Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION — OCTOBER 2014

STATUS OF THE GRF

HIGHLIGHTS

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

The first quarter of FY 2015 ended with GRF tax revenue above estimate by nearly $83 million. The income tax, the commercial activity tax (CAT), and the sales and use tax were all above their year-to-date estimates. Federal grants, however, were almost $313 million below estimate, due mainly to lower than expected spending in Medicaid. GRF program expenditures were nearly $245 million below estimate for the quarter as a whole.

Ohio's unemployment rate in August was the same as July's rate, at 5.7%, somewhat below the national rate of 6.1% for August. Payroll employment grew in August, but not much, adding 200 jobs statewide. Private sector employment declined for the month, but local governments added 8,700 jobs.

Through September 2014, GRF sources totaled $7.54 billion:

- Revenue from the personal income tax was $44.1 million above estimate;
- CAT receipts were $30.4 million above estimate;
- Sales and use tax receipts were $16.8 million above estimate.

Through September 2014, GRF uses totaled $9.23 billion:

- Medicaid expenditures were $345.7 million below estimate;
- Property tax reimbursements were $147.3 million above estimate due largely to timing.

VOLUME 38, NUMBER 2

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

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Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of September 2014
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on October 3, 2014)

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$107,856	$111,200	-$3,344	-3.0%
Nonauto Sales and Use	$703,924	$660,100	$43,824	6.6%
Total Sales and Use Taxes	$811,780	$771,300	$40,480	5.2%
Personal Income	$877,781	$842,500	$35,281	4.2%
Corporate Franchise	$5,622	$0	$5,622	---
Financial Institution	$532	$0	$532	---
Public Utility	-$15,863	$0	-$15,863	---
Kilowatt-Hour Excise	$26,390	$31,000	-$4,610	-14.9%
Natural Gas Consumption (MCF)	$9	$0	$9	---
Commercial Activity Tax	$4,707	$1,100	$3,607	327.9%
Petroleum Activity Tax	$0	$0	$0	---
Foreign Insurance	$2,777	$4,700	-$1,923	-40.9%
Domestic Insurance	$209	$1,800	-$1,591	-88.4%
Business and Property	$0	$0	$0	---
Cigarette	$68,588	$75,900	-$7,312	-9.6%
Alcoholic Beverage	$6,949	$4,500	$2,449	54.4%
Liquor Gallonage	$3,749	$3,500	$249	7.1%
Estate	$15	$0	$15	---
Total Tax Revenue	**$1,793,246**	**$1,736,300**	**$56,946**	**3.3%**
NONTAX REVENUE				
Earnings on Investments	$2	$0	$2	---
Licenses and Fees	$2,639	$1,835	$803	43.8%
Other Revenue	$15,101	$1,123	$13,978	1244.2%
Total Nontax Revenue	**$17,742**	**$2,959**	**$14,784**	**499.6%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$5,501	$200	$5,301	2650.3%
Total Transfers In	**$5,501**	**$200**	**$5,301**	**2650.3%**
TOTAL STATE SOURCES	**$1,816,489**	**$1,739,459**	**$77,030**	**4.4%**
Federal Grants	$801,622	$894,235	-$92,614	-10.4%
TOTAL GRF SOURCES	**$2,618,111**	**$2,633,694**	**-$15,583**	**-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 September 30, 2014
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on October 3, 2014)

	Actual	Estimate*	Variance	Percent	FY 2014	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$336,827	$332,300	$4,527	1.4%	$315,388	6.8%
Nonauto Sales and Use	$2,127,038	$2,114,800	$12,238	0.6%	$1,861,292	14.3%
Total Sales and Use Taxes	$2,463,866	$2,447,100	$16,766	0.7%	$2,176,679	13.2%
Personal Income	$2,054,879	$2,010,800	$44,079	2.2%	$2,200,703	-6.6%
Corporate Franchise	$7,058	$0	$7,058	---	$2,046	245.0%
Financial Institution	$422	$0	$422	---	$0	---
Public Utility	$12,536	$27,800	-$15,264	-54.9%	$25,853	-51.5%
Kilowatt-Hour Excise	$78,652	$86,200	-$7,548	-8.8%	$80,339	-2.1%
Natural Gas Consumption (MCF)	$13,221	$11,500	$1,721	15.0%	$13,553	-2.4%
Commercial Activity Tax	$209,496	$179,100	$30,396	17.0%	$192,105	9.1%
Petroleum Activity Tax	$0	$0	$0	---	$0	---
Foreign Insurance	$2,906	$5,400	-$2,494	-46.2%	$4,489	-35.3%
Domestic Insurance	$7,665	$1,800	$5,865	325.8%	$57	13437.9%
Business and Property	$11	$0	$11	---	$37	-71.0%
Cigarette	$160,020	$160,600	-$580	-0.4%	$164,024	-2.4%
Alcoholic Beverage	$15,364	$14,700	$664	4.5%	$14,205	8.2%
Liquor Gallonage	$10,989	$10,400	$589	5.7%	$10,722	2.5%
Estate	$1,168	$0	$1,168	---	$12,134	-90.4%
Total Tax Revenue	**$5,038,255**	**$4,955,400**	**$82,855**	**1.7%**	**$4,896,946**	**2.9%**
NONTAX REVENUE						
Earnings on Investments	$8	$0	$8	---	$10	-27.0%
Licenses and Fees	$7,549	$10,227	-$2,678	-26.2%	$9,364	-19.4%
Other Revenue	$16,983	$3,762	$13,221	351.4%	$1,780	854.3%
Total Nontax Revenue	**$24,540**	**$13,989**	**$10,551**	**75.4%**	**$11,154**	**120.0%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$10,503	$5,600	$4,903	87.6%	$7,719	36.1%
Total Transfers In	**$10,503**	**$5,600**	**$4,903**	**87.6%**	**$7,719**	**36.1%**
TOTAL STATE SOURCES	**$5,073,298**	**$4,974,989**	**$98,309**	**2.0%**	**$4,915,819**	**3.2%**
Federal Grants	$2,471,100	$2,783,776	-$312,676	-11.2%	$2,270,778	8.8%
TOTAL GRF SOURCES	**$7,544,398**	**$7,758,765**	**-$214,368**	**-2.8%**	**$7,186,597**	**5.0%**

* 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 $214.4 million below estimate.

GRF sources[1] ended the first quarter of FY 2015 with a cumulative negative variance of $214.4 million, due to a shortfall of $312.7 million in federal grants. Generally speaking, negative variances for federal grants are closely associated with negative variances on the spending side of the state budget for the human services programs, mainly Medicaid, for which the reimbursements are received. The fiscal year-to-date shortfall in federal grants was partially offset by a cumulative positive variance of $98.3 million in state sources, $82.9 million of which was from better than expected GRF tax revenues through September 2014.

GRF sources of $2.62 billion for the month of September came in $15.6 million below the estimate released by the Office of Budget and Management (OBM) in August 2014, due to a shortfall of $92.6 million in federal grants, the third consecutive monthly negative variance for this GRF source. However, GRF tax sources were $56.9 million above estimates, partially offsetting the negative variance of federal grants. Tables 1 and 2 show GRF sources for the month of September and for FY 2015 through September, respectively.

First-quarter GRF tax receipts were $82.9 million above estimate.

In September, the largest GRF tax sources were above estimates. The sales and use tax, the personal income tax, and the commercial activity tax (CAT) were above estimates by $40.5 million, $35.3 million, and $3.6 million, respectively. Additionally, the alcoholic beverage tax experienced a positive variance of $2.4 million, while the corporate franchise tax (CFT) was $5.6 million above estimate for the month, due to additional payments from prior year activity.[2] However, notable negative variances were generated by the cigarette tax ($7.3 million), the kilowatt-hour tax ($4.6 million), and the public utility tax ($15.9 million); the latter variance was due to unanticipated refunds, according to the Department of Taxation. Regarding nontax GRF sources, nontax revenue was $14.8 million above estimate for the month, and this GRF source ended the fiscal quarter with a positive variance totaling $10.6 million. Transfers in were $5.3 million ahead of

[1] GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants, which are federal reimbursements for Medicaid and certain other human service programs.

