Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION — MARCH 2015

STATUS OF THE GRF

HIGHLIGHTS

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

GRF revenues were on target in February. Total GRF sources were 0.6% above estimate, despite the fact that tax revenues were 0.8% below estimate. FY 2015 GRF revenue has been close to estimate all year: tax revenue over the first eight months of the fiscal year was $203.6 million (1.5%) above the August estimate by the Office of Budget and Management (OBM). As noted in the February edition of *Budget Footnotes*, OBM revised its August estimate upward by $198 million when the FY 2016-FY 2017 budget was introduced. Comparisons to estimate in this issue of *Budget Footnotes* will continue to be made to the August estimate.

Ohio's unemployment rate held steady at 5.1% in January, from its revised level in December. Ohio's unemployment rate remained below the national rate.

Through February 2015, GRF sources totaled $20.24 billion:

- Revenue from the personal income tax was $135.9 million above estimate;
- Sales and use tax receipts were $56.5 million above estimate.

Through February 2015, GRF uses totaled $21.88 billion:

- Program expenditures were $375.2 million below estimate, due primarily to Medicaid ($357.5 million);
- Primary and secondary education expenditures were $71.5 million above estimate, due to timing.

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STATUS OF THE GRF

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

STATE SOURCES	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$81,522	$80,900	$622	0.8%
Nonauto Sales and Use	$628,191	$622,100	$6,091	1.0%
Total Sales and Use Taxes	**$709,714**	**$703,000**	**$6,714**	**1.0%**
Personal Income	$288,232	$293,600	-$5,368	-1.8%
Corporate Franchise	$2,680	$0	$2,680	---
Financial Institution	$39,791	$58,700	-$18,909	-32.2%
Public Utility	$23,796	$23,100	$696	3.0%
Kilowatt-Hour Excise	$27,723	$28,700	-$977	-3.4%
Natural Gas Consumption (MCF)	$15,948	$11,000	$4,948	45.0%
Commercial Activity Tax	$189,732	$172,500	$17,232	10.0%
Petroleum Activity Tax	$0	$6,000	-$6,000	-100.0%
Foreign Insurance	$18,961	$31,200	-$12,239	-39.2%
Domestic Insurance	$52	$0	$52	---
Business and Property	$18	$0	$18	---
Cigarette	$53,278	$53,900	-$622	-1.2%
Alcoholic Beverage	$4,057	$3,300	$757	22.9%
Liquor Gallonage	$3,275	$3,000	$275	9.2%
Estate	$0	$0	$0	---
Total Tax Revenue	**$1,377,256**	**$1,388,000**	**-$10,744**	**-0.8%**
NONTAX REVENUE				
Earnings on Investments	$3	$0	$3	---
Licenses and Fees	$5,637	$7,656	-$2,019	-26.4%
Other Revenue	$700	$1,341	-$641	-47.8%
Total Nontax Revenue	**$6,339**	**$8,997**	**-$2,658**	**-29.5%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers In	-$5,925	$200	-$6,125	-3062.7%
Total Transfers In	**-$5,925**	**$200**	**-$6,125**	**-3062.7%**
TOTAL STATE SOURCES	**$1,377,670**	**$1,397,197**	**-$19,527**	**-1.4%**
Federal Grants	$749,061	$717,447	$31,614	4.4%
TOTAL GRF SOURCES	**$2,126,732**	**$2,114,644**	**$12,087**	**0.6%**

*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 February 28, 2015
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on March 2, 2015)

STATE SOURCES	Actual	Estimate*	Variance	Percent	FY 2014	Percent Change
TAX REVENUE						
Auto Sales	$829,330	$791,400	$37,930	4.8%	$750,588	10.5%
Nonauto Sales and Use	$5,789,787	$5,771,200	$18,587	0.3%	$5,243,850	10.4%
Total Sales and Use Taxes	**$6,619,117**	**$6,562,600**	**$56,517**	**0.9%**	**$5,994,439**	**10.4%**
Personal Income	$5,438,672	$5,302,800	$135,872	2.6%	$5,484,450	-0.8%
Corporate Franchise	-$24,685	$0	-$24,685	---	-$10,099	-144.4%
Financial Institution	$61,922	$86,500	-$24,578	-28.4%	$83,513	-25.9%
Public Utility	$60,634	$71,700	-$11,066	-15.4%	$70,168	-13.6%
Kilowatt-Hour Excise	$198,180	$205,700	-$7,520	-3.7%	$202,054	-1.9%
Natural Gas Consumption (MCF)	$36,409	$28,400	$8,009	28.2%	$36,680	-0.7%
Commercial Activity Tax	$644,061	$575,200	$68,861	12.0%	$592,359	8.7%
Petroleum Activity Tax	$1,944	$13,300	-$11,356	-85.4%	$0	---
Foreign Insurance	$172,780	$179,300	-$6,520	-3.6%	$175,835	-1.7%
Domestic Insurance	$7,415	$1,800	$5,615	311.9%	$149	4868.1%
Business and Property	$38	$0	$38	---	$476	-92.1%
Cigarette	$481,958	$473,700	$8,258	1.7%	$490,891	-1.8%
Alcoholic Beverage	$37,350	$35,300	$2,050	5.8%	$36,721	1.7%
Liquor Gallonage	$29,387	$27,600	$1,787	6.5%	$28,242	4.1%
Estate	$2,357	$0	$2,357	---	$30,129	-92.2%
Total Tax Revenue	**$13,767,538**	**$13,563,900**	**$203,638**	**1.5%**	**$13,216,006**	**4.2%**
NONTAX REVENUE						
Earnings on Investments	$11,413	$9,500	$1,913	20.1%	$8,444	35.2%
Licenses and Fees	$17,579	$24,374	-$6,795	-27.9%	$20,542	-14.4%
Other Revenue	$23,316	$25,239	-$1,922	-7.6%	$20,748	12.4%
Total Nontax Revenue	**$52,309**	**$59,113**	**-$6,804**	**-11.5%**	**$49,734**	**5.2%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$17,774	$6,600	$11,174	169.3%	$52,730	-66.3%
Total Transfers In	**$17,774**	**$6,600**	**$11,174**	**169.3%**	**$52,730**	**-66.3%**
TOTAL STATE SOURCES	**$13,837,621**	**$13,629,613**	**$208,008**	**1.5%**	**$13,318,471**	**3.9%**
Federal Grants	$6,398,496	$6,616,809	-$218,313	-3.3%	$6,200,391	3.2%
TOTAL GRF SOURCES	**$20,236,117**	**$20,246,422**	**-$10,306**	**-0.1%**	**$19,518,862**	**3.7%**

*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 $10.3 million below estimate.

Through February, FY 2015 total GRF sources[1] were $20.24 billion, $10.3 million below the estimate released by the Office of Budget and Management (OBM) in August 2014, due to a negative variance of $218.3 million in federal grants.[2] That shortfall was partially offset by a positive variance of $203.6 million for GRF tax sources. For the month of February 2015, however, federal grants were above estimates by $31.6 million, and GRF state tax revenues experienced a shortfall of $10.7 million. Total GRF sources for the month were $2.13 billion, $12.1 million above projected revenue. Tables 1 and 2 show GRF sources for the month of February and for FY 2015 through February, respectively.

FY 2015 GRF tax receipts were $203.6 million above estimate.

In February, the commercial activity tax (CAT), the nonauto sales and use tax, the natural gas consumption tax (MCF), and the corporate franchise tax (CFT) were ahead of estimates, respectively, by $17.2 million, $6.1 million, $4.9 million, and $2.7 million. On the other hand, the foreign insurance tax, the petroleum activity tax (PAT), the personal income tax, and the kilowatt-hour tax were short of estimates, respectively, by $12.2 million, $6.0 million, $5.4 million, and $1.0 million. Also, revenue from the financial institutions tax (FIT) was below estimate by $18.9 million in February; however, in January this tax was $17.2 million above estimate. Thus, the combined shortfall for the first FIT tax payment for FY 2015, due January 31, 2015, totaled $1.7 million.[3] Other taxes experienced smaller variances. Regarding nontax GRF sources, nontax revenue experienced a shortfall of $2.7 million in February, and transfers in were $6.1 million below estimate.

