many of DSA's grant programs are operated on a reimbursement basis, whereby grant recipients do not receive money from the state until a project has been completed or certain conditions have been met. For example, a grantee may be awarded grants in FY 2015 but not receive them until FY 2016 or later.

Appropriation item 195532, Technology Programs and Grants, had the largest encumbrance at $13.9 million. These funds will mainly be used to fund awards made under the Thomas Edison and Manufacturing Extension Partnership programs. Item 195535, Appalachia Assistance, is second with an encumbrance of $4.4 million. These encumbered funds are used to provide financial assistance to projects in Ohio's Appalachian counties. In addition to items 195532 and 195535, several other items within the DSA budget had smaller encumbrances.

Department of Higher Education

H.B. 64, the main operating budget act of the 131st General Assembly renamed the Board of Regents as the Department of Higher Education, effective FY 2016. DHE encumbered $16.1 million for expenditure in FY 2016. The majority ($11.6 million) of the total was encumbered in item 235438, Choose Ohio First Scholarship, to pay the state's obligations to scholarship recipients. Another $1.2 million was encumbered in item 235434, College Readiness and Access. These funds will be used pay grants awarded under the early college high school initiative. Furthermore, item 235563, Ohio College Opportunity Grant, ended FY 2015 with $1.1 million in encumbrances, which will be used for need-based financial aid for public school students.

ISSUE UPDATES

FY 2015 Operating and Capital Expenditures Total $65.1 billion

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

In FY 2015, the state of Ohio incurred a total of $65.10 billion in operating and capital expenditures. As seen from Table A, $59.71 billion (91.7%) of the total expenditures were authorized in the main operating budget. The transportation and capital budgets accounted for $3.97 billion (6.1%) and $1.10 billion (1.7%), respectively, of the total. The remaining $308.8 million (0.5%) was authorized in the Bureau of Workers' Compensation and Industrial Commission budgets.

Table A: FY 2015 Operating and Capital Expenditures by Budget

Budget	Amount	% of Total
Main Operating	$59,714,667,393	91.7%
Transportation	$3,972,009,424	6.1%
Capital	$1,101,748,782	1.7%
Workers' Compensation System	$308,823,604	0.5%
Total	**$65,097,249,203**	**100.0%**

Table B shows FY 2015 expenditures by account category used in the state's accounting system. As seen from Table B, Subsidies and Shared Revenue is the largest spending area. In FY 2015, 87.0% ($26.82 billion) of the total GRF expenditures were distributed as subsidies to Medicaid service providers, schools, colleges and universities, local governments, and various other entities. Across all funds, this category's expenditures totaled $43.28 billion (66.5%). The vast majority of the expenditures incurred under the Capital Item category – $3.56 billion (5.5%) across all funds – supported the construction and maintenance of roads and bridges in the state as well as the construction and renovation of public K-12 schools and colleges and universities. Capital Item expenditures are mainly funded by bond proceeds. FY 2015 debt service payments totaled $332.4 million (1.1%) for the GRF and $1.62 billion (2.5%) across all funds.

For FY 2015, state payroll costs (including both salaries and fringe benefits) amounted to $4.21 billion across all funds, of which $1.78 billion was supported by the GRF. In addition to Payroll, what commonly is referred to as the state government's operating expenses also include expenditures incurred under the Purchased Personal Services and Other, Supplies and Maintenance, and Equipment categories. For FY 2015, the state government's operating expenses totaled $7.49 billion across all funds, of which $2.62 billion came from the GRF. In percentage terms, these amounts represent 11.5% and 8.5% of the respective totals.

Table B: FY 2015 Operating and Capital Expenditures by Account Category				
Account Category	**GRF Only**	**% of Total**	**All Funds**	**% of Total**
500 - Payroll	$1,775,210,315	5.8%	$4,209,727,795	6.5%
510 - Purchased Personal Services & Other	$434,189,147	1.4%	$1,506,570,400	2.3%
520 - Supplies and Maintenance	$389,121,919	1.3%	$1,584,646,906	2.4%
530 - Equipment	$21,697,220	0.1%	$187,002,826	0.3%
550 - Subsidies and Shared Revenue	$26,817,310,149	87.0%	$43,276,790,725	66.5%
560 - Goods and Services for Resale	$0	0.0%	$88,312,001	0.1%
570 - Capital Items	$402,560	0.0%	$3,561,285,888	5.5%
590 - Judgments, Settlements, & Bonds	$5,452,441	0.0%	$34,691,376	0.1%
591 - Debt Service	$332,374,473	1.1%	$1,622,892,605	2.5%
595 - Transfers & Non-expense	$1,055,840,269	3.4%	$9,025,328,679	13.9%
Total	**$30,831,598,493**	**100.0%**	**$65,097,249,203**	**100.0%**

