

# Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

NOVEMBER 2014

## STATUS OF THE GRF

### HIGHLIGHTS

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

Ohio's unemployment rate fell to 5.6% in September 2014, compared to a national rate of 5.9%. Ohio's unemployment rate was 7.4% in September 2013. Since then the number of unemployed workers has decreased by a little over 110,000. Workers leaving the workforce accounted for a little over one-third of that decline, but household employment increased by over 72,000, about 1.4%.

All major GRF tax sources are above estimate for FY 2015 through October, and total GRF tax receipts are \$217.7 million above estimate for the year to date. The one tax underperforming notably is the public utility excise tax, \$15.1 million below estimate, due to a large refund issued in September.

#### **Through October 2014, GRF sources totaled \$10.22 billion:**

- Revenue from the personal income tax was \$106.5 million above estimate;
- Sales and use tax receipts were \$74.5 million above estimate.

#### **Through October 2014, GRF uses totaled \$12.44 billion:**

- Overall program expenditures were \$114.7 million below estimate, due primarily to Medicaid (\$354.9 million). Positive variances in Primary and Secondary Education (\$131.2 million) and Property Tax Reimbursements (\$222.8 million) were timing related.

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<b>STATE SOURCES</b>	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>	<b>Percent</b>
<b>TAX REVENUE</b>				
Auto Sales	\$130,582	\$101,700	\$28,882	28.4%
Nonauto Sales and Use	\$733,956	\$705,100	\$28,856	4.1%
<b>Total Sales and Use Taxes</b>	<b>\$864,537</b>	<b>\$806,800</b>	<b>\$57,737</b>	<b>7.2%</b>
Personal Income	\$672,056	\$609,600	\$62,456	10.2%
Corporate Franchise	-\$2,401	\$0	-\$2,401	---
Financial Institution	-\$2,446	\$0	-\$2,446	---
Public Utility	\$2,115	\$2,000	\$115	5.7%
Kilowatt-Hour Excise	\$25,750	\$25,600	\$150	0.6%
Natural Gas Consumption (MCF)	\$492	\$500	-\$8	-1.5%
Commercial Activity Tax	\$30,294	\$25,900	\$4,394	17.0%
Petroleum Activity Tax	\$0	\$400	-\$400	-100.0%
Foreign Insurance	\$151,789	\$142,000	\$9,789	6.9%
Domestic Insurance	\$43	\$0	\$43	---
Business and Property	\$9	\$0	\$9	---
Cigarette	\$72,660	\$66,500	\$6,160	9.3%
Alcoholic Beverage	\$2,750	\$4,500	-\$1,750	-38.9%
Liquor Gallonage	\$3,352	\$3,200	\$152	4.8%
Estate	\$870	\$0	\$870	---
<b>Total Tax Revenue</b>	<b>\$1,821,872</b>	<b>\$1,687,000</b>	<b>\$134,872</b>	<b>8.0%</b>
<b>NONTAX REVENUE</b>				
Earnings on Investments	\$3	\$4,500	-\$4,497	-99.9%
Licenses and Fees	\$827	\$612	\$215	35.2%
Other Revenue	\$1,873	\$3,240	-\$1,368	-42.2%
<b>Total Nontax Revenue</b>	<b>\$2,702</b>	<b>\$8,352</b>	<b>-\$5,650</b>	<b>-67.6%</b>
<b>TRANSFERS</b>				
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers In	\$82	\$200	-\$118	-59.0%
<b>Total Transfers In</b>	<b>\$82</b>	<b>\$200</b>	<b>-\$118</b>	<b>-59.0%</b>
<b>TOTAL STATE SOURCES</b>	<b>\$1,824,656</b>	<b>\$1,695,552</b>	<b>\$129,104</b>	<b>7.6%</b>
Federal Grants	\$854,518	\$809,872	\$44,646	5.5%
<b>TOTAL GRF SOURCES</b>	<b>\$2,679,174</b>	<b>\$2,505,424</b>	<b>\$173,750</b>	<b>6.9%</b>
*Estimates of the Office of Budget and Management as of August 2014. <i>Detail may not sum to total due to rounding.</i>				

Table 2: General Revenue Fund Sources

Actual vs. Estimate

FY 2015 as of October 31, 2014

(\$ in thousands)

(Actual based on report run in OAKS Actuals Ledger on November 4, 2014)

STATE SOURCES	Actual	Estimate*	Variance	Percent	FY 2014	Percent Change
<b>TAX REVENUE</b>						
Auto Sales	\$467,409	\$434,000	\$33,409	7.7%	\$416,941	12.1%
Nonauto Sales and Use	\$2,860,994	\$2,819,900	\$41,094	1.5%	\$2,525,609	13.3%
<b>Total Sales and Use Taxes</b>	<b>\$3,328,403</b>	<b>\$3,253,900</b>	<b>\$74,503</b>	<b>2.3%</b>	<b>\$2,942,550</b>	<b>13.1%</b>
Personal Income	\$2,726,935	\$2,620,400	\$106,535	4.1%	\$2,901,691	-6.0%
Corporate Franchise	\$4,657	\$0	\$4,657	---	\$726	541.7%
Financial Institution	-\$2,024	\$0	-\$2,024	---	\$0	---
Public Utility	\$14,651	\$29,800	-\$15,149	-50.8%	\$27,960	-47.6%
Kilowatt-Hour Excise	\$104,402	\$111,800	-\$7,398	-6.6%	\$105,943	-1.5%
Natural Gas Consumption (MCF)	\$13,714	\$12,000	\$1,714	14.3%	\$14,051	-2.4%
Commercial Activity Tax	\$239,791	\$205,000	\$34,791	17.0%	\$218,453	9.8%
Petroleum Activity Tax	\$0	\$400	-\$400	-100.0%	\$0	---
Foreign Insurance	\$154,695	\$147,400	\$7,295	4.9%	\$146,905	5.3%
Domestic Insurance	\$7,708	\$1,800	\$5,908	328.2%	\$103	7417.2%
Business and Property	\$20	\$0	\$20	---	\$41	-52.0%
Cigarette	\$232,681	\$227,100	\$5,581	2.5%	\$236,019	-1.4%
Alcoholic Beverage	\$18,115	\$19,200	-\$1,085	-5.7%	\$19,144	-5.4%
Liquor Gallonage	\$14,341	\$13,600	\$741	5.4%	\$13,908	3.1%
Estate	\$2,038	\$0	\$2,038	---	\$24,014	-91.5%
<b>Total Tax Revenue</b>	<b>\$6,860,127</b>	<b>\$6,642,400</b>	<b>\$217,727</b>	<b>3.3%</b>	<b>\$6,651,507</b>	<b>3.1%</b>
<b>NONTAX REVENUE</b>						
Earnings on Investments	\$10	\$4,500	-\$4,490	-99.8%	\$3,758	-99.7%
Licenses and Fees	\$8,375	\$10,839	-\$2,463	-22.7%	\$9,885	-15.3%
Other Revenue	\$18,856	\$7,002	\$11,854	169.3%	\$3,482	441.5%
<b>Total Nontax Revenue</b>	<b>\$27,242</b>	<b>\$22,341</b>	<b>\$4,901</b>	<b>21.9%</b>	<b>\$17,125</b>	<b>59.1%</b>
<b>TRANSFERS</b>						
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers In	\$10,585	\$5,800	\$4,785	82.5%	\$12,599	-16.0%
<b>Total Transfers In</b>	<b>\$10,585</b>	<b>\$5,800</b>	<b>\$4,785</b>	<b>82.5%</b>	<b>\$12,599</b>	<b>-16.0%</b>
<b>TOTAL STATE SOURCES</b>	<b>\$6,897,954</b>	<b>\$6,670,541</b>	<b>\$227,413</b>	<b>3.4%</b>	<b>\$6,681,232</b>	<b>3.2%</b>
Federal Grants	\$3,325,618	\$3,593,647	-\$268,029	-7.5%	\$3,272,259	1.6%
<b>TOTAL GRF SOURCES</b>	<b>\$10,223,572</b>	<b>\$10,264,189</b>	<b>-\$40,618</b>	<b>-0.4%</b>	<b>\$9,953,491</b>	<b>2.7%</b>

\*Estimates of the Office of Budget and Management as of August 2014.