Chart 1 below shows FY 2015 cumulative variances against estimates for federal grants, tax revenue, and total GRF sources. Tax receipts were

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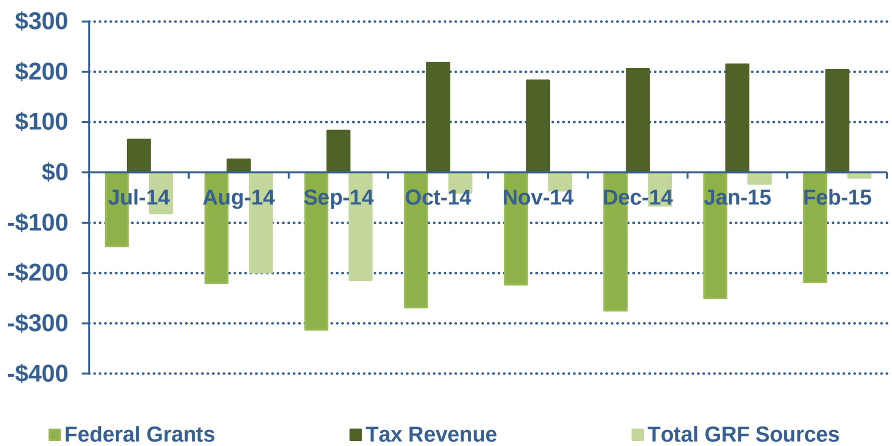
[1] GRF sources mainly consist of state-source receipts but also include certain federal grants. State-source receipts include tax revenue, nontax revenue, and transfers in.

[2] GRF revenue from federal grants is associated primarily with Medicaid spending. Through February, year-to-date GRF Medicaid expenditures were $357.5 million below estimate.

[3] The GRF typically pays out refunds under the FIT during the first half of a fiscal year as taxpayers make adjustments to their earlier tax filings, and through December, the FIT was $22.8 million below estimate. Thus, the results of the first payment increased the fiscal year negative variance of the FIT.

ahead of projections, but both federal grants and total GRF sources were below estimates for the fiscal year to date. As seen in Table 2, the personal income tax had the largest positive year-to-date variance at $135.9 million, followed by the CAT ($68.9 million), the auto sales and use tax ($37.9 million), the nonauto sales and use tax ($18.6 million), the cigarette tax ($8.3 million), the MCF tax ($8.0 million), and the domestic insurance tax ($5.6 million). On the other hand, the FIT and the CFT[4] had large negative variances, $24.6 million and $24.7 million, respectively; and PAT revenues have been generally poor, $11.4 million below estimate year to date, due to lower than expected gasoline prices. In addition, shortfalls were recorded through February for the foreign insurance tax ($6.5 million), the public utility tax ($11.1 million), and the kilowatt-hour tax ($7.5 million).

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



FY 2015 GRF sources were $717.3 million above GRF sources in FY 2014.

FY 2015 year-to-date GRF sources grew by $717.3 million from the corresponding period in FY 2014 (see Table 2). Tax receipts increased by $551.5 million, federal grants grew by $198.1 million, and nontax revenues were higher by $2.6 million. On the other hand, transfers in fell $35.0 million compared to revenue in this category in the corresponding period in FY 2014. Among tax sources, revenue from the sales and use tax increased $624.7 million, while receipts from the personal income tax fell $45.8 million. The decrease in income tax revenue was due primarily to an 8.5% reduction in income tax rates for tax year (TY) 2013 enacted in H.B. 59 (the current operating budget act), which required a change in

[4] The CFT was eliminated at the end of 2013, but taxpayers continue to make adjustments to their earlier tax filings. The negative variance for the CFT is likely to persist for the remainder of the fiscal year, as no additional revenue from the tax is expected.

FY 2015 income tax receipts were $135.9 million above estimate.

withholding rates in September 2013. The increase in sales and use tax receipts over FY 2014 reflects, in part, the increase in the tax rate from 5.5% to 5.75% in September 2013, also enacted in H.B. 59.

Personal Income Tax

The personal income tax provided $288.2 million in revenue to the GRF in February 2015. That amount was $5.4 million (1.8%) below estimate, but $140.3 million (94.9%) above revenue in February 2014. This monthly revenue growth compared to a year ago is due primarily to lower refunds this month. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the Local Government Fund (LGF). Gross collections are the sum of employer withholding, quarterly estimated payments,[5] trust payments, payments associated with annual returns, and miscellaneous payments. For the month of February, most components were below estimates: miscellaneous payments, monthly employer withholding, and quarterly estimated payments were below estimates, respectively, by $5.3 million, $3.3 million, and $2.5 million. However, those negative variances were partially offset by $6.2 million less in taxpayer refunds than expected in February. Through February, FY 2015 GRF receipts from the personal income tax were $5.44 billion, which was $135.9 million (2.6%) 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 below estimate by $4.5 million.

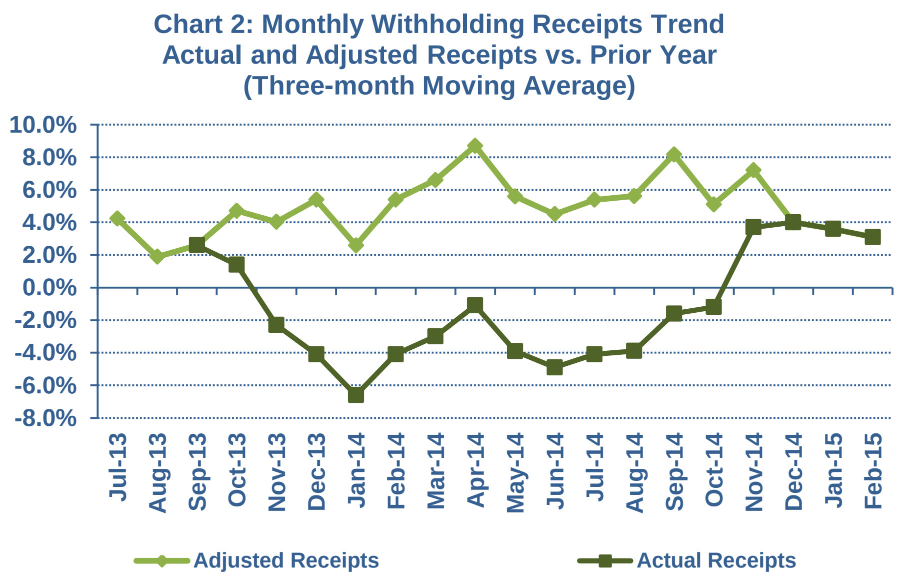
FY 2015 Year-to-Date Income Tax Revenue Variances and Changes by Component

Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2014	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	-$4.5	-0.1%	$70.7	1.3%
Quarterly Estimated Payments	$86.8	13.4%	-$109.9	-13.0%
Trust Payments	-$2.7	-9.7%	-$0.5	-2.1%
Annual Return Payments	$0.0	0.0%	-$63.4	-31.8%
Miscellaneous Payments	-$11.8	-15.9%	-$7.2	-10.4%
Gross Collections	$67.9	1.1%	-$110.3	-1.7%
Less Refunds	-$70.1	-9.6%	-$68.2	-9.4%
Less LGF Distribution	$2.1	0.9%	$3.7	1.5%
Income Tax Revenue	$135.9	2.6%	-$45.8	-0.8%

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

As seen from the above table, gross collections were $67.9 million (1.1%) above estimate; and the positive variance of the personal income tax was mostly due to better than anticipated quarterly estimated payments ($86.8 million) and less than expected refunds ($70.1 million), as withholding receipts were $4.5 million below estimate. For the fiscal year, GRF receipts from the personal income tax were $45.8 million (0.8%) below receipts through February in FY 2014. Employer withholdings increased $70.7 million this fiscal year when compared to last, but quarterly estimated payments fell $109.9 million, annual return payments decreased by $63.4 million, and refunds were $68.2 million less than in FY 2014 through February. Chart 2 illustrates the trend in employer withholding receipts since July 2013. The chart also includes withholding receipts adjusted for a 9% reduction in withholding rates. It shows payroll growth has declined in recent months compared to the beginning of the fiscal year.

FY 2015 GRF income tax receipts were $45.8 million below FY 2014 revenue.



Sales and Use Tax

GRF receipts from the sales and use tax of $709.7 million in February 2015 were $6.7 million (1.0%) above estimate, and $105.7 million (17.5%) above receipts in February 2014 (when severe weather negatively affected revenue from the tax). For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[6] generally arise from the sale of motor vehicles, but auto

FY 2015 sales and use tax receipts were $56.5 million above estimate.

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

FY 2015 nonauto sales and use tax receipts were $18.6 million above estimate.

