Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION JUNE 2015

STATUS OF THE GRF

HIGHLIGHTS

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

GRF tax revenue received in May was $51 million below the August 2014 estimate by the Office of Budget and Management (OBM). A positive variance for sales and use tax receipts nearly offset a negative variance for the income tax; the $51 million shortfall was attributable to a timing-related negative variance for the domestic insurance tax. GRF tax revenue for the fiscal year through May was nearly $403 million above OBM's August 2014 estimate, and about $204 million above its February 2015 estimate. With spending below estimate, the state budget is in good shape heading into the final month of FY 2015.

Ohio's unemployment rate rose to 5.2% in April, from 5.1% in March, but remained below the national rate of 5.4% for April.

Through May 2015, GRF sources totaled $28.36 billion:

- Revenue from the personal income tax was $304.5 million above estimate;
- Sales and use tax receipts were $98.9 million above estimate.

Through May 2015, GRF uses totaled $29.63 billion:

- Program expenditures were $208.6 million below estimate, with nearly all spending categories showing negative variances, led by Medicaid ($170.6 million);
- A $105.5 million positive variance in property tax reimbursements was primarily timing-related.

VOLUME 38, NUMBER 10

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

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Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of May 2015
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on June 8, 2015)

STATE SOURCES	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$120,575	$115,400	$5,175	4.5%
Nonauto Sales and Use	$767,930	$739,600	$28,330	3.8%
Total Sales and Use Taxes	**$888,505**	**$855,000**	**$33,505**	**3.9%**
Personal Income	$551,473	$589,100	-$37,627	-6.4%
Corporate Franchise	-$351	$0	-$351	---
Financial Institution	$24,718	$21,800	$2,918	13.4%
Public Utility	$34,154	$31,800	$2,354	7.4%
Kilowatt-Hour Excise	$16,594	$18,900	-$2,306	-12.2%
Natural Gas Consumption (MCF)	$33,676	$27,000	$6,676	24.7%
Commercial Activity Tax	$176,936	$166,900	$10,036	6.0%
Petroleum Activity Tax	$0	$5,800	-$5,800	-100.0%
Foreign Insurance	-$14,882	-$12,800	-$2,082	-16.3%
Domestic Insurance	$172,130	$224,400	-$52,270	-23.3%
Business and Property	$0	$0	$0	---
Cigarette	$116,668	$124,000	-$7,332	-5.9%
Alcoholic Beverage	$4,415	$4,100	$315	7.7%
Liquor Gallonage	$3,518	$3,200	$318	9.9%
Estate	$216	$0	$216	---
Total Tax Revenue	**$2,007,770**	**$2,059,200**	**-$51,430**	**-2.5%**
NONTAX REVENUE				
Earnings on Investments	$3	$0	$3	---
Licenses and Fees	$527	$945	-$417	-44.2%
Other Revenue	$10,213	$808	$9,405	1164.1%
Total Nontax Revenue	**$10,743**	**$1,753**	**$8,991**	**513.0%**
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	**$2,018,513**	**$2,061,153**	**-$42,640**	**-2.1%**
Federal Grants	$668,932	$636,588	$32,343	5.1%
TOTAL GRF SOURCES	**$2,687,444**	**$2,697,741**	**-$10,297**	**-0.4%**

*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 May 31, 2015
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on June 8, 2015)

STATE SOURCES	Actual	Estimate*	Variance	Percent	FY 2014	Percent Change
TAX REVENUE						
Auto Sales	$1,191,658	$1,155,000	$36,658	3.2%	$1,104,998	7.8%
Nonauto Sales and Use	$7,953,324	$7,891,100	$62,224	0.8%	$7,255,795	9.6%
Total Sales and Use Taxes	**$9,144,982**	**$9,046,100**	**$98,882**	**1.1%**	**$8,360,793**	**9.4%**
Personal Income	$7,710,347	$7,405,800	$304,547	4.1%	$7,309,490	5.5%
Corporate Franchise	$1,370	$0	$1,370	---	-$11,768	111.6%
Financial Institution	$153,378	$175,500	-$22,122	-12.6%	$171,341	-10.5%
Public Utility	$96,914	$105,000	-$8,086	-7.7%	$105,887	-8.5%
Kilowatt-Hour Excise	$275,939	$280,900	-$4,961	-1.8%	$288,130	-4.2%
Natural Gas Consumption (MCF)	$74,653	$59,100	$15,553	26.3%	$76,110	-1.9%
Commercial Activity Tax	$850,061	$772,100	$77,961	10.1%	$786,160	8.1%
Petroleum Activity Tax	$4,436	$19,800	-$15,364	-77.6%	$0	---
Foreign Insurance	$284,538	$291,000	-$6,462	-2.2%	$288,152	-1.3%
Domestic Insurance	$179,668	$226,400	-$46,732	-20.6%	$196,134	-8.4%
Business and Property	$42	$0	$42	---	$476	-91.1%
Cigarette	$730,349	$729,400	$949	0.1%	$749,573	-2.6%
Alcoholic Beverage	$50,976	$49,200	$1,776	3.6%	$50,748	0.4%
Liquor Gallonage	$39,510	$37,300	$2,210	5.9%	$38,030	3.9%
Estate	$3,028	$0	$3,028	---	$38,424	-92.1%
Total Tax Revenue	**$19,600,190**	**$19,197,600**	**$402,590**	**2.1%**	**$18,447,679**	**6.2%**
NONTAX REVENUE						
Earnings on Investments	$17,927	$14,500	$3,427	23.6%	$12,383	44.8%
Licenses and Fees	$57,015	$61,275	-$4,260	-7.0%	$56,672	0.6%
Other Revenue	$35,699	$29,004	$6,695	23.1%	$33,865	5.4%
Total Nontax Revenue	**$110,641**	**$104,779**	**$5,862**	**5.6%**	**$102,919**	**7.5%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$24,272	$7,200	$17,072	237.1%	$56,412	-57.0%
Total Transfers In	**$24,272**	**$7,200**	**$17,072**	**237.1%**	**$56,412**	**-57.0%**
TOTAL STATE SOURCES	**$19,735,103**	**$19,309,579**	**$425,524**	**2.2%**	**$18,607,011**	**6.1%**
Federal Grants	$8,624,179	$8,621,789	$2,390	0.0%	$8,156,373	5.7%
TOTAL GRF SOURCES	**$28,359,282**	**$27,931,368**	**$427,913**	**1.5%**	**$26,763,383**	**6.0%**

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

FY 2015 GRF sources were $427.9 million above estimate.

FY 2015 GRF tax receipts were $402.6 million above estimate.

REVENUES

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

Overview

With one month left in the fiscal year, FY 2015 total GRF sources[1] were $427.9 million above projected revenue, and are set to conclude the fiscal year in positive territory. For the month of May, GRF sources were $10.3 million below the estimate released by OBM in August 2014,[2] due to a negative variance of $51.4 million in GRF tax revenues. This shortfall reduced the fiscal year's positive variance of tax sources to $402.6 million, down from $454.0 million at the end of April. The year-to-date positive variance for GRF tax sources was $204.2 million above the upward revision of $198.3 million for the full year estimate released by OBM in February 2015.[3] Revenue from federal grants in May was above estimate by $32.3 million, and this result partially offset the negative variance of GRF tax sources. May revenue from federal grants also reversed the fiscal year shortfall of $30.0 million through April for this GRF source into an overage of $2.4 million through the latest month. Tables 1 and 2 show GRF sources for the month of May and for FY 2015 through May, respectively.

GRF tax revenue was held back for the month of May primarily due to negative variances for the domestic insurance tax ($52.3 million) and the personal income tax ($37.6 million). The domestic insurance tax result was due to timing that will reverse in June. The income tax result was due to lower than expected monthly withholding receipts and higher than expected refunds being paid out. The cigarette tax and the petroleum activity tax (PAT) also contributed ($7.3 million and $5.8 million, respectively) to the shortfall for the month. Several other taxes performed well for the month, led by the sales and use tax and the commercial activity tax (CAT), which were above estimates, respectively, by $33.5 million and $10.0 million. Also above anticipated revenues were the natural gas consumption (MCF) tax ($6.7 million) and the financial

[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.

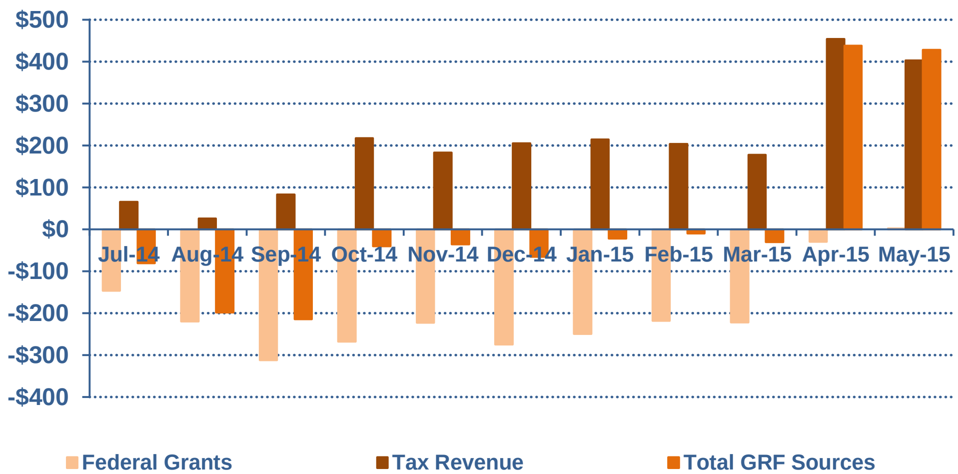
[2] Comparisons below of actual receipts to estimates are to OBM's August 2014 estimates, unless otherwise indicated.

[3] In February 2015, OBM revised upward by $198.3 million the FY 2015 total tax revenue estimate, but did not revise the original monthly revenue estimates.

institutions tax (FIT, $2.9 million). Other taxes experienced smaller variances.