Ohio EPA Issues $4.2 million in Loans for Two Public Infrastructure Projects

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

Over the course of May and June of this year, the Ohio Environmental Protection Agency (Ohio EPA) awarded two below-market rate loans totaling $4.2 million for infrastructure projects to be undertaken by the city of London and Franklin County. These awards are from revolving loan programs that generally provide funding for construction and improvements to public drinking water and wastewater infrastructure.[8]

The first loan of $3,590,370 was announced on May 21 and awarded to the city of London (Madison County) to upgrade its water distribution system by constructing a one million gallon water tower to better meet growing summertime water demand. The term of the loan is 20 years and carries an interest rate of 1.3%, which will save London $743,000 relative to the cost of a conventional, market-rate loan. The loan is backed with money drawn from the Water Supply Revolving Loan Account (WSRLA) which is managed by the Ohio EPA with assistance from the Ohio Water Development Authority. The WSRLA provides below-market rate loans to public water systems for the planning, design, and construction of improvements.

[8] The loan programs' primary sources of funding are proceeds from bond issues, loan repayments, and federal capitalization grants, and are held in custodial accounts that are not part of the state treasury.

The second loan of $654,000 was announced on June 15 and awarded to Franklin County for design work on a planned upgrade of the Darbydale wastewater treatment plant that will reduce nutrient discharges and improve water quality in Big Darby Creek. The term of the loan is five years and carries no interest charges, which will save Franklin County $95,000 relative to the cost of a conventional market-rate loan. The loan is backed with money drawn from the Ohio Water Pollution Control Loan Fund (WPCLF) which is also managed by the Ohio EPA with assistance from the Ohio Water Development Authority. In general, the WPCLF provides financial assistance to public entities for wastewater collection and treatment, storm water activities, and nonpoint source water pollution. The Franklin County loan is coming from $100 million in WPCLF funds that have been set aside at a 0% interest rate for projects that include equipment and facilities to reduce phosphorus and other excess nutrient pollutants that contribute to harmful algal blooms.

Ohio Medicaid Implements New Service Rates for Nurses and Aides

– Genevieve Davison, LSC Fellow, 614-387-1274

The Ohio Department of Medicaid (ODM) launches a new payment rate structure, effective July 1, 2015, for nursing and aide home and community-based services. These changes are part of the ODM's ongoing effort to implement payment rates that help increase access to home and community-based services. ODM analyzed factors such as labor market data, education and licensure status, and length of service visit in order to develop a new rate structure. ODM intends new rates to reflect the advanced education and skill level of registered nurses (RNs) and also ensure that providers are present and providing services for a minimum of 35 minutes in order to bill for the Medicaid base rate. Base rates will continue to be paid at a higher level than unit rates, which are billed for every 15-minute increment of service following the initial 35 minutes. However, generally, new base rates will decrease while unit rates will increase. For example, there was one base rate of $52.20 for nursing services provided by home healthcare agencies. Under the new rate structure, the base rate is $45.40 for RNs and $37.90 for licensed practical nurses (LPNs). Similarly, the unit rate changes from the previous $5.69 for both RNs and LPNs to $8.32 for RNs and $6.82 for LPNs.

Services affected by the new rate structure include: home health private duty nursing (PDN), or waiver RN nursing, home health PDN, or waiver LPN nursing, waiver home care attendant, and home health aide or waiver personal care. Additionally, ODM will now reimburse for RN assessments and RN consultations. ODM estimates that these changes will increase total home and community-based service expenditures for nursing and aide services by about $20 million annually.

Department of Agriculture Announces Local Agricultural Easement Purchase Program Approvals in 26 Counties

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

On June 4, 2015, the Ohio Department of Agriculture (ODA) announced approval for local sponsors to purchase agricultural easements on 54 farms, encompassing more than 7,500 acres in 26 counties through the Local Agricultural Easement Purchase Program (LAEPP). Approximately $6.0 million in funding will be awarded to support the purchase of these approved easements from ODA's allocation from the Clean Ohio Conservation Fund. The table below summarizes the approved easement purchases by county.