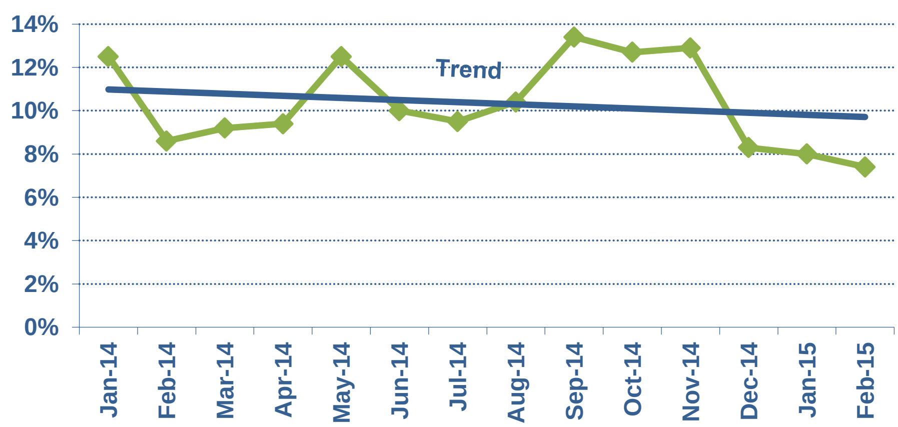
taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax instead of the auto tax.

For the fiscal year to date, GRF sales and use tax receipts totaled $6.62 billion, $56.5 million (0.9%) above estimate, with both tax sources above their respective estimates. As indicated in the overview, FY 2015 year-to-date sales and use tax receipts were also $624.7 million (10.4%) 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

The nonauto sales and use tax bounced back in February, after a combined shortfall of $46.1 million in the previous two months. February GRF receipts were $628.2 million, $6.1 million (1.0%) above estimate, and $95.4 million (17.9%) above February 2014 receipts. For the fiscal year to date, total GRF receipts of $5.79 billion were $18.6 million (0.3%) above estimate, and also $545.9 million (10.4%) above FY 2014 receipts through February. Chart 3 shows increases in nonauto sales and use tax monthly receipts against prior year receipts in the same month. For the fiscal year as a whole, growth of the nonauto sales and use tax taxable base was about 9.0% compared to the corresponding period in FY 2014.

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

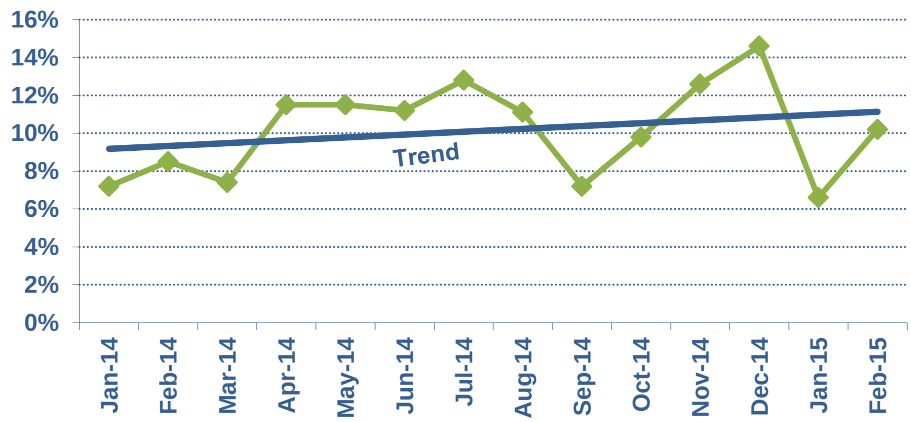


Auto Sales and Use Tax

GRF revenue of $81.5 million from the auto sales and use tax in February was $0.6 million (0.8%) above estimate and $10.2 million (14.3%) above receipts in February 2014. Through February, FY 2015 GRF revenue from the auto sales and use tax totaled $829.3 million, $37.9 million (4.8%) above estimate, and $78.7 million (10.5%) 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. For the fiscal year as a whole, the auto sales and use tax taxable base grew about 9.3%, compared to the corresponding period in FY 2014.

FY 2015 auto sales and use tax receipts were $37.9 million above estimate.

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



Nationwide light vehicle sales weakened in February to a pace of 16.2 million units on a seasonally adjusted annual rate, down from 16.6 million units in January, though sales were still 5.4% higher than in February 2014. Light truck sales declined from 9.2 million units to 9.1 million units, while car sales fell more significantly from 7.3 million units to 7.0 million units.

FY 2015 GRF CAT receipts were $68.9 million above estimate.

Commercial Activity Tax

The third fiscal year payment from calendar quarter CAT taxpayers, due in February, produced GRF receipts of $189.7 million. This revenue was $17.2 million (10.0%) above estimate, and $15.5 million (8.9%) above receipts in the same month in 2014. Through February, CAT revenues to the GRF totaled $644.1 million, $68.9 million (12.0%) above estimate, and they were also $51.7 million (8.7%) above receipts in the corresponding period in FY 2014. Beginning July 1, 2014, the CAT as applied to receipts from the sale or exchange of motor fuel was replaced by the PAT, which has a rate of 0.65% on a motor fuel supplier's adjusted gross receipts. OBM estimated GRF revenue of $20.0 million for the PAT in FY 2015, with $13.3 million of that total in the first eight months. The GRF received initial revenue of $1.9 million in December 2014; but no additional revenue was recorded in January or February, thus the shortfall for this GRF source was $11.4 million for the fiscal year.

Cigarette and Other Tobacco Products Tax

FY 2015 cigarette tax receipts were $8.3 million above estimate.

GRF receipts from the cigarette and other tobacco products tax of $53.3 million in February 2015 were $0.6 million (1.2%) below estimate, but $0.9 million (1.6%) above receipts in the same month in FY 2014. Through February, receipts of $482.0 million in FY 2015 were $8.3 million (1.7%) above estimated revenue for the year. Receipts from cigarette sales were $439.7 million, and sales of other tobacco products (OTP) provided $42.3 million. Total receipts this year declined $8.9 million (1.8%) from the corresponding period in FY 2014. The decrease was attributable to sales of cigarettes, tax receipts from which declined $14.1 million. An increase of $5.2 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 February 2015
($ in thousands)
(Actual based on OAKS reports run March 9, 2015)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary and Secondary Education	$673,014	$696,549	-$23,536	-3.4%
Higher Education	$196,549	$198,174	-$1,625	-0.8%
Other Education	$2,592	$2,592	-$1	0.0%
Total Education	$872,154	$897,316	-$25,161	-2.8%
Medicaid	$1,197,690	$1,204,343	-$6,654	-0.6%
Health and Human Services	$95,847	$93,535	$2,312	2.5%
Total Welfare and Human Services	$1,293,537	$1,297,878	-$4,342	-0.3%
Justice and Public Protection	$125,475	$164,563	-$39,088	-23.8%
General Government	$24,547	$26,365	-$1,818	-6.9%
Total Government Operations	$150,022	$190,928	-$40,906	-21.4%
Property Tax Reimbursements	-$1	$300	-$301	-100.2%
Capital Outlay	$0	$0	$0	---
Debt Service	$39,968	$43,519	-$3,551	-8.2%
Total Other Expenditures	$39,967	$43,819	-$3,851	-8.8%
Total Program Expenditures	**$2,355,680**	**$2,429,941**	**-$74,260**	**-3.1%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	-$5,952	$0	-$5,952	---
Total Transfers Out	-$5,952	$0	-$5,952	---
TOTAL GRF USES	**$2,349,728**	**$2,429,941**	**-$80,213**	**-3.3%**

*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 February 28, 2015
($ in thousands)
(Actual based on OAKS reports run March 9, 2015)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2014**	**Percent Change**
Primary and Secondary Education	$4,982,901	$4,911,432	$71,468	1.5%	$4,966,846	0.3%
Higher Education	$1,439,608	$1,446,982	-$7,373	-0.5%	$1,403,943	2.5%
Other Education	$40,896	$42,714	-$1,818	-4.3%	$34,745	17.7%
Total Education	$6,463,405	$6,401,128	$62,277	1.0%	$6,405,534	0.9%
Medicaid	$10,457,542	$10,815,054	-$357,512	-3.3%	$9,675,802	8.1%
Health and Human Services	$936,874	$961,900	-$25,027	-2.6%	$871,223	7.5%
Total Welfare and Human Services	$11,394,416	$11,776,955	-$382,539	-3.2%	$10,547,025	8.0%
Justice and Public Protection	$1,298,795	$1,320,745	-$21,949	-1.7%	$1,231,058	5.5%
General Government	$240,832	$252,596	-$11,765	-4.7%	$240,537	0.1%
Total Government Operations	$1,539,627	$1,573,341	-$33,714	-2.1%	$1,471,595	4.6%
Property Tax Reimbursements	$908,134	$913,352	-$5,218	-0.6%	$893,054	1.7%
Capital Outlay	$0	$0	$0	---	$0	---
Debt Service	$993,355	$1,009,385	-$16,030	-1.6%	$994,374	-0.1%
Total Other Expenditures	$1,901,489	$1,922,737	-$21,248	-1.1%	$1,887,428	0.7%
Total Program Expenditures	**$21,298,937**	**$21,674,160**	**-$375,224**	**-1.7%**	**$20,311,583**	**4.9%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$995,930	-100.0%
Other Transfers Out	$582,835	$581,234	$1,601	0.3%	$216,029	169.8%
Total Transfers Out	$582,835	$581,234	$1,601	0.3%	$1,211,959	-51.9%
TOTAL GRF USES	**$21,881,772**	**$22,255,394**	**-$373,622**	**-1.7%**	**$21,523,542**	**1.7%**