Chart 1 below shows FY 2015 cumulative variances against estimates for federal grants, tax revenue, and total GRF sources, and indicates they were all ahead of projections for the fiscal year to date. As seen in Table 2, the personal income tax had the largest positive year-to-date variance at $304.5 million, followed by the sales and use tax ($98.9 million), the CAT ($78.0 million), the MCF tax ($15.6 million), the estate tax ($3.0 million), and the liquor gallonage tax ($2.2 million). The domestic insurance tax had the largest negative variance, at $46.7 million, but like the result for May that was due to timing. Other notable negative variances for the year to date were generated by the financial institutions tax (FIT, $22.1 million), the PAT ($15.4 million), the public utility tax ($8.1 million), the foreign insurance tax ($6.5 million), and the kilowatt-hour tax ($5.0 million).

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



Compared to last year's corresponding period, FY 2015 year-to-date GRF sources grew by $1.60 billion (Table 2). Tax receipts and federal grants grew by $1.15 billion and $467.8 million, respectively. However, nontax revenues and transfers in fell by a total of $24.4 million compared to revenue in those categories in the corresponding period in FY 2014. Among the most important tax sources, revenue from the sales and use tax, the personal income tax, and the CAT increased $784.2 million, $400.9 million, and $63.9 million, respectively. However, revenue from the cigarette tax declined $19.2 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 GRF sources were $1.60 billion above GRF sources in FY 2014.

Personal Income Tax

May GRF receipts from the personal income tax of $551.5 million were $37.6 million (6.4%) below estimate, but $11.2 million (2.1%) above receipts in May 2014. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the Local Government Fund (LGF). Gross collections are the sum of employer withholding, quarterly estimated payments,[4] trust payments, payments associated with annual returns, and miscellaneous payments.

FY 2015 income tax receipts were $304.5 million above estimate.

In May 2015, payments with annual returns and annual employer withholding were ahead of estimates by $32.2 million and $6.1 million, respectively. However, those positive variances were offset by a shortfall of $32.9 million in monthly employer withholdings. In addition, taxpayer refunds were $38.2 million more than anticipated for the month. Through May, FY 2015 GRF receipts from the personal income tax were $7.71 billion, which was $304.5 million (4.1%) 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 $2.4 million.

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

Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2014	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	$2.4	0.0%	$160.1	2.2%
Quarterly Estimated Payments	$84.8	10.5%	-$112.0	-11.2%
Trust Payments	$5.9	10.1%	$6.6	11.4%
Annual Return Payments	$287.0	41.1%	$194.0	24.5%
Miscellaneous Payments	-$24.2	-19.5%	-$15.5	-13.5%
Gross Collections	$355.9	3.9%	$233.3	2.5%
Less Refunds	$45.8	3.2%	-$184.3	-11.1%
Less LGF Distribution	$5.5	1.7%	$16.7	5.3%
Income Tax Revenue	$304.5	4.1%	$400.9	5.5%

For the fiscal year through May, most income tax components were above estimates, including annual return payments ($287.0 million) and

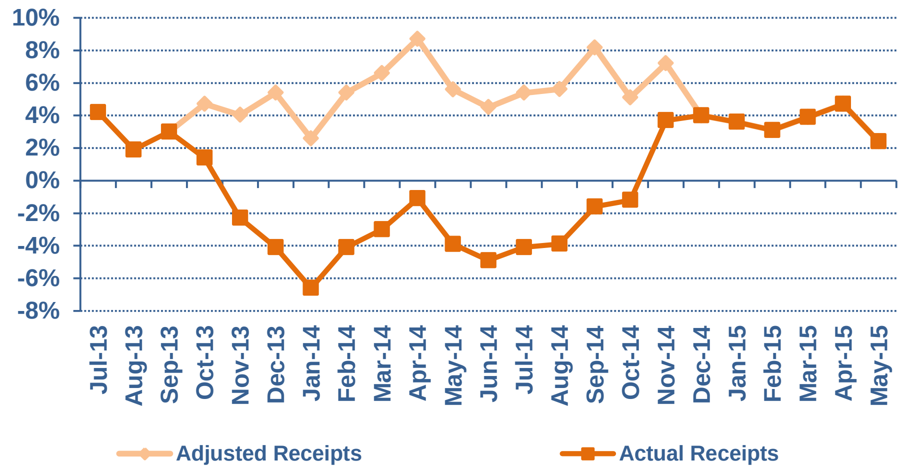
[4] Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than $500. Payments are due on or before April 15, June 15, and September 15 of the tax year and January 15 of the following year. Most estimated payments are made by high-income taxpayers.

quarterly estimated payments ($84.8 million). On the other hand, miscellaneous receipts were short of estimates by $24.2 million.

Through May, FY 2015 GRF receipts from the personal income tax were $400.9 million (5.5%) above receipts through May in FY 2014. Employer withholdings and annual return payments increased $160.1 million and $194.0 million, respectively, this fiscal year when compared to last. However, quarterly estimated payments fell by $112.0 million and miscellaneous payments by $15.5 million. Gross collections were $233.3 million higher in FY 2015, but taxpayer refunds were $184.3 million less this year than in FY 2014 through May. 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.

FY 2015 GRF income tax receipts were $400.9 million above FY 2014 revenue.

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



Sales and Use Tax

GRF receipts from the sales and use tax of $888.5 million in May 2015 were $33.5 million (3.9%) above estimate. May sales tax revenue was also $92.0 million (11.6%) above receipts in May 2014. For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[5] generally arise from the sale of motor vehicles, but auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax instead of the auto tax.

[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 sales and use tax receipts were $98.9 million above estimate.

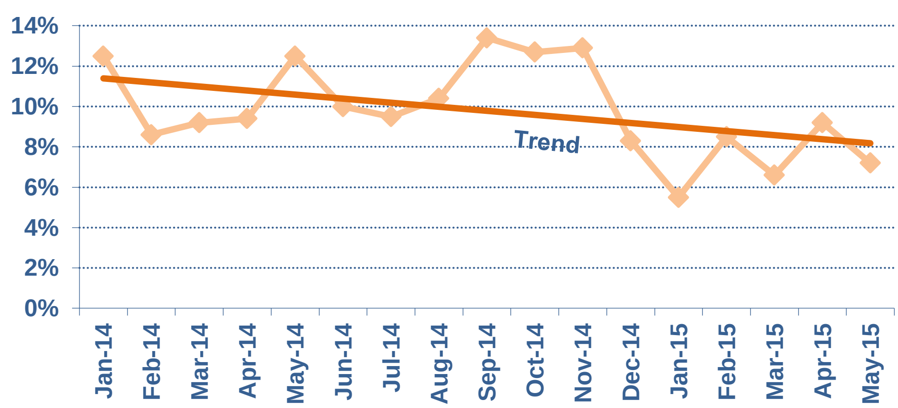
For the fiscal year to date GRF sales and use tax receipts totaled $9.14 billion, $98.9 million (1.1%) above estimate, with both the auto tax and the nonauto tax exceeding anticipated revenue. However, most of this fiscal year's positive variance was achieved in the first half of FY 2015, as the economy sputtered at the start of 2015, but has improved in recent months. Total sales and use tax receipts were $784.2 million (9.4%) above receipts in the corresponding period in FY 2014, due, in part, to the state sales tax rate increase from 5.5% to 5.75%.

Nonauto Sales and Use Tax

FY 2015 nonauto sales and use tax receipts were $62.2 million above estimate.

Following a positive variance of $35.0 million in April, May GRF receipts from the nonauto sales and use tax of $767.9 million were $28.3 million (3.8%) above estimate; and the tax's performance in the last two months reversed a combined negative variance of $42.2 million in the January-March quarter. For the fiscal year to date, total GRF receipts of $7.95 billion were $62.2 million (0.8%) above estimate, and $697.5 million (9.6%) above FY 2014 receipts through May. Chart 3 shows increases in nonauto sales and use tax monthly receipts against prior year receipts in the same month.

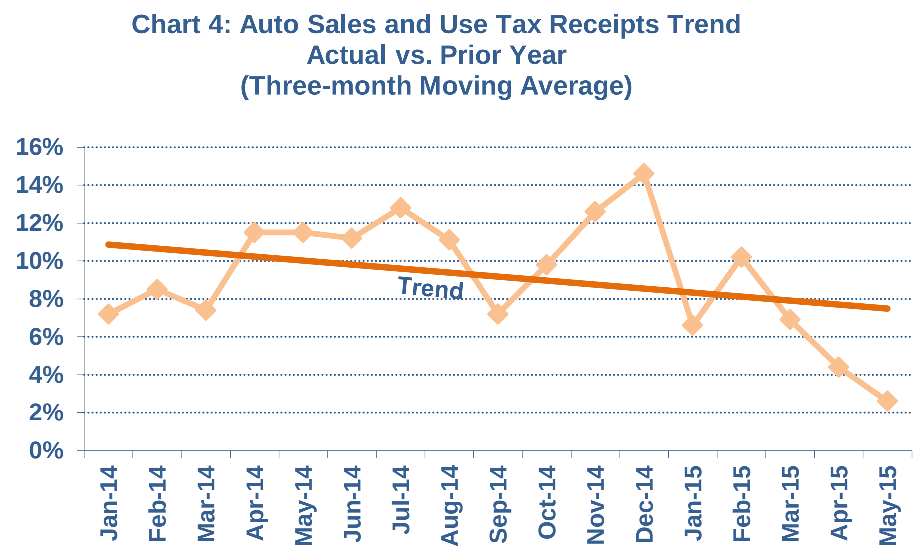
Chart 3: Nonauto Sales and Use Tax Receipts Trend
Actual vs. Prior Year
(Three-month Moving Average)



Auto Sales and Use Tax

FY 2015 auto sales and use tax receipts were $36.7 million above estimate.

GRF receipts from the auto sales and use tax of $120.6 million were $5.2 million (4.5%) above estimate in May, and $9.9 million (9.0%) above receipts in May 2014. For the fiscal year through May, this tax source totaled $1.19 billion, $36.7 million (3.2%) above estimate, and $86.7 million (7.8%) 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.



