Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION — SEPTEMBER 2014

STATUS OF THE GRF

HIGHLIGHTS

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

Recent state budget trends continued into the first two months of FY 2015. GRF tax revenue was somewhat higher than estimate (i.e., by $26 million), while GRF program expenditures were well below estimate (by $265 million). Most of the good news on both the revenue and the spending side arrived in July; GRF tax revenue was somewhat below estimate for the month of August.

Ohio's seasonally adjusted unemployment rate rose to 5.7% in July, up from 5.5% in both May and June. In spite of the increase, Ohio's unemployment rate was below the July national rate of 6.2%. Ohio payroll employment increased by about 24,400 between July 2013 and July of this year, despite a decrease over the most recent month.

Through August 2014, GRF sources totaled $4.93 billion:

- Revenue from the personal income tax was $8.8 million above estimate;
- Sales and use tax receipts were $23.7 million below estimate.

Through August 2014, GRF uses totaled $5.58 billion:

- Program expenditures were $265.1 million below estimate, due primarily to Medicaid ($289.8 million), partially offset by a largely timing-related positive variance in primary and secondary education spending ($74.2 million).

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

STATE SOURCES	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$106,236	$113,100	-$6,864	-6.1%
Nonauto Sales and Use	$658,760	$691,600	-$32,840	-4.7%
Total Sales and Use Taxes	**$764,996**	**$804,700**	**-$39,704**	**-4.9%**
Personal Income	$573,665	$593,100	-$19,435	-3.3%
Corporate Franchise	-$2,179	$0	-$2,179	---
Financial Institution	-$222	$0	-$222	---
Public Utility	$28,399	$27,800	$599	2.2%
Kilowatt-Hour Excise	$29,156	$30,600	-$1,444	-4.7%
Natural Gas Consumption (MCF)	$11,888	$10,400	$1,488	14.3%
Commercial Activity Tax	$177,579	$153,500	$24,079	15.7%
Petroleum Activity Tax	$0	$0	$0	---
Foreign Insurance	$90	$700	-$610	-87.1%
Domestic Insurance	$703	$0	$703	---
Business and Property	$11	$0	$11	---
Cigarette	$68,917	$69,700	-$783	-1.1%
Alcoholic Beverage	$2,495	$4,800	-$2,305	-48.0%
Liquor Gallonage	$3,792	$3,500	$292	8.3%
Estate	$0	$0	$0	---
Total Tax Revenue	**$1,659,291**	**$1,698,800**	**-$39,509**	**-2.3%**
NONTAX REVENUE				
Earnings on Investments	$3	$0	$3	---
Licenses and Fees	$4,270	$7,752	-$3,482	-44.9%
Other Revenue	$1,097	$1,851	-$754	-40.7%
Total Nontax Revenue	**$5,370**	**$9,603**	**-$4,233**	**-44.1%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$0	$200	-$200	-100.0%
Total Transfers In	**$0**	**$200**	**-$200**	**-100.0%**
TOTAL STATE SOURCES	**$1,664,661**	**$1,708,603**	**-$43,942**	**-2.6%**
Federal Grants	$786,455	$859,875	-$73,420	-8.5%
TOTAL GRF SOURCES	**$2,451,116**	**$2,568,478**	**-$117,362**	**-4.6%**

* 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 August 31, 2014
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on September 5, 2014)

STATE SOURCES	Actual	Estimate*	Variance	Percent	FY 2014	Percent Change
TAX REVENUE						
Auto Sales	$228,971	$221,100	$7,871	3.6%	$213,333	7.3%
Nonauto Sales and Use	$1,423,114	$1,454,700	-$31,586	-2.2%	$1,272,984	11.8%
Total Sales and Use Taxes	**$1,652,085**	**$1,675,800**	**-$23,715**	**-1.4%**	**$1,486,317**	**11.2%**
Personal Income	$1,177,097	$1,168,300	$8,797	0.8%	$1,288,363	-8.6%
Corporate Franchise	$1,436	$0	$1,436	---	$2,145	-33.0%
Financial Institution	-$110	$0	-$110	---	$0	---
Public Utility	$28,399	$27,800	$599	2.2%	$25,859	9.8%
Kilowatt-Hour Excise	$52,262	$55,200	-$2,938	-5.3%	$53,549	-2.4%
Natural Gas Consumption (MCF)	$13,212	$11,500	$1,712	14.9%	$13,541	-2.4%
Commercial Activity Tax	$204,789	$178,000	$26,789	15.1%	$190,343	7.6%
Petroleum Activity Tax	$0	$0	$0	---	$0	---
Foreign Insurance	$129	$700	-$571	-81.6%	$1,401	-90.8%
Domestic Insurance	$7,457	$0	$7,457	---	$54	13784.3%
Business and Property	$11	$0	$11	---	$29	-63.0%
Cigarette	$91,433	$84,700	$6,733	7.9%	$89,845	1.8%
Alcoholic Beverage	$8,415	$10,200	-$1,785	-17.5%	$9,858	-14.6%
Liquor Gallonage	$7,239	$6,900	$339	4.9%	$7,023	3.1%
Estate	$1,153	$0	$1,153	---	$802	43.8%
Total Tax Revenue	**$3,245,009**	**$3,219,100**	**$25,909**	**0.8%**	**$3,169,128**	**2.4%**
NONTAX REVENUE						
Earnings on Investments	$5	$0	$5	---	$7	-28.5%
Licenses and Fees	$4,910	$8,392	-$3,482	-41.5%	$7,920	-38.0%
Other Revenue	$1,882	$2,639	-$756	-28.7%	$1,280	47.1%
Total Nontax Revenue	**$6,797**	**$11,030**	**-$4,233**	**-38.4%**	**$9,207**	**-26.2%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$5,003	$5,400	-$397	-7.4%	$7,719	-35.2%
Total Transfers In	**$5,003**	**$5,400**	**-$397**	**-7.4%**	**$7,719**	**-35.2%**
TOTAL STATE SOURCES	**$3,256,809**	**$3,235,530**	**$21,278**	**0.7%**	**$3,186,054**	**2.2%**
Federal Grants	$1,669,478	$1,889,540	-$220,062	-11.6%	$1,503,712	11.0%
TOTAL GRF SOURCES	**$4,926,287**	**$5,125,071**	**-$198,785**	**-3.9%**	**$4,689,766**	**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

GRF tax receipts in FY 2015 were $25.9 million above estimate.

FY 2015 GRF sources were $198.8 million below estimate.

GRF sources[1] of $2.45 billion for August 2014 were $117.4 million below the estimate released by the Office of Budget and Management (OBM) in August 2014, due to shortfalls of $39.5 million in tax revenues and $73.4 million in federal grants. The performance of GRF tax sources in August reduced this category's positive year-to-date variance from $65.4 million at the end of July to $25.9 million. The negative year-to-date variance in federal grants increased from $146.6 million at the end July to $220.1 million at the end of August. Overall, GRF sources were $198.8 million below estimate for the fiscal year through August. Tables 1 and 2 show GRF sources for the month of August and for FY 2015 through August, respectively.