State Funding for Agricultural Easements June 4, 2015 Award Round			
County	**Number of Farms**	**Total Acres**	**Fund Amount**
Allen	1	113	$105,468
Ashland	1	134	$120,390
Ashtabula	1	84	$36,202
Brown	1	143	$194,364
Champaign	1	301	$91,530
Clark	9	1,414	$507,042
Clinton	3	684	$311,733
Fairfield	3	299	$530,657
Fayette	1	255	$280,877
Fulton	1	242	$35,378
Greene	2	262	$49,111
Hamilton	1	154	$160,343
Huron	1	109	$163,178
Lake	1	13	$25,048
Licking	2	247	$238,785
Logan	3	310	$492,485
Madison	4	870	$594,841
Medina	1	47	$93,540
Mercer	1	154	$171,810
Miami	1	84	$167,648
Montgomery	3	219	$208,959
Pickaway	1	70	$128,295
Preble	4	468	$435,256
Sandusky	5	646	$622,924
Stark	1	54	$108,820
Warren	1	138	$76,470
Total	**54**	**7,512**	**$5,951,154**

The LAEPP allows landowners to voluntarily sell easements on their farms to the state, ensuring that the qualifying land remains in agricultural production permanently. The process is overseen by local sponsor organizations that score applications and forward their recommendations for funding to ODA. Sponsor organizations can be counties, cities, townships, soil and water conservation districts, or land trusts. Eligible farms must be at least 40 acres, in active use, enrolled in the Current Agricultural Use Valuation Program, and removed from development. In addition, farm owners must show proper stewardship of the land and have support from local government for their farmland to qualify. Payments from the Clean Ohio Fund are capped at $2,000 per acre with a maximum of $500,000 per farm. Statewide, as of December 31, 2014, LAEPP easements had been purchased on 247 farms totaling 45,576 acres. A map showing the number of agricultural easements by county can be found on ODA's website at: http://www.agri.ohio.gov/divs/FarmLand/docs/Farm_ASA_AgMap.pdf.

Controlling Board Approves $119 million in Increased Funding to Support Two Low-Income Electricity Programs

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

On May 18, 2015, the Controlling Board approved additional funding totaling $119 million for FY 2015 to support two low-income electric assistance programs administered by the Development Services Agency (DSA). Specifically, the state-funded Percentage of Income Payment Plan (PIPP) Program received a funding increase of $93 million while the federally funded Home Energy Assistance Program (HEAP) received an increase of $26 million.

Under the PIPP Program, households at or below 150% of the federal poverty guideline may pay a percentage of their household income rather than the actual cost of their residential electricity service that they would otherwise be billed for. The program is funded by the Universal Service Rider, which is charged to retail electric distribution service customers and deposited into the Universal Service Fund (Fund 5M40). Moneys from Fund 5M40 are used to reimburse utility companies for the full cost of electricity used by PIPP customers. With the increased funding approved on May 18, DSA has authority to spend $443 million on the PIPP Program in FY 2015. Through June 20, 2015, PIPP expenditures in FY 2015 amounted to $375.5 million. Over the past five years, PIPP expenditures ranged from a low of $292.5 million in FY 2012 to a high of $405.5 million in FY 2010. PIPP expenditures vary from one year to another depending on various factors, including the number of eligible households enrolled in the program, the cost of electricity, and weather conditions that cause fluctuations in customers' use of electricity, particularly in the winter and summer months.

The federally funded HEAP assistance is available to households at or below 175% of the federal poverty guideline and is designed to help people meet the high costs of home heating and cooling in extreme summer and winter months. This assistance serves as a one-time benefit to eligible individuals each season. HEAP money comes to the state in block grant form and is allocated by formula. The $26 million increase in funding for FY 2015 results in a total appropriation of $198 million for the program.

According to DSA, the total enrollment for the PIPP Program has increased from 419,837 in FY 2014 to 513,017 in FY 2015, and likewise, the total enrollment for HEAP has increased from 386,790 households in FY 2014 to 398,980 households in FY 2015.

