Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION SEPTEMBER 2015

STATUS OF THE GRF

HIGHLIGHTS

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

GRF tax revenue received during July and August increased by $306 million, or 9.4%, compared to the corresponding months of FY 2015. The increase was driven by strong sales tax receipts and by a shift of 25% of commercial activity tax revenue from non-GRF funds to the GRF. Income tax revenue also grew by a healthy amount, despite a 3.1% reduction in withholding rates that went into effect in August. GRF tax revenue for the two months was $14 million (0.4%) above estimates published by the Office of Budget and Management (OBM) just prior to publication of this issue.

Ohio's unemployment rate fell to 5.0% in July, down from 5.2% in June, and from 5.5% in July 2014. Ohio's unemployment rate was 0.3 percentage point lower than the national rate in July.

Through August 2015, GRF sources totaled $6.26 billion:

- Revenue from the personal income tax was $3.1 million (0.2%) below estimate;
- Sales and use tax receipts were $58.1 million (3.3%) above estimate.

Through August 2015, GRF uses totaled $7.46 billion:

- Estimates to which expenditures could be compared were not available at publishing time.

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STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

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

STATE SOURCES	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$122,161	$117,600	$4,561	3.9%
Nonauto Sales and Use	$726,627	$695,400	$31,227	4.5%
Total Sales and Use Taxes	**$848,788**	**$813,000**	**$35,788**	**4.4%**
Personal Income	$627,891	$611,800	$16,091	2.6%
Corporate Franchise	$279	$0	$279	---
Financial Institution	-$65	-$300	$235	78.2%
Public Utility	$28,218	$25,400	$2,818	11.1%
Kilowatt-Hour Excise	$32,726	$34,800	-$2,074	-6.0%
Natural Gas Consumption (MCF)	$10,871	$10,900	-$29	-0.3%
Commercial Activity Tax	$242,325	$266,300	-$23,975	-9.0%
Petroleum Activity Tax	$0	$0	$0	---
Foreign Insurance	-$243	$900	-$1,143	-127.0%
Domestic Insurance	$0	$300	-$300	-100.0%
Business and Property	$6	$0	$6	---
Cigarette	$81,129	$105,200	-$24,071	-22.9%
Alcoholic Beverage	$5,115	$4,200	$915	21.8%
Liquor Gallonage	$4,012	$3,800	$212	5.6%
Estate	-$13	$0	-$13	---
Total Tax Revenue	**$1,881,036**	**$1,876,300**	**$4,736**	**0.3%**

*Estimates of the Office of Budget and Management as of September 2015.
Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Tax Sources
Actual vs. Estimate
FY 2016 as of August 31, 2015
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on September 2, 2015)

STATE SOURCES	Actual	Estimate*	Variance	Percent	FY 2015	Percent Change
TAX REVENUE						
Auto Sales	$238,991	$235,500	$3,491	1.5%	$228,971	4.4%
Nonauto Sales and Use	$1,554,676	$1,500,100	$54,576	3.6%	$1,423,114	9.2%
Total Sales and Use Taxes	**$1,793,667**	**$1,735,600**	**$58,067**	**3.3%**	**$1,652,085**	**8.6%**
Personal Income	$1,247,550	$1,250,600	-$3,050	-0.2%	$1,177,097	6.0%
Corporate Franchise	$1,320	$0	$1,320	---	$1,436	-8.1%
Financial Institution	$179	-$200	$379	189.3%	-$110	262.9%
Public Utility	$28,258	$25,400	$2,858	11.3%	$28,399	-0.5%
Kilowatt-Hour Excise	$61,742	$62,300	-$558	-0.9%	$52,262	18.1%
Natural Gas Consumption (MCF)	$12,101	$12,100	$1	0.0%	$13,212	-8.4%
Commercial Activity Tax	$277,106	$307,100	-$29,994	-9.8%	$204,789	35.3%
Petroleum Activity Tax	$0	$0	$0	---	$0	---
Foreign Insurance	-$37	$1,000	-$1,037	-103.7%	$129	-128.8%
Domestic Insurance	$5	$2,800	-$2,795	-99.8%	$7,457	-99.9%
Business and Property	$21	$0	$21	---	$11	98.9%
Cigarette	$111,276	$123,400	-$12,124	-9.8%	$91,433	21.7%
Alcoholic Beverage	$10,420	$9,600	$820	8.5%	$8,415	23.8%
Liquor Gallonage	$7,660	$7,400	$260	3.5%	$7,239	5.8%
Estate	$72	$0	$72	---	$1,153	-93.8%
Total Tax Revenue	**$3,551,341**	**$3,537,100**	**$14,241**	**0.4%**	**$3,245,009**	**9.4%**

*Estimates of the Office of Budget and Management as of September 2015.
Detail may not sum to total due to rounding.

FY 2016 GRF sources were $1.34 billion above GRF sources in FY 2015.

FY 2016 GRF tax receipts were $14.2 million above estimate.

REVENUES

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

Overview

Through August, FY 2016 GRF total sources (which include state sources and federal grants)[1] were $6.26 billion, $1.34 billion higher than total sources in the corresponding period in FY 2015, with federal grants showing a hefty increase over last fiscal year's revenue. In the first two months of FY 2016, federal grants of $2.39 billion increased by $716.3 million (42.9%) compared to those receipts last year through August; and GRF state sources of $3.88 billion were $620.7 million (19.1%) higher than their level in FY 2015.

Though monthly tax revenue estimates were available, LSC did not receive estimates for all GRF sources from OBM in time for this issue of *Budget Footnotes*. Therefore, comparisons of actual receipts against estimates in Tables 1 and 2 are shown only for GRF tax receipts for the month of August and for FY 2016 through August, respectively. For the fiscal year to date, GRF tax receipts were above estimate by $14.2 million (0.4%), but with divergent performances by the major taxes: revenue shortfalls from the personal income tax, the commercial activity tax (CAT), and the cigarette tax partially offset a positive variance for the sales and use tax.

For the month of August, the sales tax and the personal income tax were above estimates by $35.8 million and $16.1 million, respectively. In addition, the public utility tax was above anticipated receipts by $2.8 million. On the other hand, the CAT, the cigarette tax, and the kilowatt-hour excise tax experienced shortfalls of $24.0 million, $24.1 million, and $2.1 million, respectively.

Compared to FY 2015, FY 2016 GRF sources were higher for all categories, including federal grants as noted above, tax receipts ($306.3 million), transfers in ($158.1 million),[2] and nontax revenues ($156.3 million). Among the most important tax sources, revenue from the sales and use tax, the personal income tax, the CAT, and cigarette tax increased $141.6 million, $70.5 million, $72.3 million, and $19.8 million, respectively. The increases in sales and use tax and income tax receipts

[1] Federal grants mainly consist of Medicaid reimbursements that are deposited into the GRF, while GRF state-sources consist of tax revenue, nontax revenue, and transfers in.

[2] OBM transferred $158.0 million from the Medicaid Reserve Fund to the GRF in July 2015.

reflect a generally improving economy over last year. However, revenue growth for the CAT and the cigarette tax are due, in part, to changes enacted in Am. Sub. H.B. 64 (the budget act for the current biennium). H.B. 64 increased the share of CAT receipts credited to the GRF from 50% to 75%,[3] and raised the cigarette tax rate from $1.25 per pack of 20 cigarettes to $1.60 per pack. The budget act also credited all kilowatt-hour excise tax revenue to the GRF, instead of 88% of the receipts in prior law. This change boosted FY 2016 revenue from that tax, which grew by $9.5 million in the first two months of FY 2016, when compared to the corresponding period in FY 2015.