*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 March 9, 2015)

	Month of February 2015				Year to Date Through February 2015			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid	**$1,676,290**	**$1,666,352**	**$9,938**	**0.6%**	**$13,619,416**	**$13,725,526**	**-$106,110**	**-0.8%**
GRF	$1,156,040	$1,159,552	-$3,512	-0.3%	$10,103,272	$10,442,586	-$339,314	-3.2%
Non-GRF	$520,250	$506,800	$13,450	2.7%	$3,516,144	$3,282,940	$233,204	7.1%
Developmental Disabilities	**$181,005**	**$188,729**	**-$7,725**	**-4.1%**	**$1,502,470**	**$1,596,176**	**-$93,706**	**-5.9%**
GRF	$37,517	$39,415	-$1,899	-4.8%	$303,846	$310,315	-$6,470	-2.1%
Non-GRF	$143,488	$149,314	-$5,826	-3.9%	$1,198,625	$1,285,861	-$87,237	-6.8%
Job and Family Services	**$9,062**	**$9,747**	**-$685**	**-7.0%**	**$116,228**	**$102,344**	**$13,883**	**13.6%**
GRF	$3,612	$4,759	-$1,146	-24.1%	$44,702	$55,967	-$11,264	-20.1%
Non-GRF	$5,449	$4,988	$461	9.2%	$71,525	$46,377	$25,148	54.2%
Aging	**$533**	**$531**	**$2**	**0.4%**	**$4,092**	**$5,969**	**-$1,876**	**-31.4%**
GRF	$247	$260	-$13	-5.2%	$2,304	$2,213	$91	4.1%
Non-GRF	$286	$271	$15	5.7%	$1,788	$3,755	-$1,967	-52.4%
Health	**$1,389**	**$1,720**	**-$331**	**-19.2%**	**$15,282**	**$16,716**	**-$1,435**	**-8.6%**
GRF	$263	$282	-$19	-6.7%	$2,492	$2,236	$256	11.4%
Non-GRF	$1,126	$1,438	-$312	-21.7%	$12,790	$14,480	-$1,690	-11.7%
Mental Health and Addiction	**$502**	**$430**	**$72**	**16.8%**	**$3,274**	**$4,246**	**-$972**	**-22.9%**
GRF	$11	$75	-$65	-86.0%	$927	$1,737	-$810	-46.6%
Non-GRF	$491	$355	$137	38.5%	$2,348	$2,509	-$162	-6.4%
Total GRF	**$1,197,690**	**$1,204,343**	**-$6,654**	**-0.6%**	**$10,457,542**	**$10,815,054**	**-$357,512**	**-3.3%**
Total Non-GRF	**$671,091**	**$663,166**	**$7,925**	**1.2%**	**$4,803,219**	**$4,635,923**	**$167,296**	**3.6%**
Total All Funds	**$1,868,780**	**$1,867,510**	**$1,271**	**0.1%**	**$15,260,762**	**$15,450,977**	**-$190,216**	**-1.2%**

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

Table 6: All-Funds Medicaid Expenditures by Payment Category
Actual vs. Estimate
($ in thousands)
(Actuals based on OAKS report run on March 9, 2015)

	February				Year to Date Through February			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	$878,895	$921,677	-$42,782	-4.6%	$6,994,795	$7,212,481	-$217,686	-3.0%
Nursing Facilities	$114,388	$88,347	$26,042	29.5%	$956,195	$787,477	$168,719	21.4%
DDD Services	$177,685	$179,075	-$1,390	-0.8%	$1,461,303	$1,547,286	-$85,983	-5.6%
Hospitals	$55,562	$91,501	-$35,939	-39.3%	$535,815	$782,025	-$246,209	-31.5%
Behavioral Health	$58,282	$73,276	-$14,994	-20.5%	$486,824	$627,435	-$140,611	-22.4%
Administration	$54,934	$83,522	-$28,587	-34.2%	$590,943	$689,425	-$98,482	-14.3%
Aging Waivers	$28,037	$18,124	$9,913	54.7%	$186,591	$184,116	$2,475	1.3%
Prescription Drugs	$30,852	$36,081	-$5,229	-14.5%	$259,650	$311,105	-$51,455	-16.5%
Medicare Buy-In	$36,440	$41,692	-$5,251	-12.6%	$290,701	$317,237	-$26,536	-8.4%
Physicians	$18,383	$25,289	-$6,906	-27.3%	$403,129	$453,133	-$50,004	-11.0%
Medicare Part D	$24,085	$25,465	-$1,379	-5.4%	$193,040	$198,396	-$5,356	-2.7%
Home Care Waivers	$12,087	$9,994	$2,093	20.9%	$107,490	$95,108	$12,381	13.0%
ACA Expansion	$304,078	$174,616	$129,461	74.1%	$2,156,490	$1,369,599	$786,891	57.5%
All Other	$75,072	$98,851	-$23,780	-24.1%	$637,797	$876,157	-$238,360	-27.2%
Total All Funds	**$1,868,780**	**$1,867,510**	**$1,271**	**0.1%**	**$15,260,762**	**$15,450,977**	**-$190,216**	**-1.2%**

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

EXPENDITURES

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

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

Overview

For the first eight months of FY 2015, GRF uses totaled $21.88 billion, $373.6 million below the estimate released by the Office of Budget and Management (OBM). GRF uses mainly consist of program expenditures but also include transfers out. Through February, FY 2015 GRF program expenditures were $21.30 billion, $375.2 million below estimate, while GRF transfers out were $582.8 million, $1.6 million above estimate. Tables 3 and 4 show GRF uses for the month of February and for FY 2015 through February, respectively. The month of February registered a negative GRF transfers out of $6.0 million to correct a duplicate record of transfers in of the same amount pursuant to section 207.230 of H.B. 59.[7]

Through February, FY 2015 GRF uses were $373.6 million below estimate.

Medicaid had the largest negative year-to-date variance at $357.5 million, followed by Health and Human Services at $25.0 million, Justice and Public Protection at $21.9 million, and Debt Service at $16.0 million. These negative variances were partially offset by a positive year-to-date variance of $71.5 million in Primary and Secondary Education, the only program category posting a positive year-to-date variance. The variances in these five program categories will be briefly discussed below.

Medicaid

Medicaid is mainly funded by the GRF, but is also supported by various non-GRF funds. For the first eight months of FY 2015, GRF Medicaid expenditures totaled $10.46 billion, which was $357.5 million (3.3%) below estimate. Non-GRF Medicaid expenditures totaled $4.80 billion, $167.3 million (3.6%) above estimate. Across all funds, Medicaid expenditures totaled $15.26 billion, $190.2 million (1.2%) below their year-to-date estimate. Medicaid is a joint federal-state program. The federal and state shares of Medicaid expenditures are about 64% and 36%, respectively. Both GRF and non-GRF Medicaid expenditures contain federal and state moneys.

Year-to-date GRF and all-funds Medicaid expenditures were $357.5 million and $190.2 million below estimates.

[7] Section 207.230 of H.B. 59 requires the State Highway Safety Fund (Fund 7036) to reimburse the GRF for the amount of debt service payments for the Multi-Agency Radio Communication System (MARCS) components that should be charged to agencies supported by the motor fuel tax.

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. During the first eight months of FY 2015, ODM's GRF expenditures totaled $10.10 billion, which was $339.3 million (3.2%) below estimate, while its non-GRF expenditures totaled $3.52 billion, which was $233.2 million (7.1%) above estimate. Across all funds, ODM's expenditures were $106.1 million (0.8%) below their year-to-date estimate. GRF and non-GRF Medicaid expenditures from the Department of Developmental Disabilities (DDD), the second largest agency within this program category, were $6.5 million (2.1%) and $87.2 million (6.8%), respectively, below their year-to-date estimates. Together, ODM and DDD account for about 99% of the Medicaid expenditure total.

Through February, all-funds expenditures for ACA Expansion were $786.9 million above estimate.

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 $246.2 million (31.5%), followed by All Other ($238.4 million, 27.2%), Managed Care ($217.7 million, 3.0%), Behavioral Health ($140.6 million, 22.4%), Administration ($98.5 million, 14.3%), and DDD Services ($86.0 million, 5.6%). Lower than anticipated Aged, Blind, and Disabled caseloads accounted for the negative variance in the Hospitals category. The negative variance in All Other was due in large part to various budgeted initiatives which either were replaced by Medicaid expansion (i.e., the Metro Health Medicaid waiver in Cuyahoga County) or have not yet been implemented. Lower than expected expenditures on home health, private duty nurses, and hospice care also contributed to the negative variance in this category. The negative variance in Managed Care was due in part to lower than expected enrollment in the MyCare Ohio program, which is a three-year pilot program that provides managed care services to individuals covered by Medicaid and Medicare. 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.