Half of State Capital Funding Releases for Ohio's Public Higher Education Institutions in FY 2015 Go to STEM-Related Projects

– Mark Harris, Jr., Budget Analyst, 614-644-7770

In FY 2015, the Controlling Board released $212.3 million in capital funds to 36 public institutions of higher education in Ohio, half of which ($106.9 million) were for science, technology, engineering, mathematics, and medicine (STEM)-related projects. The four largest STEM projects are described below:

- University of Cincinnati renovation of the Medical Science Building. Funding totaling $28.8 million was released for phases two through four of the project, which will provide approximately 917,000 square feet of classroom, administration, and support space for the College of Medicine.
- Miami University renovation of Shideler Hall. Funding of $19.6 million was released for the project, which will provide flexible state-of-the-art teaching and research laboratories, instrumentation laboratories, and an interactive GIS studio for the school's geosciences programs and Institute for Environmental Sustainability.
- Cleveland State University addition to the Fenn College of Engineering Building. Funding of $17.0 million was released for the project, which, in addition to a 100,000 square foot addition, will include a complete reworking of the 1920s-era building.
- Kent State University construction of a new 50,000 square foot integrated science building. Funding of $15.9 million was released for this new construction as well as renovation of electrical service and HVAC equipment in other science and engineering buildings at the university.

Criminal Justice Services Awards $2.7 million in Family Violence and Prevention Services Act Grants

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

On June 4, 2015, the Office of Criminal Justice Services (OCJS) awarded $2.7 million in federal Family Violence and Prevention Services Act (FVPSA) subgrants to 61 projects in 49 counties. The FVPSA provides formula grants to states to fund statewide initiatives and, through subgrants, local domestic violence programs. These subgrants are used to prevent incidents of family violence and provide immediate shelter and related assistance for family violence victims and their dependents.

Under the FVPSA grant program, organizations may apply for a subgrant award of up to $50,000. Eligible organizations include nonprofit or faith-based organizations and units of local and state government. Each organization that receives FVPSA funds is required to provide an in-kind or cash match of at least 35% for new projects, and at least 20% for continuation projects. All but two of the 61 projects received funding for continuation projects. The following table shows those counties with one or more FVPSA projects that received awards for the grant period beginning July 1, 2015, the number of project awards per county, and the total amount of funding received.

Family Violence and Prevention Services Act Grant Awards by County*

County	Award	County	Award	County	Award
Allen	$46,000	Guernsey	$46,000	Pike	$47,000
Ashland	$47,911	Hamilton (3)	$133,584	Portage (2)	$91,376
Ashtabula	$37,600	Hancock	$47,233	Preble	$50,000
Athens	$47,000	Henry	$48,999	Richland	$49,997
Auglaize	$31,151	Highland	$38,400	Scioto	$49,000
Belmont	$48,994	Knox	$40,000	Seneca	$37,371
Butler	$46,000	Lake	$50,000	Shelby	$30,758
Clark	$47,000	Licking	$49,999	Stark (2)	$72,592
Coshocton	$41,081	Lorain	$47,415	Summit (2)	$97,000
Cuyahoga (3)	$130,682	Lucas (3)	$122,447	Van Wert	$46,000
Delaware	$48,000	Mahoning (2)	$82,661	Vinton	$45,193
Fairfield	$46,989	Marion	$47,367	Warren	$36,925
Fayette	$44,750	Mercer	$48,997	Washington	$48,996
Franklin (2)	$79,534	Miami	$47,040	Wayne	$50,000
Gallia	$38,400	Montgomery (2)	$93,922	Wood	$49,000
Geauga	$50,000	Muskingum	$46,722	**Total**	**$2,719,807**
Greene	$48,000	Pickaway	$48,718		

*Unless otherwise noted, one project was funded in each county. Numbers may not add to total due to rounding.

Ohio Receives $1.4 million in NEA Grants for Spring 2015

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

In May, the Ohio Arts Council (OAC) announced that Ohio received $1.4 million during the spring 2015 funding cycle of the National Endowment for the Arts (NEA). This funding includes a state partnership grant of $952,000 awarded to OAC. State partnership grants are based partly on population and partly on merit. This is the sixth year in a row Ohio received the second highest award out of all U.S. states. This funding supports OAC's sustainability, artist in residence, artists with disabilities access, project support, building cultural diversity, and special projects grant programs. In addition to the grant award to OAC, the NEA awarded 18 grants totaling $447,000 to other arts organizations in Ohio. To see the full list of recipients and award amounts, go to www.oac.state.oh.us and search for "Spring 2015 NEA Grant."