Detail may not sum to total due to rounding.

# REVENUES

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

## Overview

October tax receipts were \$134.9 million above estimate.

GRF sources received in October exceeded the estimate made by the Office of Budget and Management (OBM) in August 2014 by \$173.8 million (6.9%). The positive variances were widespread across different sources<sup>1</sup> and significant. Tax revenue accounted for \$134.9 million of the overall positive variance, with notable contributions from the personal income tax (\$62.5 million) and the sales and use tax (\$57.7 million). Federal grants exceeded estimate by \$44.6 million. The only negative variance that exceeded \$2.5 million was for earnings on investments, which had a negative variance of \$4.5 million, likely due to timing.

Year-to-date tax receipts were \$217.7 million above estimate.

October receipts increased the positive year-to-date variance for GRF tax revenue to \$217.7 million (3.3%). The primary contributor to that positive variance was the personal income tax, accounting for \$106.5 million, but the sales and use tax (\$74.5 million) and the commercial activity tax (CAT, \$34.8 million) also provided substantial boosts.<sup>2</sup> Total GRF sources were below estimate by \$40.6 million for the first four months of FY 2015, but that was accounted for entirely by federal grants, which were below estimate by \$268.0 million. Federal grants received by the GRF are for Medicaid and other human services programs, which means that a negative variance in this revenue category is generally offset by a negative variance on the spending side of the state budget.

One factor contributing to income tax revenue tracking above estimate this year, (and why it was above estimate by \$215 million in FY 2014), was revealed in October. The Department of Taxation announced preliminary data related to a policy change enacted in H.B. 59 of the 130th General Assembly. That act established a partial exemption of small business income under the tax. The exemption was expected to reduce all funds income tax revenue by \$533.5 million in FY 2014 and \$556.3 million in FY 2015, implying revenue losses to the GRF of \$516 million and \$538 million, respectively. A departmental analysis of tax year 2013 filings received by October 15 (the deadline for filing

<sup>1</sup> GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, together with federal grants.

<sup>2</sup> The majority (\$30.4 million) of the positive year-to-date variance in CAT receipts occurred in the first quarter of FY 2015.

extended returns) found that nearly half of eligible businesses did not claim the exemption, and that the associated revenue loss had been only \$287.3 million through that date. Taxpayers having been slow to take advantage of this recently enacted tax benefit boosted revenue last year, and this year as well. Of course taxpayers could decide to file amended returns in the future to claim the benefit, which could hold back revenue somewhat going forward.

During the first half of a fiscal year, the GRF typically pays out refunds under both the financial institutions tax (FIT) and the corporate franchise tax (CFT), rather than collecting revenue; revenue begins to be received in January of a fiscal year.<sup>3</sup> The GRF paid out \$2.4 million in refunds under both taxes in October, yielding a \$2.4 million negative variance under each tax. These negative variances were more than offset by a \$9.8 million positive variance from the foreign insurance tax; the first payment under that tax each fiscal year is received in October. Revenue from the cigarette tax was also well above estimate, by \$6.2 million, but that was mostly timing related.

Total GRF sources received during the first four months of FY 2015 were \$10.22 billion. Though below estimate, they were \$270.1 million higher than the amount received during the corresponding months of FY 2014. Tax revenue accounted for \$208.6 million of that growth, led by the sales and use tax, which grew by \$385.9 million. That growth was primarily due to solid growth in the tax base, but was partially attributable to the fact that a lower statewide tax rate (5.5%, versus the current 5.75%) was in effect for the first two months of FY 2014. Strong growth in the sales and use tax was partially offset by a decrease of \$174.8 million in personal income tax collections. That decrease was entirely due to tax policy changes enacted in H.B. 59 and H.B. 483 of the current General Assembly, notably an 8.5% reduction in all tax rates for tax year 2013, and an additional 1.5%<sup>4</sup> reduction for tax year 2014; the tax base certainly has increased so far this year. Revenue from the CAT contributed \$21.3 million to the growth this year, while revenue from the public utility excise tax decreased by \$13.3 million.

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<sup>3</sup> The CFT is being phased out, though, with taxpayers that used to pay the CFT now paying the FIT. OBM expects no revenue under the CFT in FY 2015.

<sup>4</sup> The tax year 2014 rate reduction is 1.5% if compared to tax year 2012 rates. It would be larger compared to the (now reduced) 2013 rates.

## Personal Income Tax

GRF revenue from the personal income tax was \$672.1 million in October, \$62.5 million (10.2%) above estimate. That brought year-to-date revenue from the tax to \$2.73 billion, \$106.5 million, or 4.1%, above estimate. Revenue from this tax is equal to gross collections, minus refunds and distributions to the Local Government Fund (LGF). Gross collections are the sum of employer withholding, quarterly estimated payments,<sup>5</sup> trust payments, payments associated with annual returns, and miscellaneous payments.

Monthly withholding was \$20.4 million above estimate in October, but the primary reason for the positive variance was refunds, which were \$46.4 million less than estimate. Similarly, for the first four months of FY 2015, refunds having been below estimate was the largest single factor driving the positive year-to-date variance, accounting for \$47.5 million of the \$106.5 million variance, followed by withholding, which contributed \$27.8 million, 1.1% above estimate. The breakdown of year-to-date variances by component and growth in the components from FY 2014 to FY 2015 are shown in the table below.

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	\$27.8	1.1%	-\$18.2	-0.7%
Quarterly Estimated Payments	\$21.6	8.5%	-\$78.6	-22.2%
Trust Payments	\$1.3	13.3%	-\$0.0	-0.2%
Annual Return Payments	\$12.1	15.0%	-\$42.0	-31.1%
Miscellaneous Payments	-\$3.2	-10.3%	\$0.4	1.3%
<b>Gross Collections</b>	\$59.6	2.0%	-\$138.6	-4.4%
Less Refunds	-\$47.5	-22.4%	\$35.3	27.2%
Less LGF Distribution	\$0.6	0.5%	\$0.9	0.8%
<b>Income Tax Revenue</b>	\$106.5	4.1%	-\$174.8	-6.0%

Revenue from this tax has declined since FY 2014. October revenue was \$28.9 million (4.1%) below receipts of the previous October, while year-to-date revenue through October was \$174.8 million (6.0%)

<sup>5</sup> Quarterly payments are made by taxpayers who expect to be underwithheld by more than \$500, and are typically paid by higher income taxpayers. The payments are due in April, June, and September of a tax year, and in January of the following year.

below the corresponding FY 2014 amount. The decline is attributable primarily to tax rate reductions enacted in H.B. 59 of the 130th General Assembly, as explained above. Due to the tax rate reductions, withholding rates were reduced by 9% effective for payrolls that ended after September 1, 2013. Note that, while withholding receipts for the first four months of FY 2015 were lower than during the corresponding months of FY 2014, for the two months for which withholding rates were the same (September and October) they were \$40.2 million (3.1%) higher.

### Sales and Use Tax

GRF revenue from the sales and use tax was \$864.5 million in October, increasing receipts for the first four months of FY 2015 to \$3.33 billion. Receipts were \$57.7 million (7.2%) above estimate for the month of October, and \$74.5 million (2.3%) above the estimate for July through October.

Revenue from this tax has increased since FY 2014. October receipts were \$98.7 million (12.9%) higher than receipts during October 2013, while year-to-date receipts were \$385.9 million (13.1%) greater than receipts during the first four months of FY 2014. The growth in year-to-date revenue is due in part to an increase in the statewide tax rate from 5.5% to 5.75% that became effective September 1, 2013. This 4.5% increase in the tax rate contributed to the very high revenue growth by historical standards. The strong growth from October 2013 to October this year should be unaffected by the increase in the tax rate, and therefore reflects growth in the tax base (i.e., taxable sales).

For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections generally arise from the sale of motor vehicles, but taxes arising from leasing of motor vehicles are mostly recorded under the nonauto tax rather than the auto tax.<sup>6</sup>

### Nonauto Sales and Use Tax

The GRF received \$734.0 million in receipts during October from the nonauto sales and use tax, \$28.9 million (4.1%) above estimate. Year-to-date receipts through October were \$2.86 billion, \$41.1 million (1.5%) above estimate.

