

Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

FEBRUARY 2015

STATUS OF THE GRF

HIGHLIGHTS

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

The executive budget for the upcoming biennium was unveiled on February 3. The total FY 2015 GRF tax revenue estimate that accompanied the proposal was about \$198 million higher than the estimate made by the Office of Budget and Management (OBM) in August 2014. The revision upward is consistent with experience through the first seven months of FY 2015. A \$9 million positive variance in January brought year-to-date GRF tax revenue to \$214 million above the August estimate. The variance analyses in this and future issues of *Budget Footnotes* will continue to be based on August estimates as OBM did not revise its monthly estimates for the remainder of FY 2015.

The business cycle expansion that began in 2009 continues. Ohio's unemployment rate fell to 4.8% in December, below the national rate, from 5.0% in November.

Through January 2015, GRF sources totaled \$18.11 billion:

- Revenue from the personal income tax was \$141.2 million above estimate;
- Sales and use tax receipts were \$49.8 million above estimate.

Through January 2015, GRF uses totaled \$19.53 billion:

- Medicaid expenditures were \$350.9 million below estimate;
- Primary and Secondary Education was above estimate by \$95.0 million due largely to timing issues.

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Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of January 2015

(\$ in thousands)

(Actual based on report run in OAKS Actuals Ledger on February 3, 2015)

STATE SOURCES	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	\$93,890	\$93,900	-\$10	0.0%
Nonauto Sales and Use	\$804,583	\$833,200	-\$28,617	-3.4%
Total Sales and Use Taxes	\$898,473	\$927,100	-\$28,627	-3.1%
Personal Income	\$1,008,532	\$991,300	\$17,232	1.7%
Corporate Franchise	-\$1,627	\$0	-\$1,627	---
Financial Institution	\$44,957	\$27,800	\$17,157	61.7%
Public Utility	\$1	-\$200	\$201	100.4%
Kilowatt-Hour Excise	\$26,127	\$24,500	\$1,627	6.6%
Natural Gas Consumption (MCF)	\$2,034	\$1,100	\$934	84.9%
Commercial Activity Tax	\$32,393	\$31,300	\$1,093	3.5%
Petroleum Activity Tax	\$0	\$500	-\$500	-100.0%
Foreign Insurance	-\$15	\$200	-\$215	-107.5%
Domestic Insurance	-\$276	\$0	-\$276	---
Business and Property	\$0	\$0	\$0	---
Cigarette	\$63,542	\$62,200	\$1,342	2.2%
Alcoholic Beverage	\$4,370	\$3,800	\$570	15.0%
Liquor Gallonage	\$4,537	\$4,300	\$237	5.5%
Estate	\$171	\$0	\$171	---
Total Tax Revenue	\$2,083,218	\$2,073,900	\$9,318	0.4%
NONTAX REVENUE				
Earnings on Investments	\$6,342	\$5,000	\$1,342	26.8%
Licenses and Fees	\$2,675	\$4,906	-\$2,231	-45.5%
Other Revenue	\$883	\$2,330	-\$1,446	-62.1%
Total Nontax Revenue	\$9,901	\$12,235	-\$2,335	-19.1%
TRANSFERS				
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers In	\$11,915	\$200	\$11,715	5857.3%
Total Transfers In	\$11,915	\$200	\$11,715	5857.3%
TOTAL STATE SOURCES	\$2,105,033	\$2,086,335	\$18,698	0.9%
Federal Grants	\$740,951	\$716,087	\$24,864	3.5%
TOTAL GRF SOURCES	\$2,845,985	\$2,802,422	\$43,562	1.6%

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

Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Actual vs. Estimate
FY 2015 as of January 31, 2015
(\$ in thousands)

(Actual based on report run in OAKS Actuals Ledger on February 3, 2015)

STATE SOURCES	Actual	Estimate*	Variance	Percent	FY 2014	Percent Change
TAX REVENUE						
Auto Sales	\$747,807	\$710,500	\$37,307	5.3%	\$679,285	10.1%
Nonauto Sales and Use	\$5,161,596	\$5,149,100	\$12,496	0.2%	\$4,711,104	9.6%
Total Sales and Use Taxes	\$5,909,403	\$5,859,600	\$49,803	0.8%	\$5,390,389	9.6%
Personal Income	\$5,150,440	\$5,009,200	\$141,240	2.8%	\$5,336,534	-3.5%
Corporate Franchise	-\$27,365	\$0	-\$27,365	---	-\$5,236	-422.7%
Financial Institution	\$22,131	\$27,800	-\$5,669	-20.4%	\$41,293	-46.4%
Public Utility	\$36,838	\$48,600	-\$11,762	-24.2%	\$48,096	-23.4%
Kilowatt-Hour Excise	\$170,457	\$177,000	-\$6,543	-3.7%	\$173,941	-2.0%
Natural Gas Consumption (MCF)	\$20,461	\$17,400	\$3,061	17.6%	\$20,676	-1.0%
Commercial Activity Tax	\$454,329	\$402,700	\$51,629	12.8%	\$418,122	8.7%
Petroleum Activity Tax	\$1,944	\$7,300	-\$5,356	-73.4%	\$0	---
Foreign Insurance	\$153,819	\$148,100	\$5,719	3.9%	\$146,641	4.9%
Domestic Insurance	\$7,362	\$1,800	\$5,562	309.0%	\$98	7393.9%
Business and Property	\$20	\$0	\$20	---	\$455	-95.6%
Cigarette	\$428,680	\$419,800	\$8,880	2.1%	\$438,473	-2.2%
Alcoholic Beverage	\$33,294	\$32,000	\$1,294	4.0%	\$32,669	1.9%
Liquor Gallonage	\$26,112	\$24,600	\$1,512	6.1%	\$25,187	3.7%
Estate	\$2,356	\$0	\$2,356	---	\$30,045	-92.2%
Total Tax Revenue	\$12,390,281	\$12,175,900	\$214,381	1.8%	\$12,097,384	2.4%
NONTAX REVENUE						
Earnings on Investments	\$11,411	\$9,500	\$1,911	20.1%	\$8,442	35.2%
Licenses and Fees	\$11,942	\$16,718	-\$4,776	-28.6%	\$14,053	-15.0%
Other Revenue	\$22,616	\$23,897	-\$1,281	-5.4%	\$19,542	15.7%
Total Nontax Revenue	\$45,970	\$50,115	-\$4,146	-8.3%	\$42,036	9.4%
TRANSFERS						
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers In	\$23,700	\$6,400	\$17,300	270.3%	\$52,730	-55.1%
Total Transfers In	\$23,700	\$6,400	\$17,300	270.3%	\$52,730	-55.1%
TOTAL STATE SOURCES	\$12,459,951	\$12,232,415	\$227,535	1.9%	\$12,192,151	2.2%
Federal Grants	\$5,649,435	\$5,899,362	-\$249,927	-4.2%	\$5,555,133	1.7%
TOTAL GRF SOURCES	\$18,109,385	\$18,131,777	-\$22,393	-0.1%	\$17,747,284	2.0%

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

Detail may not sum to total due to rounding.