Nationwide light vehicle sales surged in May to a pace of 17.7 million units (at a seasonally adjusted annual rate) following two months of somewhat disappointing sales, suggesting recent sales may have been deferred from earlier months. May sales were about 5% above May 2014. For 2015 through May, sales are averaging 16.8 million units, about 6% above the corresponding period in 2014. The sales pace was also higher than total 2014 sales of 16.4 million units.

FY 2015 GRF CAT receipts were $78.0 million above estimate.

Commercial Activity and Petroleum Activity Taxes

The last CAT payment for calendar quarter taxpayers in FY 2015 provided GRF receipts of $176.9 million in May. This revenue was $10.0 million (6.0%) above estimate, and $14.7 million (9.1%) above receipts in May 2014. Through May, FY 2015 CAT revenues to the GRF totaled $850.1 million, $78.0 million (10.1%) above estimate, and $63.9 million (8.1%) above receipts in the corresponding period in FY 2014.

FY 2015 GRF PAT receipts were $15.4 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 so far only $4.4 million has been deposited in the GRF through May, thus resulting in a shortfall of $15.4 million 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

GRF receipts from the cigarette and other tobacco products tax of $116.7 million in May 2015 were $7.3 million (5.9%) below estimate, and $11.0 million (8.7%) below receipts in the same month in FY 2014.

FY 2015 cigarette tax receipts were $0.9 million above estimate.

Through May, receipts of $730.3 million in FY 2015 were $0.9 million (0.1%) above estimates. Receipts from cigarette sales were $673.7 million, and sales of other tobacco products (OTP) provided $56.6 million. Total receipts this year declined $19.2 million (2.6%) from the corresponding period in FY 2014. The decrease was attributable to sales of cigarettes, tax receipts from which declined $24.5 million. An increase of $5.3 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 May 2015
($ in thousands)
(Actual based on OAKS reports run June 8, 2015)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary and Secondary Education	$695,887	$863,871	-$167,984	-19.4%
Higher Education	$178,948	$185,300	-$6,352	-3.4%
Other Education	$2,141	$2,653	-$512	-19.3%
Total Education	$876,976	$1,051,823	-$174,847	-16.6%
Medicaid	$1,060,906	$1,073,352	-$12,446	-1.2%
Health and Human Services	$78,205	$53,127	$25,077	47.2%
Total Welfare and Human Services	$1,139,110	$1,126,479	$12,632	1.1%
Justice and Public Protection	$127,184	$129,533	-$2,350	-1.8%
General Government	$23,744	$24,588	-$844	-3.4%
Total Government Operations	$150,928	$154,122	-$3,194	-2.1%
Property Tax Reimbursements	$458,335	$444,266	$14,068	3.2%
Capital Outlay	$0	$0	$0	---
Debt Service	$11,603	$11,608	-$5	0.0%
Total Other Expenditures	$469,938	$455,874	$14,063	3.1%
Total Program Expenditures	**$2,636,952**	**$2,788,298**	**-$151,347**	**-5.4%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$37,416	$0	$37,416	---
Total Transfers Out	$37,416	$0	$37,416	---
TOTAL GRF USES	**$2,674,368**	**$2,788,298**	**-$113,931**	**-4.1%**

*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 May 31, 2015
($ in thousands)
(Actual based on OAKS reports run June 8, 2015)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2014**	**Percent Change**
Primary and Secondary Education	$6,921,648	$6,971,760	-$50,112	-0.7%	$6,318,255	9.6%
Higher Education	$1,968,908	$1,971,541	-$2,632	-0.1%	$1,921,944	2.4%
Other Education	$50,720	$54,198	-$3,478	-6.4%	$48,638	4.3%
Total Education	$8,941,277	$8,997,499	-$56,222	-0.6%	$8,288,836	7.9%
Medicaid	$13,996,525	$14,167,094	-$170,568	-1.2%	$12,842,465	9.0%
Health and Human Services	$1,199,377	$1,224,846	-$25,468	-2.1%	$1,182,599	1.4%
Total Welfare and Human Services	$15,195,902	$15,391,939	-$196,037	-1.3%	$14,025,064	8.3%
Justice and Public Protection	$1,721,963	$1,753,530	-$31,566	-1.8%	$1,701,321	1.2%
General Government	$319,688	$332,495	-$12,806	-3.9%	$325,539	-1.8%
Total Government Operations	$2,041,652	$2,086,025	-$44,373	-2.1%	$2,026,860	0.7%
Property Tax Reimbursements	$1,586,289	$1,480,827	$105,462	7.1%	$1,457,672	8.8%
Capital Outlay	$0	$0	$0	---	$0	---
Debt Service	$1,238,783	$1,256,254	-$17,471	-1.4%	$1,160,786	6.7%
Total Other Expenditures	$2,825,072	$2,737,081	$87,991	3.2%	$2,618,458	7.9%
Total Program Expenditures	**$29,003,903**	**$29,212,544**	**-$208,641**	**-0.7%**	**$26,959,218**	**7.6%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$995,930	-100.0%
Other Transfers Out	$625,262	$598,243	$27,019	4.5%	$249,828	150.3%
Total Transfers Out	$625,262	$598,243	$27,019	4.5%	$1,245,758	-49.8%
TOTAL GRF USES	**$29,629,165**	**$29,810,787**	**-$181,622**	**-0.6%**	**$28,204,976**	**5.0%**

*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 June 8, 2015)

	Month of May 2015				Year to Date Through May 2015			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid	**$2,242,527**	**$1,918,052**	**$324,475**	**16.9%**	**$19,291,632**	**$19,857,195**	**-$565,563**	**-2.8%**
GRF	$1,017,249	$1,034,646	-$17,397	-1.7%	$13,512,677	$13,665,469	-$152,792	-1.1%
Non-GRF	$1,225,279	$883,406	$341,872	38.7%	$5,778,954	$6,191,726	-$412,772	-6.7%
Developmental Disabilities	**$174,400**	**$189,693**	**-$15,293**	**-8.1%**	**$2,078,554**	**$2,206,974**	**-$128,420**	**-5.8%**
GRF	$35,848	$34,263	$1,585	4.6%	$413,391	$422,451	-$9,060	-2.1%
Non-GRF	$138,552	$155,430	-$16,877	-10.9%	$1,665,163	$1,784,523	-$119,360	-6.7%
Job and Family Services	**$18,690**	**$10,405**	**$8,285**	**79.6%**	**$166,504**	**$143,762**	**$22,743**	**15.8%**
GRF	$6,522	$3,929	$2,593	66.0%	$62,375	$71,314	-$8,939	-12.5%
Non-GRF	$12,168	$6,476	$5,692	87.9%	$104,129	$72,448	$31,682	43.7%
Aging	**$471**	**$592**	**-$120**	**-20.3%**	**$5,434**	**$7,817**	**-$2,383**	**-30.5%**
GRF	$258	$260	-$3	-1.1%	$3,116	$3,125	-$9	-0.3%
Non-GRF	$214	$332	-$118	-35.5%	$2,318	$4,693	-$2,375	-50.6%
Health	**$1,375**	**$2,822**	**-$1,446**	**-51.3%**	**$21,065**	**$23,960**	**-$2,896**	**-12.1%**
GRF	$248	$254	-$6	-2.4%	$3,235	$2,998	$238	7.9%
Non-GRF	$1,128	$2,568	-$1,440	-56.1%	$17,829	$20,962	-$3,133	-14.9%
Mental Health and Addiction	**$951**	**$1,355**	**-$404**	**-29.8%**	**$6,833**	**$6,310**	**$523**	**8.3%**
GRF	$782	$0	$782	-	$1,730	$1,737	-$7	-0.4%
Non-GRF	$168	$1,355	-$1,186	-87.6%	$5,103	$4,573	$530	11.6%
Total GRF	**$1,060,906**	**$1,073,352**	**-$12,446**	**-1.2%**	**$13,996,525**	**$14,167,094**	**-$170,569**	**-1.2%**
Total Non-GRF	**$1,377,510**	**$1,049,567**	**$327,943**	**31.2%**	**$7,573,496**	**$8,078,925**	**-$505,428**	**-6.3%**
Total All Funds	**$2,438,415**	**$2,122,918**	**$315,497**	**14.9%**	**$21,570,021**	**$22,246,018**	**-$675,997**	**-3.0%**

*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 June 8, 2015)

	May				Year to Date Through May			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	$847,195	$923,932	-$76,738	-8.3%	$9,592,075	$9,982,390	-$390,315	-3.9%
Nursing Facilities	$107,755	$83,451	$24,303	29.1%	$1,288,933	$1,036,631	$252,302	24.3%
DDD Services	$171,058	$180,039	-$8,980	-5.0%	$2,022,408	$2,140,240	-$117,832	-5.5%
Hospitals	$657,305	$343,207	$314,098	91.5%	$1,344,412	$2,150,239	-$805,827	-37.5%
Behavioral Health	$59,949	$77,111	-$17,162	-22.3%	$682,390	$865,399	-$183,010	-21.1%
Administration	$54,385	$87,276	-$32,891	-37.7%	$758,746	$946,179	-$187,434	-19.8%
Aging Waivers	$19,074	$17,810	$1,264	7.1%	$259,514	$236,835	$22,679	9.6%
Prescription Drugs	$33,731	$36,601	-$2,870	-7.8%	$365,086	$430,273	-$65,187	-15.2%
Medicare Buy-In	$36,462	$42,092	-$5,631	-13.4%	$399,883	$443,104	-$43,221	-9.8%
Physicians	$17,006	$23,101	-$6,095	-26.4%	$458,100	$530,217	-$72,117	-13.6%
Medicare Part D	$24,379	$25,705	-$1,326	-5.2%	$265,816	$275,314	-$9,499	-3.5%
Home Care Waivers	$11,035	$9,955	$1,080	10.9%	$145,331	$127,498	$17,834	14.0%
ACA Expansion	$318,995	$177,542	$141,453	79.7%	$3,097,310	$1,899,300	$1,198,010	63.1%
All Other	$80,088	$95,095	-$15,008	-15.8%	$890,017	$1,182,399	-$292,382	-24.7%
Total All Funds	**$2,438,415**	**$2,122,918**	**$315,497**	**14.9%**	**$21,570,021**	**$22,246,018**	**-$675,997**	**-3.0%**

* 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

Through May, FY 2015 GRF program expenditures were $29.0 billion. These expenditures were $208.6 million below the estimate released by OBM in August 2014. The majority ($151.3 million) of this variance occurred in the month of May, due to an expected negative variance from the Primary and Secondary Education program category. GRF transfers out totaled $625.3 million during the first 11 months of FY 2015, and were $27.0 million above estimate. Including both program expenditures and transfers out, year-to-date GRF uses totaled $29.63 billion, $181.6 million below estimate. Tables 3 and 4 show GRF uses for the month of May and for FY 2015 through May, respectively.