<sup>6</sup> In terms of timing, taxes arising from leases are paid up front at the time of lease signing. Receipts from the auto sales and use tax largely reflect vehicles sold and titled during the month, because the clerks of court generally make tax payments on Monday for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled.

Year-to-date sales and use tax receipts were \$74.5 million above estimate.

Revenue performance under this component of the tax has been mixed so far in FY 2015. The solid performance in October followed an even stronger September, when receipts were \$43.8 million (6.6%) above estimate. But revenue started the year more weakly, having been well below estimate during August. Evidently back to school shopping took place later than expected this year. There are indications, though, as noted in last month's issue of *Budget Footnotes*, that taxable sales are strengthening.

### **Auto Sales and Use Tax**

October GRF receipts from the auto sales and use tax, \$130.6 million, were very strong, exceeding estimate by \$28.9 million, or 28.4%. Growth compared with the preceding October was \$29.0 million (28.6%). October revenue may have benefited to some extent from a timing issue, as September revenue was slightly below estimate. Revenue received in October increased the year-to-date total to \$467.4 million, \$33.4 million (7.7%) above estimate.

Auto sales and use tax receipts were \$28.9 million above estimate in October.

Auto sales were strong nationally in October, with 1.27 million light vehicle units sold – the highest unit sales figure for an October since 2004. This sales figure translates to 16.3 million units sold on a seasonally adjusted annualized basis. The mix of vehicles sold has shifted slightly, too, from cars toward light trucks: sales of light trucks represented 54.6% of overall light vehicle sales in September and October, up from 52.3% over the first eight months of 2014. Some analysts attribute the increasing share of light trucks to falling prices for gasoline.

### **Cigarette and Other Tobacco Products Tax**

The cigarette and other tobacco products (OTP) tax raised \$72.7 million for the GRF in October, \$6.2 million (9.3%) above estimate. This positive variance followed disappointing receipts in September. For the first four months of FY 2015, the tax yielded \$232.7 million, \$5.6 million (2.5%) above estimate. Taxes attributable to sales of cigarettes were \$209.3 million for July through October, while receipts due to OTP sales were \$23.4 million. Receipts from the tax have continued a long-term downward trend, with year-to-date receipts through October \$3.3 million (1.4%) below the comparable period of FY 2014. Year-to-date receipts attributable to cigarette sales decreased by \$7.6 million, while receipts attributable to OTP sales increased by \$4.2 million. The increase in taxes from OTP sales is partially attributable to an increase in the tax rate on sales of little cigars that was enacted in H.B. 59, effective October 1, 2013.

<b>Table 3: General Revenue Fund Uses</b>				
<b>Actual vs. Estimate</b>				
<b>Month of October 2014</b>				
(\$ in thousands)				
(Actual based on OAKS reports run November 6, 2014)				
<b>PROGRAM</b>	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>	<b>Percent</b>
Primary and Secondary Education	\$994,864	\$853,279	\$141,585	16.6%
Higher Education	\$188,715	\$185,810	\$2,905	1.6%
Other Education	\$4,183	\$10,030	-\$5,847	-58.3%
<b>Total Education</b>	<b>\$1,187,762</b>	<b>\$1,049,118</b>	<b>\$138,643</b>	<b>13.2%</b>
Medicaid	\$1,275,038	\$1,284,317	-\$9,279	-0.7%
Health and Human Services	\$133,473	\$197,377	-\$63,904	-32.4%
<b>Total Welfare and Human Services</b>	<b>\$1,408,511</b>	<b>\$1,481,694</b>	<b>-\$73,183</b>	<b>-4.9%</b>
Justice and Public Protection	\$164,765	\$172,137	-\$7,372	-4.3%
General Government	\$34,778	\$38,432	-\$3,654	-9.5%
<b>Total Government Operations</b>	<b>\$199,542</b>	<b>\$210,568</b>	<b>-\$11,026</b>	<b>-5.2%</b>
Property Tax Reimbursements	\$329,326	\$253,886	\$75,439	29.7%
Capital Outlay	\$0	\$0	\$0	---
Debt Service	\$86,151	\$86,166	-\$15	0.0%
<b>Total Other Expenditures</b>	<b>\$415,477</b>	<b>\$340,052</b>	<b>\$75,424</b>	<b>22.2%</b>
<b>Total Program Expenditures</b>	<b>\$3,211,292</b>	<b>\$3,081,433</b>	<b>\$129,858</b>	<b>4.2%</b>
<b>TRANSFERS</b>				
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers Out	\$0	\$10,000	-\$10,000	-100.0%
<b>Total Transfers Out</b>	<b>\$0</b>	<b>\$10,000</b>	<b>-\$10,000</b>	<b>-100.0%</b>
<b>TOTAL GRF USES</b>	<b>\$3,211,292</b>	<b>\$3,091,433</b>	<b>\$119,858</b>	<b>3.9%</b>
*August 2014 estimates of the Office of Budget and Management.				
<i>Detail may not sum to total due to rounding.</i>				

**Table 4: General Revenue Fund Uses**  
**Actual vs. Estimate**  
**FY 2015 as of October 31, 2014**  
(\$ in thousands)  
(Actual based on OAKS reports run November 6, 2014)

<b>PROGRAM</b>	<b>Actual</b>	<b>Estimate*</b>	<b>Variance</b>	<b>Percent</b>	<b>FY 2014</b>	<b>Percent Change</b>
Primary and Secondary Education	\$2,867,665	\$2,736,493	\$131,173	4.8%	\$2,322,323	23.5%
Higher Education	\$719,026	\$716,990	\$2,036	0.3%	\$664,398	8.2%
Other Education	\$25,270	\$27,539	-\$2,270	-8.2%	\$21,870	15.5%
<b>Total Education</b>	<b>\$3,611,961</b>	<b>\$3,481,022</b>	<b>\$130,939</b>	<b>3.8%</b>	<b>\$3,008,591</b>	<b>20.1%</b>
Medicaid	\$5,418,056	\$5,773,001	-\$354,944	-6.1%	\$5,116,879	5.9%
Health and Human Services	\$481,989	\$541,901	-\$59,913	-11.1%	\$421,946	14.2%
<b>Total Welfare and Human Services</b>	<b>\$5,900,045</b>	<b>\$6,314,902</b>	<b>-\$414,857</b>	<b>-6.6%</b>	<b>\$5,538,825</b>	<b>6.5%</b>
Justice and Public Protection	\$662,435	\$703,997	-\$41,562	-5.9%	\$672,121	-1.4%
General Government	\$124,858	\$134,159	-\$9,301	-6.9%	\$127,588	-2.1%
<b>Total Government Operations</b>	<b>\$787,292</b>	<b>\$838,156</b>	<b>-\$50,863</b>	<b>-6.1%</b>	<b>\$799,709</b>	<b>-1.6%</b>
Property Tax Reimbursements	\$760,978	\$538,210	\$222,768	41.4%	\$519,096	46.6%
Capital Outlay	\$0	\$0	\$0	---	\$0	---
Debt Service	\$820,069	\$822,731	-\$2,662	-0.3%	\$746,145	9.9%
<b>Total Other Expenditures</b>	<b>\$1,581,047</b>	<b>\$1,360,941</b>	<b>\$220,106</b>	<b>16.2%</b>	<b>\$1,265,241</b>	<b>25.0%</b>
<b>Total Program Expenditures</b>	<b>\$11,880,345</b>	<b>\$11,995,021</b>	<b>-\$114,676</b>	<b>-1.0%</b>	<b>\$10,612,365</b>	<b>11.9%</b>
<b>TRANSFERS</b>						
Budget Stabilization	\$0	\$0	\$0	---	\$995,930	-100.0%
Other Transfers Out	\$563,007	\$573,388	-\$10,381	-1.8%	\$206,998	172.0%
<b>Total Transfers Out</b>	<b>\$563,007</b>	<b>\$573,388</b>	<b>-\$10,381</b>	<b>-1.8%</b>	<b>\$1,202,928</b>	<b>-53.2%</b>
<b>TOTAL GRF USES</b>	<b>\$12,443,352</b>	<b>\$12,568,409</b>	<b>-\$125,057</b>	<b>-1.0%</b>	<b>\$11,815,294</b>	<b>5.3%</b>

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

**Table 5: Medicaid Expenditures by Department  
Actual vs. Estimate**

(\$ in thousands)

(Actuals based on OAKS report run on November 3, 2014)