REVENUES

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

Overview

FY 2015 GRF sources were \$22.4 million below estimate.

Through January, FY 2015 total GRF sources¹ were \$18.11 billion, \$22.4 million below the estimate released by the Office of Budget and Management (OBM) in August 2014. GRF tax receipts had a positive variance of \$214.4 million, but federal grants were \$249.9 million below estimate due to lower than expected spending in Medicaid.² For the month of January 2015, both GRF state tax revenues and federal grants were above estimates, by \$9.3 million and \$24.9 million, respectively, and monthly total GRF sources of \$2.85 billion were \$43.6 million above projected revenue. Tables 1 and 2 show GRF sources for the month of January and for FY 2015 through January, respectively.

In January, the personal income tax and the first financial institutions tax (FIT) payment of FY 2015 each exceeded projections by \$17.2 million. The kilowatt-hour tax, the cigarette tax, and the commercial activity tax (CAT) were also above anticipated receipts, respectively, by \$1.6 million, \$1.3 million, and \$1.1 million. On the other hand, the nonauto sales and use tax was \$28.6 million short of estimate, and refunds to taxpayers from the corporate franchise tax (CFT) totaled \$1.6 million. Other taxes experienced smaller variances.

FY 2015 GRF tax receipts were \$214.4 million above estimate.

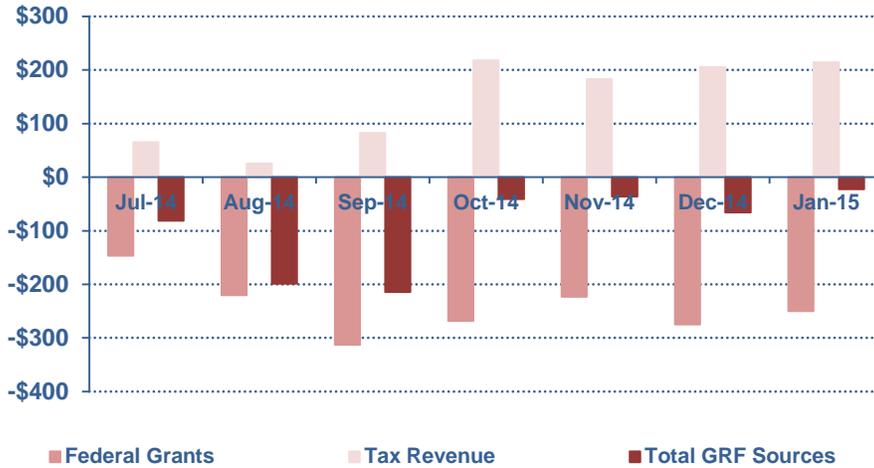
Chart 1 below shows FY 2015 cumulative variances against estimates for federal grants, tax revenue, and total GRF sources. Trends established in previous months continued in January 2015, with tax receipts ahead of projections, and both federal grants and total GRF sources below estimates for the fiscal year to date. As seen in Table 2, the personal income tax had the largest positive year-to-date variance at \$141.2 million, followed by the CAT (\$51.6 million), the auto sales and use tax (\$37.3 million), the nonauto sales and use tax (\$12.5 million), the cigarette tax (\$8.9 million), the foreign insurance tax (\$5.7 million), and the domestic insurance tax (\$5.6 million). The natural gas consumption tax (\$3.1 million) and the estate tax (\$2.4 million) had more modest positive variances. On the other hand, sizable negative year-to-date

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

² GRF revenue from federal grants is generally associated with Medicaid spending. Through January, year-to-date GRF Medicaid expenditures were \$350.9 million below estimate.

variances were recorded for the CFT (\$27.4 million),³ the public utility tax (\$11.8 million), the kilowatt-hour tax (\$6.5 million), the FIT (\$5.7 million), and the petroleum activity tax (PAT; \$5.4 million).

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



FY 2015 year-to-date GRF sources grew by \$362.1 million from the corresponding period in FY 2014 (see Table 2). Tax receipts increased by \$292.9 million, federal grants grew by \$94.3 million, and nontax revenues were higher by \$3.9 million. However, transfers in fell \$29.0 million compared to revenue in this category in the corresponding period in FY 2014. Among tax sources, revenue from the sales and use tax increased \$519.0 million, while receipts from the personal income tax fell \$186.1 million. The decrease in income tax revenue was due primarily to an 8.5% reduction in income tax rates for tax year (TY) 2013 enacted in H.B. 59 (the current operating budget act), which required a change in withholding rates in September 2013. The increase in sales and use tax receipts over FY 2014 reflects, in part, the increase in the tax rate from 5.5% to 5.75% in September 2013, also enacted in H.B. 59.

FY 2015 GRF sources were \$362.1 million above GRF sources in FY 2014.

Personal Income Tax

The personal income tax provided \$1.01 billion in revenue to the GRF in January 2015. That amount was \$17.2 million (1.7%) above estimate, but \$53.9 million (5.1%) below revenue in January 2014. Personal

³ The CFT was eliminated at the end of 2013, but taxpayers continue to make adjustments to their earlier tax filing. The negative variance for the CFT is likely to persist for the remainder of the fiscal year, as no additional revenue from the tax is expected.

FY 2015
income tax
receipts were
\$141.2 million
above
estimate.

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. For the month of January, quarterly estimated payments were above estimate by \$25.5 million, and refunds were lower than projected by \$15.8 million. However, those positive variances were partially offset by negative variances of \$9.8 million and \$8.6 million, respectively, in monthly employer withholding and payments associated with annual returns. In addition, revenue from trusts was \$4.5 million below estimate.

Through January, FY 2015 GRF receipts from the personal income tax were \$5.15 billion, which was \$141.2 million (2.8%) above estimate. The table below summarizes year-to-date FY 2015 income tax revenue variances from estimates and annual changes by component.