Personal Income Tax

FY 2016 GRF income tax receipts were $3.1 million below estimate.

GRF receipts of $627.9 million from the personal income tax were 2.6% above estimate in August 2015, and $54.2 million (9.5%) above receipts in August 2014. However, for the first two months of FY 2016, income tax receipts of $1.25 billion were $3.1 million (0.2%) below estimate, due to a negative variance of $19.1 million in July 2015. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the Local Government Fund (LGF). Gross collections are the sum of employer withholding, quarterly estimated payments,[4] trust payments, payments associated with annual returns, and miscellaneous payments.

FY 2016 GRF income tax receipts were $70.5 million above FY 2015 revenue.

In August, monthly employer withholding and payments with annual returns were ahead of estimates by $24.4 million and $1.6 million, respectively. However, those positive variances were offset by shortfalls of $9.3 million in quarterly estimated payments and $2.8 million in miscellaneous payments. For the fiscal year through August, employer withholding, payments with annual returns, and trust payments were above estimates by $21.1 million, $4.9 million, and $3.5 million, respectively. On the other hand, quarterly estimated payments and miscellaneous receipts were short of estimates by $6.8 million and $6.7 million, respectively. Through August, FY 2016 GRF receipts from the

[3] Correspondingly, H.B. 64 reduced the share of CAT revenue credited to the School District Tangible Property Tax Replacement Fund (Fund 7047) from 35% to 20%, and the share credited to the Local Government Tangible Property Tax Replacement Fund (Fund 7081) from 15% to 5%. These changes were effective July 1, 2015.

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

personal income tax were $70.5 million (6.0%) above receipts during the corresponding months of FY 2015. Employer withholdings and annual return payments increased $66.7 million and $5.3 million, respectively, this fiscal year when compared to last. However, quarterly estimated payments fell by $5.9 million and miscellaneous payments by $6.4 million. Gross collections were $62.3 million higher in FY 2016, but taxpayer refunds were $11.7 million less than in FY 2015. The table below summarizes year-to-date FY 2016 income tax revenue variances from estimates and annual changes by component.

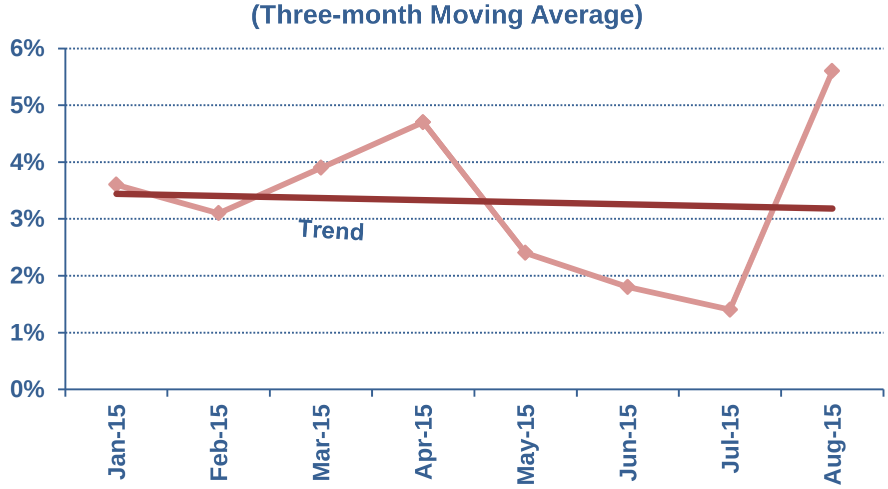
FY 2016 Year-to-Date Income Tax Revenue Variances and Changes by Component

Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2015	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	$21.1	1.6%	$66.7	5.3%
Quarterly Estimated Payments	-$6.8	-19.8%	-$5.9	-17.4%
Trust Payments	$3.5	319.2%	$2.6	129.1%
Annual Return Payments	$4.9	27.8%	$5.3	30.4%
Miscellaneous Payments	-$6.7	-50.0%	-$6.4	-48.7%
Gross Collections	$16.0	1.2%	$62.3	4.7%
Less Refunds	$18.9	28.1%	-$11.7	-11.9%
Less LGF Distribution	$0.1	0.1%	$3.5	6.2%
Income Tax Revenue	-$3.1	-0.2%	$70.5	6.0%

FY 2016 withholding tax receipts were above estimate by $21.1 million.

Chart 1 illustrates the trend in employer withholding receipts since January 2015. It shows a noticeable rebound in payroll growth in the latest months, after a slowdown in the second quarter of the year.

Chart 1: Monthly Withholding Receipts Trend
Actual vs. Prior Year
(Three-month Moving Average)



The budget act reduced income tax rates for all brackets by 6.3%, for taxable years beginning in 2015. The Department of Taxation issued new withholding tables, reflecting a 3.1% reduction in withholding rates previously in effect for 2014, to be used for payrolls that end on or after August 1, 2015. Therefore, percentage growth in withholding receipts will likely understate actual payroll growth in future months.

Sales and Use Tax

GRF receipts from the sales and use tax of $848.8 million in August 2015 were $35.8 million (4.4%) above estimate, and also $83.8 million (11.0%) above receipts in August 2014. For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[5] generally arise from the sale of motor vehicles, but auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax instead of the auto tax. In the first two months of the fiscal year, GRF sales and use tax receipts totaled $1.79 billion, $58.1 million (3.3%) above estimate, due to a good performance from the nonauto tax. Total sales and use tax receipts were also $141.6 million (8.6%) above receipts in the corresponding period in FY 2015.

FY 2016 sales and use tax receipts were $58.1 million above estimate.

Nonauto Sales and Use Tax

August GRF receipts from the nonauto sales and use tax of $726.6 million were $31.2 million (4.5%) above estimate and $67.9 million (10.3%) above revenue in August 2014. Through August, total GRF receipts of $1.55 billion were $54.6 million (3.6%) above estimate, and $131.6 million (9.2%) above FY 2015 receipts. Chart 2 shows increases in nonauto sales and use tax monthly receipts against prior year receipts in the same month.

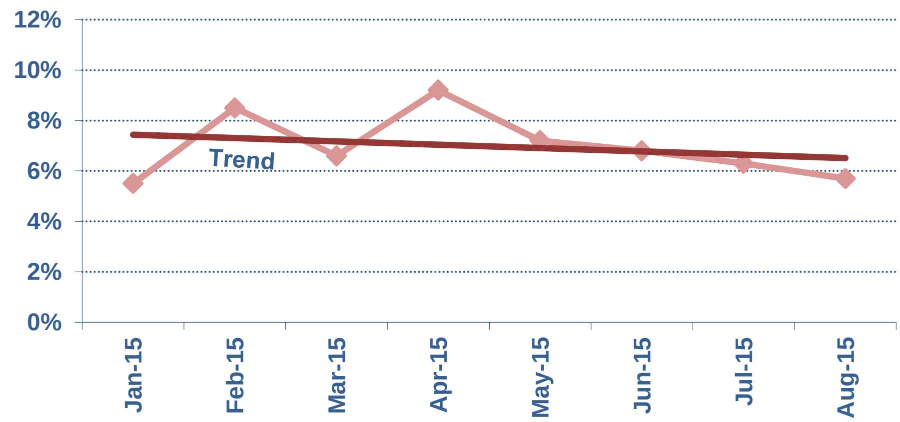
FY 2016 nonauto sales and use tax receipts were $54.6 million above estimate.

Am. Sub. S.B. 243 of the 130th General Assembly created a three-day sales tax "holiday" in August 2015 for sales of specified clothing and school supplies. The act exempted sales of clothing (up to $75) and school supplies and instructional materials (up to $20 per item). Generally, monthly nonauto sales tax revenue collected by vendors is remitted to the state the following month. Thus, the impact of the temporary sales tax exemption would potentially affect September nonauto sales tax revenue.