Through May, FY 2015 GRF uses were $181.6 million below estimate.

Several program categories had significant year-to-date variances. GRF Medicaid expenditures were $170.6 million below the year-to-date estimate. Year-to-date expenditures from the Primary and Secondary Education, Justice and Public Protection, and Health and Human Services program categories were below estimates by $50.1 million, $31.6 million, and $25.5 million, respectively. Expenditures from the Property Tax Reimbursements program category, on the other hand, were $105.5 million above the year-to-date estimate due largely to timing. These five program categories' variances as well as the variance in the Transfers Out category will be briefly discussed below.

Medicaid

Medicaid is mainly funded by the GRF, but is also supported by various non-GRF funds. Through May, FY 2015 GRF Medicaid expenditures totaled $14.0 billion, which was $170.6 million (1.2%) below estimate. Non-GRF Medicaid expenditures totaled $7.57 billion, $505.4 million (6.3%) below estimate. Across all funds, Medicaid expenditures totaled $21.57 billion, $676.0 million (3.0%) below their year-to-date estimate. Medicaid is a joint federal-state program. The federal and state shares of Medicaid expenditures are about 64% and 36%, respectively. Both GRF and non-GRF Medicaid expenditures contain federal and state moneys.

Year-to-date GRF and all-funds Medicaid expenditures were below estimates by $170.6 million and $676.0 million, respectively.

The Ohio Department of Medicaid (ODM) is primarily responsible for administering Medicaid, with the assistance of five other state agencies – Developmental Disabilities, Job and Family Services, Aging, Health, and Mental Health and Addiction Services. Table 5 details the

GRF and non-GRF portions of Medicaid expenditures from each of the six agencies that take part in administering Ohio Medicaid. As seen from the table, ODM, the largest agency within this program category, also had the largest year-to-date variance. As reported in the May issue of *Budget Footnotes*, a larger share of Medicaid payments during the month of April came from the GRF versus the non-GRF funds than was originally estimated by OBM in September. This was reversed in May as a larger share of Medicaid payments during the month came from the non-GRF funds versus the GRF than was originally estimated by OBM. Through May, ODM's FY 2015 GRF Medicaid expenditures were $13.51 billion, which was $152.8 million (1.1%) below estimate, while its non-GRF Medicaid expenditures were $5.78 billion, which was $412.8 million (6.7%) below estimate. Across all funds, ODM's Medicaid expenditures totaled $19.29 billion during the first 11 months of FY 2015, which was $565.6 million (2.8%) below estimate. GRF and non-GRF Medicaid expenditures from the Department of Developmental Disabilities (DDD), the second largest agency within this program category, were $9.1 million (2.1%) and $119.4 million (6.7%), respectively, below their year-to-date estimates. Together, ODM and DDD account for about 99% of the Medicaid expenditure total.

Table 6 details all-funds Medicaid expenditures by payment category. As seen from the table, Hospitals had the largest negative year-to-date variance of $805.8 million (37.5%), followed by Managed Care ($390.3 million, 3.9%), All Other ($292.4 million, 24.7%), Administration ($187.4 million, 19.8%), Behavioral Health ($183.0 million, 21.1%), and DDD Services ($117.8 million, 5.5%).

All-funds expenditures from the Hospitals payment category experienced large negative variances in the months of March ($435.8 million) and April ($437.9 million). The estimates for these two months assumed payments to hospitals under the upper payment limit (UPL) and hospital care assurance program (HCAP) totaling $409.7 million per month. The UPL payments were made in May. However, the HCAP payments ($567.6 million) have not yet occurred, accounting for the majority of the negative variance in the Hospitals 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 Medicaid and Medicare, lower than anticipated Aged, Blind, and Disabled (ABD) capitated rates, and lower than projected ABD caseloads due to the program's eligibility redetermination process.

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

Excluding ACA Expansion, all-funds Medicaid expenditures were $1.87 billion below the year-to-date 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 $1.87 billion below the year-to-date estimate.

Through May, all-funds expenditures for ACA Expansion were $1.20 billion above 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). Through May, all-funds expenditures for ACA Expansion totaled $3.10 billion, $1.20 billion (63.1%) above estimate. This positive variance was due to higher than expected caseloads and per person costs.

For the first 11 months of FY 2015, all-funds expenditures for Nursing Facilities were $1.29 billion, $252.3 million (24.3%) 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.

Transfers Out and Medicaid

For the month of May, GRF transfers out were $37.4 million while the OBM estimate did not anticipate any. This positive monthly variance turned this category's year-to-date variance from a negative $10.3 million at the end of April to a positive $27.0 million (4.5%) at the end of May.

Pursuant to Section 323.310 of H.B. 59 of the 129th General Assembly, a total of $37.4 million cash was transferred in May from the GRF to the Managed Care Performance Payment Fund (Fund 5KW0). H.B. 59 requires ODM to provide performance payments to Medicaid managed care organizations providing care and services to participants of MyCare Ohio, which is designed to improve access to and quality of care and services for individuals who are eligible for both Medicare and Medicaid. ODM is to withhold a percentage of each premium payment it pays to a managed care organization for a program participant. The withheld funds are then transferred from the GRF to Fund 5KW0 for performance payments. The appropriation for GRF appropriation item 615525, Medicaid/Health Care Services, is reduced by the transferred amount.

Prior to the May transfer, another $9.6 million cash was transferred from the GRF to Fund 5KW0 in November, which brings the year-to-date GRF cash transfer to Fund 5KW0 to $47.0 million.

Primary and Secondary Education

As expected, GRF expenditures for Primary and Secondary Education were $168.0 million (19.4%) below estimate in May, which turned this category's year-to-date variance from a positive $117.9 million at the end of April to a negative $50.1 million (0.7%) at the end of May. As explained in prior issues of *Budget Footnotes*, the Ohio Department of Education (ODE) began using the current year enrollment data for school foundation payment calculations in late March. While some districts experience enrollment increases in FY 2015, which increase their foundation payments, other districts experience enrollment decreases, which lower their foundation payments. ODE's standard practice for adjusting over and under payments for schools is to include retroactive payments for the already completed portion of the fiscal year when new calculations indicate an annual funding increase for a school and to spread any reductions across the remainder of the fiscal year when new calculations indicate an annual funding decrease for the school. This practice was the main reason why school foundation payments were significantly above estimates in March and April and below estimate in May. Through May, GRF appropriation item 200550, Foundation Funding, the primary funding source of school foundation payments, was $26.0 million below estimate. Item 200502, Pupil Transportation, another foundation payment funding source, was $5.1 million below its 11-month estimate. Overall, Primary and Secondary Education is expected to finish the fiscal year below estimate.

Justice and Public Protection

GRF expenditures for Justice and Public Protection were $127.2 million in May. These expenditures were $2.4 million (1.8%) below estimate, which slightly increased the category's negative year-to-date variance to $31.6 million (1.8%). The majority of this negative variance occurred in the Department of Youth Services (DYS, $14.5 million) and the Department of Rehabilitation and Correction (DRC, $14.3 million). Appropriation item 470401, RECLAIM Ohio, within the DYS budget, was $13.1 million below the year-to-date estimate. DRC's appropriation item 505321, Institution Medical Services, was $27.4 million below the year-to-date estimate. This negative variance was partially offset by a positive year-to-date variance of $11.7 million in DRC's appropriation item 501321, Institutional Operations.

Health and Human Services

GRF expenditures for Health and Human Services totaled $78.2 million in May. These expenditures were $25.1 million (47.2%) above estimate, which reduced the category's negative year-to-date variance from $50.5 million at the end of April to $25.5 million (2.1%).

The Ohio Department of Job and Family Services (ODJFS) accounted for $9.2 million of the category's total negative year-to-date variance. Appropriation items within the ODJFS budget that had significant negative variances include items 600410, TANF State/Maintenance of Effort ($12.2 million), 600416, Information Technology Projects ($5.5 million), 600321, Program Support ($4.2 million), and 600511, Disability Financial Assistance ($4.1 million). The negative variances in these items were partially offset by the positive year-to-date variances in items 600535, Early Care and Education ($12.1 million) and 600523, Family and Children Services ($4.8 million).

The Ohio Department of Health (ODH) contributed another $7.9 million to the Health and Human Services program category's total negative year-to-date variance. Year-to-date expenditures from ODH's appropriation items 440418, Immunizations, and 440474, Infant Vitality, were $3.5 million and $1.1 million, respectively, below estimates. Several other GRF appropriation items within the ODH budget also experienced smaller negative year-to-date variances.

In addition to ODJFS and ODH, the Ohio Department of Mental Health and Addiction Services (ODMHAS) contributed $5.7 million to the category's negative year-to-date variance. ODMHAS's appropriation item 335506, Residential State Supplement, had the largest negative year-to-date variance at $4.5 million, followed by item 335507, Community

Property tax reimbursements were $105.5 million above the year-to-date estimate due primarily to timing.