Except for the commercial activity tax (CAT) and the natural gas consumption tax (MCF) which were $24.1 million and $1.5 million, respectively, above projections, most GRF tax sources were below estimate for the month. The sales and use tax was below expectations by $39.7 million and the personal income tax by $19.4 million. Also, the alcoholic beverage tax and the kilowatt-hour tax were short of estimates by $2.3 million and $1.4 million, respectively. Net refunds of $2.2 million to taxpayers were made under the corporate franchise tax (CFT), but this tax source had posted a positive variance of $3.6 million in July; thus, the CFT's positive variance through August totaled $1.4 million. Though GRF net receipts are not anticipated from the CFT in FY 2015, prior year activity may result in monthly additional payments or refunds for this GRF source. Similarly, GRF receipts are not expected for the estate tax which recorded no revenue this month, but revenue of $1.2 million was collected from this tax source in July.[2] In addition, revenue of $6.5 million from the domestic insurance tax which should have been collected in June 2014 was booked in July, contributing to its positive variance of $7.5 million for the fiscal year

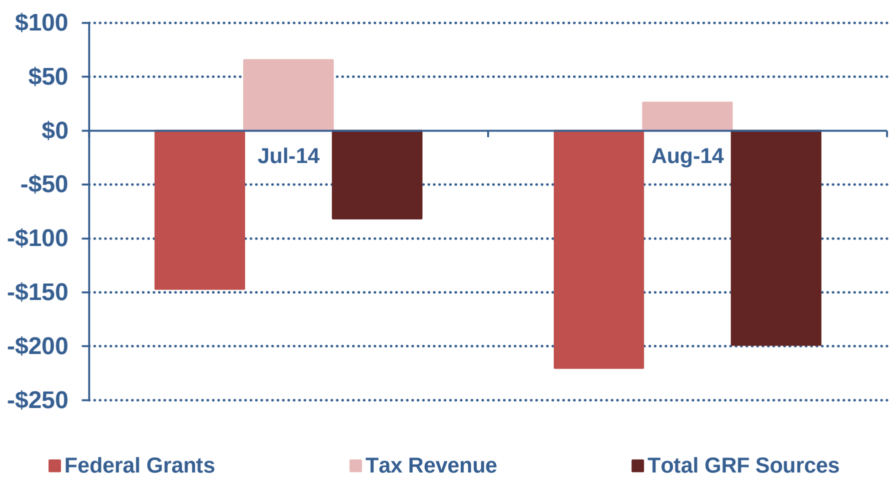
[1] GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants, which are federal reimbursements for Medicaid and certain other human service programs.

[2] The CFT and the business and property tax were eliminated by H.B. 510 of the 129th General Assembly, while the estate tax was repealed for dates of death beginning in calendar year 2013 by H.B. 153 of the 129th General Assembly.

through August. Regarding nontax GRF sources, nontax revenue, primarily from license fees, was $4.2 million below estimate through August, and the negative variance for transfers in was small.

Chart 1 below shows FY 2015 cumulative variances against estimate for federal grants, tax sources, and total GRF sources. In the first two months of the fiscal year, as stated earlier, total GRF sources were below estimate, primarily due to a large negative variance in federal grants. Regarding tax revenues, as shown in Table 2, the CAT had a large positive variance; the domestic insurance tax, the personal income tax, the cigarette tax, the CFT, the MCF tax, and the estate tax had modest positive variances. On the other hand, the nonauto sales and use tax and the kilowatt-hour tax were below anticipated receipts by sizable amounts.

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



FY 2015 GRF sources were $236.5 million above GRF sources in FY 2014.

FY 2015 total GRF sources increased by $236.5 million, compared to the corresponding two-month period in FY 2014 (see Table 2). Federal grants grew $165.8 million, while state-sources increased $70.8 million. Tax receipts increased $75.9 million, but revenue from nontax revenues and transfers in fell $2.4 million and $2.7 million, respectively. Increases in revenue from the sales and use tax, the CAT, the domestic insurance tax, the cigarette tax, and the public utility tax were partially offset by decreased receipts from the personal income tax, the kilowatt-hour tax, the foreign insurance tax, and the alcoholic beverage tax. Revenue from the sales and use tax increased $165.8 million while that from the personal income tax fell $111.3 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). The increase in sales and use tax receipts over FY 2014 reflects, in part, the

FY 2015 GRF income tax receipts were $8.8 million above estimate.

increase in the tax rate from 5.5% to 5.75% in September 2013, also enacted in the budget act. The impact of those rate changes on year-over-year revenue growth will become smaller in the next few months, and, ultimately comparisons of FY 2015 revenue against FY 2014 receipts will primarily reflect changes in the taxable bases for these two GRF sources.

Personal Income Tax

August GRF receipts from the personal income tax of $573.7 million were $19.4 million (3.3%) below estimate, and $91.0 million (13.7%) below revenue in the same month in FY 2014. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the Local Government Fund (LGF). Gross collections are the sum of employer withholding, quarterly estimated payments,[3] trust payments, payments associated with annual returns, and miscellaneous payments. For the month, quarterly estimated payments were above estimates by $8.8 million. However, monthly employer withholdings, taxes due with annual returns, and miscellaneous receipts were, respectively, $11.0 million, $7.2 million, and $1.2 million, below estimates. Also, refunds were $8.4 million above estimate in August.

Through August, FY 2015 GRF receipts from the personal income tax were $1.18 billion. That amount was $8.8 million (0.8%) above estimate. The table below summarizes year-to-date FY 2015 income tax revenue variances from estimates and annual changes by component. As could be seen from the table, refunds which were $6.0 million higher than expected reduced a positive variance of $15.6 million in gross collections. Withholding and quarterly estimated payments were above estimates; however, those positive variances were partially offset by shortfalls in payments due with annual returns and miscellaneous payments. FY 2015 GRF receipts from the income tax in the first two months were $111.3 million (8.6%) below receipts in the corresponding period in FY 2014. Withholding and payments with annual returns were $58.4 million and $10.0 million below their respective levels in FY 2014; and FY 2015 refunds were $42.1 million higher than in the corresponding period in FY 2014. These income tax components were directly affected by income tax changes in H.B. 59 and H.B. 483 (both of the 130th General

[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.

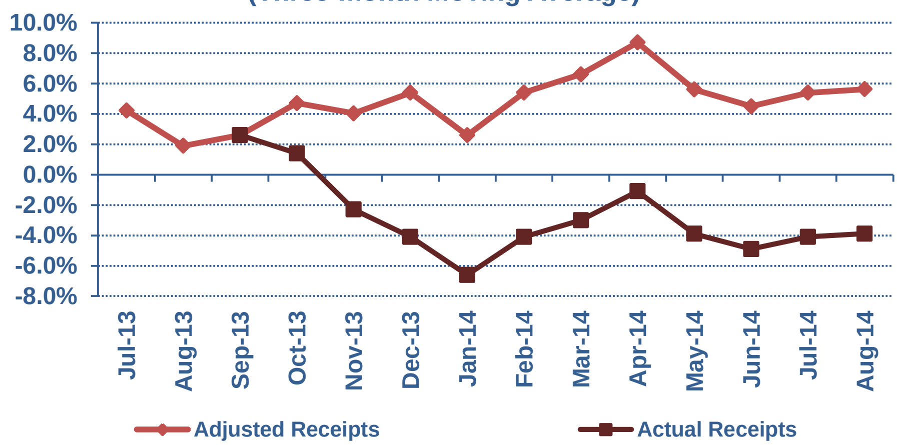
Assembly.[4] Chart 2 illustrates the trend in employer withholding receipts since July 2013. The chart also includes withholding receipts adjusted for a 9% reduction in the withholding rate from October 2013 to August 2014.