The ACA Expansion and Nursing Facilities were the two payment categories with significant positive year-to-date variances that substantially offset the negative variances in other categories. The ACA Expansion category contains expenditures for individuals who became eligible for coverage on January 1, 2014, through the federal Patient Protection and Affordable Care Act (ACA). Through February, all-funds expenditures for ACA Expansion totaled $2.16 billion, $786.9 million (57.5%) above estimate. This positive variance was due to higher than expected caseloads and per person costs. For the first eight months of FY 2015, all-funds expenditures for Nursing Facilities were $956.2 million, $168.7 million (21.4%) 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.

Health and Human Services

Year-to-date GRF expenditures from the Health and Human Services program category were $936.9 million, $25.0 million (2.6%) below estimate. The Ohio Department of Job and Family Services (ODJFS) accounted for $10.3 million of the category's total negative year-to-date variance. The Department of Health (DOH) and the Department of Mental Health and Addiction Services (MHA) accounted for another $6.7 million and $6.2 million, respectively.

The ODJFS budget for FY 2015 includes 17 non-Medicaid GRF appropriation items. Expenditures from 11 of them were below their year-to-date estimates, by a combined $18.6 million, while expenditures from the remaining six were above their year-to-date estimates, by a combined $8.4 million. Individual items with notable negative year-to-date variances were 600535, Early Care and Education ($3.6 million), and 600321, Program Support ($3.2 million). Item 600523, Family and Children Services, on the other hand, had a notable positive year-to-date variance of $4.9 million.

The DOH budget for FY 2015 includes 20 non-Medicaid GRF appropriation items. Through February, expenditures were below their year-to-date expenditures for 13 of them, by a combined $8.9 million, and were above their year-to-date estimates for the remaining seven, by a combined $2.2 million. Individual items with notable negative year-to-date variances were 440418, Immunizations ($3.7 million), 440459, Help Me Grow ($1.6 million), and 440474, Infant Vitality ($1.3 million). Item 440444, AIDS Prevention and Treatment, posted a positive year-to-date variance of $1.5 million.

The MHA budget for FY 2015 includes 13 non-Medicaid GRF appropriation items. Nine of them had negative year-to-date variances totaling $10.6 million while the remaining four had a combined positive year-to-date variance of $4.4 million. Individual items with notable negative year-to-date variances were 335421, Continuum of Care Services ($4.2 million), 335506, Residential State Supplement ($2.6 million), and 335507, Community Behavioral Health ($2.3 million). Year-to-date expenditures from item 334412, Hospital Services, were $4.3 million above estimate.

Justice and Public Protection

Year-to-date GRF expenditures from the Justice and Public Protection program category were $1.30 billion, $21.9 million (1.7%) below estimate. This negative year-to-date variance was entirely due to lower than expected expenditures that occurred in the month of February. This program category's expenditures were $39.1 million below estimate in February, which changed the category's year-to-date variance from a positive of $17.1 million at the end of January to a negative of $21.9 million at the end of February.

The Department of Rehabilitation and Correction (DRC), the largest agency within this program category, accounted for $33.3 million of the category's negative monthly variance. Expenditures from DRC's two main appropriation items 501321, Institutional Operations, and 505321, Institution Medical Services, were $21.8 million and $8.7 million, respectively, below their February estimates. Through February, however, DRC's expenditures were just $4.0 million below their year-to-date estimate.

The Department of Youth Services had the largest negative year-to-date variance within the Justice and Public Protection program category at $8.5 million, followed by the Supreme Court ($6.3 million), and the Public Defender ($4.0 million).

Debt Service

GRF debt service expenditures were $40.0 million in February, $3.6 million below estimate. Through February, GRF debt service expenditures totaled $993.4 million, $16.0 million below estimate. Year-to-date debt service payments from the Public Works Commission (PWC) were $15.3 million below estimate. General obligation bonds issued for the program administered by PWC are backed by the full faith and credit of the state. The state is obligated to fully fund any debt service payments required by those bonds.

Primary and Secondary Education

The positive year-to-date variance in Primary and Secondary Education was due mainly to timing.

GRF expenditures from the Primary and Secondary Education program category were $673.0 million for the month of February, $23.5 million (3.4%) below estimate. This monthly negative variance reduced this program category's positive year-to-date variance from $95.0 million at the end of January to $71.5 million (1.5%) at the end of February.

Timing was the main factor behind Primary and Secondary Education's positive year-to-date variance. The Ohio Department of Education (ODE) is the only agency that is included in this program category. Expenditures from ODE's GRF appropriation item 200550, Foundation Funding, were $88.3 million above their year-to-date estimate. Item 200550 is the main funding source for school foundation payments. It is not uncommon to see variances in this item; ODE adjusts individual school payments as updated enrollment and other relevant data become available. Through February, FY 2015 school foundation payments were based on FY 2014 student enrollment data. FY 2015 October enrollment data is likely to be incorporated into payment calculations beginning in March. In addition to item 200550, item 200437, Student Assessment, also registered a notable positive year-to-date variance, at $8.9 million.

Several other items in the ODE budget had negative year-to-date variances that partially offset the positive year-to-date variance in items 200550 and 200437. Most notably, item 200540, Special Education Enhancements, was $7.7 million below its seven-month estimate. Year-to-date expenditures from items 200408, Early Childhood Education, and 200426, Ohio Educational Computer Network, were also below estimates by $5.9 million and $5.4 million, respectively.

ISSUE UPDATES

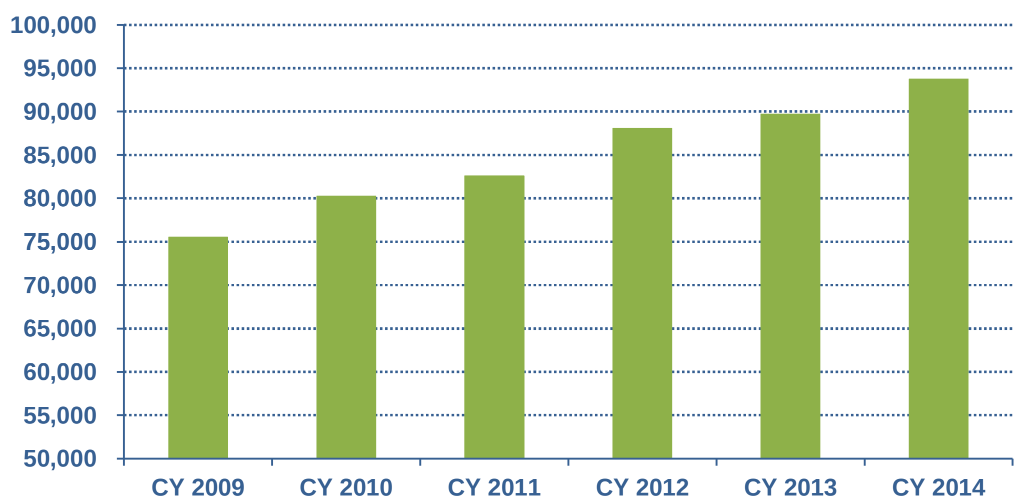
New Business Filings Continue to Increase in 2014

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

On January 15, 2015, the Secretary of State reported that a total of 93,775 new entities filed to conduct business in Ohio in calendar year (CY) 2014. This is an increase of 4.5% (4,040) over total filings of 89,735 in CY 2013.[8] As shown in Chart 5, Ohio's new business filings have increased every year since CY 2009, with a total increase of 24.1% (18,227) during this six-year period. In October 2013, the Secretary of State implemented the Ohio Business Central portal to enable businesses to file some of the most commonly used forms online to reduce processing times. Through January 2015, around 40,000 filings have been submitted through the portal.

The articles of incorporation filing fee for a new business is $125. All business filing fees collected by the Secretary of State are deposited into the Business Services Fund (Fund 5990). Fund 5990 is used to support the Business Services Division of the Secretary of State's Office, which consists of approximately 120 employees. In FY 2014, Fund 5990 received $15.6 million in filing fee revenue.

Chart 5: New Business Filings, CY 2009-CY 2014



[8] A new business filing with the Secretary of State indicates the formation of a new business entity but does not guarantee that new business will become operational.