Behavioral Health ($4.2 million) and item 335421, Continuum of Care Services ($2.1 million). These negative variances were partially offset by a positive year-to-date variance of $5.7 million in item 334412, Hospital Services.

Property Tax Reimbursements

GRF expenditures for Property Tax Reimbursements were $1.59 billion through May. These expenditures were $105.5 million (7.1%) above the category's year-to-date estimate. As reported in prior issues of *Budget Footnotes*, the reimbursements based on the February 2015 settlement started in March and will continue through June. By the end of May, taxing authorities in approximately 70 of 88 counties received all of their reimbursement payments for FY 2015. The remaining amounts, most of which are payable to school districts, will occur in June. The reimbursements based on the August 2014 settlement were completed in December, and payments were $5.3 million lower than estimate. The reimbursements based on the February 2015 settlement are expected to be largely in line with the estimate as well.

ISSUE UPDATES

Controlling Board Approves Funding for Additional Safe Cribs for Infants

– Wendy Risner, Fiscal Supervisor, 614-644-9098

On May 18, 2015, the Ohio Department of Health (ODH) received Controlling Board approval to amend a contract with Cribs for Kids, Inc. for an additional $99,975 to provide 1,333 survival kits to help parents provide a safe sleep environment for infants. Each kit is $75 and consists of a pack 'n play, a fitted sheet, sleep sack wearable blanket, and an educational book and materials. The kits will be provided to parents with incomes below 185% of the federal poverty guideline ($36,612 annual income for a family of three).

These 1,333 additional survival kits are being purchased in response to the recent enactment of S.B. 276 of the 130th General Assembly. S.B. 276 requires certain hospitals and freestanding birthing centers to implement an infant safe sleep screening procedure to determine if an infant will have a safe crib to sleep in upon discharge. If the hospital or birthing center determines that a safe crib is not available, the facility must make a good faith effort to arrange, at no cost to the parent, for the acquisition of one. The act allows the facility to fulfill this requirement through various measures, including referring the parent to the Cribs for Kids Program, if funds are available.

ODH has been in partnership with Cribs for Kids since May 2014. The original contract provided $180,375 in FY 2014 for the distribution of 2,405 survival kits and $300,000 in FY 2015 for the distribution of 4,000 survival kits.

Outstanding Unemployment Compensation Debt Has Decreased by About 26% Since the Start of State Fiscal Year 2015

– Gregory Craig, Economist, 614-728-3218

The amount of outstanding debt Ohio owes to the federal government for the payment of unemployment compensation benefits has decreased by $352.7 million, or 25.5%, since the beginning of state fiscal year 2015. As of May 20, 2015, Ohio's outstanding loan balance is $1.03 billion. This decrease is due to offsets triggered by automatic reductions in the federal unemployment tax (FUTA) credit. Generally, employers in states with no loan balance and with a federally approved unemployment program pay an effective FUTA tax rate of 0.6% ($42 per employee), which is the result of a 5.4 percentage point credit applied to a 6.0% tax rate. The 5.4 percentage point credit is reduced by about one third (0.3) of a percentage point each year the state has a loan balance with the federal government for issuing regular benefits after the first two years. Ohio began borrowing to issue unemployment compensation benefits in January 2009, and last borrowed in April 2014. Since January 2009, Ohio has borrowed a total of $3.39 billion, with the outstanding loan balance peaking in April 2011 at $2.61 billion. According to the Ohio Department of Job and Family Services (ODJFS), Ohio is no longer borrowing from the federal government and Ohio's loan balance is expected to be paid in full some time in 2017.

Ohio has accrued $19.7 million in interest on its outstanding debt from October 1, 2014 through May 22, 2015. ODJFS estimates that the state will owe $28.8 million in interest at the end of federal fiscal year (FFY) 2015. The federal government charges interest at a rate of 2.34% on outstanding unemployment compensation loans. States must pay the federal government interest on borrowed amounts at the end of every federal fiscal year (September 30) that the state maintains a balance. Interest must be paid with state moneys and cannot be paid from the state's unemployment compensation trust fund. The table below shows Ohio's interest payments since borrowing began.

Ohio's Interest Payments to Federal Government

FFY	Interest Amount	Status
2009	$25.2 million	• Waived by federal government
2010	$89.5 million	• Waived by federal government
2011	$95.9 million	• $25.2 million waived by federal government • $70.7 million paid by ODJFS, September 2011
2012	$65.8 million	• Paid by ODJFS, September 2012
2013	$44.5 million	• Paid by ODJFS, September 2013
2014	$37.2 million	• Paid by ODJFS, September 2014
2015	$28.8 million	• Estimated payment, September 2015

ODE Releases K-3 Literacy Grades for 2013-2014 School Year

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

On April 30, 2015, the Ohio Department of Education (ODE) released letter grades for the kindergarten through third grade (K-3) literacy improvement report card measure for school districts and community schools for the 2013-2014 school year. This measure assesses whether schools and districts are making progress in improving literacy in grades K-3.[6] A school or district will not receive a letter grade if either (1) the school or district does not have a sufficient number of students to calculate a grade or

[6] 2013-2014 school year letter grades for other performance measures were released in September 2014; however, the K-3 literacy grades were delayed due to district-level reporting inconsistencies.

(2) fewer than 5% of the school's or district's kindergarteners are "not-on-track" on their reading diagnostic, meaning the school or district is already making sufficient progress in improving literacy.

For the 2013-2014 school year, 510 school districts received a letter grade for K-3 literacy and the other 100 districts did not. Of those 510 districts, 27 (5.3%) received A's and 113 (22.2%) received B's. A plurality, 231 (45.3%), received C's. Another 120 (23.5%) districts received D's and 19 (3.7%) districts received F's. The table below summarizes how the school districts performed on the measure, broken down by typology.

K-3 Literacy Grades by School District Typology, 2013-2014 School Year

Typology	A	B	C	D	F	No Rating	TOTAL
Rural	13	35	92	50	5	37	**232**
Small Town	8	41	77	34	8	32	**200**
Suburban	4	29	45	14	1	30	**123**
Urban	2	8	17	22	5	1	**55**
TOTAL	**27**	**113**	**231**	**120**	**19**	**100**	**610**

Of the 285 community schools open as of April 15, 2015, nearly half (47.0% or 134 schools) did not receive a grade. Of the 151 schools that did receive a grade, 3 (2.0%) received A's and 13 (8.6%) received B's. Another 32 (21.2%) schools received C's. The most common were D's (41 or 27.2%) and F's (62 or 41.1%).

Bureau of Workers' Compensation Approves Flexible Payment Plans for Prospective Billing

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

On April 24, 2015, the Bureau of Workers' Compensation's (BWC) Board of Directors approved the use of flexible payment plans for private employers to pay their annual workers' compensation premiums in two, four, six, or twelve installments. Under this arrangement, all private employers will begin on a bimonthly plan and will have until July 15, 2015 to select a different payment option. These changes are part of the BWC transition to prospective billing, which begins on July 1, 2015 for private employers and January 1, 2016 for public employers.

Private employers will begin receiving their first estimated premium notices in June for the 2015 policy year (July 1, 2015 through June 30, 2016), but will not be required to make any payments until August 31, 2015. This is because BWC, as part of the agency's $1.2 billion premium transition plan, is paying the first two months of premiums under the prospective payment system and the final payment under the retrospective payment system, which would normally be due in August 2015 for premiums for the January 1-June 30, 2015 period.[7] BWC's plan for the transition to a prospective billing system also includes a base rate reduction of 2.4% for private employers and 4.0% for public employers.

Controlling Board Approves $1.65 Million in Additional SMART Ohio Grant Funding

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

On May 18, 2015, the Controlling Board approved the Department of Rehabilitation and Correction's request to transfer $1,650,000 in FY 2015 GRF money from institutional operations to community nonresidential programs for the purpose of awarding additional SMART Ohio grant funding to 17 courts of common pleas (see table below). SMART Ohio, which became operational in late FY 2014, was initiated by the Department to test different models for providing financial assistance to the courts for developing local programs that reduce the number of low-level nonviolent felony offenders from being sentenced into the state prison system.[8]

There are close to 30 courts statewide participating in SMART Ohio. The 17 receiving additional funding were selected because their programs have exceeded performance expectations and more money is needed to continue delivering existing service levels through the end of FY 2015. About $1.0 million of the total additional funding will be disbursed to 13 courts to supplement probation supervision and treatment costs. The remainder ($0.64 million) will be disbursed to the other four courts for the costs of diverting more fourth and fifth degree felony offenders from prison and into various community sanctions.

Additional SMART Ohio Grant Awards by County

County	Award	County	Award	County	Award
Cuyahoga	$500,000	Marion	$171,517	Sandusky	$46,767
Erie	$91,850	Medina	$134,700	Summit	$125,000
Geauga	$26,817	Morgan	$9,833	Trumbull	$147,767
Guernsey	$38,550	Morrow	$20,017	Tuscarawas	$58,133
Harrison	$14,833	Portage	$11,000	Warren	$202,067
Lawrence	$42,567	Richland	$3,000	**TOTAL**	**$1,644,418**

[7] Under the current retrospective payment system, private employers pay premiums twice a year, one in August (covering the period from January 1 to June 30) and one in April (covering the period from July 1 to December 31).

[8] The SMART Ohio initiative was first noted in the May 2014 issue of *Budget Footnotes*.

Criminal Justice Services Awards $5.6 Million in Ohio Drug Law Enforcement Fund Grants

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

On May 8, 2015, the Office of Criminal Justice Services (OCJS) awarded $5.6 million in Ohio Drug Law Enforcement Fund grants to 37 drug task forces in 34 counties. The Drug Law Enforcement Fund (Fund 5ET0) receives its revenue from $3.40 of the $10 court fee that is required to be assessed for all offenders who are convicted of, or plead guilty to, a moving traffic violation. The grants are used to provide funding to defray expenses that a drug task force organization incurs in performing its functions related to the enforcement of the state's drug laws.