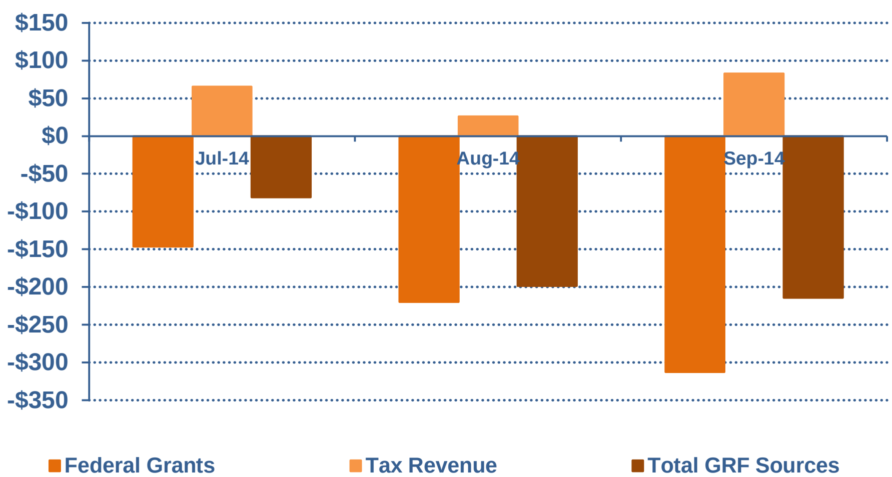
[2] OBM does not anticipate CFT revenue in FY 2015, but prior year tax filings may result in additional payments or refunds during the fiscal year.

projected receipts in September, resulting in a positive variance of $4.9 million for the first quarter as a whole.

Chart 1 below shows FY 2015 cumulative variances against estimates for federal grants, tax sources, and total GRF sources. As stated earlier, first-quarter total GRF sources of $7.54 billion were below estimate. Regarding tax revenues, as shown in Table 2, the CAT, the personal income tax, and the sales and use tax were substantially ahead of projected revenues; and the CFT, the domestic insurance tax, the natural gas consumption tax, and the estate tax had more modest positive variances. On the other hand, the public utility tax, the kilowatt-hour tax, and the foreign insurance tax were below anticipated receipts by sizable amounts. Variances for the remaining tax sources were relatively small.

FY 2015 federal grants were $312.7 million below estimate.

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



GRF sources grew by $357.8 million from the first quarter of FY 2014 (see Table 2), with all categories contributing to this advance. Federal grants increased $200.3 million, tax receipts were higher by $141.3 million, and revenue from nontax revenues and transfers in increased by a total of $16.2 million. Revenue from the sales and use tax increased $287.2 million while that from the personal income tax fell $145.8 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 withholding rates last September. 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 the budget act.

FY 2015 GRF sources were $357.8 million above GRF sources in FY 2014.

Personal Income Tax

First-quarter income tax receipts were $44.1 million above estimate.

FY 2015 withholding tax receipts were on target.

September GRF receipts from the personal income tax of $877.8 million were $35.3 million (4.2%) above estimate, but were $34.6 million (3.8%) below revenue the preceding September. 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,[3] trust payments, payments associated with annual returns, and miscellaneous payments. For the month, quarterly estimated payments and taxes due with annual returns were above estimates by $29.4 million and $3.9 million, respectively. However, monthly employer withholdings were $9.0 million below projections, and refunds were $7.1 million less than anticipated.

Through September, FY 2015 GRF receipts from the personal income tax were $2.05 billion, which was $44.1 million (2.2%) above estimate. The table below summarizes year-to-date FY 2015 income tax revenue variances from estimates and annual changes by component.

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

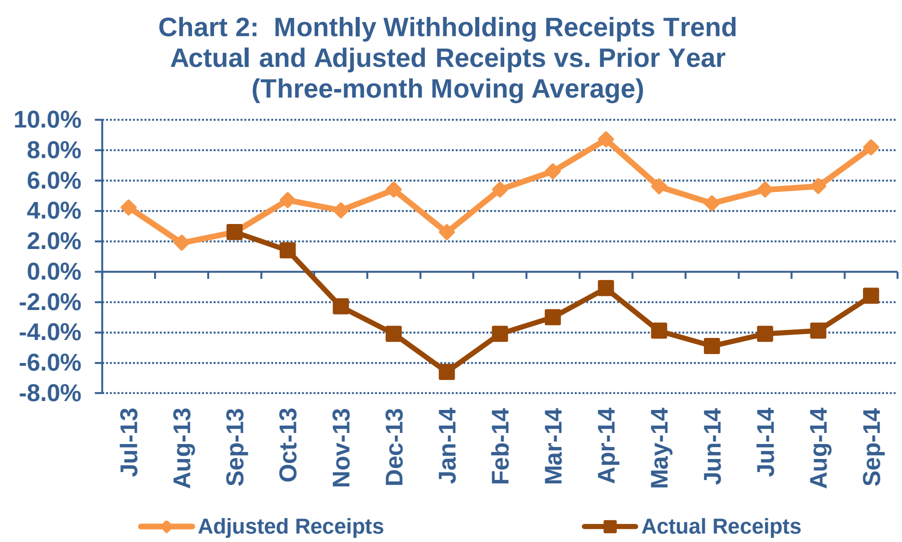
Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2014	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	$7.3	0.4%	-$33.4	-1.7%
Quarterly Estimated Payments	$38.0	16.2%	-$55.7	-17.0%
Trust Payments	$1.9	21.8%	$1.0	10.9%
Annual Return Payments	-$3.4	-7.7%	-$12.6	-23.6%
Miscellaneous Payments	-$1.8	-8.3%	-$2.3	-10.4%
Gross Collections	$42.0	1.9%	-$102.9	-4.4%
Less Refunds	-$1.2	-1.0%	$44.0	58.0%
Less LGF Distribution	-$0.9	-1.1%	-$1.0	-1.2%
Income Tax Revenue	$44.1	2.2%	-$145.8	-6.6%

As seen from the above table, the positive variance of the personal income tax was mostly due to employer withholdings and quarterly estimated payments: those components were above estimates by $7.3 million and $38.0 million, respectively. First-quarter GRF receipts

[3] 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.

from the personal income tax were $145.8 million (6.6%) below receipts in the corresponding period in FY 2014. Except for refunds which were $44.0 million higher this year than last, most other income tax components were below their respective levels in the first quarter of FY 2014. Employer withholdings, quarterly estimated payments, and annual return payments decreased by $33.4 million, $55.7 million, and $12.6 million, respectively. 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. Though actual withholding receipts fell since the withholding rate decrease that went into effect for payroll that ended on or after September 1, 2013, payroll growth which has generally trended upward appears to be accelerating in recent months after a slowdown in the spring of 2014.

FY 2015 GRF income tax receipts were $145.8 million below FY 2014 revenue.



Sales and Use Tax

September GRF receipts from the sales and use tax of $811.8 million were $40.5 million (5.2%) above estimate, and $121.4 million (17.6%) above receipts in September 2013. For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[4] generally arise from the sale of motor vehicles, but auto taxes arising from leases are paid at the lease

FY 2015 sales and use tax receipts were $16.8 million above estimate.

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

FY 2015 nonauto sales and use tax receipts were $12.2 million above estimate.