Tracking the Economy

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

– *Gregory Craig, Economist, 614-728-3218*

Overview

The domestic economy maintained its upward trend in housing construction and vehicle manufacturing, in part because of low interest rates and a ready supply of auto loans.

Job gains continued in the latest month for both the country and Ohio. Growth in personal income also continued, and Ohio's income growth slightly outpaced that of the country during the first quarter of 2015. Consumers and many producers are benefitting from low inflation, although prices for petroleum and petroleum-based products are up from lows early this year. The domestic economy maintained its upward trend in housing construction and vehicle manufacturing, in part because of low interest rates and a ready supply of auto loans. In the first quarter, inflation-adjusted gross domestic product (real GDP) fell slightly (-0.2% at an annual rate). Industrial production fell or was unchanged in each of the first five months of this year. The strong dollar may have eroded demand for U.S. exports and boosted imports. Instability abroad, including Greece's potential imminent exit from the Eurozone and possibly also the recent precipitous drop in Chinese stock prices, could contribute to delay by the Federal Reserve in raising its target short-term interest rate from the near-zero level at which it has been held since late 2008.

The National Economy

Employment and Unemployment

In June, nonfarm payroll employment nationwide at business establishments increased 223,000, according to initial estimates from the Bureau of Labor Statistics (BLS). June continued a trend of monthly job growth averaging somewhat above 200,000, after the monthly increase fell to 119,000 in March. Prior to March, the 12 months from March 2014 through February 2015 was the longest period that employment had increased by 200,000 or more each month since the 19 months that ended in March 1995. Monthly gains in employment averaged 245,000 over the past 12 months and 208,000 over the past six months. Employment gains in June were concentrated in professional and business services, health care, retail trade, financial activities, and transportation and warehousing. The mining industry continued to create a drag on total employment in June; losses in this industry were due in large part to the scale down of oil and gas industry operations in response to lower oil prices. BLS revised downward its estimate of employment gains in April, from 221,000 to 187,000, and in May, from 280,000 to 254,000. For the months of April and May combined, employment gains were 60,000 lower than previously reported.

The U.S. economy has added a net total of 2.94 million jobs over the past 12 months. The national unemployment rate declined to 5.3% in June, from 5.5% in May, and declined by 0.8 percentage points from 6.1% one year earlier. The U.S. unemployment rate in June was at its lowest level since April 2008. Average hourly earnings of all employees on private, nonagricultural payrolls were unchanged from May to June. Average hourly earnings were up 2.0% over the past year.

The U.S. economy has added a net total of 2.94 million jobs over the past 12 months.

Production

Industrial production fell further in May, by 0.2%. The index for total industrial production was down 1.1% in May from an all-time peak at the end of last year. Whereas the weakness at the outset of the year coincided with severe winter weather, analysts have looked to other factors to explain the index's declines during the spring months. Low commodity prices continue to hurt the mining sector (inclusive of oil and gas exploration) whereas the manufacturing sector is challenged by low commodity prices and weak export demand. One of the strongest subcomponents of industrial production continues to be vehicle manufacturing. Although the index as a whole grew 1.4% over the past 12 months, the industry group for motor vehicle and parts manufacturing was 7.6% above its level from one year ago.

Manufacturing activity expanded for the 30th consecutive month in June based on a release by the Institute for Supply Management (ISM), which surveys purchasing managers. Reports of higher new orders were more widespread than in May. Production and employment indices also showed expansion in June. On the other hand, new export orders contracted in June for the fourth month this year.

According to the quarterly Duke University/CFO Magazine Global Business Outlook Survey released in June, the strong dollar has hurt exporters. The quarterly survey poses questions to senior financial executives from both public and private companies representing a broad range of industries, geographic areas, and revenues. Among survey respondents, 80% of firms exporting at least one-fourth of their total sales said the appreciated dollar has a negative effect. In response to this dollar appreciation, 40% said their organizations reduced capital spending plans.

The U.S. Bureau of Economic Analysis (BEA) released its third estimate of first quarter real GDP. The value of the production of goods and services in the U.S., adjusted for price changes, decreased at an annual rate of 0.2 % in the first quarter.