Auditor of State Releases Findings of Department of Natural Resources Performance Audit

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

On February 12, 2015, the Auditor of State released the final report for the performance audit conducted on the Department of Natural Resources (DNR). The audit findings consisted of potential fee increases and cost cutting measures that, according to the Auditor of State, could result in a financial impact of $8.3 million per year, as well as one-time savings of $3.9 million. Seven distinct areas of DNR operations were examined: (1) capital planning and budgeting, (2) parks and recreation operations, (3) seasonal workforce strategies, (4) wildlife licenses and participation, (5) fleet management, (6) fish hatchery operations, and (7) watercraft registration operations. Overall, the performance audit included 20 specific recommendations among these areas, 16 of which had some financial impact. The table below summarizes the 16 recommendations within each of these areas and any estimated annual or one-time financial impacts.

DNR Performance Audit Findings			
Report Category	**Recommendations**	**Annual Impact**	**One-time Impact**
Parks and Recreations Operations – Capital Investment	2	$3,341,901	$3,830,900
Wildlife Licenses and Participation	4	$2,002,175	N/A
Parks and Recreation Operations – Overnight Accommodations	2	$1,590,386	N/A
Fleet Management	4	$911,777	109,706
Seasonal Workforce Strategies	3	$393,094	N/A
Fish Hatchery Operations	1	$54,994	N/A
TOTAL	**16**	**$8,294,327**	**$3,940,606**

The performance audit was undertaken pursuant to the Auditor of State's authority under S.B. 4 of the 129th General Assembly. That act required the Auditor of State to conduct performance audits of at least four state agencies each biennium. DNR was one of the agencies selected to receive a performance audit during the FY 2014-FY 2015 biennium.

ODH Announces New Infant Mortality Reduction Programs

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

In January 2015, the Ohio Department of Health announced a two-year demonstration program based on a model called Centering Pregnancy to connect at-risk expectant mothers to care and support in order to combat Ohio's high infant mortality rate. Four federally qualified health centers, two in urban areas and two in rural areas, will each receive $200,000 in grant funding to implement the program. These grants are supported by federal dollars deposited into the Ohio Health Transformation Innovation Fund.

The Centering Pregnancy model is a multifaceted model of group care that consists of health assessment, education, and support. In addition to receiving regular health assessments, program participants will be encouraged to choose health-promoting behaviors and develop social support networks. Overall, the program aims to reduce infant mortality by reducing risk factors such as preterm or underweight birth. In 2012, Ohio's overall infant mortality rate was 7.6 deaths per 1,000 live births. The rate for non-Hispanic blacks in Ohio was more than twice the rate for non-Hispanic whites.

INFOhio Makes Blizzard Bags Available to Ohio Schools

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

Late in January, INFOhio made online blizzard bags available for use by Ohio schools. INFOhio's blizzard bags are lessons and assignments that can be completed by students at home in the event a school closes for a calamity. H.B. 59 changed the state's minimum school year requirement from one based on days to one based on hours beginning this school year (2014-2015). With this change, excused calamity days were eliminated. Under prior law, schools could close for calamities, such as bad weather, for up to five days without making up the lost instructional time. H.B. 153 of the 129th General Assembly permitted up to three days beyond the excused five, to be made up through the use of blizzard bags. H.B. 59 retained the blizzard bag option for schools that need to make up instructional time if school closures drop instructional time below the required number of hours. INFOhio is a digital library that offers content and services to Ohio schools. It is a project of the Department of Education and receives funding through GRF appropriation item 200426, Ohio Educational Computer Network. In FY 2015, $2.5 million is set aside for its operational support and the support of increased electronic resources for public schools in general.

Ohio Educational Technology Conference Takes Place in February

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

The 2015 Ohio Educational Technology Conference (OETC) took place February 10-12, 2015, in Columbus. The conference features speakers, workshops, and exhibits related to using technology in the P-20 classroom and teaching technology to students. OETC claims to be the largest P-20 state educational technology conference in the nation. It generally attracts more than 5,000 participants. H.B. 59 moved the administration of the conference from the former eTech Ohio Commission to the Board of

Regents. It is funded through Fund 5D40 appropriation item 235675, Conference/Special Purposes. This fund receives its revenue from the fees charged to people attending the conference. Expenditures from the fund in FY 2014 totaled $1.2 million.

Total Liquor Sales Increased by 5.6% to $948.5 million in CY 2014

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

On February 11, 2015, the Department of Commerce announced final spirituous liquor sales results for CY 2014. Total dollar sales of spirituous liquor increased by 5.6% over CY 2013 to $948.5 million in CY 2014 while total spirituous liquor gallonage sold increased by 3.2% to 12.6 million. As has been the case in recent years, retail sales – made by contract liquor agencies directly to consumers – drove the increase in total liquor dollar sales, with consumers seeking higher-priced liquor brands in greater amounts.

Effective February 1, 2013, JobsOhio, the state's nonprofit economic development corporation, leased the state's exclusive right to manage and control spirituous liquor distribution and sales and to sell spirituous liquor for 25 years. Under this arrangement, JobsOhio contracts with the Division of Liquor Control within the Department of Commerce to run the liquor merchandising operation. Consequently, the Division continues to manage the spirituous liquor inventory and to oversee the distribution of liquor to the contract liquor agencies, while the profits from spirituous liquor sales fund JobsOhio's efforts to spur job creation and capital investment in the state. For CY 2014, JobsOhio reported a net operating income of $221.0 million

Attorney General Releases Economic Development Compliance Report

– Joseph Rogers, Senior Budget Analyst, 614-644-9099

On December 9, 2014, the Ohio Attorney General's Office released its 2014 Economic Development Compliance Report, a required annual review of certain economic development awards administered by the Ohio Development Services Agency (ODSA).[9] Of the 255 awards examined in this report, 180 recipients were found to be substantially compliant with their agreements. The overall compliance rate of 70.6% is notably higher than the previous three years (see table below). The metrics used to determine compliance included the degree to which a recipient met, as applicable, their commitments for job creation, job retention, capital investment, worker wages, and workforce training.

[9] R.C. 125.112(G).

The report provides a breakdown of the compliance rates by award categories of workforce training grants, capital investment grants, tax credits, and project loans (land and building acquisition, expansion, renovation, and equipment). The report also provides information on remedial action, described as follows:

- Of the ten noncompliant capital investment grant recipients, ODSA assessed nine "clawback" reimbursements totaling $313,960 and one was certified to the Attorney General for collection.
- Of the 47 noncompliant tax credit recipients, 27 had their rate and/or term reduced, nine were deemed by ODSA as substantially compliant, and 11 had their contract terminated or expire.
- Of the 18 noncompliant project loan recipients, eight had their interest rate increased, four were deemed by ODSA as substantially compliant, two were certified to the Attorney General for collection, two ceased operations and agreed to pay off the loan, and one was terminated.

Economic Development Award Recipient Compliance Rates, 2010-2013				
Award Category	**2010**	**2011**	**2012**	**2013**
All Awards	59.1%	63.5.%	54.9%	70.6%
Workforce Training Grants	88.5%	89.9%	100.0%	100.0%
Capital Investment Grants	27.0%	48.6%	49.5%	74.4%
Tax Credits	35.1%	59.5%	53.8%	62.4%
Project Loans	23.9%	42.0%	55.8%	57.1%

Criminal Justice Services Awards $578,434 in Federal Law Enforcement Grants

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

On January 15, 2015, the Office of Criminal Justice Services (OCJS) awarded $578,434 in federal grants from the Edward Byrne Memorial Justice Assistance Grant Program for Law Enforcement (JAG LE) to 94 law enforcement agencies in 48 counties. Of the total award, about 80% ($464,000) will fund the procuring of equipment, computer technology, and other materials directly related to law enforcement functions (e.g., body and cruiser cameras, vehicles, radios). The remainder will be used for the hiring, training, retention, and overtime of law enforcement officers and other support personnel.

Under the JAG LE program, law enforcement agencies not otherwise eligible for direct federal funding may apply for a maximum of $20,000 per project with a 10% cash match requirement on the total project cost. The following table shows those counties with law enforcement agencies that received awards in January 2015, the number of projects per county, and the total amount of funding received. Each individual project's award ranged from $1,250 to $11,939. All awards are for seven months of funding.