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	$15.4	1.2%	-$58.4	-4.4%
Quarterly Estimated Payments	$8.5	33.9%	$0.2	0.6%
Trust Payments	$1.1	123.7%	$1.3	193.8%
Annual Return Payments	-$7.4	-29.8%	-$10.0	-36.7%
Miscellaneous Payments	-$2.1	-13.9%	-$1.7	-11.5%
Gross Collections	$15.6	1.2%	-$68.6	-4.9%
Less Refunds	$6.0	6.5%	$42.1	75.5%
Less LGF Distribution	$0.8	1.4%	$0.6	1.0%
Income Tax Revenue	$8.8	0.8%	-$111.3	-8.6%

FY 2015 withholding tax receipts were $15.4 million above estimate.

Though actual withholding receipts fell since the withholding rate change that went into effect for payroll that ended on or after September 1, 2013, payroll growth has generally trended upward, settling in a range between 4% and 6% (annualized) in recent months.

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



FY 2015 GRF income tax receipts were $111.3 million below FY 2014 revenue.

[4] The small business deduction permits individuals who have income from a trade or business to deduct one-half of the net business income apportioned to Ohio beginning in TY 2013, up to $250,000. The state earned income tax credit (EITC) equals 5% of the amount allowed for the federal EITC. Am. Sub. H.B. 483, enacted in June 2014 by the 130th General Assembly, modified these provisions of H.B. 59 for FY 2015.

FY 2015 sales and use tax receipts were $23.7 million below estimate.

Sales and Use Tax

August GRF receipts from the sales and use tax of $765.0 million were $39.7 million (4.9%) below estimate, and $51.1 million (7.2%) above receipts in August 2013. Both the auto sales and use tax and the nonauto sales and use tax were short of anticipated receipts for the month.

Through August, FY 2015 GRF sales and use tax receipts totaled $1.65 billion, $23.7 million (1.4%) below estimate, with a positive variance for the auto sales and use tax partially offsetting a large shortage in the nonauto sales and use tax. FY 2015 year-to-date receipts were $165.8 million (11.2%) 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. For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[5] generally arise from the sale of motor vehicles while nonauto sales and use tax collections arise from other sales. However, auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax instead of the auto tax.

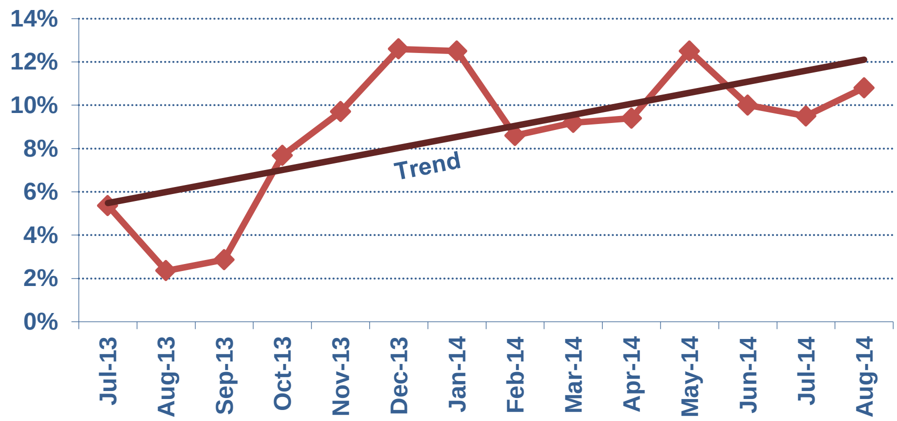
FY 2015 nonauto sales and use tax receipts were $31.6 million below estimate.

Nonauto Sales and Use Tax

August GRF receipts of $658.8 million were $32.8 million (4.7%) below estimate, but were $56.4 million (9.4%) above receipts in August 2013. For the fiscal year through August, nonauto sales and use tax receipts of $1.42 billion were $31.6 million (2.2%) below projected revenues, but $150.1 million (11.8%) above revenue in the first two months of FY 2014. FY 2015 receipts include $78.5 million in tax payments by Medicaid health insuring corporations; those receipts rose $13.6 million (21.0%) compared to the year-ago period. Chart 3 shows increases in nonauto sales and use tax monthly receipts against prior year receipts in the same month.

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

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



Auto Sales and Use Tax

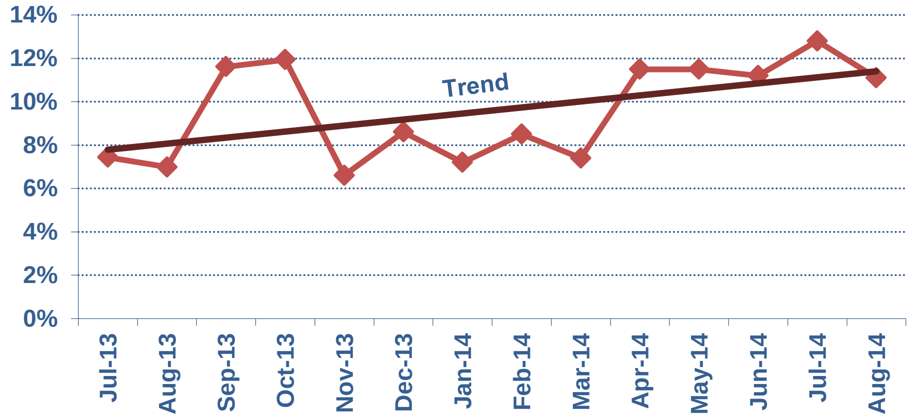
August GRF receipts from the auto sales and use tax of $106.2 million were $6.9 million (6.1%) below estimate, and also $5.3 million (4.7%) below receipts in August 2013. This performance reduced the fiscal year's positive variance for this tax to $7.9 million (3.6%) from $14.7 million in July 2014. In the first two months of FY 2015, GRF revenue from the auto sales and use tax was $229.0 million, $15.6 million (7.3%) above receipts in the corresponding period in FY 2014. Chart 4 below compares FY 2015 monthly auto sales and use tax receipts with year-ago receipts in the same period. Nationwide sales of light vehicles surged to 17.5 million units on a seasonally adjusted annualized basis on the strength of an improving economy, generous incentive spending by auto dealers, and increased demand for trucks and sport-utility vehicles. Unadjusted sales in August increased about 5.5% on a year-ago basis, according to *WardsAuto* (which compiles automobile statistics).

FY 2015 auto sales and use tax receipts were $7.9 million above estimate.

August had the highest monthly sales rate since January 2006, which was a month that was boosted by abnormally high fleet sales. Light vehicle sales have been steadily trending higher and the year-to-date average pace of 16.4 million units on a seasonally adjusted annualized basis is the best since 2006 when it was 16.55 million.

FY 2015 GRF CAT receipts were $26.8 million above estimate.

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



Commercial Activity Tax

The first quarterly CAT payment of the fiscal year produced GRF receipts of $177.6 million in August. That amount was $24.1 million (15.7%) above estimate and $7.3 million (4.3%) above receipts in August 2013. For the fiscal year through August, GRF revenues of $204.8 million were above estimate by $26.8 million (15.1%). Compared to the corresponding period last year, GRF revenue from the CAT grew $14.4 million (7.6%). 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 gross receipts.

Cigarette and Other Tobacco Products Tax

FY 2015 cigarette tax receipts were $6.7 million above estimate.