U.S. Real GDP, First Quarter 2015

	Advance Estimate	Second Estimate	Third Estimate
Percent Change from Preceding Quarter	0.2%	-0.7%	-0.2%

Source: BEA; quarterly estimates are expressed as seasonally adjusted annualized rate

The BEA release covered a period of cold weather disruptions. However, in contrast to the quarter overlapping the previous year's polar vortex, residential fixed investment grew this winter. Consumer spending and business investment in equipment and intellectual property also increased in this year's first quarter. The decrease in real GDP in the first quarter primarily reflected negative contributions from exports, business investment in structures, and state and local government spending. Imports, which are a subtraction in the calculation of GDP, also increased. This period marked the second consecutive quarter that net exports and government spending were a significant drag on real GDP. However, in the fourth quarter of 2014, consumer spending and business investment were strong enough to produce real GDP growth of 2.2%. The drop in business investment in structures in the first quarter was mostly in drilling of petroleum and natural gas shafts and wells.

The national housing construction market continues to show improvement.

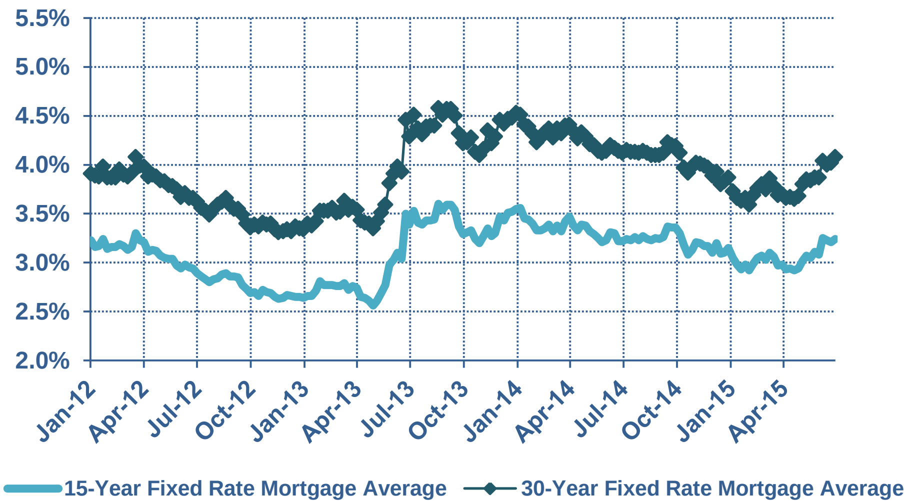
Construction and Real Estate

The national housing construction market continues to show improvement. Though new housing starts fell from April to May, year-to-date starts were 6% higher than a year earlier, which continues the upward trend from the low six years ago. Gains in single-family units outpaced gains in multi-family housing, reversing the pattern earlier in the recovery. Over the 12-month period continuing through May, housing starts for single unit structures increased 6.8% whereas starts for structures with five units or more grew 2.6%. The positive trends in housing construction should continue as housing permits are also on the rise. New building permits are a leading indicator for future construction, and in May, permits for new housing construction were issued at a 1.25 million unit annual rate, which is the highest monthly rate since September of 2007.

New home sales increased in May, by 2.2% to an annual rate of 546,000. Year-to-date sales were 24% higher than a year earlier, chiefly reflecting gains in the South and West. The supply of new homes was down to 4.5 months as of May. The months' supply is the ratio of houses for sale to houses sold. This statistic indicates how long the current for-sale inventory would last given the current sales rate if no additional new houses were offered for sale.[9] The lack of supply bodes well for new housing starts and the ancillary economic activity associated with housing construction. The national report also breaks out new home sales by the four Census regions. The Midwest region, which includes Ohio, lost momentum in May. For the month, home sales declined by 5.7%, which placed them 12.0% below year-ago levels.

According to Freddie Mac's Primary Mortgage Market Survey (see Chart 5), interest rates for fixed rate mortgages increased in May and June after generally trending downward since September 2013.

Chart 5: Freddie Mac Primary Mortgage Market Survey



The consumer price index in May was identical to its prior year level.