Under the Drug Law Enforcement Fund Program, a drug task force organization may apply for a grant award of up to $250,000. The organization is required to provide a local funding match of at least 25% of the task force's projected operating costs in the time period covered by the grant. The following table shows those counties with one or more drug task force organizations 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.

Ohio Drug Law Enforcement Fund Grant Awards by County*

County	Award	County	Award	County	Award
Allen	$183,448	Jackson	$21,239	Ottawa	$106,378
Auglaize	$57,075	Jefferson	$25,331	Portage	$41,611
Clermont	$200,419	Lake	$100,500	Richland	$250,000
Columbiana	$150,021	Lawrence	$121,854	Ross	$227,945
Cuyahoga (3)	$579,914	Licking	$239,480	Sandusky	$23,775
Defiance	$200,318	Logan	$21,097	Stark	$187,499
Delaware	$136,487	Lorain	$249,494	Summit	$250,000
Fairfield	$181,369	Lucas	$49,997	Trumbull	$207,584
Franklin	$249,999	Mahoning	$238,956	Warren	$223,242
Greene	$172,939	Medina	$178,401	Wayne	$169,264
Hamilton (2)	$476,655	Monroe	$14,993	**TOTAL**	**$5,619,713**
Hardin	$18,647	Montgomery	$63,780		

*All counties, unless otherwise noted, received funding for one drug task force.

Controlling Board Approves $22.4 Million to Build an Exhibition Hall at the Ohio Expo Center

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

On April 20, 2015, the Controlling Board approved the Exposition Commission's (EXP) request to release $22.4 million in capital funding under a design-build contract to pay Smoot Construction for the building phase of a new exhibition hall at the Ohio Expo Center. The new 100,000 square-foot multipurpose exhibition complex is expected to open in July 2016. The structure will be used to accommodate conventions, trade shows, banquets, and other events in more comfort than present EXP facilities allow.

H.B. 497 of the 130th General Assembly, the capital bill for the FY 2015-FY 2016 biennium, appropriates $38 million for building the exhibition hall and an agricultural pavilion, which will open for the 2015 Ohio State Fair. Altogether, these two facilities are estimated to cost $39.3 million. To fully fund the projects, the Controlling Board also authorized transfers of $1.3 million from other EXP capital line items. Approximately $1.0 million will come from the set aside for facility-wide electrical upgrades that have been postponed due to the construction of these two new structures. A further $300,000 of the amount transferred will come from the funds remaining after the completion of a major renovation of the Gilligan Building Livestock Complex.

TRACKING THE ECONOMY

– Philip A. Cummins, Senior Economist, 614-387-1687

The materials presented in this report are prepared for purposes of updating the GRF revenue forecast for H.B. 64, the main operating budget bill of the 131st General Assembly. This bill is currently pending in the Senate Finance Committee.

State of the Economy

U.S. economic activity slowed in the first quarter, but growth is seen resuming in the current quarter and continuing through 2016 and 2017. Expansion in U.S. and Ohio economic activity has been underway since the end of the recession in 2009. Growth in Ohio outpaced that in the U.S. in 2011 but was slower in other recent years. The economic forecasts for the nation and the state are summarized in the tables below.[9] Energy prices fell sharply last year, particularly for crude oil and oil products including gasoline, cutting costs for many industries and consumers but hurting oil producers. Crude oil and gasoline prices have risen from lows early this year but remain well below peaks in last year's first half. Responses to the drop in energy prices were a factor in the first quarter economic weakness, but the price decline is expected on balance to be a plus for the U.S. economy, still a net petroleum importer. Consumer spending growth slowed early this year, after strengthening in 2013 and 2014 along with employment, but light motor vehicle sales rose sharply in May to the highest rate in nearly ten years. Housing sales and starts on new construction continued to recover in early 2015. The upturn from the 2009 low has been strongest in apartment construction. Business capital spending growth slowed in this year's first quarter, as the plunge in crude oil prices caused sharp cutbacks in oil-related industries. Renewed growth of total business capital outlays is anticipated. Unemployment has come down. Price inflation is low, held down in part by the drop in energy prices. Wage gains also were low following the recession but have turned higher, particularly for workers with needed skills, as hiring has increased.

[9] Economic forecasts shown in this document are Global Insight's May 2015 baseline predictions.

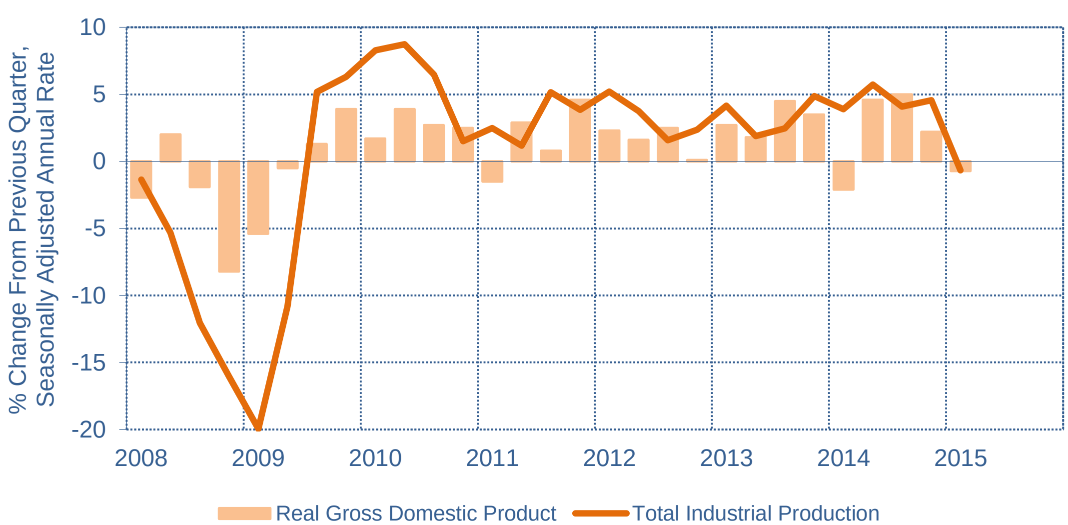
Inflation-adjusted gross domestic product (real GDP) declined at a 0.7% annual rate in the first quarter.

National

National economic activity fell early this year, due in part to temporary factors. Inflation-adjusted gross domestic product (real GDP), the total output of the economy, declined at a 0.7% annual rate in the first quarter, according to the U.S. Department of Commerce's latest estimate. A resumption of economic growth is expected in the current quarter, with growth continuing through the next two years. In this year's first quarter, severe winter weather in parts of the country disrupted economic activity. Also, a slowdown at West Coast ports due to a labor action backed up supply chains. Gains in consumer purchasing power from sharply lower gasoline prices appeared to be outweighed in the short term by cutbacks at oil exploration companies and their suppliers in response to depressed crude oil prices. The strong U.S. dollar may have contributed to slower exports.

Industrial production also fell at a 0.7% annual rate in the 2015 first quarter, reflecting lower overall factory output and the sharp cutbacks in the oil and gas sector, partly offset by increased utility output in response to especially cold temperatures. Total industrial output continued to slip in April, but growth is projected to resume this year and in 2016 and 2017. Chart 5 shows changes in real GDP and industrial production from the recession that began at the end of 2007 through this year's first quarter.

Chart 5: United States Output Measures



The current U.S. recovery and expansion remains the slowest in any business cycle in the post-World War II era.

The current U.S. recovery and expansion remains the slowest in any business cycle in the post-World War II era. Growth of real GDP averaged a 2.2% annual rate from the 2009 second quarter through the

2015 first quarter, less than half of the average growth rate in upturns earlier in the period since 1947.[10]

Consumer spending, adjusted for inflation, grew more slowly in this year's first quarter, at a 1.8% annual rate after averaging 2.8% over the prior two years. Real consumer spending in April was about unchanged from March and up from the first quarter average at only a 1.2% annual rate. Car and light truck sales were disrupted early in 2015 by the harsh winter weather but rose in May to the highest rate since July 2005. Renewed growth of consumer spending in the months ahead is expected, supported by employment and income gains. The national economy added 217,000 jobs per month on average in the first five months of 2015 after increases averaging 260,000 per month in 2014, the best year for job growth since 1999. Growth of real disposable income picked up last year, after weakness in 2013, and continued in this year's first quarter as lower prices added to the buying power of consumers' incomes. Household debt service levels have been reduced to more manageable levels. Replacement needs have contributed to increased spending on consumer durables.

Car and light truck sales rose in May to the highest rate since July 2005.

Recovery in housing sales and construction is continuing. Residential fixed investment grew more slowly in 2014 and early 2015, after double-digit growth in 2012 and 2013 from very low levels. The collapse in home values and housing construction was one of the drivers of the 2007-2009 recession. Housing starts appear to have been disrupted by severe weather in February but were nevertheless 5% higher in the first four months of 2015 than a year earlier. In all of 2014, starts on new housing construction, at 1.0 million units, were 8% higher than a year earlier and the highest since 2007, but still at less than half the rate in peak year 2005. Strength in residential construction has been particularly pronounced in apartments. New home sales in January through April were 24% higher than a year earlier. Sales of new homes recovered by 43% from 2011 to 2014, after plummeting 76% from 2005 to 2011. Sales of older homes in January through April were 6% higher than a year earlier, after a 3% decline in all of last year.[11] Home prices on average nationwide are up from post-recession lows in 2011 but still short of the 2007 peak.[12]

[10] Business cycle trough and peak dates used in calculating the numbers on which these statements are based are from the National Bureau of Economic Research.

[11] Data on existing home sales are from the National Association of Realtors.