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

Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2014	
	Amount (\$ in millions)	Percentage (%)	Amount (\$ in millions)	Percentage (%)
Withholding	-\$0.4	0.0%	\$51.7	1.1%
Quarterly Estimated Payments	\$89.4	14.0%	-\$107.3	-12.8%
Trust Payments	-\$2.6	-10.0%	-\$0.4	-1.5%
Annual Return Payments	-\$0.3	-0.2%	-\$63.3	-33.2%
Miscellaneous Payments	-\$6.5	-11.3%	-\$4.5	-8.1%
Gross Collections	\$79.6	1.4%	-\$123.8	-2.1%
Less Refunds	-\$63.9	-17.4%	\$57.9	23.6%
Less LGF Distribution	\$2.2	1.1%	\$4.4	2.2%
Income Tax Revenue	\$141.2	2.8%	-\$186.1	-3.5%

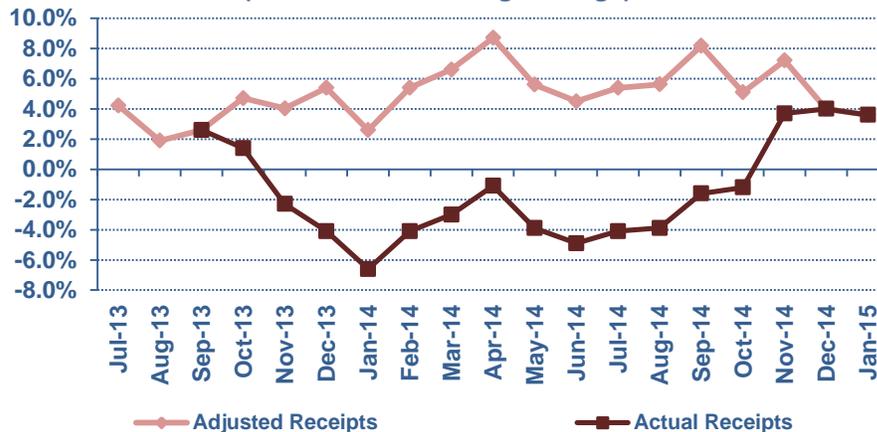
FY 2015
withholding tax
receipts were
below
estimate by
\$0.4 million.

As seen from the above table, the positive variance of the personal income tax was mostly due to better than anticipated quarterly estimated payments (\$89.4 million) and less than expected refunds (\$63.9 million), as withholding receipts were \$0.4 million below estimate. In the first seven months, GRF receipts in FY 2015 from the personal income tax were \$186.1 million (3.5%) below receipts through January in FY 2014.

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.

Employer withholdings and refunds increased \$51.7 million and \$57.9 million, respectively, this fiscal year when compared to last. On the other hand, quarterly estimated payments fell \$107.3 million, and annual return payments decreased by \$63.3 million. Chart 2 illustrates the trend in employer withholding receipts since July 2013. The chart also includes withholding receipts adjusted for a 9% reduction in withholding rates.

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



FY 2015 GRF income tax receipts were \$186.1 million below FY 2014 revenue.

Sales and Use Tax

GRF receipts from the sales and use tax of \$898.5 million in January 2015 were \$28.6 million (3.1%) below estimate, from a poor performance of the nonauto sales and use tax. However, these receipts were \$20.6 million (2.3%) above receipts in January 2014. For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections⁵ 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.

For the fiscal year to date, GRF sales and use tax receipts totaled \$5.91 billion, \$49.8 million (0.8%) above estimate, with both tax sources above their respective estimates. As indicated in the overview, FY 2015 year-to-date sales and use tax receipts were also \$519.0 million (9.6%)

FY 2015 sales and use tax receipts were \$49.8 million above estimate.

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.

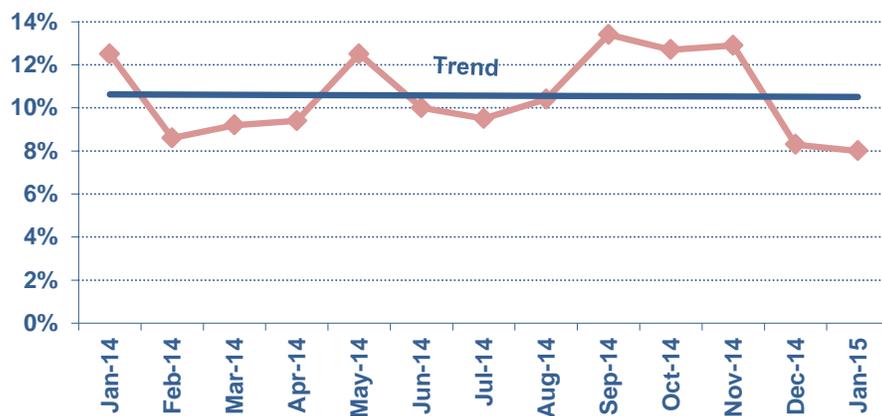
above receipts in the corresponding period in FY 2014, due, in part, to the state sales tax rate increase from 5.5% to 5.75%.

Nonauto Sales and Use Tax

FY 2015 nonauto sales and use tax receipts were \$12.5 million above estimate.

For a second consecutive month, the nonauto sales and use tax was below estimate. GRF receipts of \$804.6 million in January were \$28.6 million (3.4%) below estimate. In December, this tax source's negative variance was \$15.5 million (1.9%). However, for the fiscal year to date, total receipts of \$5.16 billion were still \$12.5 million (0.2%) above estimate, and also \$450.5 million (9.6%) above FY 2014 receipts through January. Chart 3 shows increases in nonauto sales and use tax monthly receipts against prior year receipts in the same month. For the fiscal year as a whole, growth of the nonauto sales and use tax taxable base was about 7.5%, compared to the first seven months of FY 2014.

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

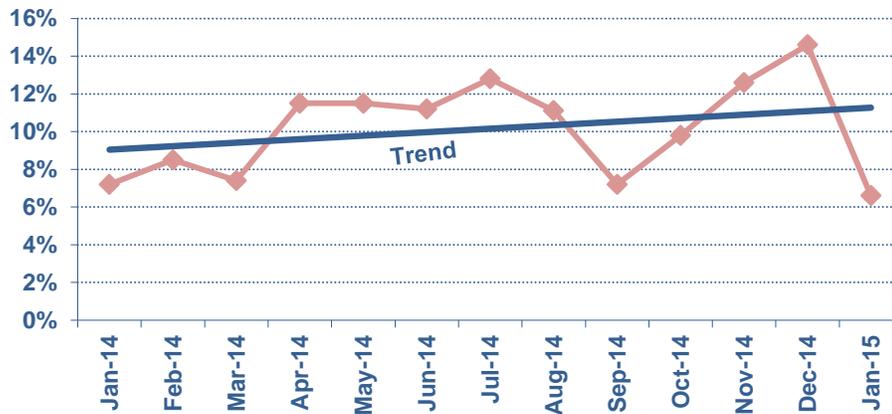


Auto Sales and Use Tax

FY 2015 auto sales and use tax receipts were \$37.3 million above estimate.

GRF revenue of \$93.9 million from the auto sales and use tax in January matched the estimate for the month, and was \$4.1 million (4.6%) above receipts in January 2014. Through January, FY 2015 GRF revenue from the auto sales and use tax totaled \$747.8 million, \$37.3 million (5.3%) above estimate, and \$68.5 million (10.1%) above receipts in the corresponding period in FY 2014. Chart 4 below compares FY 2015 monthly auto sales and use tax receipts with year-ago receipts in the same period. Though the growth rate has fallen of late, for the fiscal year as a whole, the auto sales and use tax taxable base grew about 8.5%, compared to the corresponding period in FY 2014.