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

FY 2016 auto sales and use tax receipts were $3.5 million above estimate.

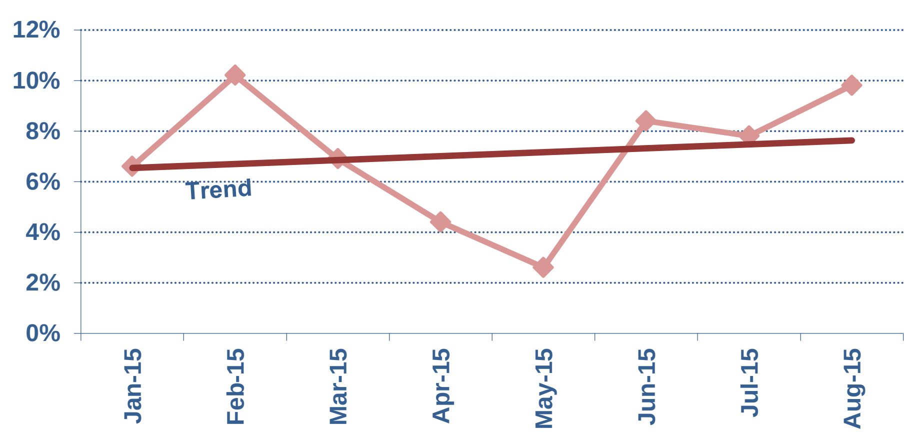
Chart 2: Nonauto Sales and Use Tax Receipts Trend
Actual vs. Prior Year
(Three-month Moving Average)



Auto Sales and Use Tax

GRF receipts from the auto sales and use tax of $122.2 million were $4.6 million (3.9%) above estimate, and $15.9 million (15.0%) above receipts in August 2014. After a slowdown in late winter and early spring, receipts from the auto sales and use tax have surged in recent months. For the fiscal year through August, GRF auto sales tax revenue totaled $239.0 million, $3.5 million (1.5%) above estimate. FY 2016 revenue was also $10.0 million (4.4%) above receipts in FY 2015. Chart 3 below compares FY 2016 monthly auto sales and use tax receipts with year-ago receipts in the same period, and it shows a sharp rebound in revenue growth in recent months.

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



In August, nationwide light vehicle (auto and light truck) sales remained at a healthy pace of 17.7 million units (at a seasonally adjusted annual rate), above the pace of 17.5 million in July. For 2015 through August, sales are averaging 17.1 million units, about 4.6% above sales in the corresponding period in 2014, with low gasoline prices pushing up sales of luxury vehicles and light trucks.

Commercial Activity and Petroleum Activity Taxes

GRF receipts from the CAT were $242.3 million in August 2015, $24.0 million (9.0%) below estimate, but $64.8 million (36.5%) above revenue in August 2014, in part due to the increase of the GRF share of CAT receipts enacted in H.B. 64. For the fiscal year through August, CAT revenues to the GRF totaled $277.1 million, $30.0 million (9.8%) below estimate, but $72.3 million (35.3%) above receipts in the first two months of FY 2015. 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). No GRF revenue from the PAT was anticipated in the first two months of FY 2016.

FY 2016 GRF CAT receipts were $30.0 million below estimate.

Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax of $81.1 million in August 2015 were $24.1 million (22.9%) below estimate, though the tax recorded a positive variance of $11.9 million the previous month. However, August revenue was $12.2 million (17.7%) above receipts in August 2014. Through August, FY 2016 receipts of $111.3 million were $12.1 million (9.8%) below estimate. Receipts from cigarette sales and sales of other tobacco products (OTP) were $100.9 million and $10.4 million, respectively. Total receipts this year increased $19.8 million (21.7%) from FY 2015, from an increase of $20.8 million in cigarette revenue, which was partially offset by a decrease of $1.0 million in receipts from OTP. Generally, cigarette tax receipts experience a downward trend, while revenue from OTP is closely tied to price increases of those products. However, H.B. 64 increased the cigarette tax from $1.25 to $1.60 per pack of 20 cigarettes, a 28% increase, and thus monthly cigarette revenue is very likely to be higher in FY 2016 when compared to FY 2015.

FY 2016 cigarette tax receipts were $12.1 million below estimate.

EXPENDITURES

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

Overview

As seen from Table 3 below, total GRF uses for the first two months of FY 2016 were $7.46 billion. Program expenditures, which totaled $6.69 billion, comprised nearly 90% of the total GRF uses. The remaining 10% of uses ($771.5 million) were transfers out. Except for Medicaid, LSC did not receive the monthly GRF use estimates for FY 2016 from OBM in time for publishing this issue of *Budget Footnotes*. Therefore, this expenditure report compares actual GRF uses with the estimated uses only for Medicaid expenditures.

Table 3: General Revenue Fund Uses
Months of July and August 2015
($ in thousands)
(Actual based on OAKS report run on September 10, 2015)

Program	July Actual	August Actual	Year-to-Date Actual
Primary and Secondary Education	$667,417	$934,739	$1,602,156
Higher Education	$164,529	$187,755	$352,284
Other Education	$6,913	$9,551	$16,465
Total Education	$838,859	$1,132,045	$1,970,904
Medicaid	$1,746,480	$1,555,434	$3,301,914
Health and Human Services	$131,297	$118,718	$250,015
Total Welfare and Human Services	$1,877,777	$1,674,152	$3,551,929
Justice and Public Protection	$209,635	$207,519	$417,154
General Government	$45,667	$117,236	$162,904
Total Government Operations	$255,303	$324,755	$580,058
Property Tax Reimbursements	-$234	-$1,986	-$2,220
Debt Service	$234,661	$350,868	$585,529
Total Other Expenditures	$234,426	$348,882	$583,308
Total Program Expenditures	**$3,206,365**	**$3,479,834**	**$6,686,199**
Transfers			
Budget Stabilization	$425,500	$0	$425,500
Other Transfers Out	$346,388	-$388	$346,000
Total Transfers Out	$771,888	-$388	$771,500
Total GRF Uses	**$3,978,253**	**$3,479,447**	**$7,457,699**

Most of the program expenditures ($4.90 billion or 73.3%) in the first two months of the year were concentrated in two program categories: Medicaid ($3.30 billion) and Primary and Secondary Education ($1.60 billion). Medicaid expenditures are discussed in detail below. Most of the transfers out ($727.0 million or 94.2%) were one-time transfers from the FY 2015 GRF ending balance that were mandated in Section 512.30 of H.B. 64. The following table lists these transfers, which were all made in July. In addition to these, $9.1 million of surplus revenue was transferred to the Income Tax Reduction Fund (Fund 4R80) per the Revised Code. Two other significant transfers unrelated to the GRF ending balance occurred in July: $15.0 million was transferred to the Property Tax Administration Fund (Fund 5V80), and $11.2 million was transferred to the Managed Care Performance Payment Fund (Fund 5KW0).

The FY 2015 ending balance transfers totaling $727.0 million that were mandated in H.B. 64 were completed in July.