GRF receipts from the cigarette and other tobacco products tax of $68.9 million in August 2014 were $0.8 million (1.1%) below estimate, and $1.0 million (1.4%) below receipts in the same month in FY 2014. Through August, FY 2015 receipts of $91.4 million were $6.7 million (7.9%) above estimated revenue for the year. Receipts from cigarette sales were $80.1 million, and sales of other tobacco products (OTP) provided $11.3 million. Compared to FY 2014, receipts increased $1.6 million (1.8%). An increase of $2.6 million in receipts from OTP was partially offset by a decrease of $1.0 million in revenue from the sales of cigarettes. Generally, cigarette tax receipts experience a sustained downward trend on a year-ago basis, however, recent legislative changes may be affecting recent trends. The budget act increased the rate levied on "little cigars" to 37% of the wholesale price beginning October 1, 2013, up from the general tax rate of 17% of the wholesale price for the remaining OTP. This change was estimated to raise additional revenue from OTP.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of August 2014
($ in thousands)
(Actual based on OAKS reports run September 8, 2014)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary and Secondary Education	$687,775	$592,143	$95,632	16.2%
Higher Education	$179,917	$184,100	-$4,183	-2.3%
Other Education	$5,382	$7,012	-$1,630	-23.2%
Total Education	$873,073	$783,254	$89,819	11.5%
Medicaid	$1,269,440	$1,434,296	-$164,856	-11.5%
Health and Human Services	$106,395	$125,372	-$18,977	-15.1%
Total Welfare and Human Services	$1,375,835	$1,559,669	-$183,833	-11.8%
Justice and Public Protection	$173,524	$138,986	$34,538	24.9%
General Government	$37,381	$42,266	-$4,885	-11.6%
Total Government Operations	$210,904	$181,251	$29,653	16.4%
Property Tax Reimbursements	$17,640	$38,044	-$20,405	-53.6%
Capital Outlay	$0	$0	$0	---
Debt Service	$108,754	$108,793	-$39	0.0%
Total Other Expenditures	$126,394	$146,838	-$20,444	-13.9%
Total Program Expenditures	**$2,586,207**	**$2,671,011**	**-$84,805**	**-3.2%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$7,360	$529,000	-$521,640	-98.6%
Total Transfers Out	$7,360	$529,000	-$521,640	-98.6%
TOTAL GRF USES	**$2,593,567**	**$3,200,011**	**-$606,445**	**-19.0%**

* 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 August 31, 2014
($ in thousands)
(Actual based on OAKS reports run September 8, 2014)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2014**	**Percent Change**
Primary and Secondary Education	$1,394,478	$1,320,282	$74,197	5.6%	$1,130,481	23.4%
Higher Education	$348,014	$348,452	-$438	-0.1%	$313,507	11.0%
Other Education	$12,015	$13,481	-$1,466	-10.9%	$10,006	20.1%
Total Education	$1,754,507	$1,682,215	$72,293	4.3%	$1,453,994	20.7%
Medicaid	$2,756,557	$3,046,356	-$289,799	-9.5%	$2,675,512	3.0%
Health and Human Services	$255,371	$274,322	-$18,950	-6.9%	$258,282	-1.1%
Total Welfare and Human Services	$3,011,929	$3,320,678	-$308,749	-9.3%	$2,933,794	2.7%
Justice and Public Protection	$360,204	$360,236	-$32	0.0%	$375,792	-4.1%
General Government	$63,495	$70,870	-$7,375	-10.4%	$68,996	-8.0%
Total Government Operations	$423,698	$431,105	-$7,407	-1.7%	$444,788	-4.7%
Property Tax Reimbursements	$19,339	$38,444	-$19,105	-49.7%	$58,338	-66.8%
Capital Outlay	$0	$0	$0	---	$0	---
Debt Service	$340,221	$342,375	-$2,154	-0.6%	$313,143	8.6%
Total Other Expenditures	$359,561	$380,820	-$21,259	-5.6%	$371,480	-3.2%
Total Program Expenditures	**$5,549,695**	**$5,814,818**	**-$265,123**	**-4.6%**	**$5,204,056**	**6.6%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$995,930	-100.0%
Other Transfers Out	$34,007	$555,641	-$521,634	-93.9%	$196,995	-82.7%
Total Transfers Out	$34,007	$555,641	-$521,634	-93.9%	$1,192,925	-97.1%
TOTAL GRF USES	**$5,583,702**	**$6,370,459**	**-$786,757**	**-12.4%**	**$6,396,981**	**-12.7%**

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

EXPENDITURES

– Russ Keller, Economist, 614-644-1751

Tables 3 and 4 show GRF uses for the month of August and for FY 2015 through August, respectively. GRF uses primarily consist of program expenditures but also include transfers out. For the first two months of FY 2015, GRF uses as a whole were $786.8 million below the estimate released by the Office of Budget and Management in August 2014. This negative variance was mainly due to the fact that the two transfers related to the FY 2014 GRF year-end surplus – $300 million to the Medicaid Reserve Fund and $229 million to the Small Business Deduction Augmentation Fund – did not occur in August as originally anticipated. As reported in the July issue of *Budget Footnotes*, the GRF finished FY 2014 with an unobligated cash balance of $1.28 billion. H.B. 483 of the 130th General Assembly directed the use of this balance, including the two transfers just mentioned. The remainder of the FY 2014 year-end surplus will remain in the GRF to offset the costs of accelerating an income tax reduction planned for tax year (TY) 2015 to TY 2014 and to help fund the FY 2015 state budget.

For the first two months of FY 2015, GRF Medicaid spending was $289.8 million below estimate.

Overall, GRF program expenditures were $265.1 million below their estimates for the months of July and August. All program categories except for Primary and Secondary Education had negative year-to-date variances.[6] GRF Medicaid expenditures were $164.9 million (11.5%) below their August estimate. Through August, GRF Medicaid expenditures totaled $2.76 billion, $289.8 million (9.5%) 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 $771.8 million for the first two months of FY 2015. Across all funds, year-to-date Medicaid expenditures totaled $3.53 billion.[7]

[6] For reporting purposes, GRF program expenditures were grouped into ten categories. Capital Outlays had no expenditures for the first two months of FY 2015.

[7] Traditionally, *Budget Footnotes* includes Table 5, which compares all-funds Medicaid expenditures with estimates by payment category, and Table 6, which compares both GRF and non-GRF Medicaid expenditures with estimates by department. LSC did not receive the monthly Medicaid use estimates for FY 2015 in time for including these two tables and related analysis in this issue of *Budget Footnotes*.

Medicaid is mainly administered by the Ohio Department of Medicaid. However, five other state agencies also expend funds through various Medicaid line items within their budgets: the departments of Aging, Developmental Disabilities, Health, Job and Family Services, and Mental Health and Addiction Services. These agencies' GRF expenditures from their non-Medicaid line items are included in the Health and Human Services program category.

Compared to Medicaid, the negative year-to-date variances in the other seven program categories were smaller. The largest two among those were Property Tax Reimbursements and Health and Human Services with negative year-to-date variances of $19.1 million and $19.0 million, respectively.

GRF expenditures for Primary and Secondary Education were $687.8 million for the month of August, $95.6 million above estimate. Through August, Primary and Secondary Education expenditures totaled $1.39 billion, $74.2 million (5.6%) above estimate. 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 $84.9 million above their year-to-date estimate. Item 200550 is the main funding source for school foundation payments, which are made twice per month. It is not unusual to see variances in this item, especially in the early months of a fiscal year as various data needed for determining individual school payments for FY 2015 have not yet been finalized. Expenditures from the majority of the remaining appropriation items within ODE's budget were below their year-to-date estimates, which partially offset the positive variance in item 200550.