Department	Month of October 2014				Year to Date Through October 2014			
	Actual	Estimate*	Variance	Percent	Actual	Estimate*	Variance	Percent
<b>Medicaid</b>	<b>\$1,836,317</b>	<b>\$1,800,445</b>	<b>\$35,872</b>	<b>2.0%</b>	<b>\$6,801,540</b>	<b>\$6,943,441</b>	<b>-\$141,902</b>	<b>-2.0%</b>
GRF	\$1,232,212	\$1,241,480	-\$9,268	-0.7%	\$5,237,726	\$5,581,308	-\$343,582	-6.2%
Non-GRF	\$604,105	\$558,965	\$45,140	8.1%	\$1,563,814	\$1,362,134	\$201,680	14.8%
<b>Developmental Disabilities</b>	<b>\$175,287</b>	<b>\$179,545</b>	<b>-\$4,258</b>	<b>-2.4%</b>	<b>\$752,293</b>	<b>\$796,443</b>	<b>-\$44,150</b>	<b>-5.5%</b>
GRF	\$37,551	\$37,257	\$294	0.8%	\$152,290	\$155,519	-\$3,229	-2.1%
Non-GRF	\$137,736	\$142,288	-\$4,552	-3.2%	\$600,003	\$640,924	-\$40,921	-6.4%
<b>Job and Family Services</b>	<b>\$12,993</b>	<b>\$11,020</b>	<b>\$1,973</b>	<b>17.9%</b>	<b>\$57,809</b>	<b>\$53,693</b>	<b>\$4,116</b>	<b>7.7%</b>
GRF	\$4,411	\$4,558	-\$147	-3.2%	\$24,710	\$32,661	-\$7,950	-24.3%
Non-GRF	\$8,582	\$6,462	\$2,120	32.8%	\$33,098	\$21,032	\$12,067	57.4%
<b>Aging</b>	<b>\$518</b>	<b>\$714</b>	<b>-\$196</b>	<b>-27.4%</b>	<b>\$2,046</b>	<b>\$2,462</b>	<b>-\$416</b>	<b>-16.9%</b>
GRF	\$235	\$391	-\$156	-39.8%	\$1,149	\$1,172	-\$23	-1.9%
Non-GRF	\$283	\$324	-\$40	-12.5%	\$897	\$1,290	-\$393	-30.5%
<b>Health</b>	<b>\$1,999</b>	<b>\$1,769</b>	<b>\$230</b>	<b>13.0%</b>	<b>\$7,627</b>	<b>\$8,576</b>	<b>-\$948</b>	<b>-11.1%</b>
GRF	\$408	\$259	\$149	57.7%	\$1,302	\$1,100	\$202	18.4%
Non-GRF	\$1,591	\$1,510	\$81	5.4%	\$6,325	\$7,475	-\$1,150	-15.4%
<b>Mental Health and Addiction</b>	<b>\$329</b>	<b>\$737</b>	<b>-\$408</b>	<b>-55.4%</b>	<b>\$1,564</b>	<b>\$2,323</b>	<b>-\$759</b>	<b>-32.7%</b>
GRF	\$222	\$374	-\$152	-40.7%	\$879	\$1,242	-\$362	-29.2%
Non-GRF	\$108	\$364	-\$256	-70.4%	\$685	\$1,082	-\$396	-36.6%
<b>Total GRF</b>	<b>\$1,275,038</b>	<b>\$1,284,317</b>	<b>-\$9,279</b>	<b>-0.7%</b>	<b>\$5,418,056</b>	<b>\$5,773,001</b>	<b>-\$354,944</b>	<b>-6.1%</b>
<b>Total Non-GRF</b>	<b>\$752,406</b>	<b>\$709,913</b>	<b>\$42,493</b>	<b>6.0%</b>	<b>\$2,204,823</b>	<b>\$2,033,937</b>	<b>\$170,886</b>	<b>8.4%</b>
<b>Total All Funds</b>	<b>\$2,027,444</b>	<b>\$1,994,230</b>	<b>\$33,214</b>	<b>1.7%</b>	<b>\$7,622,879</b>	<b>\$7,806,937</b>	<b>-\$184,058</b>	<b>-2.4%</b>

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

Detail may not sum to total due to rounding.

**Table 6: All-Funds Medicaid Expenditures by Payment Category****Actual vs. Estimate**

(\$ in thousands)

(Actuals based on OAKS report run on November 3, 2014)

Payment Category	October				Year to Date Through October			
	Actual	Estimate*	Variance	Percent	Actual	Estimate*	Variance	Percent
Managed Care	\$883,856	\$917,794	-\$33,938	-3.7%	\$3,359,474	\$3,504,533	-\$145,060	-4.1%
Nursing Facilities	\$113,344	\$86,604	\$26,741	30.9%	\$493,149	\$434,580	\$58,569	13.5%
DDD Services	\$171,741	\$175,891	-\$4,150	-2.4%	\$731,520	\$774,707	-\$43,187	-5.6%
Hospitals	\$60,363	\$88,419	-\$28,056	-31.7%	\$288,510	\$403,929	-\$115,419	-28.6%
Behavioral Health	\$57,905	\$73,054	-\$15,149	-20.7%	\$253,089	\$320,863	-\$67,775	-21.1%
Administration	\$101,162	\$109,412	-\$8,250	-7.5%	\$296,431	\$311,167	-\$14,736	-4.7%
Aging Waivers	\$19,686	\$18,451	\$1,235	6.7%	\$99,441	\$112,013	-\$12,572	-11.2%
Prescription Drugs	\$30,410	\$35,176	-\$4,766	-13.5%	\$135,762	\$158,424	-\$22,663	-14.3%
Medicare Buy-In	\$73,570	\$39,048	\$34,523	88.4%	\$180,886	\$155,426	\$25,460	16.4%
Physicians	\$137,614	\$139,947	-\$2,333	-1.7%	\$319,814	\$347,603	-\$27,790	-8.0%
Medicare Part D	\$24,063	\$24,626	-\$563	-2.3%	\$96,248	\$98,011	-\$1,763	-1.8%
Home Care Waivers	\$12,320	\$10,196	\$2,123	20.8%	\$57,133	\$52,428	\$4,705	9.0%
ACA Expansion	\$266,798	\$170,712	\$96,086	56.3%	\$982,727	\$676,989	\$305,738	45.2%
All Other	\$74,611	\$104,901	-\$30,290	-28.9%	\$328,696	\$456,263	-\$127,567	-28.0%
<b>Total All Funds</b>	<b>\$2,027,444</b>	<b>\$1,994,230</b>	<b>\$33,214</b>	<b>1.7%</b>	<b>\$7,622,879</b>	<b>\$7,806,937</b>	<b>-\$184,058</b>	<b>-2.4%</b>

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

*Detail may not sum to total due to rounding.*

# EXPENDITURES

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

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

## Overview

For the first four months of FY 2015, GRF uses totaled \$12.44 billion, \$125.1 million below the estimate released by the Office of Budget and Management (OBM) in August 2014. GRF uses mainly consist of program expenditures but also include transfers. Through October, GRF transfers out totaled \$563.0 million, \$10.4 million below estimate. GRF program expenditures totaled \$11.88 billion, \$114.7 million below estimate. Tables 3 and 4 show GRF uses for the month of October and for FY 2015 through October, respectively.

Several GRF program categories had significant variances. Medicaid had the largest negative year-to-date variance at \$354.9 million, followed by Health and Human Services (\$59.9 million) and Justice and Public Protection (\$41.6 million). Property Tax Reimbursements and Primary and Secondary Education, on the other hand, had positive year-to-date variances of \$222.8 million and \$131.2 million, respectively, due largely to timing issues. The remainder of this report will briefly discuss the variances in these five program categories.

## Medicaid

For the first four months of FY 2015, GRF Medicaid expenditures totaled \$5.42 billion, which was \$354.9 million (6.1%) 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 \$2.20 billion in the first four months, \$170.9 million (8.4%) above estimate. Across all funds, Medicaid expenditures totaled \$7.62 billion, \$184.1 million (2.4%) 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 are supported by federal and state moneys.

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

For the first four months of FY 2015, GRF uses were \$125.1 million below estimate.

Through October, GRF Medicaid expenditures were \$354.9 million below estimate; all-funds Medicaid expenditures were \$184.1 million below estimate.