Table 4: H.B. 64 FY 2015 Ending Balance Transfers
($ in thousands)

Fund Receiving Transfer		Transferred Amount
7013	Budget Stabilization	$425,500
5SA4	Health and Human Services	$50,000
5RB0	Straight A Fund	$42,250
5HC0	Unemployment Compensation Interest Contingency	$40,000
5RE0	School District TPP Supplement	$32,900
5RA0	Workforce and Higher Education Programs	$31,250
5RD0	Local Government Safety Capital Grant	$20,000
5E20	Disaster Services	$20,000
5RT0	Electronic Pollbook	$12,750
5MW0	Natural Resources Special Purposes	$12,000
5RC0	Healthier Buckeye	$11,500
5KN0	Local Government Innovation	$10,000
5QM0	Systems Transformation Support	$7,500
5RV0	Ohio Military Facilities	$5,000
5RS0	Community Police Relations	$4,000
5RU0	Absent Voter's Ballot	$1,250
5SA0	Maternal and Child Health	$500
5SA1	Mentor Stormwater Project	$350
5SA3	Local Public Enhancement	$250
	Total	**$727,000**

Medicaid Expenditures

For the first two months of FY 2016, GRF Medicaid expenditures totaled $3.30 billion, which was $110.3 million (3.2%) below an estimate provided by the Ohio Department of Medicaid (ODM). While the GRF is the primary funding source for Medicaid, various non-GRF funds also help support Medicaid. Non-GRF Medicaid expenditures totaled $1.22 billion for the first two months of FY 2016, $32.1 million (2.6%) below estimate. Across all funds, Medicaid expenditures totaled

$4.52 billion, $142.4 million (3.1%) 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.

ODM is primarily responsible for administering Medicaid, with the assistance of five other state agencies – Developmental Disabilities, Job and Family Services, Health, Aging, 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 annual variance. For the first two months of FY 2016, ODM's GRF expenditures totaled $3.20 billion, which was $111.7 million (3.4%) below estimate, and its non-GRF expenditures totaled $865.4 million, which was $20.8 million (2.3%) below estimate. Across all funds, ODM's expenditures were $132.5 million (3.2%) below their annual estimate. GRF and non-GRF Medicaid expenditures from the Department of Developmental Disabilities (DDD), the second largest agency within this program category, totaled $409.3 million, which was $17.6 million (4.1%) below estimate. Together, ODM and DDD account for about 99% of the Medicaid expenditure total.

Table 6 details all-funds Medicaid expenditures by payment category. As seen from the table, Managed Care had the largest negative annual variance of $69.3 million (4.0%), followed by Hospitals ($54.0 million, 6.3%), All Other ($21.9 million, 11.3%), Administration ($17.1 million, 11.3%), Behavioral Health ($15.4 million, 7.4%), Nursing Facilities ($10.4 million, 4.4%), and Aging Waivers ($9.5 million, 16.0%). The negative variance in Managed Care is a result of the actual caseload for the Aged, Blind, and Disabled category being lower than anticipated. The negative variance in Hospitals is not fully determined at this time, but may be partially due to lower than anticipated per member per month costs. The ACA Expansion category has the largest positive annual variance, which was $66.4 million (12.6%) above estimate. This variance is due to higher than anticipated caseload. Some individuals currently enrolled into the ACA Expansion category may later be determined to be eligible under another category of coverage instead. If these individuals are recategorized, their costs would shift in future months.

Table 5: Medicaid Expenditures by Department
Actual vs. Estimate
($ in thousands)
(Actuals based on OAKS report run on September 10, 2015)

	Month of August 2015				Year to Date Through August 2015			
Department	Actual	Estimate*	Variance	Percent	Actual	Estimate*	Variance	Percent
Medicaid	**$2,047,887**	**$2,180,369**	**-$132,483**	**-6.1%**	**$4,061,348**	**$4,193,831**	**-$132,483**	**-3.2%**
GRF	$1,498,324	$1,610,038	-$111,714	-6.9%	$3,195,950	$3,307,663	-$111,714	-3.4%
Non-GRF	$549,562	$570,331	-$20,769	-3.6%	$865,398	$886,168	-$20,769	-2.3%
Developmental Disabilities	**$212,195**	**$229,770**	**-$17,575**	**-7.6%**	**$409,288**	**$426,863**	**-$17,575**	**-4.1%**
GRF	$43,703	$43,540	$163	0.4%	$85,628	$85,464	$163	0.2%
Non-GRF	$168,492	$186,230	-$17,738	-9.5%	$323,661	$341,399	-$17,738	-5.2%
Job and Family Services	**$26,690**	**$17,560**	**$9,130**	**52.0%**	**$42,431**	**$33,300**	**$9,130**	**27.4%**
GRF	$12,297	$10,978	$1,319	12.0%	$18,663	$17,344	$1,319	7.6%
Non-GRF	$14,394	$6,583	$7,811	118.7%	$23,768	$15,957	$7,811	49.0%
Aging	**$854**	**$1,055**	**-$201**	**-19.1%**	**$1,309**	**$1,510**	**-$201**	**-13.3%**
GRF	$386	$393	-$7	-1.8%	$622	$629	-$7	-1.1%
Non-GRF	$468	$663	-$194	-29.3%	$687	$882	-$194	-22.1%
Health	**$1,796**	**$2,737**	**-$941**	**-34.4%**	**$2,675**	**$3,616**	**-$941**	**-26.0%**
GRF	$367	$354	$13	3.6%	$566	$553	$13	2.3%
Non-GRF	$1,430	$2,383	-$954	-40.0%	$2,110	$3,063	-$954	-31.1%
Mental Health and Addiction	**$514**	**$825**	**-$311**	**-37.6%**	**$1,050**	**$1,360**	**-$311**	**-22.8%**
GRF	$357	$400	-$43	-10.7%	$487	$529	-$43	-8.1%
Non-GRF	$157	$425	-$268	-63.0%	$563	$831	-$268	-32.2%
Total GRF	**$1,555,434**	**$1,665,702**	**-$110,268**	**-6.6%**	**$3,301,914**	**$3,412,182**	**-$110,268**	**-3.2%**
Total Non-GRF	**$734,502**	**$766,615**	**-$32,112**	**-4.2%**	**$1,216,187**	**$1,248,300**	**-$32,112**	**-2.6%**
Total All Funds	**$2,289,936**	**$2,432,317**	**-$142,380**	**-5.9%**	**$4,518,101**	**$4,660,481**	**-$142,380**	**-3.1%**

*Estimates are from the Department of Medicaid.
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 September 10, 2015)

	August				Year to Date Through August			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	$839,433	$908,700	-$69,267	-7.6%	$1,660,330	$1,729,597	-$69,267	-4.0%
Nursing Facilities	$115,795	$126,231	-$10,436	-8.3%	$226,668	$237,104	-$10,436	-4.4%
DDD Services	$208,015	$216,269	-$8,254	-3.8%	$401,992	$410,246	-$8,254	-2.0%
Hospitals	$396,063	$450,092	-$54,029	-12.0%	$800,918	$854,948	-$54,029	-6.3%
Behavioral Health	$95,806	$111,166	-$15,360	-13.8%	$191,372	$206,732	-$15,360	-7.4%
Administration	$80,051	$97,144	-$17,093	-17.6%	$134,381	$151,474	-$17,093	-11.3%
Aging Waivers	$19,097	$28,638	-$9,541	-33.3%	$49,913	$59,454	-$9,541	-16.0%
Prescription Drugs	$44,176	$43,350	$826	1.9%	$88,448	$87,621	$826	0.9%
Medicare Buy-In	$36,705	$36,639	$66	0.2%	$73,168	$73,102	$66	0.1%
Physicians	$25,739	$21,579	$4,160	19.3%	$51,912	$47,751	$4,160	8.7%
Medicare Part D	$24,194	$24,402	-$208	-0.9%	$48,373	$48,581	-$208	-0.4%
Home Care Waivers	$11,339	$19,019	-$7,679	-40.4%	$23,336	$31,016	-$7,679	-24.8%
ACA Expansion	$310,010	$243,647	$66,363	27.2%	$594,622	$528,259	$66,363	12.6%
All Other	$83,513	$105,441	-$21,928	-20.8%	$172,669	$194,597	-$21,928	-11.3%
Total All Funds	**$2,289,936**	**$2,432,317**	**-$142,380**	**-5.9%**	**$4,518,101**	**$4,660,481**	**-$142,380**	**-3.1%**

* Estimates are from the Department of Medicaid.
Detail may not sum to total due to rounding.