ISSUE UPDATES

Medicaid Coverage of Inmate Hospitalizations Reduces State's Expenditures for Institution Medical Services

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

In FY 2014, the Department of Rehabilitation and Correction (DRC) saw a reduction of $10.3 million in institution medical service expenditures as the result of implementing Medicaid coverage for inmate hospitalizations. The bulk of this reduction represents a net savings to the state since the federal government reimburses the state for the majority of Medicaid expenditures. On July 1, 2013, Ohio Medicaid began to cover inmates who were either under the age of 21, over 65, or pregnant and who were hospitalized for more than 24 hours. Beginning March 17, 2014, similar coverage was extended to almost all remaining inmates through the Medicaid expansion authorized by the federal Patient Protection and Affordable Care Act (ACA). For inmates who became eligible for Medicaid through the ACA, the federal government pays 100% of the costs from calendar years 2014 to 2016. For all other Medicaid eligible inmates, the state and federal shares are about 36% and 64%, respectively, in FY 2014. The required state share was paid from the GRF through the Department of Medicaid budget.

The vast majority of inmate hospitalizations occur at the OSU Medical Center, which has a secure floor to handle inmates. Prior to these Medicaid coverage changes, DRC was billed directly for all inmate hospital stays, and was charged a rate consistent with the reimbursement rate established under the Ohio Medicaid Program. The OSU Medical Center now bills Medicaid directly, rather than DRC, for all such hospital stays. DRC and the Department of Medicaid are currently working on a process to enroll eligible inmates into a Medicaid managed care plan upon release in order to promote continuity of care.

OMHAS Awarded $4.0 Million Five-Year Supported Employment Grant

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

On August 11, 2014, the Ohio Department of Mental Health and Addiction Services (OMHAS) was awarded a five-year Transforming Lives Through Supported Employment Grant from the federal Substance Abuse and Mental Health Services Administration. OMHAS will receive $800,000 per year over five years totaling $4.0 million. The grant will be used to modernize, enhance, and increase availability and quality of Individual Placement and Support (IPS) services for individuals with a severe and persistent mental illness or a co-occurring mental health and substance abuse disorder. OMHAS will partner with Firelands Counseling and Recovery Services (Erie and Ottawa counties) and Daybreak, Inc. (Montgomery County) to implement two IPS employment programs within the state, establish a permanent training program, and perform program evaluation to improve service provision. The grant is expected to serve 450 individuals over the five-year grant period.

IPS services focus on helping program participants find full-time or part-time employment in competitive jobs of their choice in their local community and reduce symptoms of mental illness, hospitalizations, and dependency upon public behavioral health systems of care. These services help individuals in treatment search for employment as soon as they express a desire to work, place participants in competitive employment, provide time-unlimited support, and ensure that program participants find satisfaction with their employment choice.

ODJFS, OWT Award $1.46 Million in Industry Workforce Alliance Grants

– Gregory Craig, Budget Analyst, 614-728-3218

On July 22, 2014, the Ohio Department of Job and Family Services (ODJFS) and the Governor's Office of Workforce Transformation (OWT) jointly announced the awarding of $1.46 million in Industry Workforce Alliance Pilot Initiative grants over a two-year period to five regional economic and workforce development organizations across the state. Each grantee will receive a total of up to $243,000.[8] Each award recipient will focus on an industry projected to experience a high level of job growth in that economic and workforce development organization's respective region. The Mahoning Valley Manufacturing Coalition (Northeast) will focus on manufacturing; the Allen County Economic Development Group (Northwest) on manufacturing; the Montgomery County Department of Community and Economic Development (West) on logistics; the Partners for a Competitive Workforce (Southwest) on logistics; and the Insurance Industry Resource Council (Central) on insurance. ODJFS and OWT chose award recipients based on a number of criteria, including a demonstrated commitment to innovative and targeted strategies to improve Ohio's workforce system.

The awards will help fund programs intended to assist unemployed and underemployed Ohioans find work and build careers in growing industries. These programs will focus on aligning state education and training programs with the needs of businesses in targeted local growth industries by combining classroom instruction, on-the-job-training, internships, and co-ops. These programs will also address the needs of key industries by fostering partnerships among local employers, educators, and government entities.

[8] ODJFS and OWT plan to award a sixth grant to an organization in southeastern Ohio.

Awards will be funded in FY 2015 with $729,000 in incentive funds from the U.S. Department of Labor (DOL). Ohio received the DOL funding for exceeding federal Workforce Investment Act (WIA), Adult Basic and Literacy Education (ABLE), and Carl Perkins performance measures; Ohio was one of 15 states to receive such funding. In FY 2016, awards will be funded with $729,000 of performance bonuses from the U.S. Centers for Medicare and Medicaid that Ohio received for implementing measures simplifying Medicaid enrollment procedures and increasing the number of children enrolled onto the Medicaid Program.

State Library of Ohio Receives Funding for Technology Training Program in High Poverty, Rural Libraries

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

On August 25, 2014, the State Library of Ohio received Controlling Board approval for a funding increase of $315,589 to implement the Guiding Ohio Online Program in 30 libraries located in high poverty, rural areas throughout the state. Under the program, an AmeriCorps member will be placed in each participating library to lead digital literacy classes, provide one-on-one computer assistance, and perform outreach and other services. Training efforts will focus on assisting patrons with basic computer and internet skills, social networking, finding and obtaining a job, online finances, using online government services, word processing and presentation software, e-books and digital media, and other topics. The goals of the program are to improve the employability of residents served by each participating library and boost the image of libraries as leading providers of technology training and as important hubs connecting the community to the digital world.

The Guiding Ohio Online Program is funded primarily by an Ohio AmeriCorps grant of $265,589 from the Ohio Commission on Service and Volunteerism, also known as ServeOhio. In addition, the 30 participating libraries will contribute a total of $50,000 in matching funds to help train and support participating AmeriCorps members. Most of the program's funding, $259,059, will be used to pay AmeriCorps member stipends and benefits. The remainder, $56,530, will be used for supplies and materials. The program is slated to run from October 1, 2014, to August 29, 2015.

Chancellor Releases FY 2015 Projections for New SSI Formula for Two-Year Colleges

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

In August, the Chancellor of the Board of Regents (BOR) released a State Share of Instruction (SSI) distribution schedule for FY 2015 that incorporates the new formula for community and technical (two-year) colleges that was enacted in H.B. 484 of the

130th General Assembly. The new formula continues Ohio's trend of moving away from basing distribution of state funds on enrollment to basing it on outcomes. It distributes the SSI appropriation for two-year colleges as follows: 50% based on course completions, 25% based on student success factors, and 25% based on completion milestones. H.B. 59 appropriates $419.1 million in FY 2015 for this formula. H.B. 484 provides up to an additional $3.1 million in FY 2015 to provide supplemental subsidy payments to each two-year college whose SSI allocation in FY 2015 is less than 96% of its FY 2014 allocation. The table below shows BOR's SSI distribution projections, including the supplemental subsidy payments, for two-year colleges in FY 2015.