ODM's GRF expenditures totaled \$5.24 billion, which was \$343.6 million (6.2%) below estimate, while its non-GRF expenditures totaled \$1.56 billion, which was \$201.7 million (14.8%) above estimate. Across all funds, ODM's expenditures were \$141.9 million (2.0%) below their year-to-date estimate. GRF and non-GRF Medicaid expenditures from the Department of Developmental Disabilities (DDD), the second largest agency within this program category, were \$3.2 million (2.1%) and \$40.9 million (6.4%), respectively, below their year-to-date estimates. Together, ODM and DDD account for about 99% of the Medicaid expenditure total.

Year-to-date  
all-funds  
expenditures  
for the ACA  
Expansion  
category were  
\$305.7 million  
above  
estimate.

Table 6 details all-funds Medicaid expenditures by payment category. As seen from the table, Managed Care had the largest negative year-to-date variance of \$145.1 million (4.1%), followed by All Other (\$127.6 million, 28.0%), Hospitals (\$115.4 million, 28.6%), Behavioral Health (\$67.8 million, 21.1%), DDD Services (\$43.2 million, 5.6%), and Physicians (\$27.8 million, 8.0%). These negative variances were partially offset by a positive year-to-date variance of \$305.7 million (45.2%) in the ACA Expansion payment category. This category contains expenditures for individuals who became eligible for coverage on January 1, 2014 through the federal Patient Protection and Affordable Care Act (ACA). The negative variance in Managed Care was due in part to lower than expected enrollment in the MyCare Ohio program. Lower than anticipated Aged, Blind, and Disabled caseload accounted for the negative variances in the Hospitals and Physicians categories. The positive variance in the ACA Expansion category was attributable to higher than expected caseload and per person costs.

### Health and Human Services

GRF expenditures for Health and Human Services were \$133.5 million in October, \$63.9 million (32.4%) below estimate. This monthly variance accounted for the entire amount of the negative year-to-date variance (\$59.9 million, 11.1%) for the program category. The Ohio Department of Job and Family Services (ODJFS) had the largest negative variance, \$36.3 million, among the agencies in this category. Fifteen of ODJFS's 17 GRF appropriation items were below their year-to-date estimates. Items 600413, Child Care State/Maintenance of Effort, and 600535, Early Care and Education, had negative variances of \$10.7 million and \$7.8 million, respectively. These two items are used to provide payments for publicly funded child care services. Items 600321, Program Support, and 600416, Information Technology Projects, were \$5.2 million and \$4.8 million, respectively, below their year-to-date estimates. Both of these items fund ODJFS's general administration activities.

The Ohio Department of Mental Health and Addiction Services (OMHAS) contributed another \$16.9 million to the category's negative year-to-date variance. GRF appropriation item 335507, Community Behavioral Health, distributes subsidies to community alcohol, drug addiction, and mental health services boards to provide behavioral health services. This item's expenditures were \$8.7 million below the four-month estimate. Similarly, another item that distributes funding to local boards, item 335421, Continuum of Care Services, was below estimate by \$4.6 million. Item 334412, Hospital Services, had a negative variance of \$2.2 million. This item supports the state regional psychiatric hospital system. In addition to OMHAS, the Opportunities for Ohioans with Disabilities Agency and the Department of Health had negative year-to-date variances of \$3.2 million and \$2.2 million, respectively.

### Justice and Public Protection

Year-to-date expenditures for the Justice and Public Protection program category were \$662.4 million, \$41.6 million (5.9%) below estimate. The Department of Rehabilitation and Correction (DRC) accounted for \$31.4 million of this program category's negative year-to-date variance. FY 2015 expenditures from item 505321, Institution Medical Services, were \$18.2 million below estimate. This item pays for comprehensive healthcare services at all correctional institutions, and the monthly spending patterns are dependent on the incidence of inmates' needs. Year-to-date expenditures from DRC's main appropriation item 501321, Institutional Operations, were \$13.2 million below estimate. In addition to DRC, the Supreme Court of Ohio and the Department of Youth Services contributed \$5.9 million and \$3.4 million, respectively, to the Justice and Public Protection program category's negative year-to-date variance.

### Property Tax Reimbursements

Expenditures for Property Tax Reimbursements were \$329.3 million in October, \$75.4 million (29.7%) above the monthly estimate. The October variance increased the program category's positive year-to-date variance from \$147.3 million to \$222.8 million (41.4%) through the first four months of FY 2015. Funds provided under this program category are used to reimburse school districts and other local governments for losses incurred as a result of the 10% and 2.5% "rollback" reductions in real property taxes and as a result of the "homestead exemption" reduction in real property taxes. The reimbursement payments are made twice per year, one based on the February property tax settlement and one based on the August property tax settlement. The

Due mainly to timing issues, year-to-date property tax reimbursements were \$222.8 million above estimate.

payments based on the August 2014 property tax settlement will be made in the first six months of FY 2015. Funds are disbursed when county auditors request the payments. Approximately 85 of 88 counties had received their semiannual reimbursements by the end of October, more than OBM had originally anticipated.

### Primary and Secondary Education

GRF expenditures for Primary and Secondary Education were \$994.9 million for the month of October, \$141.6 million (16.6%) above estimate. Through October, Primary and Secondary Education expenditures totaled \$2.87 billion, \$131.2 million (4.8%) 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 \$147.1 million above estimate in the month of October, increasing this item's positive year-to-date variance to \$152.5 million. This variance is largely an issue of timing. Item 200550 is the main funding source for school foundation payments, including payments to community schools, which are made once per month and payments for EdChoice scholarships, which are made three times per year. The November community school payment posted against the month of October instead of November in the Ohio Administrative Knowledge System (OAKS), the state's accounting system. Also, the first EdChoice payment was projected to be paid in November, but posted in October. This positive variance in October should be largely offset by a negative variance in November.

Several other items in the ODE budget had negative year-to-date variances that partially offset the positive year-to-date variance in item 200550. Most notably, item 200408, Early Childhood Education, was \$6.5 million below its four-month estimate. Year-to-date expenditures from items 200540, Special Education Enhancements, and 200437, Student Assessment, were also below estimates by \$4.6 million and \$4.4 million, respectively.

Foundation  
Funding (item  
200550) was  
\$152.5 million  
above the  
year-to-date  
estimate, due  
to timing.

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# ISSUE UPDATES

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## **ODJFS and DRC Announce Decrease in Offenders Entering Prison for Nonsupport of Dependents**

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

On October 6, 2014, the Ohio Department of Job and Family Services (ODJFS) and the Department of Rehabilitation and Correction (DRC) announced that over the last four fiscal years the number of offenders entering prison for nonsupport of dependents decreased by 34.5%, from 522 offenders in FY 2011 to 342 offenders in FY 2014. This decrease is in part attributed to provisions in H.B. 86 of the 129th General Assembly which encourage judges to consider alternatives to prison for nonviolent felony offenders, including community control diversion programs for first-time felony nonsupport offenders. These diversion programs reduce the number of such offenders sent to prison and increase the amount of child support collected. Another contributing factor is the awarding of GRF funded Community Corrections Act (CCA) grants. DRC awards these grants to reduce the number of nonviolent felony offenders sent to prison.

Furthermore, ODJFS has collaborated with DRC since February 2012 to operate Offender Network for Employment to STOP Recidivism (O.N.E.-STOP) centers in five correctional and reintegration centers across the state. The intent of these centers is to enhance outcomes among incarcerated and formerly incarcerated parents with child support obligations by providing information about Ohio's child support system and removing barriers to the payment of support. The centers also provide inmates with restricted access to OhioMeansJobs.com and other job seeking resources at over 20 DRC correctional institution libraries. ODJFS has contributed about \$250,000 in federal funding to these centers since their inception; in addition, ODJFS has transferred over 100 computers from its IT salvage to the centers at no charge to DRC. A total of 2,274 offenders have been served at O.N.E.-STOP sites, while an additional 7,235 have utilized the restricted access to OhioMeansJobs.com.