ISSUE UPDATES

State Purchased Almost 19.5% of Goods and Services from Minority Business Enterprises in FY 2015, Exceeding 15% Goal

– Tom Wert, Budget Analyst, 614-466-0520

On August 20, 2015, the Department of Administrative Services (DAS) announced that in FY 2015 the state surpassed its goal of buying 15% of goods and services from minority business enterprise (MBE) vendors. Overall, state agencies, boards, and commissions purchased just under $228.6 million (almost 19.5%) of goods and services from MBEs in FY 2015. Of this total, cabinet agencies purchased almost $210.6 million of goods and services from MBE vendors, while licensing boards and commissions bought just under $18.0 million from MBEs. There were 19 cabinet agencies and 38 boards and commissions that made more than 20% of their purchases from MBEs.

Under the MBE program, state agencies, licensing boards, and commissions have a goal of purchasing at least 15% of eligible goods and services from MBE companies. In total, the state spent almost $1.18 billion on goods and services in FY 2015. Of this amount, approximately $202.7 million (17.2%) was spent through contracts with vendors certified under the MBE program. A further $25.9 million (2.2%) was spent with MBE vendors though open market contracts in which MBE firms were in competition with nonminority owned businesses. Additional information about the state's MBE program, including the MBE performance scorecard, can be found on DAS's web site at http://das.ohio.gov/Divisions?EqualOpportunity.aspx.

Department of Commerce Awards over $78,000 in Financial Literacy Grants

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

On June 17, 2015, the Ohio Department of Commerce awarded funding of $78,600 to three groups under the Financial Literacy Grant Program. The purpose of the grant program is to support innovative education programs that strengthen adult financial literacy. Of the total amount awarded under this announcement, $47,300 was awarded to the Ohio State University Extension, $19,800 was awarded to Trinity Debt Management, and $11,500 was awarded to The Providence Center for Social and Economic Empowerment. The grant is financed through quarterly transfers of 5% of all charges, penalties, and forfeitures levied by the Consumer Finance Section within the Division of Financial Institutions. This revenue is deposited into the Financial Literacy Education Fund (Fund 5FW0).

The Financial Literacy Grant is a competitive grant awarded to applicants that demonstrate the need for financial education in their community. The Ohio State University Extension will use the grant money for a program called Bridging Fathers and Families through Financial Literacy in Franklin County. The goal of the program is to strengthen the bond between noncustodial fathers and their children by working to eliminate some of their financial barriers. Trinity Debt Management is partnering with Cincinnati State Community College – Middletown to start a financial literacy education program to offer one-on-one financial counseling for participants. The Providence Center for Social and Economic Empowerment will use the grant to work with the Latino community in Lucas County to provide financial literacy courses over a 22-week period.

Development's Second Round of Awards Brings Ohio Historic Preservation Tax Credits for FY 2015 to a Total of $69.3 million

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

On June 30, 2015, the Development Services Agency (DSA) approved $27.5 million worth of Ohio Historic Preservation Tax Credits (OHPTC) for the rehabilitation of 33 historic buildings in eight counties. This was the second round of program awards in FY 2015, and brings the total value of tax credits awarded in FY 2015 to approximately $69.3 million. The table below displays the OHPTC awards by region for FY 2015 under both award rounds.

Ohio Historic Preservation Tax Credit Awards by Region, FY 2015

Region	Number of Awards	Total Value of Awards
Northeast	16	$29,560,305
Southwest	20	$15,049,043
Northwest	3	$9,229,977
Central	7	$8,615,615
West	4	$6,856,475
Total	**50**	**$69,311,415**

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, generally a building must be listed on the National Register of Historic Places or designated as a local landmark by a Certified Local Government. Each year, $60 million is allocated to the program; however, an additional amount in tax credits may be awarded if projects that were previously approved under the program have been withdrawn, or if there is a surplus of tax credits from prior fiscal years. 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 million in credits per project.

The credit is refundable up to $3 million annually. Qualified rehabilitation expenditures include improvements made to the building structure, interior systems, and design and engineering services. The program is administered through a partnership between DSA and the Ohio History Connection.

Since the first round of tax credits were awarded under the OHPTC Program in FY 2008, a total of 256 projects have been approved. DSA announced that 100 of these approved projects have been completed to date, resulting in the rehabilitation of 120 buildings in 28 communities. The projects completed thus far have been authorized to receive about $215.1 million in tax credits. The total invested in the rehabilitation of these buildings was $1.44 billion.

Ohio to Receive $6.4 million from Multi-Jurisdictional Settlement Agreements with Chase and Amgen

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

In July and August 2015, the Ohio Attorney General's Office announced that the state will receive a total of $6.4 million as a result of reaching multi-jurisdictional settlement agreements with Chase (a banking business) and Amgen (a pharmaceutical company). These settlements resolve the investigation and subsequent allegations that Chase's past debt collection practices and Amgen's drug marketing and promotional practices violated state and federal consumer protection laws.

The Chase settlement, announced on July 8, totaled $136 million and will be distributed between the attorneys general of 47 participating states (including Ohio), the District of Columbia, and the federal Consumer Financial Protection Bureau. The allegations were that Chase's credit debt collection practices involved: (1) using questionable documents or inaccurate information to file lawsuits and obtain judgments or (2) selling accounts with inaccurate information, or that were otherwise uncollectable, to third-party debt buyers. Ohio's share of the settlement is expected to be about $4.5 million and will be used for consumer education and protection services. In addition to the settlement, Chase agreed to cease all collection efforts on more than 528,000 consumers, including an estimated 14,400 in Ohio.

The Amgen settlement, announced on August 18, totaled $71 million and will be distributed between the attorneys general of 48 participating states (including Ohio) and the District of Columbia. The allegations were that Amgen improperly promoted use of the anemia drug Aranesp and the plaque psoriasis drug Enbrel from what had been approved by the federal Food and Drug Administration. Ohio will receive nearly $1.9 million as its share of the settlement, the use for which has not yet been determined. Amgen also agreed, with respect to Enbrel or any drug in the same class as Aranesp, to reform its marketing and promotional practices, which includes not making any written or oral claim that is false, misleading, or deceptive.

ODJFS Seizes $2 million in Unpaid Child Support from Jackpot Winners

– Genevieve Davison, LSC Fellow, 614-387-1427

On August 4, 2015, the Ohio Department of Job and Family Services (ODJFS) reported that it has seized $2 million in unpaid child support from jackpot winners at Ohio's casinos and racinos since September 2014. ODJFS partners with the Lottery Commission, the Casino Control Commission, and Ohio's casinos and racinos to check jackpot winners against a database of parents who owe child support. If a winner owes child support, the casino or racino withholds all or part of the jackpot and then transfers withheld funds to ODJFS. The data match program was created in the FY 2014-FY 2015 mid-biennium budget act. Under the act, if a person's winnings at a casino facility are $600 or more, the casino operator or management company must use the data match program to determine if the person is in default under a support order. Prior to the act, ODJFS checked state lottery winners against a list of delinquent parents, but had no mechanism for intercepting child support from casino and racino winnings.

According to ODJFS, Ohio's county child support enforcement agencies collect 69% of all child support owed compared to the national average of 64% and Ohio consistently ranks in the top five of all states for collection on current support due. Every year, Ohioans pay nearly $2 billion in child support.