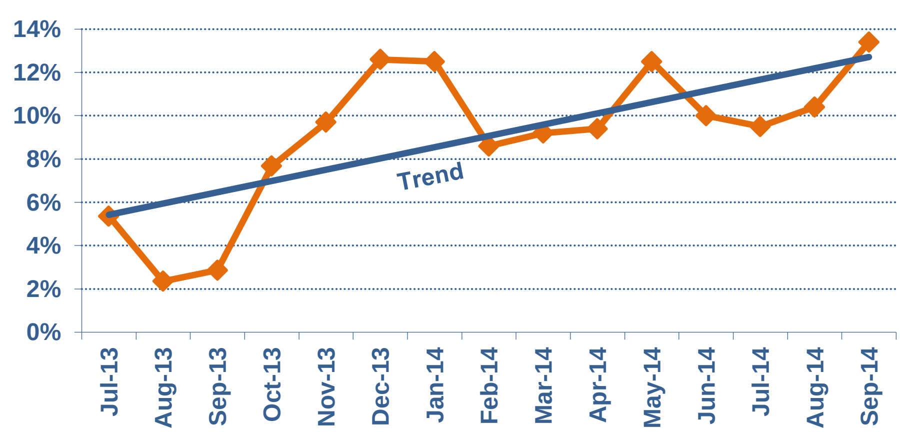
signing and are mostly recorded under the nonauto tax instead of the auto tax.

Through September, FY 2015 GRF sales and use tax receipts totaled $2.46 billion, $16.8 million (0.7%) above estimate, with both tax sources above their respective estimates. FY 2015 year-to-date receipts were $287.2 million (13.2%) above receipts in the corresponding period last year, due, in part, to the state sales tax rate increase from 5.5% to 5.75% enacted by H.B. 59. After adjusting for the rate change, the sales and use tax taxable base grew about 7.9% in the first quarter of FY 2015, compared to the corresponding period in FY 2014.

Nonauto Sales and Use Tax

September GRF receipts of $703.9 million were $43.8 million (6.6%) above estimate, and $115.6 million (19.7%) above receipts in September 2013. This monthly performance reversed a negative variance of $32.8 million in August 2014. For the fiscal year through September, nonauto sales and use tax receipts of $2.13 billion were $12.2 million (0.6%) above projected revenues. That amount was $265.7 million (14.3%) above revenue in the first quarter of FY 2014. Chart 3 shows increases in nonauto sales and use tax monthly receipts against prior year receipts in the same month. The strengthening economy has increased nonauto sales and use tax revenue, and the taxable base grew about 9% in the first quarter of FY 2015 on a year-ago basis, when taking into account last year's rate increase.

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



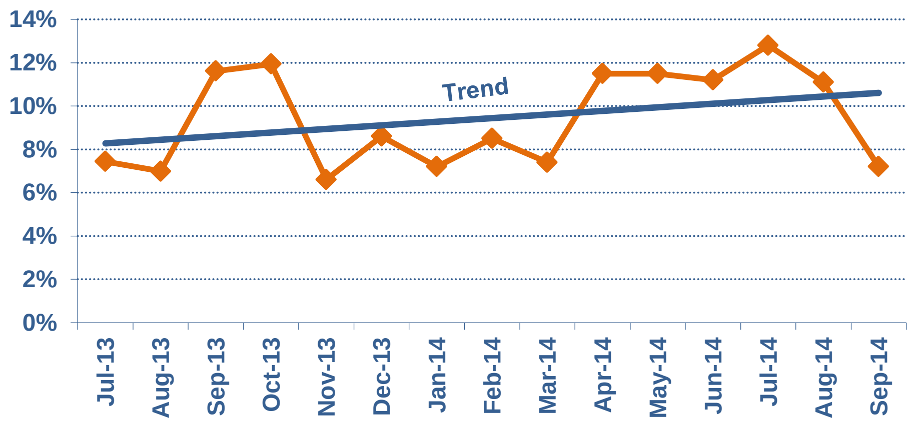
Auto Sales and Use Tax

The auto sales and use tax was below estimate for the second time in the fiscal quarter ending in September. GRF receipts from this tax source were $107.9 million, $3.3 million (3.0%) below estimate, but $5.8 million (5.7%) above receipts in September 2013. This performance reduced the positive variance for this tax to $4.5 million (1.4%), down from $7.9 million in the first two months of FY 2015. For the fiscal year through September, GRF revenue from the auto sales and use tax was $336.8 million, $4.5 million (1.4%) above receipts in the corresponding period in FY 2014. Chart 4 below compares FY 2015 monthly auto sales and use tax receipts with year-ago receipts in the same period. It shows growth, though positive, has decreased in the most recent months. However, on a year-ago basis, the auto sales and use tax taxable base grew about 2.5% in the quarter ending in September 2014.

FY 2015 auto sales and use tax receipts were $4.5 million above estimate.

Nationwide sales of light vehicles were 16.4 million units on a seasonally adjusted annualized basis in September. Unadjusted sales in September increased about 7% above September 2013, and have been rising since March on a year-ago basis. The September pace was about equal to the average sales pace for the year to date. Economic forecasters expect light vehicle sales to remain well above 16 million units for the rest of 2014, and to approach near 17 million units in 2015.

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



Commercial Activity Tax

September GRF receipts from the CAT were $4.7 million, $3.6 million (327.9%) above estimate, and $2.9 million (167.0%) above receipts in the same month in 2013. For the fiscal year through September, GRF revenues of $209.5 million were above estimate by $30.4 million (17.0%). Compared to

FY 2015 GRF CAT receipts were $30.4 million above estimate.

the first quarter in FY 2014, GRF revenue from the CAT grew $17.4 million (9.1%). Revenue in the first quarter last year was reduced by unanticipated credit claims, and Ohio's economy has grown over the last year. Beginning July 1, 2014, the CAT as applied to receipts from the sale or exchange of motor fuel was replaced by the petroleum activity tax (PAT), which has a rate of 0.65% on a motor fuel supplier's adjusted gross receipts. Initial GRF revenue from the PAT is expected in the second quarter of FY 2015 for taxable receipts in the July to September quarter.

Cigarette and Other Tobacco Products Tax

> FY 2015 cigarette tax receipts were $0.6 million below estimate.

GRF receipts from the cigarette and other tobacco products tax of $68.6 million in September 2014 were $7.3 million (9.6%) below estimate, and $5.6 million (7.5%) below receipts in the same month in FY 2014. First-quarter receipts of $160.0 million in FY 2015 were $0.6 million (0.4%) below estimated revenue. Receipts from cigarette sales were $143.4 million, and sales of other tobacco products (OTP) provided $16.6 million. Total receipts in the quarter declined $4.0 million (2.4%) from the corresponding quarter in FY 2014. The decrease was attributable to sales of cigarettes, tax receipts from which declined $7.0 million. An increase of $3.0 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 September 2014
($ in thousands)
(Actual based on OAKS reports run October 7, 2014)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary and Secondary Education	$478,323	$562,932	-$84,609	-15.0%
Higher Education	$182,297	$182,728	-$431	-0.2%
Other Education	$9,071	$4,028	$5,043	125.2%
Total Education	$669,692	$749,689	-$79,997	-10.7%
Medicaid	$1,386,461	$1,442,327	-$55,866	-3.9%
Health and Human Services	$93,145	$70,203	$22,941	32.7%
Total Welfare and Human Services	$1,479,605	$1,512,530	-$32,925	-2.2%
Justice and Public Protection	$137,466	$171,624	-$34,158	-19.9%
General Government	$26,585	$24,857	$1,728	7.0%
Total Government Operations	$164,052	$196,482	-$32,430	-16.5%
Property Tax Reimbursements	$412,313	$245,879	$166,433	67.7%
Capital Outlay	$0	$0	$0	---
Debt Service	$393,697	$394,190	-$493	-0.1%
Total Other Expenditures	$806,010	$640,069	$165,941	25.9%
Total Program Expenditures	**$3,119,359**	**$3,098,770**	**$20,588**	**0.7%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$529,000	$7,746	$521,254	6729.1%
Total Transfers Out	$529,000	$7,746	$521,254	6729.1%
TOTAL GRF USES	**$3,648,359**	**$3,106,517**	**$541,842**	**17.4%**

* 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 September 30, 2014
($ in thousands)
(Actual based on OAKS reports run October 7, 2014)