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## **Attorney General Announces \$2.1 million State Share from Shire Pharmaceuticals Settlement**

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

On September 25, 2014, the Ohio Attorney General announced that Ohio will receive nearly \$2.1 million from a \$56.5 million multistate settlement to resolve allegations against Shire Pharmaceuticals. The settlement resolves claims that Shire Pharmaceuticals engaged in marketing campaigns to improperly promote the drugs

Adderrall XR, Vyvanse, and Daytrona that are used to treat Attention Deficit Hyperactivity Disorder (ADHD), as well as Lialda for the treatment of colorectal cancer and Pentasa in treating Crohn's Disease.<sup>7</sup> A total of 29 states, including Ohio, and the District of Columbia joined the federal government to file the lawsuit under the Federal False Claims Act, which imposes liability on individuals and companies who defraud governmental programs. The future marketing and sales practices of Shire Pharmaceuticals will be monitored by the U.S. Department of Health and Human Services, Office of the Inspector General.

The majority of the settlement will go to Medicaid because Shire Pharmaceuticals' marketing practices have resulted in false claims made to Medicaid. Medicaid is a federal and state partnership. The federal and state shares of Ohio Medicaid are about 60% and 40%, respectively. Of Ohio's share of the settlement, \$1.2 million will be used to reimburse the federal government for its share of Ohio's Medicaid claims and the remaining \$843,000 will be returned to Ohio Medicaid. This settlement is one of the first national settlements calculated under a new method that includes Medicaid damages as part of the recovery.

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### **Ohio Receives \$9.6 million Federal Grant for School Safety and Youth Mental Health**

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

On September 30, 2014, the U.S. Department of Health and Human Services awarded \$9.6 million to the Ohio Department of Education (ODE) as part of the national "Now Is the Time" (NITT) plan to reduce gun violence and make schools safer. ODE is one of 19 state education agencies to receive funding for the NITT strategy called Project AWARE (Advancing Wellness and Resilience in Education). No state or local matching funds were required for this grant. ODE will use the money over five years to expand training programs for mental health workers who treat children and to help schools recognize and respond to mental health issues in students in order to increase the number of individuals and first responders trained in youth mental health first aid and improve access to mental health services for at-risk youth.

Through its grant, ODE will partner with the educational service centers of Cuyahoga, Warren, and Wood counties, the Center for School-Based Mental Health Programs, the Ohio Mental Health Network for School Success, and other state agencies to focus on students in 30 high-need school districts serving nearly 143,000 students. These districts are listed in the table below.

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<sup>7</sup> The lawsuit alleged claims about the quality and effectiveness of these drugs that were not supported by clinical data collected through appropriate testing.

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**Project AWARE Focus School Districts**


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**Cuyahoga County**

Bedford City	Berea City	Brooklyn City	Cleveland Heights- University Heights City
Cleveland Municipal City	Cuyahoga Heights Local	East Cleveland City	Euclid City
Fairview Park City	Garfield Heights City	Lakewood City	Maple Heights City
Mayfield City	North Olmstead City	Parma City	Richmond Heights City
Shaker Heights City	South Euclid-Lyndhurst City	Warrensville Heights City	

**Warren County**

Carlisle Local	Franklin City	Lebanon City	Little Miami Local
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**Wood County**

Bowling Green City	Elmwood Local	Lake Local	North Baltimore Local
Northwood Local	Otsego Local	Rossford Exempted Village	

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## CMSD Releases Second Year District Performance Report under the Cleveland Plan

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

The Cleveland Metropolitan School District (CMSD) announced the release of its second annual report of district performance under the Cleveland Plan on September 29, 2014. Out of the various measures for improvement set for the 2013-2014 school year, CMSD met 44.2% of its goals. For the previous school year, 2012-2013, 49.1% of the goals were met. Many goals were set higher in the second year than the first. For example, CMSD set the goals for various subcategories under the academic achievement measure for the 2013-2014 school year 4.3 percentage points higher, on average, than the previous year's goals. The goals for decreasing achievement gaps among student groups were also set higher as gaps were set 1.9 percentage points lower, on average, for the 2013-2014 school year compared with the previous year's goals.

The Cleveland Plan was initiated by H.B. 525 of the 129th General Assembly. This act requires CMSD to report, by October 1 of each school year, to ODE on the district's progress across a wide array of measures of academic achievement, achievement gaps, graduation rates, and conditions for learning. The State Superintendent will evaluate the district's overall performance based on these reports no later than November 15, 2017.

## **Controlling Board Approves Release and Transfer of \$10 million to ODJFS for Adult Protective Services**

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

On October 20, 2014, the Controlling Board approved the release and transfer of \$10.0 million to ODJFS to fund adult protective services, as authorized by H.B. 483 of the 130th General Assembly. That act, among other things, established the Adult Protective Services (APS) Funding Workgroup and required that it make recommendations to ODJFS regarding how to distribute the \$10.0 million.

The APS Funding Workgroup released its recommendations on September 25, 2014. It recommends that \$4.4 million be distributed as one-time planning funds for counties to meet core requirements to be established by ODJFS and the remaining \$5.6 million be distributed as follows: \$1.5 million to implement a statewide data collection and reporting system, \$500,000 to implement a statewide hotline, \$631,200 to provide all-system training, and \$2,968,800 to create an innovation fund to provide competitive grants to counties that demonstrate innovation in multidisciplinary collaboration that improves APS system performance.

In addition to recommending how to distribute the \$10 million, the Workgroup is charged with investigating programmatic or financial gaps in the APS system, identifying best practices currently employed at the county level and areas of overlap and linkages across all human services programs, and coordinating with the Children Services Funding Workgroup in ODJFS, if that Workgroup is created. The APS Funding Workgroup will continue to collaborate with and advise ODJFS regarding these issues until the Workgroup ceases to exist on June 16, 2015.

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## **State Fire Marshal Receives \$1.0 million from Bureau of Workers' Compensation for Firefighter Training Grant**

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

On October 1, 2014, the Bureau of Workers' Compensation (BWC) along with the Department of Commerce's Division of the State Fire Marshal announced \$1.0 million in additional funding for the State Fire Marshal's Firefighter I Training Grant Program. This additional funding brings the total funding available for the program to \$1.5 million in FY 2015. Grants are awarded to fire training schools to provide training to newly hired or volunteer firefighters at no cost to the local government. Fire training schools apply through the State Fire Marshal and are awarded on a first-come, first-served basis.

The Firefighter I Training Grant Program was established in H.B. 59, the main operating budget act for the FY 2014-FY 2015 biennium, with funding of \$500,000 in each fiscal year. These funds have provided training for about 1,000 firefighters in

27 fire training schools. The source of funding for the program is revenue from taxes on insurance companies selling fire insurance in Ohio and from inspection fees, hotel permits, and fireworks licenses, which are deposited into the State Fire Marshal Fund (Fund 5460). The additional funding provided by BWC comes from safety and hygiene assessments charged to employers along with their workers' compensation premiums. These receipts are deposited into the Safety and Hygiene Fund (Fund 8260).

## **Nine Ohio Law Enforcement Agencies Awarded \$7.1 million under U.S. Department of Justice's COPS Hiring Program Grant**

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

On September 29, 2014, the U.S. Department of Justice's Office of Community Oriented Policing Services (COPS) awarded nine law enforcement agencies in Ohio \$7.1 million in grant funding under the 2014 COPS Hiring Program (CHP). These grants will allow the nine Ohio law enforcement agencies to hire 57 police officers (see table below). CHP grants provide up to 75.0% of approved entry-level salaries and fringe benefits of full-time police officers for a three-year grant period. The local law enforcement agency is required to provide a minimum 25.0% match, and there is a maximum federal share of \$125,000 per officer. In federal fiscal year (FFY) 2014, the Department of Justice distributed 215 CHP grants totaling \$123.9 million across the country. CHP grants allow law enforcement agencies to fund the salaries and benefits of new police officers, rehire officers who have been laid off, or avoid police officer layoffs in departments facing budget constraints. The grants may also be used to hire new officers to address particular community policing needs. This includes support for local homeland security, efforts to reduce homicide and violent crime, school-based policing, and programs that address problems of fairness, impartiality, and transparency between law enforcement and residents.