FY 2015 Projected SSI Distribution Amounts for Two-year Colleges

College	SSI Amount	College	SSI Amount
Belmont Technical	$5,457,507	Marion Technical	$6,646,782
Central Ohio Technical	$11,597,946	North Central	$7,507,562
Cincinnati State	$28,023,190	Northwest State	$10,063,505
Clark State	$11,045,091	Owens State	$33,008,699
Columbus State	$60,671,335	Rio Grande	$5,284,360
Cuyahoga	$62,461,673	Sinclair	$43,235,668
Edison State	$7,966,365	Southern State	$8,080,092
Hocking Technical	$13,497,992	Stark State	$27,786,073
James Rhodes State	$10,372,314	Terra State	$6,154,546
Eastern Gateway	$5,700,427	Washington State	$5,777,218
Lakeland	$18,280,976	Zane State	$8,714,373
Lorain	$24,400,307	**Total**	**$421,734,001**

Historic Preservation Tax Credit Awards Totaled $70.8 Million in FY 2014

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

On June 24, 2014, the Ohio Development Services Agency (DSA) approved $37.7 million in Ohio Historic Preservation Tax Credits (OHPTCs) for the rehabilitation of 35 historic buildings in 11 counties. This brings the total OHPTCs awarded to $70.8 million in FY 2014. A total of $60.0 million is allocated to the program annually; however, additional tax credits may be awarded if projects that were previously approved under the OHPTC have been withdrawn or there is a surplus of tax credits from prior fiscal years. Since March 2008, 217 projects have been approved. Of those, 81 projects have been completed, receiving $164.0 million in tax credits under the program.

The goal of the OHPTC Program is to spur investment within historic areas, restore buildings that will attract new businesses, and generate new jobs. To be eligible for the OHPTC Program, a building must be listed on the National Register of Historic Places or listed as a local landmark by a Certified Local Government. Alternatively, a project is eligible for consideration if it contributes to a designated Certified Local Government historic district or National Park Services Certified Historic District. The program provides a tax credit of up to 25% of "qualified rehabilitation expenditures" incurred as part of a historic rehabilitation project, with a cap of $5.0 million in credits per project. The credit is refundable up to $3.0 million annually. Qualified rehabilitation expenditures include improvements made to the building structure, interior systems, and design and engineering services. The program receives applications bi-annually and is administered by DSA, the Ohio Historic Preservation Office of the Ohio History Connection, and the Ohio Department of Taxation. Applications are evaluated based on a project's economic impact, community benefit, and return on investment to state and local governments.

Ohio Clean Lakes Initiative Announces $154.25 Million in Financial Assistance to Address Harmful Algal Blooms

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

On August 14, 2014, the Ohio Clean Lakes Initiative[9] announced a package of financial assistance totaling $154.25 million to address the effects of harmful algal blooms (HABs) on Ohio's water quality. A priority for the assistance was given to local drinking water and wastewater treatment systems and farming management practices in the Lake Erie watershed. The package consists of five programs. The first and largest is $100 million in zero-interest rate loans provided by the Ohio Environmental Protection Agency (Ohio EPA) to wastewater treatment systems undertaking infrastructure improvements that reduce levels of phosphorous and other pollutants. Eligible recipients include villages, cities, counties, and sewer districts. These loans will be supported by the Water Pollution Control Fund, a fund consisting of federal grants, revenue bonds, and loan repayments held in trust by the Ohio Water Development Authority.

The second program, also provided by the Ohio EPA, consists of $50 million in zero-interest rate loans to publicly and privately owned community water systems that use surface water to undertake HAB infrastructure improvements and to develop back-up water sources. These loans will be supported by the Drinking Water Assistance Fund, a fund consisting of federal grants, revenue bonds, and loan repayments held in trust by the Ohio Water Development Authority.[10]

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[9] The Ohio Clean Lakes initiative is a multi-agency program developed in 2012 to implement recommendations of the Agricultural Nutrients and Water Quality Working Group Report issued by the Ohio Environmental Protection Agency, Department of Natural Resources, and Department of Agriculture.

[10] The two trust funds, the Water Pollution Control Fund and the Drinking Water Assistance Fund, are not part of the state treasury. They are not subject to the General Assembly's appropriation.

The third program is provided by the Board of Regents, which will allocate $2 million from the Research Incentive Third Frontier Fund (Fund 7011) to provide matching funds to universities that obtain external funds to research the life cycle of algal blooms. The fourth program is a new voluntary program offered by the Department of Natural Resources. This program will use $1.25 million from the Healthy Lake Erie Fund (Fund 5PP0) to reimburse farmers in the 27-county Lake Erie watershed for the costs associated with implementing specific nutrient reduction practices. Each county's soil and water conservation district will be allocated between $25,000 and $50,000 to reimburse farmers that sign up for the program. Fund 5PP0 was created by S.B. 150 and consists of unexpended funds originally appropriated for the Conservation Reserve Enhancement Program. The fifth and final program consists of $1 million in grants for the initial cost of approved equipment, supplies, and training for cyanotoxin testing and analysis provided by the Ohio EPA from the Drinking Water Assistance Fund. Public water systems that utilize a surface water source are eligible to apply for grants that cannot exceed $10,000.

Division of Liquor Control Distributed $38.0 Million in Liquor Permit Fee Revenue in FY 2014

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

In FY 2014, the Division of Liquor Control within the Department of Commerce distributed a total of $38.0 million in liquor permit fees from the Undivided Liquor Permit Fund (Fund 7066) for various statutorily required purposes (see table below). Under state law, 45% of the permit revenue is transferred to the State Liquor Regulatory Fund (Fund 5LP0) to cover the Division of Liquor Control's costs for permitting and regulating the liquor industry and adjudicating cases that come before the Liquor Control Commission. Another 35% is distributed to local taxing districts to cover their costs for enforcing the state's liquor laws. The remaining 20% is transferred to the Statewide Treatment and Prevention Fund (Fund 4750) to pay for alcoholism treatment and education efforts overseen by the Department of Mental Health and Addiction Services.

Distribution of Liquor Permit Fees Collected in FY 2014 ($ in millions)

Recipient	Purpose	Amount	% of Total
Division of Liquor Control and Liquor Control Commission (Fund 5LP0)	Regulation of liquor permits	$17.1	45%
Local taxing districts	Local liquor law enforcement	$13.3	35%
Department of Mental Health and Addiction Services (Fund 4750)	Alcohol treatment and education	$7.6	20%
	Total	**$38.0**	**100%**

When the permit fee revenue deposited into Fund 5LP0 exceeds the amount needed to cover the costs of the Division of Liquor Control and the Liquor Control Commission, the Director of Budget and Management may transfer the excess amount to the GRF. The amount transferred to the GRF in FY 2014 was $10.0 million.

Receipts in the Undivided Liquor Permit Fund consist of annual permit fees paid by bars and restaurants, carry-out retail stores, beer distributors, and beer, wine, and spirituous liquor manufacturers located in Ohio. There were over 24,100 permanent permit renewals approved in FY 2014, as well as almost 1,600 new permanent issuances. In addition, the Division approved approximately 6,600 temporary permits in FY 2014 for occasions such as festivals and liquor promotion events.

Supreme Court Commission Approved Final Certification of 23 Specialized Docket Courts in August 2014

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

On August 15, 2014, the Ohio Supreme Court's Commission on Specialized Dockets approved final certification of 23 specialized docket courts (see table below). This brings the total number of specialized docket courts that have received final certification to 85. Specialized docket courts use a therapeutically oriented judicial approach to providing supervision and treatment to certain populations based on the type of offense or traits of the offenders. These courts deal with issues such as drugs and alcohol, mental health, family dependency, and veterans treatment. Currently, 46 of Ohio's 88 counties have one or more specialized docket courts in operation.

Superintendence rules adopted by the Supreme Court in November 2012 require that a court operating as, and using the term, "specialized docket" be certified. The certification process consists of two stages. An initial certificate is issued to a court when it sends in a complete application indicating that the program it operates is in compliance with the specialized docket standards adopted by the Supreme Court. The final certificate is issued after a satisfactory site review by the staff of the Specialized Dockets Section of the Supreme Court. The Ashtabula County Common Pleas Drug Court, the Clermont County Municipal OVI Court, the Columbiana County Municipal Mental Health Court, the Franklin County Family Drug Court, and the Licking County Common Pleas Drug Court were the first five to receive final certification on June 28, 2013.