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



Nationwide light vehicle sales (autos and light vehicles) started the year strong. January's sales pace of 16.7 million units (on a seasonally adjusted annualized basis) was slightly better than the 2014 average of 16.5 million units, and well above the year-earlier pace of 15.9 million units. Light truck sales have grown especially quickly as gasoline prices have fallen, and reached 55% of total light vehicle sales, the highest since 2005. Auto sales have also rebounded to their best pace in ten years.

Commercial Activity Tax

January GRF receipts from the CAT were \$32.4 million, \$1.1 million (3.5%) above estimate, and \$2.9 million (9.8%) above receipts in the same month in 2014. Through January, CAT revenues to the GRF totaled \$454.3 million, \$51.6 million (12.8%) above estimate, and they were also \$36.2 million (8.7%) above receipts in the corresponding period in FY 2014. Beginning July 1, 2014, the CAT as applied to receipts from the sale or exchange of motor fuel was replaced by the PAT, which has a rate of 0.65% on a motor fuel supplier's adjusted gross receipts. OBM estimated GRF revenue of \$20.0 million for the PAT in FY 2015, with \$7.3 million of that total in the first seven months. The GRF received \$1.9 million in December 2014; but no additional revenue occurred in January, thus the shortfall for this GRF source was \$5.4 million for the fiscal year.

FY 2015 GRF
CAT receipts
were
\$51.6 million
above
estimate.

Cigarette and Other Tobacco Products Tax

FY 2015
cigarette tax
receipts were
\$8.9 million
above
estimate.

GRF receipts from the cigarette and other tobacco products tax of \$63.5 million in January 2015 were \$1.3 million (2.2%) above estimate, but \$4.1 million (6.0%) below receipts in the same month in FY 2014. Through January, receipts of \$428.7 million in FY 2015 were \$8.9 million (2.1%) above estimated revenue for the year. Receipts from cigarette sales were \$390.8 million, and sales of other tobacco products (OTP) provided \$37.9 million. Total receipts this year declined \$9.8 million (2.2%) from the corresponding period in FY 2014. The decrease was attributable to sales of cigarettes, tax receipts from which declined \$14.8 million. An increase of \$5.0 million in receipts from OTP partially offset that decline. Generally, cigarette tax receipts experience a downward trend, while revenue from OTP is closely tied to price increases of those products.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of January 2015
(\$ in thousands)
(Actual based on OAKS reports run February 9, 2015)

<i>PROGRAM</i>	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	\$619,558	\$566,031	\$53,527	9.5%
Higher Education	\$170,375	\$176,160	-\$5,785	-3.3%
Other Education	\$6,717	\$7,175	-\$458	-6.4%
Total Education	\$796,649	\$749,366	\$47,283	6.3%
Medicaid	\$1,236,004	\$1,199,439	\$36,565	3.0%
Health and Human Services	\$142,869	\$120,292	\$22,577	18.8%
Total Welfare and Human Services	\$1,378,872	\$1,319,731	\$59,141	4.5%
Justice and Public Protection	\$217,538	\$193,185	\$24,353	12.6%
General Government	\$38,526	\$38,626	-\$100	-0.3%
Total Government Operations	\$256,065	\$231,811	\$24,253	10.5%
Property Tax Reimbursements	\$477	\$115	\$362	315.0%
Capital Outlay	\$0	\$0	\$0	---
Debt Service	\$98,449	\$107,870	-\$9,421	-8.7%
Total Other Expenditures	\$98,926	\$107,985	-\$9,059	-8.4%
Total Program Expenditures	\$2,530,512	\$2,408,893	\$121,619	5.0%
TRANSFERS				
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers Out	\$5,979	\$0	\$5,979	---
Total Transfers Out	\$5,979	\$0	\$5,979	---
TOTAL GRF USES	\$2,536,491	\$2,408,893	\$127,598	5.3%

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

Table 4: General Revenue Fund Uses
Actual vs. Estimate
FY 2015 as of January 31, 2015
(\$ in thousands)
(Actual based on OAKS reports run February 9, 2015)

PROGRAM	Actual	Estimate*	Variance	Percent	FY 2014	Percent Change
Primary and Secondary Education	\$4,309,887	\$4,214,883	\$95,004	2.3%	\$4,390,272	-1.8%
Higher Education	\$1,243,059	\$1,248,808	-\$5,749	-0.5%	\$1,210,506	2.7%
Other Education	\$38,304	\$40,121	-\$1,817	-4.5%	\$32,698	17.1%
Total Education	\$5,591,250	\$5,503,812	\$87,438	1.6%	\$5,633,476	-0.7%
Medicaid	\$9,259,853	\$9,610,711	-\$350,858	-3.7%	\$8,482,785	9.2%
Health and Human Services	\$841,027	\$868,365	-\$27,339	-3.1%	\$754,666	11.4%
Total Welfare and Human Services	\$10,100,879	\$10,479,076	-\$378,197	-3.6%	\$9,237,450	9.3%
Justice and Public Protection	\$1,173,320	\$1,156,181	\$17,139	1.5%	\$1,108,335	5.9%
General Government	\$216,285	\$226,232	-\$9,947	-4.4%	\$215,588	0.3%
Total Government Operations	\$1,389,605	\$1,382,413	\$7,192	0.5%	\$1,323,923	5.0%
Property Tax Reimbursements	\$908,135	\$913,052	-\$4,917	-0.5%	\$893,056	1.7%
Capital Outlay	\$0	\$0	\$0	---	\$0	---
Debt Service	\$953,387	\$965,866	-\$12,480	-1.3%	\$889,564	7.2%
Total Other Expenditures	\$1,861,521	\$1,878,918	-\$17,397	-0.9%	\$1,782,620	4.4%
Total Program Expenditures	\$18,943,256	\$19,244,220	-\$300,964	-1.6%	\$17,977,469	5.4%
TRANSFERS						
Budget Stabilization	\$0	\$0	\$0	---	\$995,930	-100.0%
Other Transfers Out	\$588,788	\$581,234	\$7,554	1.3%	\$216,029	172.6%
Total Transfers Out	\$588,788	\$581,234	\$7,554	1.3%	\$1,211,959	-51.4%
TOTAL GRF USES	\$19,532,044	\$19,825,453	-\$293,410	-1.5%	\$19,189,428	1.8%

*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 February 6, 2015)