PROGRAM	Actual	Estimate*	Variance	Percent	FY 2014	Percent Change
Primary and Secondary Education	$1,872,801	$1,883,214	-$10,412	-0.6%	$1,701,425	10.1%
Higher Education	$530,312	$531,180	-$869	-0.2%	$480,498	10.4%
Other Education	$21,086	$17,510	$3,577	20.4%	$17,967	17.4%
Total Education	$2,424,199	$2,431,904	-$7,705	-0.3%	$2,199,890	10.2%
Medicaid	$4,143,018	$4,488,683	-$345,665	-7.7%	$3,922,047	5.6%
Health and Human Services	$348,516	$344,525	$3,991	1.2%	$323,424	7.8%
Total Welfare and Human Services	$4,491,534	$4,833,208	-$341,674	-7.1%	$4,245,470	5.8%
Justice and Public Protection	$497,670	$531,860	-$34,190	-6.4%	$495,800	0.4%
General Government	$90,080	$95,727	-$5,647	-5.9%	$94,982	-5.2%
Total Government Operations	$587,750	$627,587	-$39,837	-6.3%	$590,782	-0.5%
Property Tax Reimbursements	$431,652	$284,324	$147,328	51.8%	$304,477	41.8%
Capital Outlay	$0	$0	$0	---	$0	---
Debt Service	$733,919	$736,566	-$2,647	-0.4%	$683,831	7.3%
Total Other Expenditures	$1,165,571	$1,020,889	$144,681	14.2%	$988,307	17.9%
Total Program Expenditures	**$8,669,054**	**$8,913,588**	**-$244,534**	**-2.7%**	**$8,024,450**	**8.0%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$995,930	-100.0%
Other Transfers Out	$563,007	$563,388	-$381	-0.1%	$196,995	185.8%
Total Transfers Out	$563,007	$563,388	-$381	-0.1%	$1,192,925	-52.8%
TOTAL GRF USES	**$9,232,060**	**$9,476,975**	**-$244,915**	**-2.6%**	**$9,217,375**	**0.2%**

* 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 October 7, 2014)

	Month of September 2014				Year to Date Through September 2014			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid	**$1,844,093**	**$1,692,449**	**$151,643**	**9.0%**	**$4,965,222**	**$5,142,996**	**-$177,774**	**-3.5%**
GRF	$1,340,557	$1,397,844	-$57,287	-4.1%	$4,005,514	$4,339,828	-$334,314	-7.7%
Non-GRF	$503,536	$294,606	$208,930	70.9%	$959,709	$803,169	$156,540	19.5%
Developmental Disabilities	**$202,042**	**$213,094**	**-$11,051**	**-5.2%**	**$577,005**	**$616,898**	**-$39,892**	**-6.5%**
GRF	$37,559	$38,233	-$675	-1.8%	$114,738	$118,262	-$3,523	-3.0%
Non-GRF	$164,484	$174,860	-$10,377	-5.9%	$462,267	$498,636	-$36,369	-7.3%
Job and Family Services	**$18,018**	**$12,302**	**$5,716**	**46.5%**	**$44,816**	**$42,673**	**$2,143**	**5.0%**
GRF	$7,020	$5,230	$1,790	34.2%	$20,300	$28,103	-$7,803	-27.8%
Non-GRF	$10,998	$7,072	$3,926	55.5%	$24,516	$14,570	$9,946	68.3%
Aging	**$472**	**$609**	**-$137**	**-22.5%**	**$1,528**	**$1,662**	**-$134**	**-8.1%**
GRF	$283	$260	$23	8.7%	$914	$781	$133	17.0%
Non-GRF	$189	$349	-$160	-45.8%	$614	$966	-$267	-27.7%
Health	**$1,787**	**$3,110**	**-$1,323**	**-42.5%**	**$5,628**	**$6,806**	**-$1,178**	**-17.3%**
GRF	$411	$287	$124	43.3%	$894	$841	$53	6.3%
Non-GRF	$1,376	$2,823	-$1,447	-51.3%	$4,734	$5,965	-$1,231	-20.6%
Mental Health and Addiction	**$695**	**$698**	**-$3**	**-0.4%**	**$1,235**	**$1,586**	**-$351**	**-22.1%**
GRF	$631	$473	$158	33.5%	$658	$868	-$210	-24.2%
Non-GRF	$64	$225	-$162	-71.7%	$578	$718	-$140	-19.5%
Total GRF	**$1,386,461**	**$1,442,327**	**-$55,866**	**-3.9%**	**$4,143,018**	**$4,488,683**	**-$345,665**	**-7.7%**
Total Non-GRF	**$680,647**	**$479,936**	**$200,712**	**41.8%**	**$1,452,417**	**$1,324,024**	**$128,393**	**9.7%**
Total All Funds	**$2,067,107**	**$1,922,263**	**$144,846**	**7.5%**	**$5,595,435**	**$5,812,707**	**-$217,272**	**-3.7%**

*Estimates of the Office of Budget and Management as of September 2013.
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 October 7, 2014)

	September				Year to Date Through September			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	$904,653	$886,091	$18,562	2.1%	$2,475,617	$2,586,739	-$111,122	-4.3%
Nursing Facilities	$117,086	$91,008	$26,079	28.7%	$379,805	$347,976	$31,829	9.1%
DDD Services	$192,977	$209,440	-$16,462	-7.9%	$559,779	$598,816	-$39,037	-6.5%
Hospitals	$77,800	$112,339	-$34,539	-30.7%	$228,147	$315,510	-$87,363	-27.7%
Behavioral Health	$70,814	$84,023	-$13,209	-15.7%	$195,184	$247,809	-$52,625	-21.2%
Administration	$66,712	$61,014	$5,697	9.3%	$195,269	$201,755	-$6,486	-3.2%
Aging Waivers	$16,631	$24,396	-$7,764	-31.8%	$79,755	$93,562	-$13,807	-14.8%
Prescription Drugs	$37,453	$44,398	-$6,945	-15.6%	$105,352	$123,248	-$17,897	-14.5%
Medicare Buy-In	$36,939	$38,941	-$2,002	-5.1%	$107,316	$116,378	-$9,062	-7.8%
Physicians	$23,690	$32,258	-$8,568	-26.6%	$182,199	$207,656	-$25,457	-12.3%
Medicare Part D	$24,093	$24,569	-$476	-1.9%	$72,185	$73,386	-$1,200	-1.6%
Home Care Waivers	$14,788	$13,029	$1,759	13.5%	$44,814	$42,232	$2,582	6.1%
ACA Expansion	$400,511	$169,736	$230,775	136.0%	$715,929	$506,277	$209,652	41.4%
All Other	$82,960	$131,021	-$48,062	-36.7%	$254,085	$351,363	-$97,278	-27.7%
Total All Funds	**$2,067,107**	**$1,922,263**	**$144,845**	**7.5%**	**$5,595,435**	**$5,812,707**	**-$217,272**	**-3.7%**

* Estimates of the Office of Budget and Management as of September 2013
Detail may not sum to total due to rounding.

EXPENDITURES

– Russ Keller, Economist, 614-644-1751

– Gregory Craig, Economist, 614-728-3218

Overview

Tables 3 and 4 show GRF uses for the month of September and for FY 2015 through September, respectively. In September, as directed by H.B. 483 of the 130th General Assembly, the Director of Budget and Management made two transfers out of the GRF – $300 million to the Medicaid Reserve Fund (Fund 5Y80)[5] and $229 million to the Small Business Deduction Augmentation Fund (Fund 5PN0). These two transfers were originally slated for the month of August, so they resulted in a positive variance of $521.3 million in GRF transfers out for the month of September. GRF program expenditures were $3.12 billion in September, $20.6 million above the estimate released by the Office of Budget and Management (OBM) in August 2014. GRF uses as a whole (including both transfers out and program expenditures) totaled $3.65 billion in September, $541.8 million above the estimate.

GRF uses were $541.8 million above estimate in September, due primarily to later than expected transfers out of $529 million related to the FY 2014 year-end surplus.