Federal Law Enforcement Grant Awards by County (Total: $578,434)					
County (# of Projects)	Award	County (# of Projects)	Award	County (# of Projects)	Award
Ashland (2)	$14,120	Jefferson (1)	$2,201	Muskingum (2)	$7,945
Belmont (2)	$11,310	Knox (2)	$10,252	Paulding (1)	$4,455
Champaign (1)	$1,250	Lake (2)	$17,288	Pickaway (1)	$4,210
Clinton (1)	$2,642	Licking (1)	$2,775	Portage (1)	$4,135
Columbiana (3)	$19,346	Logan (2)	$13,794	Putnam (1)	$7,035
Crawford (2)	$18,261	Lorain (1)	$5,042	Sandusky (1)	$7,020
Cuyahoga (5)	$38,254	Lucas (1)	$2,356	Scioto (2)	$8,632
Franklin (2)	$15,704	Madison (2)	$13,248	Seneca (1)	$14,488
Fulton (2)	$12,701	Mahoning (3)	$17,313	Stark (4)	$22,377
Gallia (1)	$7,500	Marion (1)	$8,127	Summit (6)	$36,585
Geauga (2)	$8,936	Medina (3)	$19,665	Trumbull (3)	$19,586
Greene (3)	$18,177	Meigs (3)	$15,252	Tuscarawas (1)	$7,191
Hamilton (2)	$16,939	Mercer (3)	$15,000	Union (1)	$10,071
Hardin (1)	$7,500	Miami (1)	$5,220	Vinton (1)	$6,300
Hocking (1)	$8,667	Montgomery (5)	$30,163	Warren (1)	$5,490
Holmes (1)	$6,156	Morgan (1)	$6,700	Wood (4)	$21,058

Note: Numbers may not add to total due to rounding.

Employment growth and manufacturing expansion have contributed to a strong economic outlook.

TRACKING THE ECONOMY

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Overview

Continued growth in nonfarm payroll employment, ongoing manufacturing expansion, and a low unemployment rate (5.5%) contributed to a strong economic outlook. Growth of inflation adjusted gross domestic product (real GDP) in the fourth quarter was slower than the third quarter advance, but strong consumer spending aided ongoing domestic growth. Consumer and producer prices fell in January, a reflection of lower gasoline and energy prices. Ohio's unemployment rate, while remaining unchanged in February, dropped more than in almost any other state in the U.S. during 2014.

The National Economy

Employment and Unemployment

In February, nonfarm payroll employment nationwide at business establishments increased 295,000, according to initial estimates from the Bureau of Labor Statistics (BLS). February was the 12th consecutive month that employment has increased by 200,000 or more, the longest such period since the 19 months that ended in March 1995; monthly gains in employment have averaged 275,000 over the past 12 months and 293,000 over the past six months. Employment gains were broad based, including gains in food services and drinking places, professional and business services, construction, health care, and transportation and warehousing. BLS revised downward its estimate of employment gains in January, from 257,000 to 239,000, while BLS maintained its estimate for December. For the months of December and January combined, employment gains were 18,000 lower than previously reported.

The U.S. economy has added a net total of 3.30 million jobs over the past 12 months. The national unemployment rate declined by 0.2 percentage points from 5.7% in January to 5.5% in February, and declined by 1.2 percentage points from 6.7% one year earlier. The December unemployment rate is the lowest since May 2008. Average hourly earnings of all employees on private, nonagricultural payrolls increased by 0.1% in February. Average hourly earnings are up 2.0% over the past year.

Production

Real GDP grew at an annual rate of 2.2% in the fourth quarter of 2014, according to a second estimate from the Bureau of Economic Analysis. Personal consumption expenditures continued its positive trend, increasing at a 4.2% rate this quarter. The slowdown in GDP, compared with third quarter growth at a 5.0% rate, reflects a decrease in federal defense spending after a sharp increase in the third quarter, as well as slower growth in nonresidential fixed investments and exports. Annual growth in 2014 (2.4%) was higher than growth in any year since 2010.

Industrial production increased 0.2% in January, to 4.8% above one year ago rates. Increases in all major market groups except construction, and in two of the three major industry groups contributed to the increase. The drop in the index for mining was due primarily to a decrease in oil and gas well drilling. According to the U.S. Energy Information Administration, the number of rotary rigs in operation (machines used for drilling wells) in the nation dropped 10.6% in January.[10]

Activity in the manufacturing sector expanded for the 26th consecutive month, according to the latest report from the Institute for Supply Management based on reports from manufacturing sector purchasing managers. Although managers from a variety of industries reported ongoing delays in supply chain logistics from West Coast dock slowdowns, 12 out of 18 manufacturing sectors report growth in February.

Consumer Spending and Personal Incomes

Real consumer spending increased by 0.3% (seasonally adjusted) in January, and was 3.4% higher than one year ago. Consumer spending grew in ten of the last 12 months. The price index for consumer spending fell for the third straight month, reflecting lower energy prices. Personal income, in current dollars (not adjusted for inflation) also increased by 0.3% in January, its 15th straight monthly increase.

Sales of light vehicles in February were slightly down from the previous month at a seasonally adjusted annual rate of 16.2 million units, down from an eight-year high in August (17.9 million units). Despite the recent slowdown, sales of light vehicles are still 5.4% higher than year ago rates.

[10] Monthly Energy Review: February 2015, Table 5.1, U.S. Energy Information Administration, www.eia.gov.

Housing

Housing starts, at a seasonally adjusted annual rate, remained above 1.0 million units in January, 2.0% below December's revised rate. Housing starts lag behind historical rates but are still 18.7% above year ago levels. Single-family housing unit starts in January, at a seasonally adjusted annual rate, dropped 6.7% from December's annual rate, but increased 16.3% above year ago levels. Starts on structures with five units or more were 24.5% higher than a year earlier. Total housing starts have topped 1.0 million units for the past five months.

The all-items consumer price index declined 0.1% over the last 12 months.

Existing home sales in January dropped 4.9%, to a seasonally adjusted annual rate of 4.82 million homes, according to the National Association of Realtors (NAR). Unit sales were 3.2% higher than a year earlier. Overall, the median sales prices of existing homes was higher in 2014 ($208,300) than in 2012 ($176,800) and 2013 ($197,100).

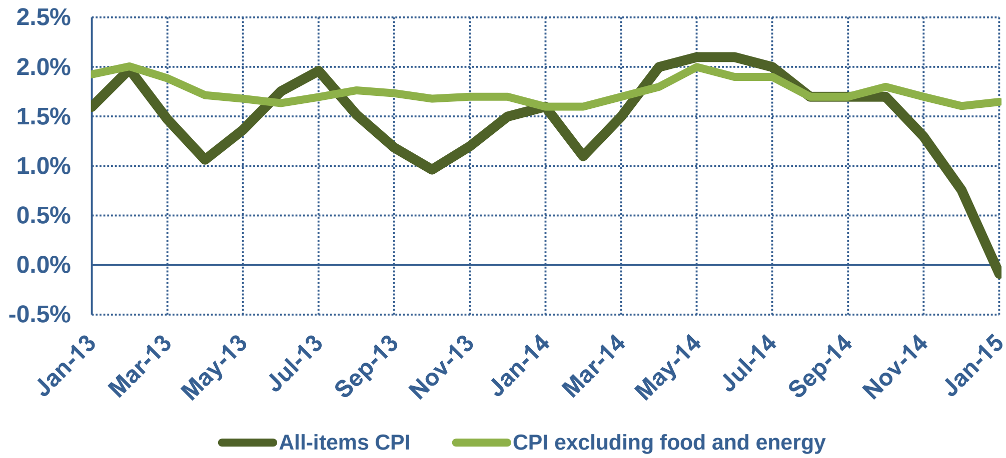
New residential home sales, at a seasonally adjusted annual rate, in January decreased slightly from December's annual rate, but remain 5.3% above year ago rates. Annual sales have climbed since a low of 306,000 in 2011, but are still substantially lower than annual sales from 1983-2007.

Inflation

Consumer Prices

The consumer price index (CPI) declined 0.7% in January, on a seasonally adjusted basis, the largest one-month percent decline in CPI since December 2008, according to BLS. The decline in the all-items price index was predominantly due to the drop in the gasoline index, as its seven month slide reached its largest drop (-18.7%). However, since January, gasoline prices have risen sharply. Overall, the energy index fell 9.7% in January, while the index for all items less food and energy rose 0.2%. Over the last 12 months, the all-items index declined slightly (-0.1%), the first negative 12-month change since the period ending October 2009.

Chart 6: 12-month % change in Consumer Price Index (CPI), January 2013-January 2015



Ohio experienced the second-largest decline in its unemployment rate in 2014.

Producer Prices

The producer price index (PPI) for final demand decreased 0.8% in January, due primarily to a 2.1% drop in final demand goods. Final demand energy and food both contributed to the drop, its largest month-over-month decline since the measure was introduced in 2009. Core PPI (without final demand food and energy) also declined in January, contributing to no change in final demand prices for goods and services over the past 12 months.