Department	Month of January 2015				Year to Date Through January 2015			
	Actual	Estimate*	Variance	Percent	Actual	Estimate*	Variance	Percent
Medicaid	\$1,719,866	\$1,664,849	\$55,018	3.3%	\$11,943,126	\$12,059,174	-\$116,048	-1.0%
GRF	\$1,191,668	\$1,156,216	\$35,452	3.1%	\$8,947,232	\$9,283,034	-\$335,802	-3.6%
Non-GRF	\$528,198	\$508,632	\$19,566	3.8%	\$2,995,895	\$2,776,140	\$219,754	7.9%
Developmental Disabilities	\$172,201	\$203,805	-\$31,604	-15.5%	\$1,321,465	\$1,407,447	-\$85,981	-6.1%
GRF	\$39,524	\$38,252	\$1,272	3.3%	\$266,329	\$270,900	-\$4,571	-1.7%
Non-GRF	\$132,677	\$165,553	-\$32,876	-19.9%	\$1,055,136	\$1,136,547	-\$81,410	-7.2%
Job and Family Services	\$11,352	\$10,697	\$655	6.1%	\$107,166	\$92,597	\$14,569	15.7%
GRF	\$4,093	\$4,224	-\$130	-3.1%	\$41,090	\$51,208	-\$10,118	-19.8%
Non-GRF	\$7,259	\$6,473	\$785	12.1%	\$66,076	\$41,389	\$24,687	59.6%
Aging	\$585	\$627	-\$42	-6.8%	\$3,559	\$5,438	-\$1,878	-34.5%
GRF	\$369	\$260	\$109	41.8%	\$2,057	\$1,953	\$104	5.3%
Non-GRF	\$216	\$367	-\$151	-41.2%	\$1,502	\$3,485	-\$1,982	-56.9%
Health	\$1,882	\$1,998	-\$116	-5.8%	\$13,892	\$14,996	-\$1,104	-7.4%
GRF	\$334	\$347	-\$13	-3.7%	\$2,229	\$1,955	\$275	14.0%
Non-GRF	\$1,548	\$1,651	-\$103	-6.3%	\$11,663	\$13,042	-\$1,378	-10.6%
Mental Health and Addiction	\$444	\$495	-\$51	-10.2%	\$2,772	\$3,816	-\$1,044	-27.4%
GRF	\$16	\$140	-\$124	-88.8%	\$916	\$1,662	-\$745	-44.9%
Non-GRF	\$428	\$355	\$74	20.8%	\$1,856	\$2,155	-\$299	-13.9%
Total GRF	\$1,236,004	\$1,199,439	\$36,565	3.0%	\$9,259,853	\$9,610,711	-\$350,858	-3.7%
Total Non-GRF	\$670,326	\$683,031	-\$12,705	-1.9%	\$4,132,129	\$3,972,757	\$159,372	4.0%
Total All Funds	\$1,906,330	\$1,882,471	\$23,859	1.3%	\$13,391,981	\$13,583,468	-\$191,486	-1.4%

*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 February 6, 2015)

Payment Category	January				Year to Date Through January			
	Actual	Estimate*	Variance	Percent	Actual	Estimate*	Variance	Percent
Managed Care	\$920,304	\$921,070	-\$766	-0.1%	\$6,115,900	\$6,290,804	-\$174,904	-2.8%
Nursing Facilities	\$117,010	\$88,890	\$28,120	31.6%	\$841,807	\$699,130	\$142,677	20.4%
DDD Services	\$168,322	\$199,612	-\$31,290	-15.7%	\$1,283,618	\$1,368,211	-\$84,593	-6.2%
Hospitals	\$55,405	\$89,963	-\$34,559	-38.4%	\$480,253	\$690,523	-\$210,270	-30.5%
Behavioral Health	\$49,377	\$73,806	-\$24,429	-33.1%	\$428,541	\$554,158	-\$125,617	-22.7%
Administration	\$83,443	\$82,599	\$844	1.0%	\$536,009	\$605,903	-\$69,895	-11.5%
Aging Waivers	\$21,842	\$17,866	\$3,976	22.3%	\$158,554	\$165,992	-\$7,438	-4.5%
Prescription Drugs	\$34,683	\$36,421	-\$1,738	-4.8%	\$228,798	\$275,024	-\$46,226	-16.8%
Medicare Buy-In	\$36,661	\$41,564	-\$4,903	-11.8%	\$254,260	\$275,545	-\$21,284	-7.7%
Physicians	\$19,686	\$24,024	-\$4,338	-18.1%	\$384,746	\$427,844	-\$43,098	-10.1%
Medicare Part D	\$24,084	\$25,000	-\$915	-3.7%	\$168,955	\$172,931	-\$3,976	-2.3%
Home Care Waivers	\$11,075	\$10,018	\$1,057	10.6%	\$95,403	\$85,115	\$10,288	12.1%
ACA Expansion	\$293,364	\$173,641	\$119,724	68.9%	\$1,852,412	\$1,194,982	\$657,430	55.0%
All Other	\$71,075	\$97,998	-\$26,923	-27.5%	\$562,725	\$777,306	-\$214,580	-27.6%
Total All Funds	\$1,906,330	\$1,882,471	\$23,859	1.3%	\$13,391,981	\$13,583,468	-\$191,486	-1.4%

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

Detail may not sum to total due to rounding.

EXPENDITURES

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

– Gregory Craig, Economist, 614-728-3218

Overview

Tables 3 and 4 show GRF uses for the month of January and for FY 2015 through January, respectively. GRF uses mainly consist of program expenditures but also include transfers out. GRF program expenditures were \$2.53 billion in January, \$121.6 million above the estimate released by the Office of Budget and Management (OBM) in August 2014, due largely to timing issues. Through January, FY 2015 GRF program expenditures totaled \$18.94 billion, \$301.0 million below estimate. GRF transfers out totaled \$588.8 million, \$7.6 million above estimate. GRF uses as a whole totaled \$19.53 billion, \$293.4 million below their year-to-date estimate.

Medicaid and Primary and Secondary Education are the two program categories with the largest variances in both the month of January and the fiscal year through January. GRF Medicaid expenditures were \$36.6 million above estimate in January. However, Medicaid's year-to-date GRF expenditures were \$350.9 million below estimate. Primary and Secondary Education's year-to-date expenditures were \$95.0 million above estimate, of which \$53.5 million occurred in the month of January. The variances in these two program categories will be briefly discussed below.

Medicaid

For the first seven months of FY 2015, GRF Medicaid expenditures totaled \$9.26 billion, which was \$350.9 million (3.7%) below estimate. While the GRF is the primary funding source for Medicaid, various non-GRF funds also help support Medicaid. Non-GRF Medicaid expenditures totaled \$4.13 billion in the first seven months of FY 2015, \$159.4 million (4.0%) above estimate. Across all funds, Medicaid expenditures totaled \$13.39 billion, \$191.5 million (1.4%) 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 contain federal and state moneys.

The Ohio Department of Medicaid (ODM) is primarily responsible for administering Medicaid, with the assistance of five other state agencies – Developmental Disabilities, Job and Family Services, Aging, Health, and Mental Health and Addiction Services. Table 5 details the

Through
January,
FY 2015 GRF
uses were
\$293.4 million
below
estimate.

Year-to-date
GRF and all-
funds Medicaid
expenditures
were
\$350.9 million
and
\$191.5 million
below
estimates.