For the first quarter of FY 2015, GRF uses were $9.23 billion, $244.9 million below estimate. First quarter transfers out of $563.0 million were largely on target with estimate, but program expenditures of $8.67 billion were $244.5 million below estimate. GRF Medicaid expenditures were $345.7 million below their year-to-date estimate. Year-to-date expenditures from the Justice and Public Protection program category were $34.2 million below estimate. These negative year-to-date variances were partially offset by a largely timing related positive year-to-date variance of $147.3 million in the Property Tax Reimbursements program category.

The positive year-to-date variance in Property Tax Reimbursements was due entirely to the $166.4 million positive variance that occurred in the month of September. Funds provided under this program category are used to reimburse school districts and other local governments for losses incurred as a result of the 10% and 2.5% "rollback" reductions in real property taxes and as a result of the "homestead exemption" reduction in real property taxes. The reimbursement payments are made twice per year, one based on the February property tax settlement and one based on the August property tax settlement. The payments based on the August 2014 property tax settlement will be made in the first six months of

[5] As of October 7, 2014, the cash balance in Fund 5Y80 was $331.1 million.

For the first quarter of FY 2015, GRF uses were $244.9 million below estimate.

FY 2015. Funds are disbursed when county auditors request the payments. Approximately 62 of 88 counties had received their semiannual reimbursements by the end of September, more than OBM had originally anticipated.

GRF expenditures for Justice and Public Protection were $137.5 million in September, $34.2 million (19.9%) below estimate. This monthly variance accounted for almost the entire amount of the negative year-to-date variance ($34.2 million, 6.4%) for the category. Year-to-date expenditures from the Department of Rehabilitation and Correction (DRC) were $28.0 million below estimate. The Department of Youth Services and Judiciary/Supreme Court of Ohio contributed another $3.2 million and $2.0 million, respectively, to the program category's negative year-to-date variance. Expenditures from DRC's GRF appropriation items 505321, Institution Medical Services, and 501321, Institutional Operations, were $18.0 million and $10.4 million, respectively, below their year-to-date estimates. These negative variances were slightly offset by smaller positive year-to-date variances in some other DRC appropriation items.

The remainder of this report will briefly discuss the variances in Medicaid and the FY 2015 disbursement plan for Medicaid.

For the first quarter of FY 2015, GRF Medicaid spending was $345.7 million below estimate while all-funds spending was $217.3 million below estimate.

Medicaid Variances

For the first quarter of FY 2015, GRF Medicaid expenditures totaled $4.14 billion, which was $345.7 million (7.7%) below estimate. While the GRF is the primary funding source for Medicaid, various non-GRF funds also help support Medicaid. Non-GRF Medicaid expenditures totaled $1.45 billion in the first quarter, $128.4 million (9.7%) above estimate. Across all funds, Medicaid expenditures totaled $5.60 billion, $217.3 million (3.7%) below their year-to-date estimate. Medicaid is a joint federal-state program. The federal and state shares of Medicaid expenditures are about 64% and 36%, respectively. Both GRF and non-GRF Medicaid expenditures contain federal and state moneys.

The Ohio Department of Medicaid (ODM) is primarily responsible for administering Medicaid, with the assistance of five other state agencies – Developmental Disabilities, Job and Family Services, Aging, Health, and Mental Health and Addiction Services. Table 5 details the GRF and non-GRF portions of Medicaid expenditures from each of the six agencies that take part in administering Ohio Medicaid. As seen from the table, ODM, the largest agency within this program category, also had the largest year-to-date variance. During the first quarter of FY 2015, ODM's GRF expenditures totaled $4.01 billion, which was $334.3 million

(7.7%) below estimate, while its non-GRF expenditures totaled $959.7 million, which was $156.5 million (19.5%) above estimate. Across all funds, ODM's expenditures were $177.8 million (3.5%) 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 $3.5 million (3.0%) and $36.4 million (7.3%), 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, Managed Care had the largest negative year-to-date variance of $111.1 million (4.3%), followed by All Other ($97.3 million, 27.7%), Hospitals ($87.4 million, 27.7%), Behavioral Health ($52.6 million, 21.2%), DDD Services ($39.0 million, 6.5%), and Physicians ($25.5 million, 12.3%). These negative variances were partially offset by a positive year-to-date variance of $209.7 million (41.4%) in the ACA Expansion payment category. This category contains expenditures for individuals who became eligible for coverage on January 1, 2014 through the federal Patient Protection and Affordable Care Act (ACA). The negative variance in Managed Care was due in part to lower than expected enrollment in the MyCare Ohio program. Lower than anticipated Aged, Blind, and Disabled caseload accounted for the negative variances in the Hospitals and Physicians categories. The positive variance in the ACA Expansion category was attributable to higher than expected caseload and per person costs.

Summary of FY 2015 Medicaid Disbursement Plan

According to OBM's September 2014 estimate, GRF Medicaid expenditures will total $14.78 billion in FY 2015, an increase of 8.9% ($1.21 billion) over FY 2014 expenditures of $13.57 billion. Across all funds, estimated Medicaid expenditures will total $24.12 billion in FY 2015, an increase of 15.7% ($3.27 billion) over FY 2014 expenditures of $20.86 billion. About half of the increase is due to the ACA. The ACA Expansion payment category is expected to total $2.08 billion in FY 2015, an increase of $1.58 billion over FY 2014 expenditures of $494.7 million. In FY 2015, this category's expenditures will be 100% reimbursed by the federal government. Other factors contributing to the increase include

For FY 2015, GRF Medicaid spending is expected to total $14.78 billion while all-funds Medicaid spending is expected to total $24.12 billion.

projected increases in Medicaid caseloads due to ACA woodwork[6] and start-up costs[7] associated with the rollout of the MyCare Ohio program.

OBM also anticipated the six agencies to encumber $60.9 million in GRF funding and $370.3 million in non-GRF funding at the end of FY 2015 to make payments in FY 2016 for obligations incurred in FY 2015. The table below summarizes FY 2015 Medicaid disbursement estimates, including estimated year-end encumbrances by agency.

Summary of FY 2015 Medicaid Disbursement Estimates*
($ in thousands)

Agency	Disbursements	Year-end Encumbrances	Total
Medicaid			
GRF	$14,251,127	$48,853	$14,299,980
Non-GRF	$7,263,837	$352,659	$7,616,497
Developmental Disabilities			
GRF	$442,823	$1,688	$444,511
Non-GRF	$1,951,106	$4,100	$1,955,206
Job & Family Services			
GRF	$75,659	$10,341	$86,000
Non-GRF	$97,689	$12,991	$110,680
Health			
GRF	$3,308	$12	$3,320
Non-GRF	$22,493	$554	$23,047
Aging			
GRF	$3,385	$0	$3,385
Non-GRF	$4,973	$0	$4,973
Mental Health & Addiction			
GRF	$1,737	$0	$1,737
Non-GRF	$5,935	$0	$5,935
GRF Total	**$14,778,038**	**$60,894**	**$14,838,932**
Non-GRF Total	**$9,346,032**	**$370,305**	**$9,716,337**
All-Funds Total	**$24,124,070**	**$431,199**	**$24,555,269**

*Estimates of the Office of Budget and Management as of September 2014.

[6] Individuals eligible but not enrolled in Medicaid prior to the ACA who enroll after the ACA as a result of coverage requirements and program publicity.

[7] Start-up costs associated with paying the "run-out" of fee-for-service claims at the same time prospective capitated payments are made to the managed care plans that will provide the integrated care under MyCare Ohio.

OBM's September 2014 estimate also took account of lower than expected caseloads. It anticipated lapses or transfers totaling $860.9 million from the GRF and $179.5 million from various non-GRF funds. Including prior year encumbrances, GRF Medicaid appropriations total $15.70 billion in FY 2015. All-funds appropriations total $25.60 billion[8] in the same year. As indicated earlier, both GRF and non-GRF appropriations for Medicaid include state and federal shares. Only the state share of lapses represents real savings to the state.

The vast majority of Medicaid appropriations are distributed to providers serving Medicaid-eligible individuals, with a small portion being used for administration. Of the $14.78 billion in estimated GRF Medicaid expenditures in FY 2015, $14.51 billion (98.2%) will be for services and $266.3 million (1.8%) for administration. Of the $24.12 billion in estimated all-funds expenditures in FY 2015, $23.08 billion (95.7%) will be for services and $1.05 billion (4.3%) for administration.