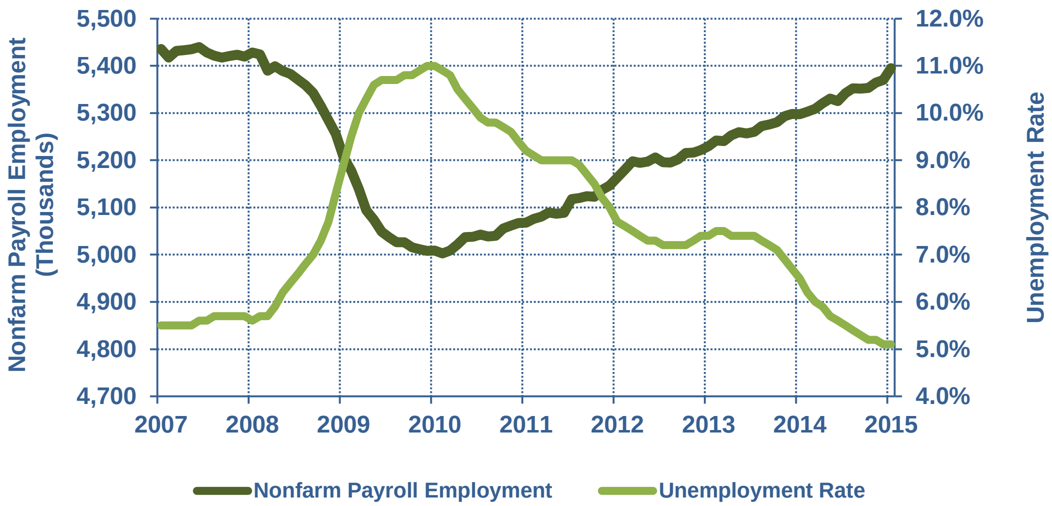
The Ohio Economy

Employment and Unemployment

Total nonfarm payroll employment in Ohio increased by 25,100 (0.5%) in January, while the state's rate of unemployed job-seekers was unchanged from the revised rate for December at 5.1%, as shown in Chart 7 below. Employment gains were concentrated in the private service-producing sector, which gained 31,000 jobs, particularly in trade, transportation, and utilities (12,300), educational and health services (10,100), leisure and hospitality (3,100), and professional and business services (2,700). Goods-producing industries gained 2,300 jobs, with increases in manufacturing (3,600 new jobs) and mining and logging (100) being offset somewhat by losses in construction (1,400). Losses in government jobs (8,200) partly offset private-sector gains. The number of Ohioans counted as unemployed has dropped by 78,000 over the past 12 months, while nonagricultural wage and salary employment grew by 97,800 (1.8%). During this period, private goods-producing industries added 17,200 jobs, including 12,500 jobs in manufacturing, while private service-producing industries gained 87,600 jobs. Government lost 7,000 jobs over the same period.

According to BLS, the annual average unemployment rate declined in all 50 states in 2014; such a broad-based decline had not occurred since 1984. In 2014, Ohio experienced the second-largest decline in its unemployment rate (1.8 percentage points), trailing only Illinois (2.0 percentage points) and tied with Colorado and North Carolina.

Chart 7: Ohio Employment and Unemployment



Ohio achieved a record level of goods exports in 2014.

Home Sales

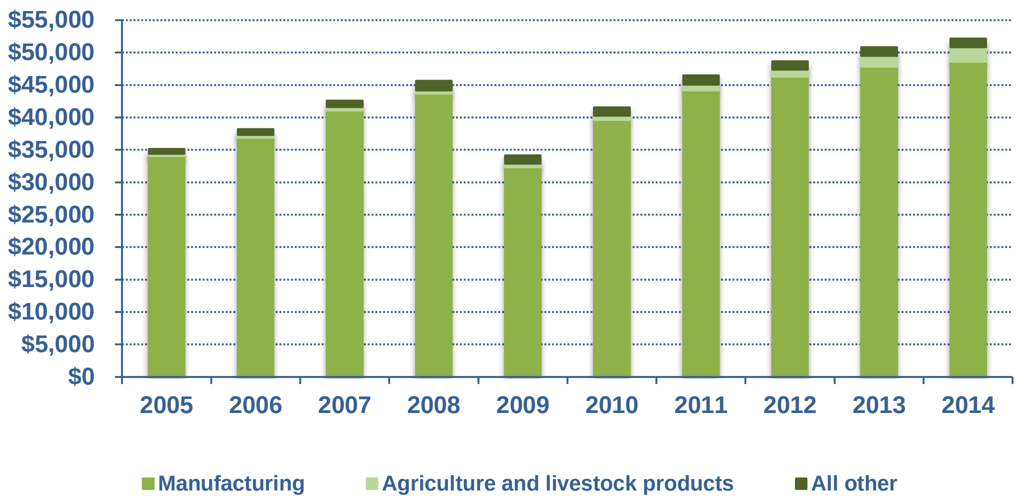
The number of homes sold in Ohio in January was 7,085, 1.3% higher than the 6,991 sold a year earlier. The average sale price in the state was $137,464, 8.0% higher than the average price of $127,279 a year earlier, according to the Ohio Association of Realtors. In total, existing home sales across the state were $973.9 million, a 9.5% increase from a year earlier. Home sales in 2014 totaled 130,763, a 1.4% decrease from 2013, while the average sales price increased to $149,210 in 2014, a 5% increase from 2013.

Exports

Ohio achieved a record level of $52.1 billion in goods exports in 2014, an increase of $1.3 billion (2.6%) over 2013. Manufactured goods comprised roughly 93% of goods exported from Ohio in 2014, followed by agriculture and livestock products (4.3%) and all others (2.6%). Transportation equipment made up the largest portion of manufactured goods exported from Ohio at $15.7 billion; this was $8.8 billion (127%) higher than the next largest category, machinery, except electrical. The Cleveland-Elyria metropolitan statistical area (MSA) produced the highest level of exported goods at $11.1 billion, followed by Columbus ($5.7 billion), Akron ($3.5 billion), Toledo ($3.4 billion), and Dayton

($2.7 billion).[11] Ohio-produced exports went largely to Canada ($20.7 billion), Mexico ($6.0 billion), China ($3.9 billion), the United Kingdom ($1.8 billion), and Germany ($1.7 billion). Ohio exports supported 16,345 companies in the state in 2012; 14,599 of these (89.3%) were small- or medium-sized businesses (fewer than 500 employees) which produced 24.3% of Ohio's total exports. Ohio exports also supported approximately 259,000 U.S. jobs in 2013. Ohio's exports contracted 25% in 2009 as a result of the Great Recession but have since increased by 53%.[12]

Chart 8: Ohio's Exported Goods by Industry, 2005-2014 (in millions)



The U.S. as a whole saw its fifth consecutive record-setting year of exports in goods and services, which reached $2.35 trillion in 2014. Exports of goods grew in 34 states in 2014 and 26 of those states experienced record levels of exports. The top five exporting states in 2014 were Texas ($289.0 billion), California ($174.1 billion), Washington ($90.6 billion), New York ($86.0 billion), and Illinois ($68.2 billion). Exports have grown in all 50 states since the Great Recession in 2009.[13]

[11] The Cincinnati MSA exported $21.0 billion in goods in 2014 but was excluded from this list due to portions of the MSA being in other states.

[12] Source: U.S. Department of Commerce, International Trade Administration, Office of Trade and Industry Information, Manufacturing and Services. March 2, 2015.

[13] U.S. Department of Commerce. "Department of Commerce Announces Twenty-Six States Achieved Record Export Levels in 2014." February 26, 2015.

Regional Economy

The Federal Reserve Bank of Cleveland's most recent report on regional economic activity described a "modest" rate of economic expansion during the past six weeks.[14] The report noted that:

- Sales of new and existing homes for 2014 decreased slightly compared to levels in 2013, while the average sale price over the same period increased by 4%. The first-time buyer market remained weak, and single-family construction starts decreased relative to the previous reporting period. Homebuilders were optimistic for the coming months, however, due to improving climatic conditions and the potential for increased interest (i.e., mortgage) rates, which is expected to prompt buyers to build in order to capture lower interest rates in the short-term.
- Demand for business credit experienced moderate growth across many sectors, especially in commercial real estate development and commercial and industrial loans. Demand for consumer credit experienced slight growth, particularly in terms of home equity products. Interest rates for business and consumer credit were generally steady or down slightly.
- Post-holiday same store retail sales were generally higher compared with the same period last year, and most retailers expect second-quarter year-over-year sales to be higher due to lower gasoline prices. Year-over-year new motor vehicle sales were slightly higher in January, including an increase of about 7% in sport utility vehicle and truck sales during the same period. Dealers expect continued increases in year-over-year unit volume, though not as strong as those experienced in 2014.
- Activity in the Utica and Marcellus shale formations contracted, with the number of drilling rigs decreasing 19% since December. Oil and gas producers have also reportedly scaled back planned capital spending for 2015, though they expect existing high inventories of oil to be rapidly depleted. The oil and gas industries and associated supply industries have experienced layoffs as a result of decreased production.
- Wage increases were limited primarily to experienced employees and those with technical skills.

[14] 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 February 23, 2015.