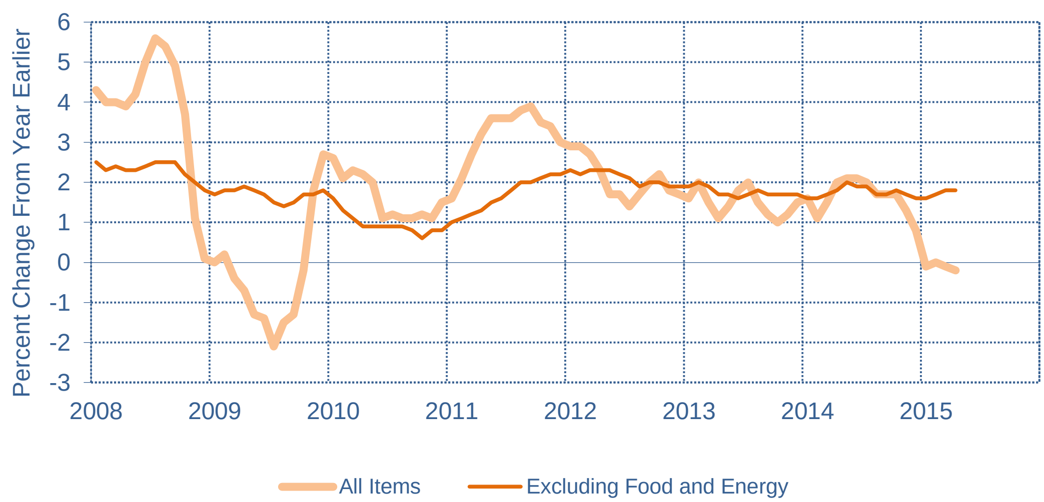
[12] Home prices cited in this document are as reported by the Federal Housing Finance Agency.

The all items consumer price index in April 2015 was 0.2% lower than a year earlier, driven down by lower energy prices.

Business fixed investment fell in this year's first quarter after strengthening last year. Most of the first quarter decline was a result of cutbacks in petroleum and natural gas exploration, recorded in the national income and product accounts as part of fixed investment. The number of active oil and gas drilling rigs continued to drop in April and May.[13] With capacity utilization in manufacturing close to the peak levels reached in 2005 to 2007, with financing conditions exceptionally attractive as indicated by low long-term interest rates, and with corporate cash still ample, further increases in investment spending in many industries can be expected.

Finished goods price inflation remains below the Federal Reserve's 2% target. Recent trends in consumer prices for all items and excluding food and energy are shown in Chart 6. The all items index in April 2015 was 0.2% lower than a year earlier, driven by energy prices, particularly gasoline which was 32% lower in price in April than a year earlier. The index for all food prices, in contrast, was 2.0% higher in April than a year earlier, and the index for all items other than food and energy was 1.8% higher.

Chart 6: Consumer Price Index



Wage gains also are generally slow but turned higher last year as indicated by the Employment Cost Index for private industry wages and salaries, which rose 2.8% in the year ended in March, the largest increase since 2008. Pay increases are outpacing inflation, adding to the real

[13] Rig count data from Baker Hughes Inc.

purchasing power of incomes. Reports indicate wages are rising for skills that are in demand.[14]

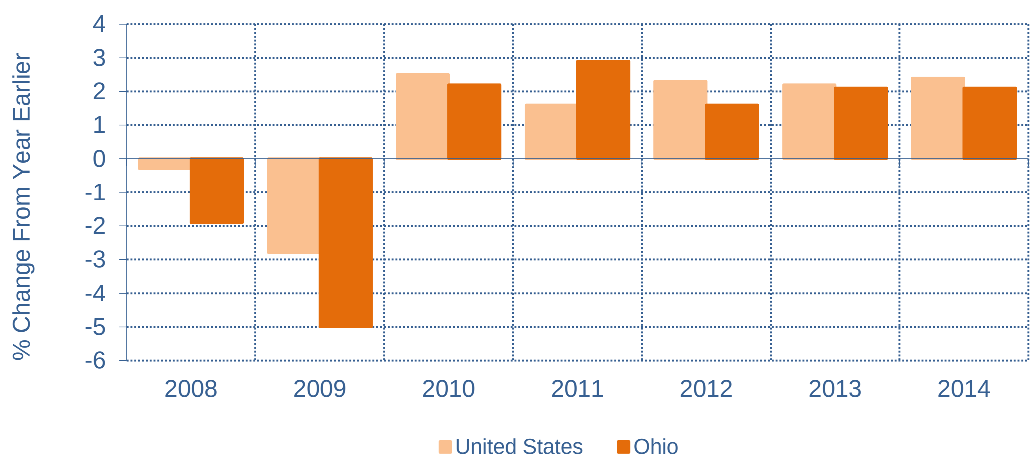
U.S. monetary policy has held short-term interest rates at near-zero levels since late 2008. In October 2014, the Federal Reserve System ended a program of adding to holdings of U.S. Treasury notes and bonds and federal agency mortgage-backed securities to keep longer-term interest rates low. Almost all of the members of the Federal Reserve's main policy-making group, the Open Market Committee, indicated in March that they expect to begin raising the central bank's target short-term interest rate this year.

Ohio

Annual changes in real GDP in Ohio compared with those for the U.S. are shown in Chart 7. The 2007-2009 recession was more severe in Ohio than nationwide. State real GDP fell 1.9% in 2008 and 5.0% in 2009, compared with declines in U.S. real GDP of 0.3% and 2.8% in those years. Following the end of the recession in mid-2009, recovery in Ohio appears to have been somewhat stronger than in the rest of the U.S., on average, in 2011, but less strong in other recent years. In 2014, Ohio's real GDP grew 2.1%, a little less than U.S. real GDP growth of 2.4%. State GDP figures are available from the U.S. Bureau of Economic Analysis (BEA) only annually and with a lag. Estimates of Ohio GDP on a quarterly basis are not from the source agency but are provided by Global Insight.

In 2014, Ohio's real GDP grew 2.1%, a little less than U.S. real GDP growth of 2.4%.

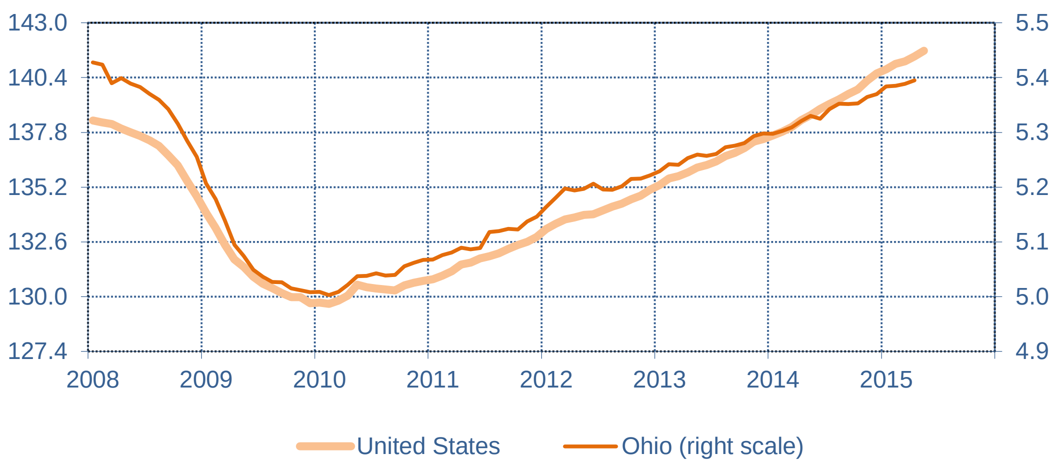
Chart 7: Real Gross Domestic Product



[14] For example, Federal Reserve System, "Summary of Commentary on Current Economic Conditions by Federal Reserve District," June 2015.

Nonfarm payroll employment in Ohio, compared with that in the U.S., is shown in Chart 8. Ohio nonfarm payroll employment reached a low point in February 2010, and had recovered by 7.8%, 390,000 additional jobs, by April of this year. U.S. nonfarm payroll employment also reached its low point in February 2010, and through May 2015 had risen 9.3%, 12 million more jobs. Employment growth in Ohio outpaced that in the U.S. in the first two years of recovery but has since lagged, as shown in the chart.

Chart 8: Total Nonfarm Payroll Employment
Millions, Seasonally Adjusted

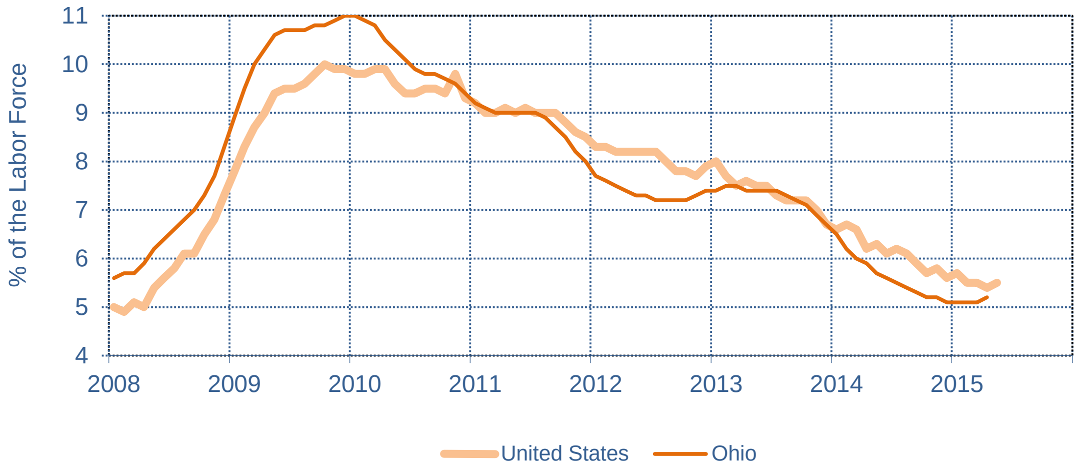


Ohio's statewide unemployment rate declined to 5.1% in December through March, its lowest level since 2001.

Ohio's statewide unemployment rate, the number of people not employed and actively seeking work as a percent of the labor force, declined to 5.1% in December through March, its lowest level since 2001, and edged up to 5.2% in April. The U.S. unemployment rate ticked up to 5.5% in May after declining to 5.4% in April, lowest since 2008. Unemployment rates during and since the 2007-2009 recession are shown in Chart 9. Ohio's unemployment rate fell below the nationwide average in late 2010 and has been lower in most months since then.