Ohio EPA Awards $37.4 million in Loans for Public Wastewater Projects

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

Over the course of July and August 2015, the Ohio Environmental Protection Agency (Ohio EPA) awarded below-market interest rate loans totaling $37.4 million for seven public wastewater projects. These loans are backed with money drawn from the Ohio Water Pollution Control Loan Fund (WPCLF), which is managed by the Ohio EPA with assistance from the Ohio Water Development Authority. The reduced interest rate loans will save a total of around $5.7 million relative to the cost of going to the open market for a similar loan. The table below summarizes these loans in terms of the recipient, county project location, project description, loan amount, and estimated interest rate savings.

Created in 1989, the WPCLF generally provides low interest financing and incentives to public entities (municipalities, counties, and sewer districts) for the planning, design, and construction of wastewater treatment, storm water management, and nonpoint source[6] projects. The fund consists of federal capitalization grants, loan repayments, and bond proceeds. In FY 2015, loans totaling $302 million were awarded from the fund to finance 61 wastewater infrastructure and water quality improvement projects.

[6] Nonpoint source projects address pollution caused by rainfall or snowmelt moving over the ground or physical alterations to existing water flows.

Ohio EPA Public Wastewater Treatment System Loans				
Recipient	**County**	**Project Description**	**Loan Amount**	**Savings**
Akron City	Summit	Construct 6.5 million gallon wet weather overflow basin to help eliminate combined sewer overflows into the Little Cuyahoga River	$31,600,000	$4,800,000
NWSD*	Wood	Replace undersized and outdated Rossford City pump station with gravity sewer to eliminate sanitary sewer overflows into Grassy Creek, a Maumee River tributary	$2,800,000	$418,767
Oregon City	Lucas	Phase three of sewer rehabilitation initiative to reduce storm water infiltration and inflow into sanitary sewers	$1,820,000	$272,116
Defiance City	Defiance	Critical alternative development and evaluation phase as part of three phase project to revise and update long-term control plan to address combined sewer overflows	$393,750	$60,000
NWSD*	Wood	Storm water infiltration and inflow correction to address corrosion-related damage in subdivisions near Perrysburg and Rudolph	$368,252	$54,500
Crestline Village	Crawford and Richland	Reduce infiltration and inflow of storm water to address sewer overflows and water quality in Westerly Creek	$306,123	$79,000
DeGraff Village	Logan	Design of new pump station and force main between DeGraff and Quincy to replace aging and failing equipment and infrastructure that affect discharges into the Great Miami River	$84,000	$7,761
Total			**$37,372,125**	**$5,692,144**

*NWSD denotes the Northwestern Water & Sewer District, which is a regional water and sewer district whose members include 12 municipalities and 19 townships in Wood County and part of Scott Township in Sandusky County.

Controlling Board Approves Appropriation Increases for OSU Physician Supplemental Upper Payment Limit Program

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

On August 17, 2015, the Controlling Board approved the Ohio Department of Medicaid's (ODM) request for additional appropriations in two non-GRF line items in order to increase Medicaid reimbursement rates for physicians at the Ohio State University (OSU) Wexner Medical Center through a new Physician Supplemental Upper Payment Limit (UPL) Program. This new UPL Program is similar to Ohio's existing Hospital UPL Program. Payments made under the new program will close the gap between Medicaid and Medicare payment rates for physicians at the OSU Wexner Medical Center. To fund the program, OSU will make intergovernmental transfers to ODM in an amount equal to the state share of the increase in payments. These intergovernmental transfers will be matched by federal Medicaid dollars.

The Controlling Board approved appropriations to newly created line item 651683, Medicaid Services – Physician UPL, of $10 million in FY 2016 and $7 million in FY 2017 to allow ODM to receive and spend the transfers from OSU. The Controlling Board also approved increases to existing line item 651623, Medicaid Services – Federal, of $17 million in FY 2016 and $11 million in FY 2017 to account for the federal Medicaid match.

The UPL is a federal limit placed on fee-for-service reimbursement of Medicaid providers. However, states often do not meet this limit which, for many providers, is equal to the Medicare reimbursement rate. (Ohio Medicaid reimburses physicians about 60% of the Medicare rate.) States may, with federal approval, increase provider reimbursement up to the UPL if there is room between current reimbursement levels and the applicable UPL. The UPL rate for this new program is equal to the average commercial rate for the top five third-party commercial payers within the accounts receivable systems of the OSU Wexner Medical Center.

DHE Awards $2.0 million in Co-op/Internship Awards to Six Institutions of Higher Education

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

In June, the Department of Higher Education (DHE)[7] awarded $2.0 million under the Ohio Means Internships and Co-ops (OMIC) program to six public and private institutions of higher education. These six institutions collaborate with businesses and other educational institutions, such as Ohio Technical Centers (OTCs), to provide paid and credited internships to students and to encourage students to stay in Ohio after graduation. Institutions receiving awards are required to match at least 100% of the state award with private funds.

The lead college or university receiving the award in each region and a brief description of each project are listed below.

- **Central Ohio Region (Ohio State University)**. Funds will allow the Central Ohio Lightweight Innovations for Tomorrow (LIFT) Workforce and Education Working Group to create 80 internships in the advanced manufacturing sector.
- **Northeast Region (Cuyahoga Community College)**. Project will focus on the workforce needs of the digital manufacturing industry. Funds will also provide professional development for 80 faculty in the region, which will allow them to engage with over 1,000 students participating in various internships and co-ops.

[7] H.B. 64 of the 131st General Assembly renamed the Office of the Board of Regents as the Department of Higher Education.

- **Northwest Region (Bowling Green State University)**. Funds will be used to create spatial internship placement models which will be used to enhance employer development efforts by providing a structure to conduct internships targeting JobsOhio target industries.
- **Southeast Region (Southern State Community College)**. Funds will expand the marketing of the program to regional industries and organizations, offer wage support to industry partners, and develop data mapping and analytics to assist in job availability and placement opportunities.
- **Southwest Region (University of Cincinnati)**. Funds will provide 95 new placements for co-op education and internships. In addition, the regional group will increase student recruitment into strategic industry clusters and engage high school guidance counselors to support a pipeline for high school students to enter into a career.
- **Western Region (University of Dayton)**. The funded program will run parallel to the region's Regionally Aligned Priorities in Delivering Skills (RAPIDS) program to develop up to 166 new co-op and internship positions in RAPIDS targeted industries and other, in-demand occupations throughout the region.

ODE Releases Career-Technical Planning District Report Cards

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

In August, the Ohio Department of Education (ODE) issued the FY 2015 report cards for the 91 career-technical planning districts (CTPDs). The report cards, approved for implementation by the State Board of Education in 2013, grade CTPDs based on four- and five-year graduation rates, post-program placement rate (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), and technical skill attainment scores. The table below summarizes how the 91 CTPDs performed on the FY 2015 report card in comparison with the FY 2014 report card. The FY 2015 report card covers the graduating class of 2013, whereas the FY 2014 report card covers the graduating class of 2012.[8]

Career-Technical Planning District Report Card Grades, FY 2015 and FY 2014

Component	A		B		C		D		F	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Four-year Graduation Rate	84%	64%	9%	24%	5%	9%	2%	3%	0%	0%
Five-year Graduation Rate	70%	66%	20%	27%	10%	5%	0%	1%	0%	0%
Post-program Placement Rate	57%	36%	27%	34%	6%	15%	8%	11%	2%	3%
Technical Skill Attainment	60%	37%	22%	30%	9%	12%	6%	9%	3%	12%

[8] Information on the meaning of each grade can be found in the document "Understanding Ohio's CTPD Report Card" available on ODE's website: education.ohio.gov.