In addition to the 85 that have received final certification of specialized docket courts, 70 have received initial certification and 4 are having their application and supporting program materials reviewed. Specialized docket courts also need to be recertified every three years or within six months after a change in an assigned judge.

List of Specialized Dockets Receiving Final Certification on August 15, 2014					
County	**Jurisdiction**	**Docket Type**	**County**	**Jurisdiction**	**Docket Type**
Clermont	Municipal	OVI	Morrow	Common Pleas	Drug
Cuyahoga	Municipal	Mental Health	Morrow	Juvenile	Family Dependency
Cuyahoga	Juvenile	Drug	Ottawa	Juvenile	Drug/Mental Health
Franklin	Municipal	Drug	Richland	Municipal	Veterans Treatment
Hamilton	Common Pleas	Veterans Treatment	Richland	Municipal	Domestic Violence
Hamilton	Municipal	Veterans Treatment	Richland	Municipal	Drug
Jackson	Municipal	Drug	Richland	Municipal	Mental Health
Lake	Municipal	Drug	Sandusky	County Court	OVI
Lake	Municipal	Mental Health	Summit	Common Pleas	Domestic Violence
Lucas	Juvenile	Family Dependency	Summit	Juvenile	Family Dependency
Miami	Municipal	Drug	Summit	Municipal	Veterans Treatment
Morrow	Common Pleas	Drug	**Total – 23**		

Tracking the Economy

– Russ Keller, Economist, 614-644-1751

Overview

The national economy rebounded in the second quarter, and more recent measures of industrial activity were strong. Light vehicle sales in August were the highest in more than eight years. However, the latest job gains were modest, and policymakers (e.g., the Federal Reserve) continue to regard the underutilization of labor resources as significant. Real wages (i.e., wages adjusted for inflation) have been about flat, trailing growth of labor productivity.[11] Overall wage increases are being held down by various factors, including "the elevated level of relatively low-paid part-time workers," as noted by the Federal Reserve.[12] Slow wage growth is reflected in modest growth of consumer spending on many items. Outside of automobiles and other durable goods, which are areas that are more sensitive to the Federal Reserve's interest rate policies, recent consumer spending was tepid. Home sales remain below last year's pace, but other factors beyond interest rate policies appear to be contributing to that outcome. Locally, Ohio's economy largely reflects these national trends.

The National Economy

Monetary Policy

The Federal Reserve, the country's central bank, expects to end its current asset purchase program following its October meeting. The Federal Reserve policy, sometimes referred to as "quantitative easing" (QE), is designed to "maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative." The third round of federal stimulus, "QE3," is on pace to end in October according to the Federal Open Market Committee (FOMC). However, the FOMC will only end it if

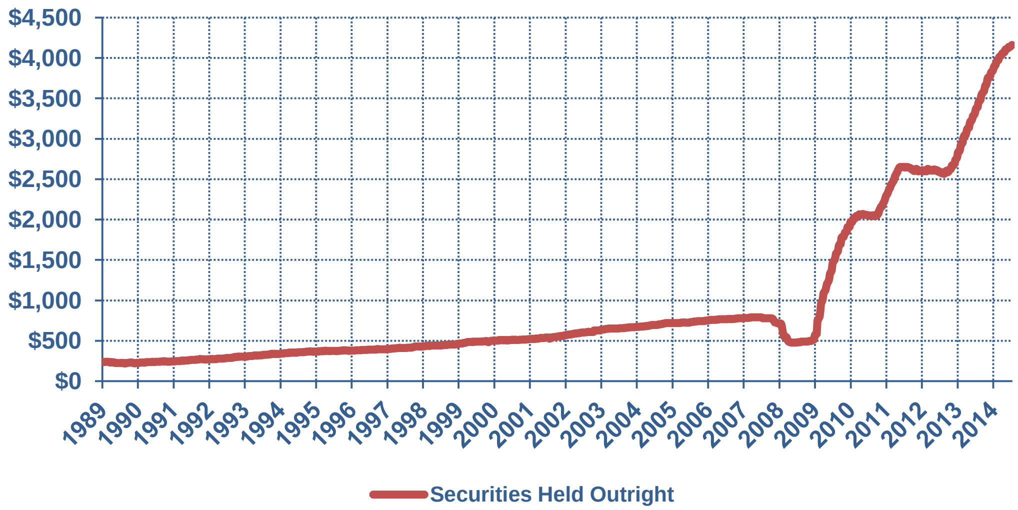
The Federal Reserve, the country's central bank, expects to end its current asset purchase program following its October meeting.

[11] Refer to August 22, 2014 speech by Chair Janet L. Yellen at the Federal Reserve Bank of Kansas City Economic Symposium, Jackson Hole, Wyoming.

[12] Refer to minutes of the Federal Open Market Committee, for the meeting that occurred July 29-30, 2014.

the economy progresses as the Committee expects. The conclusion of QE3 does not mean the Federal Reserve will cease its bond buying. Asset purchases must continue in order for the Federal Reserve to keep its current balance sheet (refer to Chart 5) from shrinking. This entails reinvesting principal payments from its securities into additional asset purchases. The FOMC has not announced any changes to its reinvestment policy, but generally regards asset purchases as "contingent on [the Committee's] outlook for the labor market and inflation as well as its assessment of the likely efficacy and costs of such purchases."[13]

Chart 5: Federal Reserve Bank Credit (in billions)



In August, nonfarm payroll employment nationwide at business establishments increased 142,000.

Employment and Unemployment

In August, nonfarm payroll employment nationwide at business establishments increased 142,000, according to initial estimates from the Bureau of Labor Statistics (BLS).

According to the household survey, full-time employment increased 127,000 and part-time employment decreased 327,000 in August. The civilian labor force decreased 64,000, which partly explains why the nation's unemployment rate declined in August to 6.1%, down from 6.2% in July.

Employment gains in August, seasonally adjusted, were concentrated in service industries. Professional and business services payrolls increased by 47,000 jobs, while employment in health services increased by 43,000.

[13] Refer to minutes of the Federal Open Market Committee, for the meeting that occurred June 17-18, 2014.

The number of individuals working part time (up to 34 hours per week) for economic reasons decreased by 234,000 to 7.3 million in August. 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.

According to BLS data, the total number of unemployed job-seekers decreased by 80,000 in August to 9.6 million, seasonally adjusted. The labor force participation rate declined to 62.8%.

Production

U.S. industrial production increased for the sixth consecutive month in July. According to the Federal Reserve's index, total industrial production was 0.4% higher in July than in June, and 5.0% higher in July than a year earlier. Durable goods manufacturing was especially strong over the latest 12 months. Consumer durable goods production, comprising less than 6% of the Federal Reserve's index, grew 12.0% since the previous July. Growth was driven by automotive products.

August manufacturing activity marked the strongest month in over three years.

Manufacturing activity expanded further in August based on a survey of manufacturing sector purchasing managers released by the Institute for Supply Management (ISM). August marked the 15th consecutive month of expansion as well as the strongest month in over three years. Reports of rising production, new orders, and order backlogs were more frequent than reports of declines. Survey respondents' comments reflected a positive outlook mixed with caution over geopolitical unrest.

Real gross domestic product (real GDP) in the second quarter of 2014 was revised upward to a 4.2% annual rate of growth from 4.0% in the second estimate released by the U.S. Bureau of Economic Analysis. First quarter GDP was previously revised upward to a negative 2.1% annual rate from negative 2.9%. For the first half of 2014, the economy grew at an average annual rate of 1.0%.