Labor markets appear to have more slack than these unemployment rates suggest. Since the end of the recession in June 2009, most of the growth in the U.S. population of working age (16 and over) was accounted for by an increase in the number of people not in the labor force (neither working nor looking for work). In Ohio, the increase since mid-2009 in the number of working-age persons not in the labor force exceeded growth of population in this age group, as Ohio's labor force declined. The fall in labor force participation by people of working age has tended to hold down the reported rate of unemployment, since some of those not in the labor force would plausibly otherwise be searching for work. Only part of the decline in the labor force participation rate among all working-age persons is due to increasing numbers of retirees, as the labor force participation rate has declined among persons younger than 55.

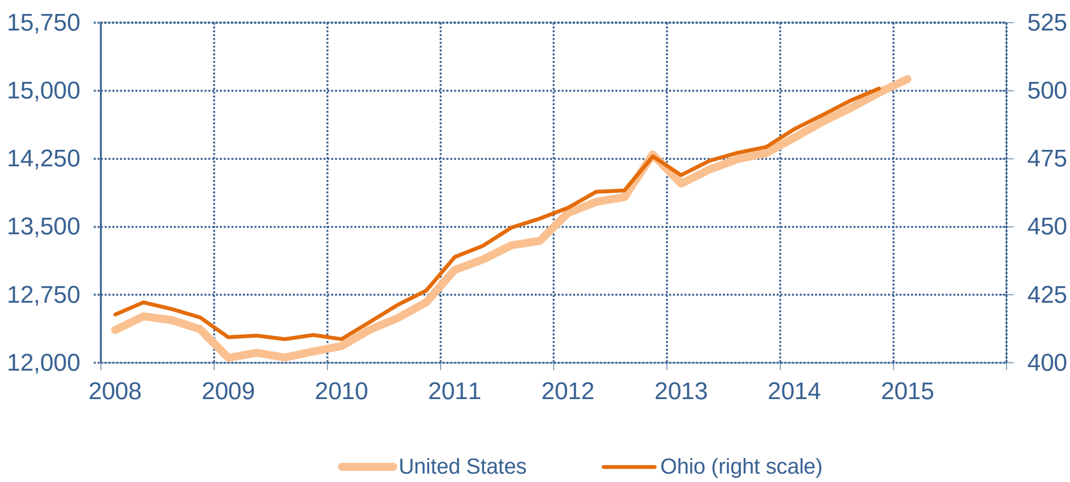
Chart 9: Unemployment Rate
Seasonally Adjusted



Personal income has been growing in the nation and Ohio since 2009.

Personal income has been growing in the nation and Ohio since 2009, as shown in Chart 10. The numbers plotted in the chart are measured in dollars of current purchasing power. Ohio personal income rose 4.5% in the year to the fourth quarter of 2014. U.S. personal income rose 4.7% in the same time period, and increased at a 4.1% annual rate in the first quarter of 2015.

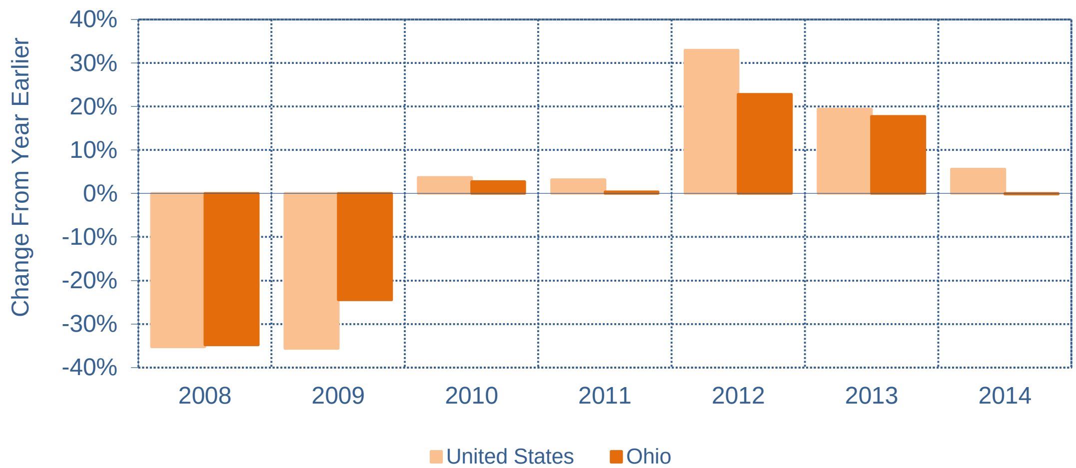
Chart 10: Personal Income
Billions of Dollars, Seasonally Adjusted Annual Rates



Housing construction has strengthened from lows six years ago but remains well short of previous peaks.

Housing construction has strengthened from lows six years ago but remains well short of previous peaks. Residential construction activity last year, as indicated by building permits for new privately owned units, was 79% higher nationwide than in 2009, but 51% below the peak in 2005. In Ohio, residential building in 2014 was 49% higher than in 2009 but 63% lower than in peak year 2003. Year-to-year changes in permit issuance are shown in Chart 11. In the first four months of 2015, building permit issuance for new housing units was 9% higher than a year earlier nationwide, but 11% lower in Ohio likely reflecting in part the impact of severe winter weather. The trend for housing construction and sales appears to be upward, albeit gradually, spurred by low mortgage interest rates and improved finances for many households. Average housing prices have recovered substantially from lows in 2011, in Ohio and the U.S., but remain below pre-recession peaks in 2006 and 2007.

Chart 11: New Privately Owned Housing Units Authorized by Building Permits



Economic Forecasts

The predictions for the economic outlook in the tables that follow are from Global Insight's baseline forecasts released in May 2015. Economic forecasting is inherently uncertain, and projections may turn out to be too optimistic or too pessimistic. LSC's forecasts for state tax revenues, based in part on variables provided by Global Insight, could in consequence also be either too high or too low.

Quarterly changes shown, the first line in each table, are from the preceding quarter. Changes shown in the second line compare average values for the four quarters ending in the second calendar quarter, coinciding with Ohio's fiscal year, with average values for the four quarters one year earlier. The unemployment rate tables show average unemployment rates for the quarters indicated (first line) and for the four quarters ending in the second quarter (second line).

U.S. Gross Domestic Product

U.S. real GDP declined in this year's first quarter but is projected to increase at about a 2.7% annual rate on average over the rest of the forecast horizon through 2017. The first quarter 2015 figure shown below is updated to reflect data published subsequent to release of Global Insight's May forecast.

U.S. Real GDP Growth

	2015				2016				2017			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent change at annual rate											
Quarterly	-0.7	2.1	2.9	2.6	3.0	2.9	3.1	3.2	2.7	2.6	2.6	2.4
Fiscal Year		2.6				2.3				3.0		

Ohio Gross Domestic Product

Economic growth in Ohio is expected to continue through 2017 but at a somewhat slower pace than the U.S. Predicted growth of real GDP in Ohio averages 2.2% per year from the second quarter of 2015 through 2017.

Ohio Real GDP Growth

	2015				2016				2017			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent change at annual rate											
Quarterly	-0.2	1.6	2.7	2.4	2.0	2.2	2.7	2.6	2.1	1.9	2.0	1.8
Fiscal Year		1.6				1.9				2.4		

U.S. Inflation

The consumer price index for all items fell in this year's first quarter, reflecting lower energy prices. Inflation turns higher in Global Insight's May 2015 forecast, averaging about 2.5% per year in 2016 and 2017.

U.S. Consumer Price Index Inflation

	2015				2016				2017			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent change at annual rate											
Quarterly	-3.1	1.0	1.5	1.2	1.6	2.9	2.8	2.8	1.6	2.6	2.7	2.6
Fiscal Year		0.6				0.7				2.4		

U.S. Personal Income

Nationwide personal income growth is projected to increase over the forecast horizon, averaging 5.0% at an annual rate in 2016 and 5.7% in 2017. These growth rates are based on the dollar amounts of income, not adjusted for inflation.

U.S. Personal Income Growth

	2015				2016				2017			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent change at annual rate											
Quarterly	4.0	3.7	3.4	3.7	5.2	4.5	4.7	5.4	6.4	5.6	5.3	5.3
Fiscal Year		4.2				3.9				5.1		

Ohio Personal Income

Income to persons who reside in Ohio also is forecast to grow through 2017. Growth of Ohio personal income averages 4.2% at an annual rate in 2016 and 4.9% in 2017, lagging behind growth of personal income nationwide.

Ohio Personal Income Growth

	2015				2016				2017			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent change at annual rate											
Quarterly	4.4	3.7	2.9	3.1	4.7	3.9	4.0	4.4	5.7	4.7	4.7	4.5
Fiscal Year		4.2				3.6				4.3		

U.S. Unemployment Rate

Unemployment nationwide as a percent of the labor force is expected to decline to 5.0% by the second half of 2016 and to 4.9% in 2017. In May, the U.S. unemployment rate was 5.5%, up from 5.4% in April.

U.S. Unemployment Rate

	2015				2016				2017			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent of the labor force											
Quarterly	5.6	5.4	5.3	5.3	5.2	5.1	5.0	5.0	5.0	4.9	4.9	5.0
Fiscal Year		5.7				5.2				5.0		

Ohio Unemployment Rate

The unemployment rate in Ohio is projected to fall further over the forecast horizon, to 4.8% in 2017. In April, the statewide average unemployment rate was 5.2%, up from a 13-year low of 5.1% in December through March.

Ohio Unemployment Rate

	2015				2016				2017			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-------------------percent of the labor force-------------------											
Quarterly	5.1	5.0	5.0	5.0	4.9	4.9	4.9	4.9	4.8	4.8	4.8	4.9
Fiscal Year		5.2				5.0				4.9		