Since the FY 2014 report card, the percentage of CTPDs receiving an "A" in four-year graduation rates, post-program placement rates, and technical skill attainment increased by at least 20 percentage points. The percentages of CTPDs receiving an "A" or a "B" in the five-year graduation rate dropped slightly from 93% to 90%.

ODE Selects AIR as New Vendor for Math and ELA Assessments

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

In July 2015, ODE announced that, for the 2015-2016 school year, the American Institutes for Research (AIR) will provide the state's elementary and secondary assessments in mathematics and English language arts (ELA). The vendor for these assessments during the 2014-2015 school year was the Partnership for Assessment of Readiness for College and Careers (PARCC). However, H.B. 64 of the 131st General Assembly prohibits GRF appropriations from being used to purchase any assessment developed by PARCC. In FY 2015, PARCC received over $33 million to supply the state's math and ELA assessments, paid out of GRF appropriation item 200437, Student Assessment. AIR also provides the state's achievement assessments in science and social studies.

ODE Awards $6.8 million in Grants for Community Connectors Program

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

On July 13, 2015, ODE awarded $6.8 million in matching grants to 82 local partnerships as part of the first round of funding for the Community Connectors school mentorship program. Created by H.B. 483 of the 130th General Assembly, Community Connectors supports programming in career advising and mentoring for students in low-performing, high-poverty schools. Eligible districts must partner with members of the business community, civic organizations, or the faith-based community to provide sustainable career services to students in grades 5-12. The state provides $3 for every $1 in local funding with a maximum award of $500,000 over three years.

Grant awards ranged in size from as low as $17,000 to as high as $139,000; however, most of the awards were in the range of $70,000 to $100,000. In all, 12 of the 82 partnerships received over $100,000 in funding. Geographically, 13 of the partnerships are located in Franklin County; eight are located in Cuyahoga County; eight are located in Montgomery County; and six are located in Hamilton County. To see the full list of recipients, go to education.ohio.gov and search for "Community Connectors Awards." H.B. 64 of the 131st General Assembly provides $10.0 million from lottery profits for the program in FY 2016 and FY 2017 under SLF Fund 7017 appropriation item 200629, Community Connectors.

TRACKING THE ECONOMY

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

– Thomas Kilbane, Economist, 614-728-3218

Overview

Higher growth of inflation-adjusted gross domestic product (real GDP) in the second quarter than the first quarter, continued growth in nonfarm payroll employment, and a drop in the unemployment rate (5.1%) contributed to a positive economic outlook. Consumer and producer prices rose in July, despite low gasoline and energy prices, while vehicle sales and consumer spending both remain strong. Recent financial market instability is casting uncertainty on whether the Federal Reserve will announce an interest rate increase following the mid-September meeting of the central bank's monetary policy-setting committee.

The National Economy

Employment and Unemployment

In August, nonfarm payroll employment nationwide at business establishments increased 173,000 according to initial estimates from the Bureau of Labor Statistics (BLS). August continued an overall trend of monthly job growth. It was the 59th straight month with positive job gains across the country, and only the third month since March of 2014 where the gains were estimated to be fewer than 200,000. Monthly gains in employment averaged 243,000 over the past 12 months and 205,000 over the past six months. By industry sector, some of the biggest job gainers of the month were financial activities, and health care and social assistance. On the losing side, manufacturing led the way shedding 17,000 jobs, as well as mining which continued a year-to-date trend. BLS revised upward its estimate of employment gains in June, from 231,000 to 245,000, and in July, from 215,000 to 245,000. For the months of June and July combined, employment gains were 44,000 higher than previously reported.

The national unemployment rate declined to 5.1% in August, from 5.3% in July, a new low since April 2008.

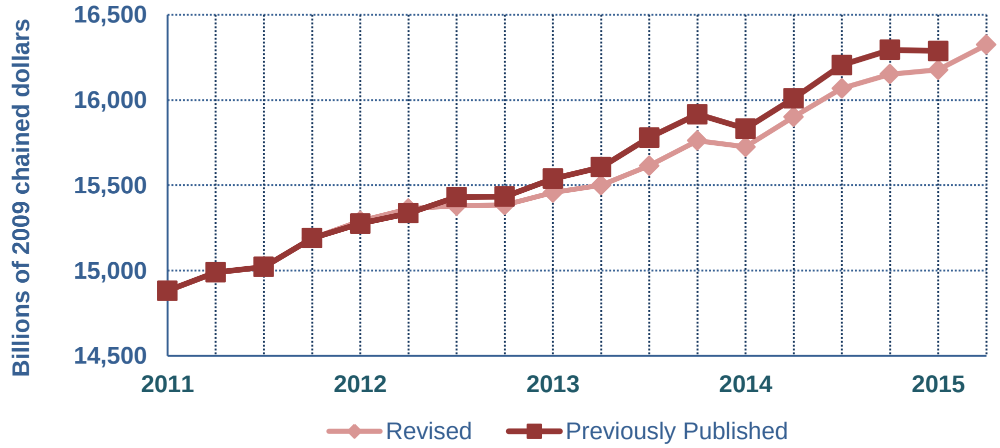
The U.S. economy has added a net total of 2.92 million jobs over the past 12 months. The national unemployment rate declined to 5.1% in August, from 5.3% in July, and declined 1.0 percentage point from 6.1% a year earlier. The U.S. unemployment rate in August hit a new low since April 2008. Average hourly earnings of all employees on private, nonagricultural payrolls were up 0.3% from July to August. Average hourly earnings are up 2.2% over the past year.

Production

After growing at only an annual rate of 0.6% in the first quarter of 2015, real GDP grew at a 3.7% rate in the second quarter, according to the "second" estimate from the U.S. Bureau of Economic Analysis (BEA). The second quarter increase in real GDP stemmed from growth in personal consumption expenditures, exports, government spending, and private domestic investments. Imports, which are a subtraction in the calculation of GDP, also increased, but not as substantially as in the first quarter.

The BEA recently made revisions to historic GDP and gross domestic income that incorporate the most recent and comprehensive source data and higher-quality estimation techniques. Revisions based on these sources affect statistics from 2012 through current.[9] With the updated figures, the change in real GDP in the first quarter of 2015 was increased by 0.8 percentage point, from -0.2% to 0.6%. The annual rate change in 2012 and 2013 was adjusted downward, primarily due to lower than previously reported growth in personal spending.

Chart 4: GDP in billions of 2009 Chained Dollars, Revised vs. Previously Published, 2011-2015



Industrial production increased 0.6% in July, to 1.3% above year ago output rates. Specifically, increases in all major market groups except nonindustrial supplies, and in two of the three major industry groups contributed to the upturn. An increase in motor vehicle assemblies contributed to the advance in the manufacturing output index (0.8%), its highest increase since 2014. Similarly, the U.S. Census Bureau's July report on Manufacturers' Shipments, Inventories, and Orders reported a slight increase (0.4%) in new orders for manufactured goods, due in part to a 4.0% increase in motor vehicle bodies, parts, and trailer orders.

[9] Personal income, government receipts, and spending are revised back to 1976.

According to the latest report from the Institute for Supply Management based on feedback from manufacturing sector purchasing managers, activity in the manufacturing sector expanded for the 32nd consecutive month in August. Although some managers report concern over export growth, lower prices for raw materials and modest to strong industry-specific growth were also prevalent in reports.

Consumer Spending

Personal income, in current dollars (not adjusted for inflation) increased by 0.4% in July, matching the increase in each of the previous three months. Real consumer spending increased by 0.2% (seasonally adjusted) in July and was 3.2% higher than one year ago. The year-over-year growth in real consumer spending in 2015 is the highest in any year since the 2007-2009 recession.