[8] This amount does not include the $331.1 million cash in Fund 5Y80.

ISSUE UPDATES

Medicaid Awards University of Cincinnati $965,000 in Mental Health and Primary Care Training Funding

– Jacquelyn Schroeder, Budget Analyst, 614-466-3279

In August 2014, the Ohio Department of Medicaid (ODM) awarded $965,000 to the University of Cincinnati's (UC) College of Nursing to develop a training program for health care professionals providing mental health and primary care to Ohio's Medicaid recipients. To develop the program, the College of Nursing will partner with the UC College of Medicine, UC's University Center for Excellence in Developmental Disabilities, and Cincinnati Children's Hospital Medical Center. These entities will use a multidisciplinary approach to recruit, retain, and better prepare health care professionals who provide care to underserved populations, specifically children, adolescents, and seniors. Current and future health care professionals will participate in the program, including 50 fourth-year medical students, 26 family medicine residents, and 25 advanced practice nurses who are enrolled in UC's new psychiatric mental health post-master's certificate program. The program will also include a child and adolescent psychiatric resident.

The funds are provided as part of the Medicaid Technical Assistance and Policy Program's (MEDTAPP) Healthcare Access Initiative. MEDTAPP is a university Medicaid research partnership combining nonfederal and federal funds to support the efficient and effective administration of the Medicaid Program. ODM has provided approximately $38 million in federal Medicaid reimbursement and selected ten universities to participate in the MEDTAPP Healthcare Access Initiative since the program began in FY 2012. UC will provide $1,063,000 in additional funding to develop the new training program.

Expenditures on Home and Community-Based Medicaid Services Reaches 50% of Total Medicaid Long-Term Care Budget

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

In September 2014, ODM announced that expenditures on home and community-based services (HCBS) for the elderly and disabled now represent 50% of the total Medicaid long-term care budget. This objective was reached one year before the federal deadline required for states participating in the Balancing Incentive Program (BIP). BIP provides grants, in the form of an enhanced federal medical assistance percentage rate, to states to help increase access to HCBS. Ohio is expected to receive a total of $169 million before the program ends September 30, 2015.

Participating states are required to meet programmatic and structural reform requirements, including the establishment of a no-wrong door/single entry point system whereby an individual will have access to information about all services available regardless of which agency the individual made initial contact with. Ohio will accomplish this requirement through the statewide Aging and Disability Resource Network. This network allows individuals to access long-term services and supports in many different ways by coordinating with the many organizations that provide them. The network will eventually be supported by a statewide toll free number and a comprehensive website that offer information and referral assistance. BIP also requires conflict-free case management services to ensure that an individual's plan of care will be created based on medical necessity and independent from funding availability. Ohio has incorporated conflict-free tenets into managed care plan contracts and has also developed firewalls for case management. These firewalls separate staff that perform assessments and develop plans of care from staff that provide actual services. Lastly, BIP requires the establishment of core standardized assessment instruments so that eligibility determinations are made in a uniform manner across Ohio. Ohio has created a modernized and simplified eligibility determination system known as "Ohio Benefits."

Heroin Addiction and Trafficking Grants Totaling $1.2 Million Awarded by Attorney General

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

Over the course of August and September of this year, the Ohio Attorney General announced the award of three grants totaling $1.2 million to tackle the issue of heroin addiction and trafficking in Lucas and Allen counties. These grants, which require no match, are part of the Attorney General's "Safe Neighborhoods Initiative."[9]

The largest grant, $650,000, was announced on August 12 and awarded to Lucas County for development of a new pilot program to help heroin-addicted individuals get assistance. The money funds two new victim advocate/clinician positions to assist survivors immediately after a heroin overdose. Also, the money helps create recovery housing for those who have completed a treatment program and require support to remain drug free. Finally, the money is used to contract with a University of Toledo Ph.D. student for a study of the program's effectiveness and its potential use as a model for recovery in other communities.

Two other grants of $272,192 and $247,410 were announced on September 11 and awarded to the Lima Police Department and the Allen County Sheriff's Office, respectively. These funds pay for two additional investigators in each law

[9] This is a $7 million initiative announced by the Attorney General in May 2013. Its purpose is to reduce violent crime by targeting Ohio's most violent offenders.

enforcement agency for a period of two years. The purpose is to assist in stopping the flow of drugs, particularly heroin, and related cash along I-75 through Allen County.

The grants are being funded by the 2012 National Mortgage Settlement, a multistate lawsuit that alleged foreclosure abuses, fraud, and deceptive mortgage practices by five of the largest mortgage servicers. The Attorney General received $93 million from this settlement, a portion of which is used to fund the Safe Neighborhoods Initiative grants. This settlement money is credited to the Attorney General Court Order Fund, which is a custodial fund of the state and not part of the state treasury.

BOR Awards $16 Million in Capital Funds for Workforce Development Programs at Two-year Colleges

– Edward M. Millane, Senior Budget Analyst, 614-995-9991

In August 2014, the Board of Regents (BOR) announced they had awarded $16 million in capital funds to six two-year colleges for projects intended to improve student training to meet regional workforce needs. H.B. 497 of the 130th General Assembly appropriated $16 million through Fund 7034 capital appropriation item C23550, Small Campus Targeted Workforce Development Expansion, to support the grant program. Under the program, BOR had to establish a competitive process to award funds, with no award allocation to exceed $5.0 million. Each college had to pledge to support a project with a local share amount based on the number of full-time equivalent (FTE) enrollments at each institution, with the smallest institutions (FTE count between 0 and 1,749) providing a minimum match of 20% and the largest institutions (FTE count 7,000 and above) providing a minimum match of 50%.

According to BOR, proposals totaling $45.4 million were received from 18 eligible schools. The six selected schools and a brief description of the projects and the amount awarded to each project is listed below.

- **Clark State Community College – $0.5 million**. Funds will support the renovation of the existing Learning Center to provide additional space for IT training and education.
- **Lakeland Community College – $5.0 million**. Funds will support expansion and renovation of the Health Technologies building.
- **Lorain County Community College – $2.5 million**. Funds will support building of additional classroom and laboratory space to create an Advanced Digital Manufacturing area.
- **North Central State College – $1.5 million**. Funds will support renovating the Kehoe Center and expanding the school's ability to offer mobile manufacturing training.

- **Rhodes State College – $5.0 million**. Funds will support building a new Center for Health Science Education and Innovation.
- **Stark State College – $1.5 million**. Funds will support the construction of the Gateway Center to improve student services and integration of additional work-based learning opportunities.

ODE Releases Letter Grade Report Cards for 2013-2014 School Year

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

On September 12, 2014, the Ohio Department of Education (ODE) released report cards for public schools and districts for the 2013-2014 school year. These report cards represent the second year that A-F letter grades have been used to gauge academic performance on a variety of measures. This new system was mandated by H.B. 555 of the 129th General Assembly. H.B. 555 phased in the new system with nine graded measures in the first year (2012-2013) and ten in the second year (2013-2014). ODE has been unable, as of yet, to provide grades for the tenth measure (K-3 literacy) however, due to district-level reporting inconsistencies.[10] The new report card system will continue to expand with additional graded components over the next two years. Overall letter grades will be issued on the report cards for the 2015-2016 school year.[11] Table A summarizes how the 610 school districts receiving report cards fared this past school year on the nine performance measures that have received letter grades thus far. As the "No Rating" column indicates, some districts did not have enough data to qualify for a letter grade for some performance measures.