<b>FFY 2014 COPS Hiring Program Grants for Ohio</b>		
<b>Awardee</b>	<b># of Officers Funded</b>	<b>Estimated Award</b>
City of Cincinnati	15	\$1,875,000
City of Cleveland	15	\$1,875,000
City of Canton	9	\$1,125,000
Lorain Police Department	5	\$625,000
Cuyahoga Metropolitan Housing Authority Police	4	\$500,000
City of Warren	3	\$375,000
Lima Police Department	3	\$375,000
Austintown Township	2	\$250,000
Milton Township	1	\$125,000
<b>TOTAL</b>	<b>57</b>	<b>\$7,125,000</b>

## Attorney General Awards \$19 million in Crime Victim Services Grants

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

On October 1, 2014, the Office of the Attorney General announced the award of \$19 million in 2014-2015 crime victim services grants to 282 agencies in 85 counties.<sup>8</sup> Of this total, \$15.5 million is to be funded by the federal Crime Victims Assistance Fund (Fund 3830) and \$3.5 million is to be funded by the state Victims of Crime/Reparations Fund (Fund 4020). Fund 3830's revenues are from a federal formula grant program, while Fund 4020's revenues are generated primarily from court costs imposed on offenders and driver's license reinstatement fees.

The grants were awarded to victim assistance programs operated by public agencies and private nonprofit organizations including domestic violence shelters, human trafficking outreach centers, aged-out foster youth initiatives, child abuse programs, legal aid initiatives, and court appointed special advocate programs.

The table below lists the five counties in which the largest shares of grant funding were received. Franklin County topped the list with 28 grants totaling \$1.8 million, followed by Hamilton, Cuyahoga, Summit, and Lucas. The least amount of money was awarded in Wyandot County with one grant totaling \$24,900. Agencies in three of Ohio's 88 counties, Fulton, Perry, and Putnam, did not submit grant applications; however, crime victims in those areas will be served by programs in neighboring counties.

Top 5 Total Victim Assistance Grant Awards by County, CY 2014-CY 2015			
County	Number of Agencies Awarded Funding	Total Amount of Funding Awarded	Percentage of Total Funding
Franklin	28	\$1,801,003	9.5%
Hamilton	13	\$1,051,345	5.5%
Cuyahoga	10	\$926,108	4.9%
Summit	7	\$795,826	4.2%
Lucas	8	\$779,534	4.1%
<b>Top 5 Total</b>	<b>66</b>	<b>\$5,353,816</b>	<b>28.2%</b>
<b>Statewide Total</b>	<b>282</b>	<b>\$18,955,855</b>	<b>100.0%</b>

## VLT Program Welcomes the Last Two Racinos

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

The Video Lottery Terminal (VLT) Program has recently added two new horse racetracks (racinos): Hollywood Dayton opened to gamblers in August and Hollywood Mahoning Valley in September. With these two openings, all seven

<sup>8</sup> A complete grant award list can be found at: [www.ohioattorneygeneral.gov](http://www.ohioattorneygeneral.gov).

authorized racinos are operational. In September 2014, the seven racinos were operating a total of 10,274 VLT machines, ranging from 850 machines at Mahoning Valley to 2,267 at Hard Rock Racino at Northfield Park. In comparison, about 7,860 slot machines were in use at the four Ohio casinos.

Revenue from the VLT Program is shared by the racetrack owners (66.5%) and the Ohio Lottery Commission (LOT, 33.5%). In FY 2014, VLT revenue was \$437.6 million (after payout to players). The LOT share was \$146.6 million, of which \$139.4 million was transferred to the Lottery Profits Education Fund (Fund 7017) and \$7.2 million was used for administrative expenses. Total transfers to Fund 7017, including profits from traditional ticket sales, were \$958.6 million in FY 2014. Since the first racino opened in June 2012 through September 2014, racinos have produced \$263.3 million in revenue for LOT.

# TRACKING THE ECONOMY

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

The U.S. unemployment rate dropped to its lowest level in six years.

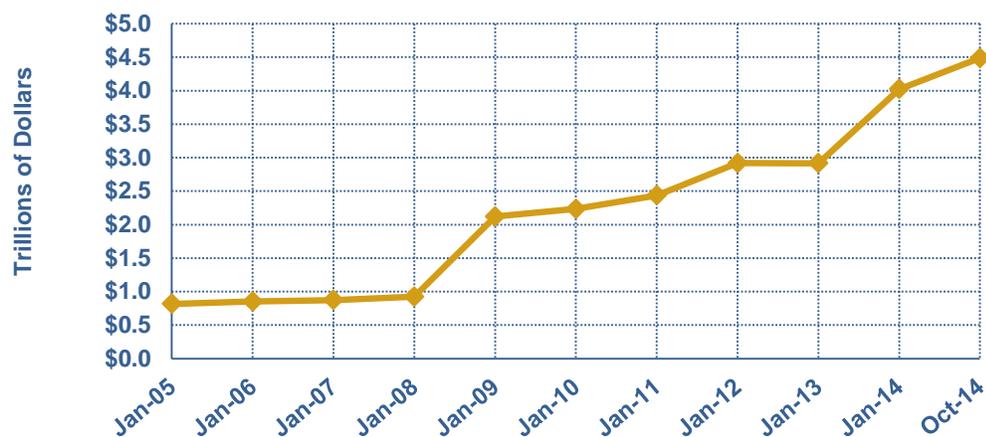
The U.S. unemployment rate dropped to its lowest level in six years, while Ohio also experienced a decrease in the unemployment rate and an increase in overall employment, due in part to growth in manufacturing jobs. Continued low interest rates have contributed to growth in vehicle sales this year, even as home sales remain well short of rates in past years. As the Federal Reserve ends its asset buying program, inflation remains low, partially as a result of a recent drop in energy prices. Real gross domestic product, which is adjusted for inflation, continued growth at a rate somewhat stronger than the trend earlier in the expansion.

## The National Economy

### Monetary Policy

On October 29, the Federal Open Market Committee (FOMC) of the Federal Reserve, the nation's central bank, announced its decision to end its asset purchase program by the end of October. Since late 2008, the Federal Reserve adjusted its monetary policy and expanded its holdings of longer-term securities through multiple asset purchase programs, a policy aimed at keeping downward pressure on interest rates and creating more favorable economic and financial conditions. As late as December 2013, that policy included monthly purchases of \$85 billion. Total assets held by the Federal Reserve are approximately \$4.5 trillion and have increased 393% since August 2008.

**Chart 1: Yearly Total Assets of all Federal Reserve Banks in Trillions of Dollars, January 2005 to October 2014**



The FOMC reaffirmed its policies to keep the federal funds rate, the interest rate at which depository institutions lend reserve balances to other institutions overnight, at current near-zero levels (between 0% and 0.25%). The FOMC anticipates that interest rates will be held at this level for a considerable time in order to progress towards its dual objectives of longer-term maximum employment and 2% inflation.

### Employment and Unemployment

In October, nonfarm payroll employment nationwide at business establishments increased 214,000, according to initial estimates from the Bureau of Labor Statistics (BLS). Gains in food services and drinking places, retail trade, and health care contributed to the increase. Furthermore, BLS revised its August and September employment numbers upward by an additional 31,000 jobs.

Unemployment saw a further decrease as October dropped to 5.8%, the lowest rate in six years. However, the number of long-term unemployed, and those working part time for economic reasons (individuals preferring full-time employment but had their hours cut or were unable to find full-time work), remained essentially the same over the past month. Similarly, labor force participation remains at a low rate (62.8%), only 0.1% higher than last month.

### Production

Industrial production (IP) increased 1.0% in September and progressed at an annual rate of 3.2% for the third quarter of 2014, almost matching its average quarterly increase for the past four years, according to the Federal Reserve's index. The Federal Reserve's monthly index for mining output rose 1.8% in September, a 9.1% increase over the past year. The IP index measures the real output of all manufacturing, mining, and electric and gas utility establishments located in the United States.