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 seven months of FY 2015, ODM's GRF expenditures totaled \$8.95 billion, which was \$335.8 million (3.6%) below estimate, while its non-GRF expenditures totaled \$3.0 billion, which was \$219.8 million (7.9%) above estimate. Across all funds, ODM's expenditures were \$116.0 million (1.0%) 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 \$4.6 million (1.7%) and \$81.4 million (7.2%), respectively, below their year-to-date estimates. Together, ODM and DDD account for about 99% of the Medicaid expenditure total.

Table 6 details all-funds Medicaid expenditures by payment category. As seen from the table, the All Other category had the largest negative year-to-date variance of \$214.6 million (27.6%), followed by Hospitals (\$210.3 million, 30.5%), Managed Care (\$174.9 million, 2.8%), Behavioral Health (\$125.6 million, 22.7%), DDD Services (\$84.6 million, 6.2%) and Administration (\$69.9 million, 11.5%). The negative variance in All Other was due in large part to various budgeted initiatives which either were replaced by Medicaid expansion (i.e., the Metro Health Medicaid waiver in Cuyahoga County) or have not yet been implemented. Lower than expected expenditures on home health, private duty nurses, and hospice care also contributed to the negative variance in this category. Lower than anticipated Aged, Blind, and Disabled caseloads accounted for the negative variances in the Hospitals and Physicians categories. The negative variance in Managed Care was due in part to lower than expected enrollment in the MyCare Ohio program.

The ACA Expansion and Nursing Facilities were the two payment categories with significant positive year-to-date variances that offset a substantial share of negative variances in other categories. The ACA Expansion category contains expenditures for individuals who became eligible for coverage on January 1, 2014, through the federal Patient Protection and Affordable Care Act (ACA). Through January, all-funds expenditures for ACA Expansion totaled \$1.85 billion, \$657.4 million (55.0%) above estimate. This positive variance was due to higher than expected caseload and per person costs. For the first seven months of FY 2015, all-funds expenditures for Nursing Facilities were \$841.8 million, \$142.7 million (20.4%) above estimate. This positive

Through
January, all-
funds
expenditures
for ACA
Expansion were
\$657.4 million
above
estimate.

variance was due largely to lower than expected enrollment in MyCare Ohio, which is a three-year pilot program that provides managed care services to individuals covered by Medicaid and Medicare. These individuals are otherwise generally served by nursing facilities.

Primary and Secondary Education

GRF expenditures from the Primary and Secondary Education program category were \$619.6 million for the month of January, \$53.5 million (9.5%) above estimate. Through January, Primary and Secondary Education expenditures totaled \$4.31 billion, \$95.0 million (2.3%) above estimate. These variances were largely due to timing.

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 \$52.0 million above estimate in January, increasing this item's positive year-to-date variance to \$110.8 million. Item 200550 is the main funding source for school foundation payments. It is not uncommon to see variances in this item; ODE adjusts individual school payments as updated enrollment and other relevant data become available.

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 200540, Special Education Enhancements, was \$6.6 million below its seven-month estimate. Year-to-date expenditures from items 200408, Early Childhood Education, and 200426, Ohio Educational Computer Network, were also below estimates by \$5.0 million and \$4.5 million, respectively.

ISSUE UPDATES

Ohio Works First Cash Benefits Increase 1.7% in 2015

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

Beginning January 2015, Ohio Works First (OWF) cash assistance benefits increased 1.7%. For a family of three, this increased the monthly benefit from \$465 to \$473. The table below shows monthly benefit amounts for various assistance groups in 2013 and 2014 and amounts in 2015 after the increase.

OWF Monthly Cash Benefits, 2013 through 2015			
Assistance Group Size	2013 Amount	2014 Amount	2015 Amount
1	\$273	\$277	\$282
2	\$374	\$380	\$386
3	\$458	\$465	\$473
4	\$564	\$572	\$582
5	\$661	\$671	\$682

State law requires OWF cash benefits to be increased every January by the same percentage as the cost-of-living adjustment (COLA) made by the federal Social Security Administration (SSA) for Social Security benefits. The COLA used by SSA is the percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) from the third quarter of the last year a COLA was determined to the third quarter of the current year. If there is no increase, there can be no COLA. In the third quarter of 2014, the index rose 1.7% above the level from the third quarter of 2013, which increases benefits by that percentage starting in January 2015. OWF benefits increased 1.5% in January 2014 and 1.7% in January 2013, based on the COLAs calculated for those years.

OWF cash benefits are funded through the federal Temporary Assistance for Needy Families (TANF) Block Grant and the state maintenance of effort dollars. To be eligible for OWF, an assistance group must have at least one child and family income must be less than 50% of the federal poverty guideline (about \$10,045 annually for a family of three). Benefits are time-limited to 36 months, but, in some cases, may be extended up to 60 months due to hardship. For child-only cases, there are no time limits for cash benefits.

Development Services Agency Awards \$27.2 Million in Homeless Grants to Local Governments and Nonprofits

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

On December 23, 2014, the Development Services Agency (DSA) announced the recipients of approximately \$27.2 million in grants to local governments and nonprofits in support of the homeless population in Ohio. The awards are made under two DSA programs. Of the total amount awarded, \$16.2 million is being distributed to recipients under the Homeless Crisis Response Program (HCRP), while \$11.0 million is being distributed to recipients under the Supportive Housing Program (SHP). The HCRP grants will assist 56 nonprofits and local governments in operating emergency shelters and providing homeless prevention and rapid re-housing services. The SHP grants are being awarded to 48 nonprofits to help transition homeless people to permanent housing or provide permanent supportive housing to homeless people with disabilities. It is estimated that the HCRP grants will assist at least 22,000 people, while the SHP grants will assist approximately 6,500 people.

The HCRP is supported by \$11.2 million from the Ohio Housing Trust Fund (Fund 6460), with the remaining \$5.0 million coming from the U.S. Department of Housing and Urban Development's Emergency Solution Grant program budgeted under the Federal Special Revenue Fund (Fund 3080). The SHP is funded entirely by Fund 6460, which receives revenue primarily through county recorder fees.

Ohio Receives \$75 Million State Innovation Model Test Award

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

In December 2014, the Office of Health Transformation (OHT) announced that Ohio received \$75 million for the second phase of the State Innovation Model Award grant from the federal Centers for Medicare and Medicaid Services (CMS). The grant will be used over the next four years to support the testing and evaluation of a multipayer health system transformation model that was developed under phase one of the grant. Specifically, Ohio will use the grant to accelerate the use of patient-centered medical homes (PCMH) and episode-based models. The PCMH model increases the coordination between patients and their physicians and pays providers for improving patient health through measurable outcomes. It is anticipated that the PCMH model will be utilized statewide by 2018. Under the episode-based model, providers receive payments based on a specific condition or medical event (e.g., asthma acute exacerbation, joint replacement) rather than for a variety of services related to that event. By the end of the phase two grant period, 50 episodes of care should be established. While the health system transformation model will be used by the Medicaid Program, OHT also anticipates that some or all aspects of the model might be

adopted by commercial insurance companies since they collaborated on the model design.