Table A. School District Report Card Results, 2013-2014 School Year

Component	A	B	C	D	F	No Rating
Performance Indicators	31%	19%	21%	19%	10%	0%
Performance Index	6%	71%	19%	4%	0%	0%
Four-Year Cohort Graduation Rate	54%	23%	14%	5%	4%	0%
Five-Year Cohort Graduation Rate	44%	35%	13%	5%	2%	0%
Annual Measurable Objectives	5%	25%	21%	19%	31%	0%
Value-Added Progress Dimension - Overall	47%	8%	17%	6%	23%	0%
Value-Added Progress Dimension - Gifted	18%	15%	34%	14%	11%	8%
Value-Added Progress Dimension - Disabled	27%	16%	32%	9%	13%	3%
Value-Added Progress Dimension - Lowest 20%	19%	15%	42%	12%	10%	3%

[10] For now, preliminary data is reported. Also new this year are ungraded measures assessing college- and career-readiness, including the number of students earning remediation-free scores on college admissions exams and the number of career-technical education students earning necessary industry credentials.

[11] Under H.B. 555, overall grades were to be issued on the 2014-2015 report cards. H.B. 487 of the 130th General Assembly delayed the issuance of overall grades by one year.

The percentage of schools earning As or Bs on the performance indicator measure decreased from 71% in 2012-2013 to 50% in 2013-2014. This drop is due to a change instituted by H.B. 555 that increased the percentage of students needing to score proficient or higher to meet the indicator from 75% to 80% for elementary achievement assessments and the 10th grade Ohio Graduation Test (OGT) and from 80% to 85% for the 11th grade OGT.

As measured by the total percentage of As and Bs, school districts fared the best on graduation rates and the performance index. Based on the percentage of Ds and Fs, school districts struggled most with meeting annual measurable objectives for closing achievement gaps between certain federally designated groups and all students and the value-added dimensions designed to measure progress for certain groups. Aurora City School District in Portage County was the only district to receive an A in all nine performance measures. No district received all Fs.

ODE also issued report cards for the 91 career-technical education providers in Ohio, referred to as career-technical planning districts (CTPDs). CTPDs received letter grades based on four- and five-year cohort graduation rates, the percentage of students who are employed in an apprenticeship, have joined the military, or are enrolled in postsecondary education or advanced training in the six months after leaving school (post-program placement rate), and technical skill attainment scores (a new measure this year). Table B below summarizes how the 91 CTPDs fared this past school year on these four performance measures. The report cards for these entities also include several other ungraded performance measures. As with traditional public schools and districts, additional graded measures will be added to the CTPD report cards over time.

Table B. Career-Technical Planning District Report Card Results, 2013-2014 School Year

Component	A	B	C	D	F	No Rating
Four-Year Cohort Graduation Rate	64%	24%	9%	3%	0%	0%
Five-Year Cohort Graduation Rate	66%	27%	5%	1%	0%	0%
Post-Program Placement Rate	36%	34%	15%	11%	3%	0%
Technical Skill Attainment	37%	30%	12%	9%	12%	0%

As Table B shows, CTPDs fared the best on graduation rates, with around 90% receiving either an A or B for each measure. Close to 70% of CTPDs received either an A or a B on post-program placement rates, an increase of 12 percentage points from the 2012-2013 school year, as well as on technical skill attainment.

Ohio National Guard Deploys in Support of Northwest Ohio Water Emergency

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

The Adjutant General's Department deployed over 250 members of the Ohio National Guard and 50-plus pieces of equipment for a seven-day period in early August to support a water emergency in northwest Ohio. The equipment included vehicles, HIPPOs, water buffalos, and water purification units.[12] This action was in response to the Governor's emergency declaration for Lucas County and the greater Toledo area on August 2, 2014, after a dangerous toxin (microcystin) was discovered in water samples taken from the Toledo public water system.

The Guard's support consisted of bringing potable water and food to more than 400,000 residents of Lucas County and the greater Toledo area. This included the provision of 57,000 gallons of purified drinking water, the establishment of three water purification and distribution points, four satellite distribution points, and 60 bulk water distribution systems. The Guard also delivered 2,300 Meals Ready to Eat (MREs).

Once the Adjutant General finalizes all of the costs, they are expected to total around $120,000. Most of the costs are for the salaries of Guard personnel. The remainder includes vehicle maintenance, gas, and travel expenses. These costs will be paid from GRF line item 745409, Central Administration. This line item carries a $2.7 million FY 2015 appropriation to pay for personnel providing executive oversight, management, and administration of the Ohio National Guard program. As the emergency activating the Guard was a state response and not a federally declared emergency, there are no federal dollars available to help the Adjutant General absorb the costs.

Division of Unclaimed Funds Paid $74.5 Million to Found Owners in FY 2014

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

In FY 2014, the Department of Commerce's Division of Unclaimed Funds paid a total of $74.5 million to the found owners of unclaimed funds, an increase of $5.3 million (7.6%) compared to the $69.2 million paid in FY 2013. About 47,700 claims were paid, with an average claim of $1,562. Additionally, the Division collected $280.1 million in unclaimed funds, an increase of $21.0 million (8.1%) compared to the $259.1 million collected in FY 2013. Since the creation of the Division, over $1.0 billion has been paid to found owners of unclaimed funds.

[12] A HIPPO is a self-contained, integrated multipower system. A water buffalo is a water trailer for transporting potable water.

Funds come to the state from sources such as dormant bank accounts, rent or utility deposits, uncashed checks, undelivered stock, or uncashed insurance policies. The Division holds these funds in the state's Unclaimed Funds Trust Fund (Fund 5430) until the rightful owner can be found. The Division has partnerships with newspapers, radio and television stations, and online media to encourage Ohioans to claim their funds and has an "Online Treasure Hunt" that allows residents to search for their unclaimed funds.

Other than paying unclaimed funds to owners, the cash in Fund 5430 is used to support economic development throughout Ohio. In addition, the Development Services Agency and the Ohio Housing Finance Agency use these resources to fund low- and moderate-income housing programs. Unclaimed funds are also used to guarantee performance bonds for the Minority Business Bonding Fund.

TRACKING THE ECONOMY

– Russ Keller, Economist, 614-644-1751

Overview

Employment gains continued in the national economy, but private sector employment declined in Ohio recently. The U.S. labor force participation rate continues to contract, which partially explains why income and wage increases are only modestly ahead of inflation. The low interest rate environment contributed to growth in manufacturing industries and the uptick in vehicle sales, but low rates are not enough to spur the housing sector ahead of last year's pace. The Federal Reserve's accommodative monetary policy has not led to higher inflation. Energy prices declined in August, and inflation for all items excluding food and energy remained flat. The food inflation that does exist is largely influenced by other external factors, such as drought conditions and the recent pig flu epidemic.

The National Economy

Employment and Unemployment

In September, nonfarm payroll employment nationwide at business establishments increased 248,000, according to initial estimates from the Bureau of Labor Statistics (BLS). Additionally, BLS upwardly revised its estimate of employment gains in July and August. For those two months combined, employment gains were 69,000 more than previously reported. Over the past six months, the U.S. economy added nearly 1.5 million jobs, the strongest six-month period since November 2005 through April 2006.

Full-time employment increased 671,000 and part-time employment decreased 384,000 in September.

According to the household survey, full-time employment increased 671,000 and part-time employment decreased 384,000 in September. The civilian labor force decreased 97,000, which partly explains why the nation's unemployment rate declined in September to 5.9%, down from 6.1% in August. September marked the first time the unemployment rate has been below 6.0% since July 2008.

Unemployment rates were higher for young people and for those with less education. The unemployment rates for adult (20 years and over) men and women were 5.3% and 5.5%, respectively. On the other hand, teenage (16 to 19 years) unemployment was 20.0% of the labor force. Rates also differ for varying levels of educational attainment. The unemployment rate for those with less than a high school diploma was

The labor force participation rate decreased to 62.7%, the lowest in 36 years.

8.4% in September, and 5.3% for those high school graduates that have no college experience. The unemployment rate for those with a bachelor's degree and higher was 2.9%.

The number of individuals working part time (up to 34 hours per week) for economic reasons decreased by 174,000 to 7.1 million in September. These individuals are sometimes referred to as involuntary part-time workers because their hours were cut back or because they were unable to find full-time work. The labor force participation rate decreased to 62.7%, the lowest in 36 years.