Consumer Spending and Inflation

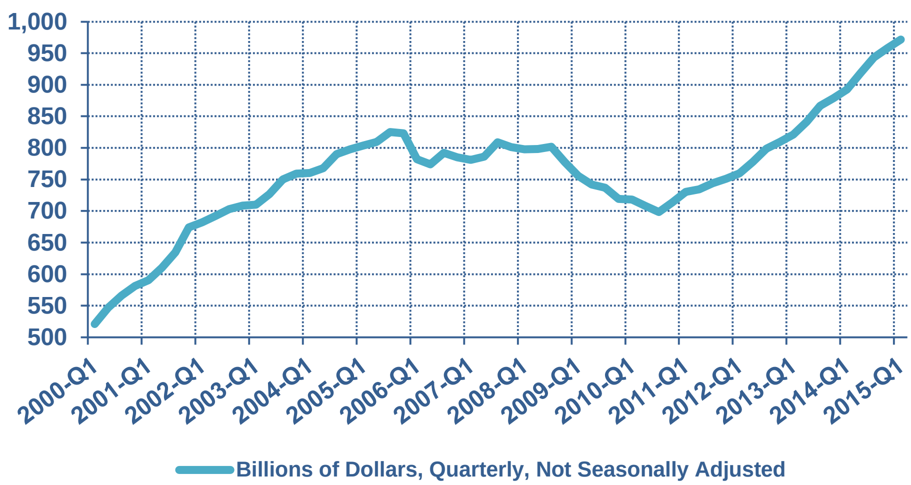
Income gains supported growth in consumer spending in May as personal income grew 0.5% for the month while consumer spending grew 0.9%. Over the last 12 months, personal income grew 4.4% while consumer spending increased 3.6%. During this same time period, inflation by one widely used measure was nil as the consumer price index in May was identical to its prior year level. Another measure of inflation, the producer price index for final demand, showed a 0.5% increase from April to May, but the year-over-year reading was negative 1.1% mostly as a result of lower energy prices.

[9] The inventory of new houses for sale includes units not yet started and units under construction as well as completed houses.

Motor vehicle sales have also been supported by increased lending.

Recent income gains have helped light vehicle sales. For June, consumers purchased cars and light trucks at a strong seasonally adjusted annual rate of 17.1 million. Sales in May, at a 17.7 million unit rate, were highest since 2005. Motor vehicle sales have also been supported by increased lending. Chart 6 shows that outstanding motor vehicle loans have grown at a brisk pace since 2010. By the end of the first quarter of 2015, outstanding motor vehicle loans totaled $971.8 million. Since 2010, the value of outstanding motor vehicle loans grew 39%.

Chart 6: Motor Vehicle Loans Owned and Securitized, Outstanding, per the Federal Reserve