CMS awarded a total of more than \$622 million to 11 states, including Ohio, to implement the model testing phase of the grant program. In February 2013, Ohio received a \$3 million State Innovation Model Design Award grant from CMS for the first phase of the grant. That money, along with approximately \$4 million in state and private funding and in-kind resources, was used to design a comprehensive statewide health transformation plan.

Controlling Board Approves \$2.97 Million to Support Western Lake Erie Watershed Restoration

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

On January 26, 2015, the Controlling Board approved \$2.97 million in federal funding for use by the Department of Natural Resources (DNR) on the Supporting Ohio Clean Lakes Initiative: Impaired Watershed Restoration project. Funding for the project is made available through a \$5.94 million grant awarded by the U.S. Environmental Protection Agency (see table below). The \$2.97 million approved for use by the Controlling Board will be used in FY 2015 and is appropriated under federal Fund 4P30 line item 725660, Federal – Soil and Water Resources. The remaining \$2.97 million will be used in FY 2016.

The project is intended to reduce harmful algal blooms by reducing phosphorus loading in the western Lake Erie basin watershed. The project consists of five components including: (1) distributing reimbursements to agricultural producers for soil testing on acreage that has not been tested in four or more years, (2) providing financial incentives to producers to plant and maintain winter cover crops, (3) making reimbursements to agricultural producers who install controlled drainage structures or sites draining a minimum of 15 acres, (4) coordinating with producers in the Lower Maumee watershed and providing them with a financial incentive to perform a systems approach to fertilization that includes precision soil sampling, banding or placement of all phosphorus fertilizer, and cover crop establishment, and (5) establishing cost sharing plans to install manure storage structures and roofed feedlots at livestock operations that have potential for polluting waters of the state.

Federal Funding for the Ohio Clean Lakes Initiative: Impaired Watershed Restoration Project, FY 2015 and FY 2016	
Purpose	Amount
Soil testing reimbursements	\$360,000
Winter cover crops incentives	\$1,680,000
Reimbursements for controlled drainage structures	\$900,000
Precision fertilization incentives	\$1,500,000
Manure storage facilities and roofed feedlots	\$1,500,000
TOTAL	\$5,940,000

ODE Awards \$1.1 Million in Kitchen Equipment Assistance Grants to Schools

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

On January 6, 2015, the Ohio Department of Education (ODE) awarded 79 schools over \$1.1 million in federal funding through the National School Lunch Program Equipment Assistance Grant. Authorized by the federal 2014 Agricultural Appropriations Act, the grants will assist schools in purchasing capital equipment such as coolers, freezers, ovens, refrigerators, and point-of-sale systems for the purposes of serving healthier meals, meeting nutritional standards, improving food safety, and expanding accessibility to food services. Though the Department only had \$1.1 million in grants to distribute, it received over 268 applications that requested a total of \$16 million in funding. Funding priority was given to high-need schools, particularly those that did not receive a previous Equipment Assistance Grant under the American Recovery and Reinvestment Act of 2009. A list of grant recipients may be found on ODE's website by searching for "Equipment Grants Awarded to Ohio Schools."

Ohio EPA Awards Nearly \$270,000 in Environmental Education and Awareness Project Grants

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

In early December 2014, the Ohio Environmental Protection Agency (Ohio EPA) announced the award of ten environmental education and awareness project grants totaling \$269,334 from its General Grant Program (see table below). Under this program, which is administered by the Office of Environmental Education, project

grants of up to \$50,000 are available, with the latest awards ranging from \$5,269 to \$46,627. Each project is intended to demonstrate one or more of the program's 2015 funding priorities: (1) nutrient pollution reduction in rivers and streams, (2) innovative storm water management practices, (3) habitat restoration, and (4) air emissions reductions. Grant recipients are required to provide a 10% cash or in-kind match. The grants are paid from the Environmental Education Fund (Fund 6A10), which receives one-half of the civil penalties collected by the Ohio EPA for violations of Ohio's air and water pollution control laws.

Winter 2014 Ohio Environmental Education General Grant Program Awards			
Grant Recipient	County Service Area	Project Description	Grant Award
Kenston Local School District	Geauga	Alternative energy outdoor learning center	\$46,627
OSU Extension Service	Darke, Fulton, Hancock, Mercer, Paulding, Putnam, Seneca	Livestock manure application	\$42,000
Friends of Stark Parks	Stark	Watershed studies course	\$41,832
Civic Garden Center of Greater Cincinnati	Butler, Clermont, Hamilton, Warren	Green Learning Station storm water display	\$31,758
Ursuline College Biology Department	Cuyahoga	Chagrin River tributary restoration monitoring and assessment	\$26,135
Warren County Soil & Water Conservation District	Warren	Water quality education trailer	\$24,400
Medina County Beekeepers Association	Holmes, Medina, Montgomery, Summit	Pollinator habitats	\$24,070
Toledo Botanical Garden	Lucas	Ottawa River tributary watershed restoration	\$15,526
5 Rivers MetroParks	Greene	Huffman Prairie habitat restoration	\$11,717
Village of Cuyahoga Heights	Cuyahoga	Mill Creek watershed public awareness and education	\$5,269
Total			\$269,334

ODE Selects Five Institutions to Launch Adult Diploma Pilot Program

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

On January 9, 2015, the Ohio Department of Education (ODE) announced that five educational institutions will share \$2.5 million in funding to launch the Adult Diploma Pilot Program. Created in H.B. 483 of the 130th General Assembly, the Adult Diploma Pilot Program was appropriated \$2.5 million in FY 2015 to award planning grants of up to \$500,000 to no more than five eligible institutions geographically dispersed throughout the state for the purpose of building capacity to implement the

program beginning in FY 2016. The program will offer the state's 1.1 million adults who have dropped out of high school a pathway to obtain a high school diploma.

Stark State Community College, Pickaway-Ross Joint Vocational School, Miami Valley Career Technical Center (Montgomery County), Cuyahoga Community College, and Penta Career Center (Wood County) each received \$500,000 in funding to develop and offer programs of study in partnership with regional institutions and providers. According to ODE, these schools will determine how to contact potential students, assess their current knowledge, and address potential challenges such as illiteracy during the development phase. They will also determine the most in-demand jobs in their regions and identify the types of certifications graduates need to qualify for those positions. Upon completion of the program, graduates will earn both a high school diploma and an industry-recognized credential in an in-demand field such as manufacturing or medical technology.