Production

Industrial production declined 0.1% in August, the first monthly decline in seven months. Although monthly growth decelerated over the summer months, total industrial production was 4.1% above year ago levels according to the Federal Reserve's index. The Federal Reserve's monthly index of industrial production covers manufacturing, mining, and electric and gas utilities. The industrial sector, together with construction, accounts for the bulk of the variation in national output over the course of the business cycle. The industrial detail provided by these measures helps illuminate structural developments in the economy.

Manufacturing activity expanded further in September based on a survey of manufacturing sector purchasing managers released by the Institute for Supply Management (ISM). Production increases were widespread, but reports of gains in new orders were less widespread than in August, and order backlogs fell.

Real gross domestic product (GDP) in the second quarter of 2014 was revised upward to a 4.6% annual rate of growth from 4.2%, in the third estimate released by the U.S. Bureau of Economic Analysis (BEA). Real GDP must grow at an annual rate of around 3% in each of the two remaining quarters for 2014 to equal the annual GDP growth of the previous year, 2.2%.

Consumer Spending and Personal Incomes

Real consumer spending increased by 0.5% in August, seasonally adjusted, after declining the previous month. Real consumer spending in August was 2.6% higher than it was 12 months ago. Personal income increased 0.3% in August and was 4.3% above year ago levels.

In September, sales of light vehicles were at a 16.3 million unit seasonally adjusted annualized rate, down from a big sales month of July when cars sold at a 17.4 million unit rate. Light vehicle sales are up in 2014 and sales of light trucks are driving much of the growth. Auto sales through the first nine months of the year have increased slightly (0.6%) from the comparable period in 2013, but light truck sales increased 9.6% in that same timespan. In September, more than half (54.0%) of light vehicle sales were light trucks, the highest such percentage since September 2011.

Inflation

Consumer Prices

The consumer price index (CPI) fell in August, the first monthly decline since April 2013. The CPI decreased 0.2% in August, seasonally adjusted, and was 1.7% higher than year ago levels. Annual inflation would have been higher if declines in some energy prices did not offset food price inflation. Food only represents 14% of the CPI, but food (as well as energy) prices can be among the most volatile components of CPI.

The September food price forecast from the U.S. Department of Agriculture (USDA) expects an increase between 2.5% and 3.5% in 2014, which is above the historical average. The food inflation is driven by meat prices, which are forecasted to increase by 6.0% to 7.0% during the year. The USDA says, "meat prices will likely continue to experience the effects of the Texas/Oklahoma drought and Porcine Epidemic Diarrhea virus in the immediate future, as farmers' decisions on calving and herd sizes based on current conditions are felt down the line due to the 6- to 18-month production process . . . . The U.S. cattle inventory continued to decrease in recent months and is currently at its lowest level since 1951. Pasture conditions have started to improve in the West; however, there are not yet any signs of herd expansion." Elsewhere, the "ongoing drought conditions in California have raised concern over rising produce prices. However, the California drought has not yet had a discernible impact on national prices for fresh fruits or vegetables."

Producer Prices

The producer price index (PPI) for final demand was unchanged in the month of August, seasonally adjusted, according to the U.S. BLS. The PPI for total final demand increased and was 1.8% higher in August than a year earlier. Final demand includes goods, services, and construction which are sold for personal consumption, capital investment, government purchases, and export.

Housing starts fell 14.4% in August after advancing 22.9% in July.

Housing

Housing starts fell 14.4% in August after advancing 22.9% in July. The monthly swings were largely due to changes in larger multifamily (i.e., structures with five or more units) housing starts, which declined

Total nonfarm payroll employment in Ohio increased by 200 in August.

31.5% in August after increasing 51.0% in July. According to the U.S. Census Bureau, builders started homes at a 956,000 seasonally adjusted annual rate. Housing starts were 8.0% above year ago levels, and the annual increase was led by larger multifamily starts (19.2%), though single-family starts have grown (4.2%) over the previous year, too.

Existing home sales in August were down after four consecutive months of sales gains. For the month, homes sold at a 5.05 million seasonally adjusted annual rate, a decline of 1.8% from July. Sales of existing homes are 5.3% below levels from one year ago. National sales figures were dragged down by declines of 5.1% and 4.2%, respectively, in the West and South. August sales in the Midwest were up 2.5%.

According to the National Association of Realtors (NAR) Chief Economist, Lawrence Yun, existing home sales activity "fell last month as investors stepped away." Investors often buy properties with all-cash sales. NAR statistics show those types of sales were 23% of transactions in August, dropping for the second consecutive month (from 29% in July) to the lowest overall share since December 2009, at 22%.

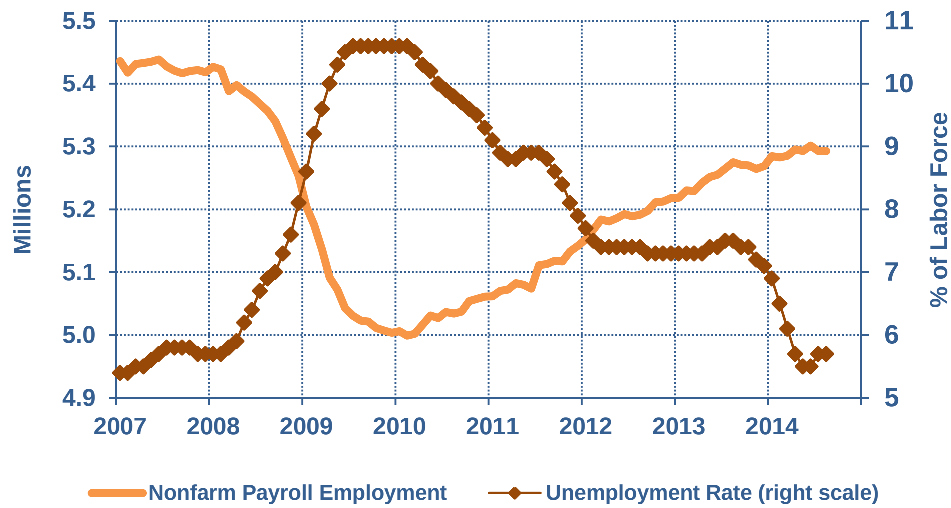
New home sales in August surged 18.0% from the previous month to a seasonally adjusted annual sales rate of 504,000 units. The August sales rate was the highest since May 2008. National sales figures were up in the West (50.0%), Northeast (29.2%), and South (7.8%) census regions, but flat in the Midwest. More than half of the nation's new home sales are in the South region.

The Ohio Economy

Employment and Unemployment

Total nonfarm payroll employment in Ohio increased by 200 in August, while the state's rate of unemployed job-seekers remained at 5.7%, as shown in Chart 5 below. Over the last two months, private industry employment decreased 17,700 whereas government employment increased 9,300.

Chart 5: Ohio Employment and Unemployment



From July to August, the number of unemployed Ohioans increased by 1,000 to 324,000. Compared with a year earlier, unemployment statewide was 109,000 lower, while total employment was higher by a smaller number, 56,000, and the labor force contracted by 53,000.

Home Sales

The number of homes sold in Ohio (on a seasonally adjusted basis), reported by the Ohio Association of Realtors (OAR), declined in August after four consecutive monthly gains. Ohio home sales remain 4.4% below the year-to-date sales level from one year ago, but 13.4% ahead of the 2012 sales pace.

Ohio Personal Income

Ohio personal income increased 1.6% in the second quarter of 2014 from 1.2% in the first quarter, according to estimates released by the BEA. Growth in the state closely tracked that of the nation. The acceleration in personal income growth in Ohio was mostly attributable to property income (dividends, interest, and rent), which grew 2.0% in the second quarter after growing 0.2% in the first quarter. Growth in net earnings accelerated little in the second quarter, growing 1.5% after increasing 1.3% the previous quarter. Durable goods manufacturing, followed by health care and social assistance, contributed the most to nonfarm earnings growth in Ohio. Growth in transfer receipts slowed to 1.3% from 1.8% in the previous quarter.

Ohio personal income increased 1.6% in the second quarter of 2014.