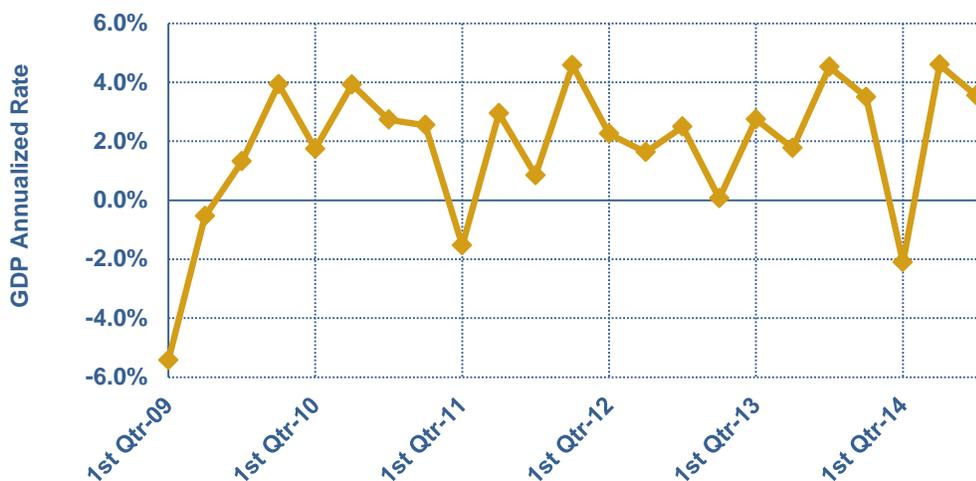
Manufacturing activity continued to expand in October, based on a survey of manufacturing sector purchasing managers released by the Institute for Supply Management (ISM). October's overall index level matched August's level, the highest since March 2011. Growth in new orders, as well as increases in other components are driving the current expansion.

An advance estimate of real gross domestic product (GDP) in the third quarter of 2014 grew at an annual rate of 3.5%, according to the Bureau of Economic Analysis (BEA), compared with second quarter real GDP growth of 4.6%. BEA estimated the slowdown was due to slower inventory buildup and decelerations in personal consumption expenditures, exports, nonresidential fixed investment, and state and

In October, nonfarm payroll employment nationwide at business establishments increased 214,000.

local government spending. However, both second and third quarter GDP growth are above average GDP growth (2.3%) since the end of the recession in the second quarter of 2009.

**Chart 2: GDP Annual Rate Change by Quarter,  
1st Quarter 2009 3rd Quarter 2014**



### Consumer Spending and Personal Incomes

Real consumer spending decreased by 0.2% in September, seasonally adjusted, after increasing in August. Additionally, during the first nine months of 2014, consumer spending increased (1.3%), at a slightly lower rate than during the same period in 2013 (1.8%). Personal income, in current dollars (not adjusted for inflation), increased 0.2% in September, an increase of 4.1% above year-ago levels.

In October, sales of light vehicles were at a 16.3 million unit seasonally adjusted annualized rate, remaining just above the average rate from the past 12 months, 16.2 million units. Both auto and light truck sales are on the rise in the past five years, with growth in light truck sales outpacing auto sales growth. Sales of light trucks through the first nine months of 2014 increased 75% from the comparable period in 2009, while auto sales increased 43% during the same timeframe.

### Inflation

#### Consumer Prices

The consumer price index (CPI) increased 0.1% in September, on a seasonally adjusted basis, according to BLS. The 12-month percent change in CPI remained at the same level as the previous month's annual percent change, an increase of 1.7%. Annual inflation continues to be affected by the recent drop in energy prices. The energy price index, accounting for gasoline and other fuels and electricity, dropped 0.7% in

September. Both shelter CPI and food CPI increased 3.0% over the past 12 months, driving the current CPI level. Core CPI, which measures change in prices for all items except food and energy, increased 0.1% in September and 1.7% over the past 12 months.

### **Producer Prices**

The producer price index (PPI) for final demand dropped 0.1% in September, seasonally adjusted, according to BLS. The decrease marks the first time since August 2013 that the PPI experienced a monthly decrease. The PPI for final demand increased 1.6% for the past year, the lowest annual increase in final demand indexes since March.

### **Housing**

Housing starts pushed past an annual rate of 1,000,000 in September, an increase of 6.3% from August. The current level grew 17.8% from the September 2013 rate of 863,000, due to higher numbers of large structures and an increase in one-unit structures in the Midwest. The past 12 months have seen the highest numbers of housing starts since late 2008. Since the mid-1900s, housing construction and remodeling, though highly volatile, have supported nearly 5% of U.S. GDP, on average. This quarter's latest contribution to GDP is approximately 3.2%.

Existing home sales in September reached their highest annual rate of 2014, according to the National Association of Realtors (NAR). Existing home sales, which include single-family homes, townhomes, condominiums, and co-ops, increased 2.4% in September to a seasonally adjusted rate of 5.17 million. Sales of existing homes are still 1.7% below levels from 12 months ago. First-time buyers continue their trend of historically lower purchasing rates. According to NAR, first-time buyers comprise less than 30% of all purchasers in almost every single month in the last 18 months.

New home sales remained relatively stagnant in September, rising only 0.2%, seasonally adjusted, above the August rate of 466,000. This marks a gain of 17.0% from new home sales a year earlier. The median sales price of new houses sold in September 2014, \$259,000, was at its lowest level since August 2013.

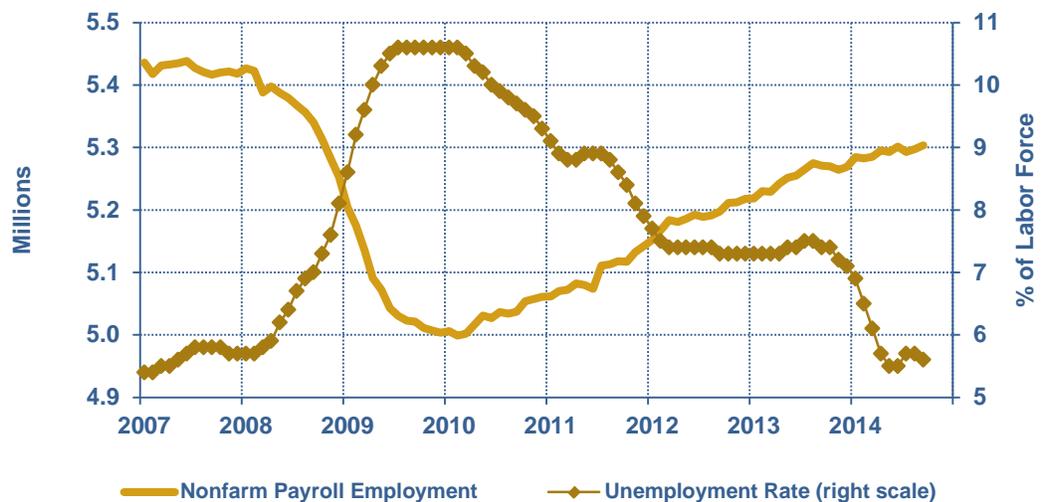
## The Ohio Economy

### Employment and Unemployment

The number of unemployed Ohio workers has dropped 110,000 over the past 12 months.

Total nonfarm payroll employment in Ohio increased by 6,000 (0.1%) in September, while the state's rate of unemployed job-seekers dropped slightly to 5.6%, as shown in Chart 3 below. The number of unemployed Ohio workers has dropped 110,000 over the past 12 months, while nonagricultural wage and salary employment grew 32,700 (0.6%). During the same timeframe, goods-producing industries added 16,300 (1.9%) jobs, including 15,700 (2.4%) jobs in manufacturing. Likewise, the private service-providing sector added 11,800 (0.3%) jobs.

Chart 3: Ohio Employment and Unemployment



### Home Sales

The number of homes sold in Ohio in September was 3.7% higher than a year earlier, but year-to-date sales were 3.5% lower than in the comparable period in 2013, according to the Ohio Association of Realtors.

### Regional Economy

The Federal Reserve Bank of Cleveland's most recent report on regional economic activity described a "moderate" rate of economic expansion during the past six weeks.<sup>9</sup> The report noted that:

<sup>9</sup> The Federal Reserve Bank of Cleveland releases the Fourth District Beige Book eight times each year prior to the FOMC meetings. The Federal Reserve Bank of Cleveland's district includes all of Ohio and parts of Kentucky, Pennsylvania, and West Virginia.

- Although sales of new and existing single-family homes are in a slight decline since the last report, nonresidential builders reported continued strong activity. The number of home starts in 2014 also remains at lower levels than home starts from the same period in 2013.
- Demand for business credit is stable to moderately growing across all sectors, especially in commercial real estate and construction as well as in manufacturer lending.
- Retail sales increased in August and early September, compared to the same time period in 2013. A stronger product mix and expansion in e-commerce contributed to the growth, according to retailers.