Consumer Spending and Personal Incomes

Real consumer spending decreased by 0.2% in July, seasonally adjusted, marking the third such decline in the past seven months. Real consumer spending in July was 2.0% above year-ago levels. Spending on services increased 1.7% over the past twelve months. Real consumer spending for goods grew 2.7% since July 2013. Over the past year, growth of real consumer spending for durable goods (6.3%) far outpaced the growth in outlays for nondurable goods (1.1%).

Personal income grew for the seventh consecutive month in July, by 0.2%, not adjusted for inflation. July's income growth was the lowest monthly growth of the calendar year, but income in July was 4.3% above levels from one year ago. The growth in personal income has outpaced the growth in spending during calendar year 2014. As a result, the personal savings rate increased from 4.9% in January to 5.7% in July, which is the highest savings rate since December 2012.

August light vehicle sales were the highest monthly rate since January 2006.

In August, sales of light vehicles jumped to a 17.4 million unit seasonally adjusted annualized rate, up from a 16.4 million unit rate in July. August sales were the highest monthly rate since January 2006, which was a month that was boosted by abnormally high fleet sales. Consumers were likely a larger share of August sales. According to IHS Automotive, the average age of all light vehicles on the road in the U.S. at the beginning of the year was 11.4 years. The company remarks that "the average age is in line with the trend shift first seen in 2013, in which the combined fleet of cars and light trucks on the road is older than ever."

Inflation

Consumer Prices

Inflation, as measured by the consumer price index (CPI), was modest in July. The CPI increased 0.1% in July, seasonally adjusted, and was 2.0% higher than year-ago levels, which is the fourth consecutive month that annual inflation remained at or above 2.0%. Annual inflation crept upwards over the past winter and spring, but it remained steady in recent months. Over the past 12 months, those items that contributed substantially to the rise in inflation include: shelter, food at home (specifically, meats), electricity, hospital services, and a category including tuition, other school fees, and childcare.

Producer Prices

Producer prices increased for the second consecutive month in July. The producer price index (PPI) for total final demand increased 0.1% in July and was 1.7% higher in July than a year earlier. Producer price inflation can serve as a leading indicator of consumer inflation.

Housing

Sales of existing homes in July were up 2.4% to a 5.15 million unit seasonally adjusted annual rate, the fourth consecutive monthly gain. Existing homes sales were 4.3% below levels of one year ago, but July's sales were 12.2% higher (seasonally adjusted) than those in March, which is partially explained by a trend down in mortgage interest rates that began in April.

New home sales in July decreased 2.4% to a seasonally adjusted rate of 412,000 houses. New home sales remain far below pre-recession levels, and the post-recession sales growth is slower than the pace seen following the conclusion of previous economic downturns. Although new home sales increased from the lows of 2010-2011, the pace of sales activity in 2013 and 2014 is lower than any year prior to the 2007-2009 recession going back to 1982.

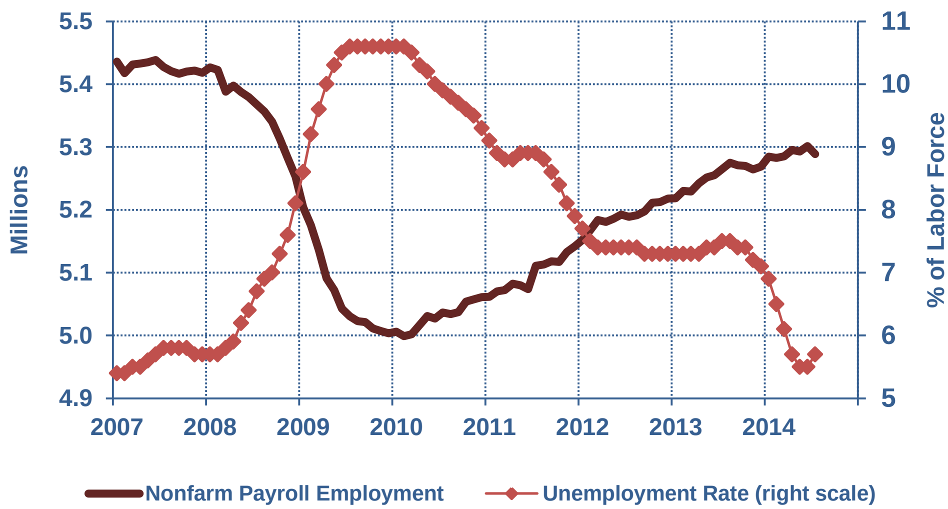
The Ohio Economy

Employment and Unemployment

Total nonfarm payroll employment in Ohio decreased by 12,400 in July, while the state's rate of unemployed job-seekers increased to 5.7% from 5.5% in June, as shown in Chart 6 below. Among the 50 states, the largest over-the-month decrease in August employment occurred in Ohio, followed by Maryland (-9,000) and South Carolina (-4,600).

Total nonfarm payroll employment in Ohio decreased by 12,400 in July.

Chart 6: Ohio Employment and Unemployment



From June to July, the number of unemployed Ohioans increased from 316,000 to 323,000, an increase of 7,000. Compared with a year earlier, unemployment statewide was 110,000 lower, while total employment was higher by a smaller number, 55,000, and the labor force contracted by 55,000.

Nonagricultural wage and salary employment increased 24,400 (0.5%) over the past 12 months. Goods-producing industries were responsible for 14,700 of the increase in jobs, a 1.7% rise. The sector's growth was concentrated in durable goods manufacturing, which added 10,900 jobs, a 2.4% increase over the previous year. The private service-providing sector added 15,200 jobs since July 2013. The industry groups with the growth in this sector were professional and business services (17,100, 2.5%) as well as trade, transportation, and utilities (7,100, 0.7%), and other services (3,600, 1.7%). Employment in all other private service-providing sector groups declined over the past 12 months. Government employment contracted by 5,500 (0.7%) since July 2013.

Consumer demand for auto loans was very strong, but residential mortgage activity was flat.

Home Sales

The number of homes sold in Ohio (on a seasonally adjusted basis), reported by the Ohio Association of Realtors (OAR), grew for the fourth consecutive month in July, but 2014 sales remain 3.8% below the year-to-date sales level from one year ago. Regarding individual housing markets, the number of homes sold in a 17-county area in Northeast Ohio was 1.9% below year-to-date sales one year ago whereas sales in the Cincinnati and Columbus metropolitan areas were down 0.9% and 8.3%, respectively.

Beige Book

According to a report from the Federal Reserve Bank of Cleveland, economic activity expanded at a moderate pace in this part of the country since the previous report released in July.[14] Much like the national economy, regional manufacturing activity increased and vehicle sales grew at a robust pace. Employers reported a mild increase in their payrolls. Consumer spending increased modestly as compared to the same time period in the previous year. There is some consensus among retailers that even though consumers are growing more confident, their discretionary spending is still relatively weak. Consumer demand for auto loans was very strong, but residential mortgage activity was flat, and homeowners made slightly less use of home equity lines of credit. Regarding energy, the Federal Reserve "heard a report about Ohio's Utica shale production remaining below its potential until additional gas transport and processing infrastructure is completed."

[14] This Federal Reserve Bank of Cleveland report is contained in the latest Beige Book, a Federal Reserve System publication that summarizes information gathered on or before August 22, 2014, from outside contacts. The Federal Reserve Bank of Cleveland's district includes all of Ohio and parts of Kentucky, Pennsylvania, and West Virginia.