Sales of light vehicles in August were up from the previous month at a seasonally adjusted annual rate of 17.7 million units, the highest monthly sales rate since 2005. Recent positive economic conditions have contributed to consistently high sales in 2015.

Sales of light vehicles in August were up from the previous month at a seasonally adjusted annual rate of 17.7 million units, the highest monthly sales rate since 2005.

Construction and Real Estate

Housing starts, at a seasonally adjusted annual rate, were just over 1.2 million units in July, 0.2% above June's revised rate and the second straight month above 1.2 million units. Single family housing unit starts in July, at a seasonally adjusted annual rate, increased 12.8% from June's annual rate, and are 19.0% above year-ago levels.

New residential home sales, at a seasonally adjusted annual rate, in July increased 5.4% above June's revised rate and 25.8% above year ago levels. The share of new homes presold in July (i.e., in a "not started" phase of construction), at 38%, was the highest in nearly ten years.

Existing home sales in July increased 2.0% to a seasonally adjusted annual rate of 5.59 million homes, according to the National Association of Realtors. Unit sales were 10.3% higher than a year earlier. The monthly average commitment rate for 30-year fixed-rate mortgages edged up above 4.0 in July for the first time since 2014, according to data released from Freddie Mac's weekly survey of lenders. Residential home lending costs slipped back below 4.0% in August. Annual averages hit their lowest levels in 2012 and 2013 since this statistic's inception in 1971.

Inflation

Consumer Prices

The consumer price index (CPI) increased 0.1% in July, its sixth straight month of positive change. Although the energy index has fallen 14.8% in the past 12 months, core CPI (all items less food and energy) has risen 1.8% during the same period of time. Gasoline prices dropped in nine of the last 11 weeks since being on the rise during the first half of the year.

Producer Prices

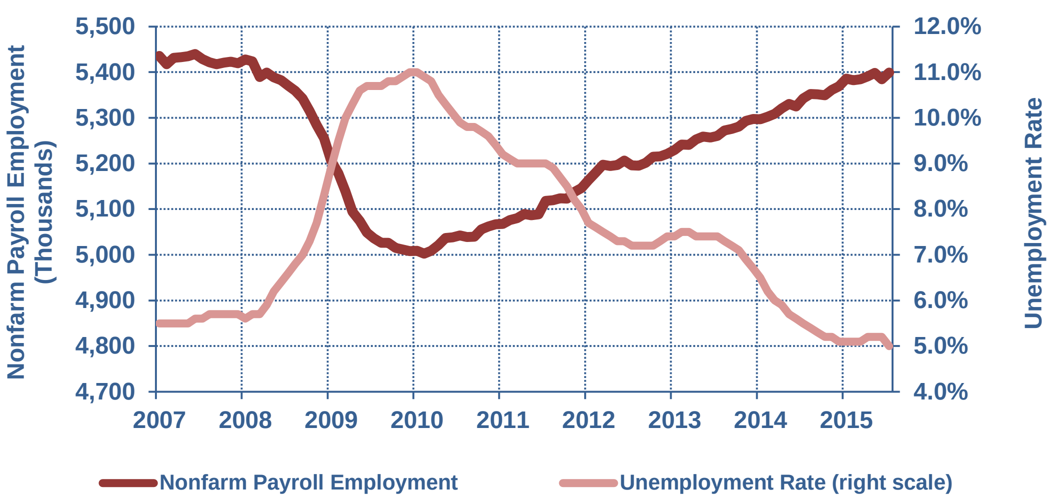
The producer price index (PPI) for final demand rose 0.2% in July, due to increases in prices for final demand services (0.4%) and the drop in prices for final demand goods (-0.1%). Final demand prices have dropped 0.8% in the last 12 months.

Total nonfarm payroll employment in July increased by 14,900 (0.3%) from June, and the state's unemployment rate dropped to 5.0% (from 5.2%)

The Ohio Economy

Total nonfarm payroll employment in July increased by 14,900 (0.3%) from June, and the state's unemployment rate dropped to 5.0% (from 5.2%), as shown in the chart below. The number of unemployed Ohioans was 286,000 in July, which was down (3.4%) from 296,000 in June. Ohio's total labor force dropped 16,000 (0.3%) workers in the month. Total nonagricultural wage and salary employment is up by 56,800 (1.1%) over the last 12 months. During the same time span, 21 states and the District of Columbia had decreases in their unemployment rates deemed statistically significant by BLS, while only two (West Virginia and South Dakota) had an equivalently significant increase.

Chart 5: Ohio Employment and Unemployment Rate



On the year, Ohio goods-producing industries added only 600 (0.1%) jobs, which includes 15,000 (2.2%) in manufacturing. Ohio construction employment has not reached the seasonal summer heights of 2014 and continues to act as a drag on the goods-producing sector, shedding 13,800 (7.0%) jobs since July 2014. Private service-providing industries added 39,900 (1.1%) in the last 12 months. The leisure and hospitality sector saw some of the largest gains, which added 12,500 (2.4%) jobs. Public sector jobs grew moderately, adding 16,300 (2.1%) over the same time period, all in local governments.

Regional Economy

The Federal Reserve Bank of Cleveland's most recent report on regional economic activity described a "slight" expansion during the past six weeks,[10] which was lower than most other U.S. regional reports over the same period. The report noted that:

- **Year-to-date sales of single-family homes** were up 8% through June and average sales price was up 6%. (This trend continued in July: see "Home Sales" below.) The threat of an impending rise in interest rates has been fueling the housing market most of the summer, and builders are now crediting an improving labor market and rising consumer confidence as well. The market should be expected to slow however, due to seasonal factors, higher borrowing costs and spillover from the slowdown in the energy market. **Nonresidential construction demand** was also strong across multiple segments including commercial, education, government contracts, and multifamily housing. Rising rent is driving demand for affordable multifamily housing. Some builders are targeting 2017 as the peak for this nonresidential construction expansion.
- **The number of drilling rigs** in the Marcellus and Utica Shales is now down about 40% from its peak in the fourth quarter of 2014, but natural gas production was up through the first half of 2015 compared to a year ago. Regarding capital budgets, some firms have made the decision to scale back on exploration and production plans, but move forward with already contracted projects.

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[10] The Federal Reserve Bank of Cleveland releases the Fourth District Beige Book eight times each year prior to the Federal Open Market Committee (FOMC) meetings. The Federal Reserve Bank of Cleveland's District includes all of Ohio and parts of Kentucky, Pennsylvania, and West Virginia. Information in the latest report was collected on or prior to August 24, 2015.

- **Business and consumer credit demand** continued slow growth. Demand for consumer credit continued to be strong for new-home, residential mortgages. The modest increase in demand for business credit was driven by commercial real estate loans in particular.
- **Wage pressures intensified** in the construction, retail, and transportation industries. Labor shortages in the construction industry, and for drivers and service technicians in freight transportation, created upward pressure on labor costs. In the retail industry it was also a labor shortage, plus a high turnover rate that was the culprit.
- **Retail store traffic** continued to decline while online shopping expands, which resulted in mostly flat or lower revenues during the period compared to a year ago. In the **motor vehicle segment**, strong consumer preference for SUVs and light trucks continued.

Home Sales

Ohio home sales boomed in July along with the rest of the nation. The number of homes sold in Ohio in July was 15,315, 15.4% higher than the 13,272 sold a year earlier, while year-to-date sales of 80,744 were 10.9% higher than the 72,801 sold in the comparable period in 2014. The year-to-date average sales price in the state was $156,582, 5.0% higher than the $149,122 figure from a year earlier, according to the Ohio Association of Realtors.