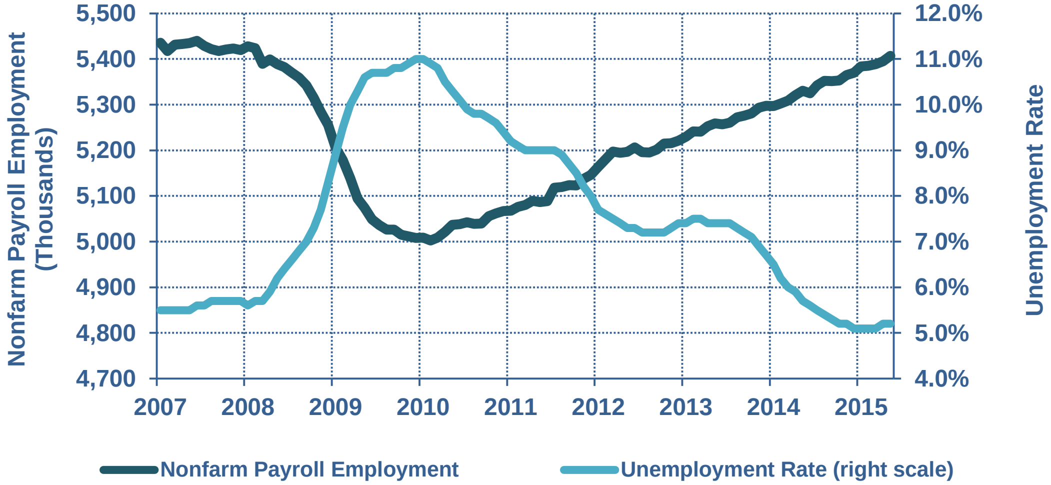


The Ohio Economy

Employment and Unemployment

Total nonfarm payroll employment in May increased by 12,000 (0.2%) from April, while the state's rate of unemployed job-seekers remained unchanged at 5.2%, as shown in Chart 7 below. The number of Ohioans counted as unemployed in May was 302,000, an increase of 5,000 (1.7%) from April. The number of Ohioans counted as unemployed dropped by 26,000 over the past 12 months, while nonagricultural wage and salary employment grew by 76,700 (1.4%); 45 states and the District of Columbia saw decreases in the unemployment rate during the same period. On the year, Ohio goods-producing industries added 13,200 (1.5%) jobs, including 17,100 (2.5%) jobs in manufacturing. The construction industry acted as a drag on hiring by goods-producing industries, shedding 4,300 jobs (2.2%) on the year. Private service-providing industries added 68,000 (1.8%) jobs on the year while the number of public-sector jobs fell 4,500 (0.6%) during this period.

Chart 7: Ohio Employment and Unemployment



State personal income growth in Ohio remained steady in the first quarter of 2015.

State Personal Income

State personal income growth in Ohio remained steady in the first quarter of 2015. The BEA estimates that Ohio personal income grew 1.1% in the first quarter, matching the growth rates in the final three quarters of 2014. Net earnings[10] contributed 0.7 percentage points to Ohio's personal income growth, while transfer receipts and dividends, interest, and rent contributed 0.4 and 0.1 percentage points, respectively. Personal income growth in Ohio exceeded personal income growth in the U.S. (0.9%) in the first quarter of 2015.

Home Sales

The number of homes sold in Ohio in May was 13,351, 6.2% higher than the 12,567 sold a year earlier, while year-to-date sales of 50,123 were 8.1% higher than the 46,384 sold in the comparable period in 2014. The year-to-date average sales price in the state was $148,597, 5.9% higher than the $140,323 figure from a year earlier, according to the Ohio Association of Realtors.

[10] Defined as earnings by place of work (the sum of wages and salaries, supplements to wages and salaries, and proprietors' income) less contributions for government social insurance, plus an adjustment to convert earnings by place of work to a place-of-residence basis.

Capital spending among oil and gas producers is on target after having been scaled back earlier in 2015.

Regional Economy

The Federal Reserve Bank of Cleveland's most recent report on regional economic activity described a "slight" rate of economic expansion during the past six weeks.[11] The report noted that:

- Sales of new and existing homes through March were moderately higher compared to levels during the same period in 2014. Prices increased about 7% from a year earlier due to higher labor costs and a declining supply of existing homes. Homebuilders predicted that new home sales for 2015 will increase on average roughly 15% relative to 2014. Homebuilders also anticipate that a potential interest rate increase in the near term might incentivize buyers to sign purchase contracts.
- Demand for business credit experienced slow growth across various sectors. Demand was strongest for commercial and industrial loans and commercial real estate loans, buoyed by confidence among manufacturers. Demand for residential mortgages experienced a seasonal increase focused primarily on new home purchases. Delinquency rates on residential mortgage products remained at low levels.
- Retail sales were slightly higher compared to a year ago, with the highest retail demand occurring in women's apparel, home furnishings, and health and wellness products. Retailers attributed higher revenues to lower gasoline prices, improved weather, and the better labor market. Year-to-date purchases of new vehicles through April were lower than those in the same period in 2014, though dealers expect strong sales during the summer to offset these lower than expected sales.
- Activity in the Utica and Marcellus shale formations steadied, after the number of drilling rigs in operation contracted sharply earlier this year. Production at existing rigs remains at a high level, though the pace of production growth has slowed. Capital spending among oil and gas producers is on target after having been scaled back earlier in 2015.
- While firms expect the average wage increase to be roughly 2% to 3%, wage increases for selected occupations, such as those requiring technical skills, are occurring at a higher rate. Firms are also increasingly focusing on retention initiatives for high-skilled workers due to the strength of that segment of the labor market and the propensity for younger workers to switch jobs.

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[11] The Federal Reserve Bank of Cleveland releases the Fourth District Beige Book eight times each year prior to the Federal Open Market Committee (FOMC) meetings. The Federal Reserve Bank of Cleveland's district includes all of Ohio and parts of Kentucky, Pennsylvania, and West Virginia. Information in the latest report was collected on or prior to May 22, 2015.