Attorney General Released 2014 Human Trafficking Annual Report

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

On January 26, 2015, the Ohio Attorney General's Human Trafficking Annual Report for 2014 was released.⁶ The report details the efforts of the Human Trafficking Commission, the law enforcement community, and various public and private coalitions and groups to end demand for compelled sexual activity and forced labor and to provide protection and services to victims.⁷ The activities covered by the report include law enforcement training and information sharing, legislatively strengthened criminal and victim protection provisions, public education and outreach, human trafficking statistics, and building a victim services network.

For 2014, law enforcement statewide reported 85 investigations, 98 arrests, and 17 convictions, increases from 2013 comparable numbers of 30 investigations, 16 arrests, and 7 convictions. For 2014, law enforcement statewide also reported identifying 181 potential victims, 113 suspected traffickers, and 68 suspected buyers/johns. The majority of the victims and suspects involved sex trafficking, with very little involving labor trafficking. Specifically noted in the report is the work of the Attorney General's Central Ohio Human Trafficking Task Force in identifying 84 potential victims in central Ohio who were either rescued or referred to various social service agencies and in securing seven criminal convictions.

⁶ The report is available on the Attorney General's website (www.ohioattorneygeneral.gov).

⁷ The Commission was first convened by the Attorney General in August 2011 and includes elected and appointed officials, members of local, state, and federal law enforcement, public and private social agencies, religious groups, and schools.

In 2014, a total of 4,975 law enforcement officers completed human trafficking training through the Attorney General's Ohio Peace Officer Training Academy (OPOTA): 2,548 were new officers in basic training, 2,399 existing officers participated through eOPOTA, an online classroom, and 28 exiting officers completed the training in person at the OPOTA facility.

The report also mentioned the improvement that Ohio made in the state's score on protecting children from sex trafficking received from Shared Hope International, a leading organization dedicated to improving the response to victims of sex trafficking. Shared Hope grades each state annually on 41 components in a state's laws that it judges as keys to effective responses to sex trafficking. For 2014, Ohio received a score of 78 out of a possible 102.5 points (grade C), up 17.5 points from its score of 60.5 (grade D) in 2011.

TRACKING THE ECONOMY

– Philip A. Cummins, Senior Economist, 614-387-1687

The material that follows is from the Economic Conditions and Outlook section of the Ohio Legislative Service Commission's February 3 testimony before the House Finance Committee on the pending biennial budget of the 131st General Assembly.

State of the Economy

U.S. economic growth turned higher in recent quarters. Expansion in U.S. and Ohio economic activity has been underway since the end of the recession in 2009. Growth in Ohio outpaced that in the U.S. early in the recovery but trailed in 2013 and appears to have continued to do so since then. Further growth is predicted for both the nation and the state, as summarized in the economic forecast tables below.⁸ Energy prices fell sharply last year, particularly crude oil and gasoline prices, cutting costs for many industries and consumers but hurting oil producers. On balance, the drop in energy prices is expected to be a net plus for the U.S. economy, still a net petroleum importer. Consumer spending growth strengthened in 2014 along with employment. Light motor vehicle sales in 2014 rose to the highest rate since 2006. Housing starts last year were the highest since 2007, mainly on strength in apartment construction, but remained well below rates in most earlier years. Business capital spending growth strengthened last year, supported by tightening levels of capacity utilization and low long-term interest rates, but the plunge in crude oil prices is causing sharp cutbacks in oil-related industries. Unemployment has come down. Price inflation is low, held down in part by the drop in energy prices. Wage gains also are generally slow but turned higher last year, particularly for workers with needed technical skills, as hiring increased.

National

Growth of the national economy picked up in 2014. Inflation-adjusted gross domestic product (real GDP), the total output of the economy, grew at a 5% annual rate in the third quarter, the strongest quarterly rise in over a decade, after increasing at a 4.6% annual rate in the second quarter. The expansion slowed in the fourth quarter, but

Growth of the national economy picked up in 2014.

⁸ Economic forecasts shown in this document are Global Insight's December 2014 baseline predictions.

growth for the full year, at 2.4%, was the strongest since 2010. Industrial production last year rose 4.2%, also the largest increase since 2010. Chart 5 shows changes in real GDP and industrial production from the 2007-2009 recession through last year.

Though U.S. economic growth strengthened last year, the current recovery and expansion remained the slowest in any business cycle in the post-World War II era. Growth of real GDP averaged a 2.3% annual rate from the 2009 second quarter through the 2014 fourth quarter, only half of the average growth rate in upturns earlier in the period since 1947.⁹

Chart 5: United States Output Measures



The national economy added nearly 3.0 million jobs in 2014, the best year for job growth since 1999.

Consumer spending growth strengthened in last year's second half. Growing consumer spending was supported by employment gains. The national economy added nearly 3.0 million jobs in 2014, the best year for job growth since 1999. Disposable income growth picked up last year after weakness in 2013. Household debt service levels have been reduced to more manageable levels relative to incomes. Replacement needs have contributed to increased spending on consumer durables. U.S. sales of cars and light trucks rose in 2014 to more than 16.4 million units, the highest rate since 2006 and in line with healthy levels prior to the last recession.

⁹ Business cycle trough and peak dates used in calculating the numbers on which these statements are based are from the National Bureau of Economic Research.

Residential fixed investment growth slowed last year after double-digit growth in 2012 and 2013 from very low levels. The collapse in home values and housing construction was one of the drivers of the 2007-2009 recession. Housing starts rose 9% in 2014 to 1.0 million units, the highest rate of construction starts since 2007 but less than half the rate in peak year 2005. The strength in residential building was mainly in starts on apartments. Sales of new homes rose only 1% last year after rising 40% in the previous two years. Before that, new home sales plummeted 76% from 2005 to 2011. Sales of older homes fell 3% last year after increasing 9% in 2013.¹⁰ Home prices on average nationwide are up from post-recession lows in 2011 but still short of the 2007 peak.¹¹

Business fixed investment strengthened last year, following slow growth in 2013. With capacity utilization in manufacturing at the highest levels since 2007, financing conditions exceptionally attractive as indicated by long-term interest rates, and corporate cash still ample, further increases in investment spending in many industries can be expected. However, the sharp drop in crude oil prices is prompting cutbacks in oil drilling activity, recorded in the national income and product accounts as part of fixed investment. Drilling cutbacks are in turn adversely affecting supplier industries.

Finished goods price inflation remains below the Federal Reserve's 2% target. Recent trends in consumer prices for all items and excluding food and energy are shown in Chart 6. The drop in the all items index is driven by energy prices, particularly gasoline, which was 21% lower in price in December 2014 than a year earlier. The index for all food prices, in contrast, was 3.4% higher at year-end than a year earlier. The index for all items other than food and energy was 1.6% higher.

Wage gains also are generally slow but turned higher last year as indicated by the Employment Cost Index for private industry wages and salaries, which rose 2.2%, the largest increase since 2008. A Federal Reserve System publication reported in January 2015 that upward pressures on wages remain limited mostly to workers with technical skills that are in demand.¹²

¹⁰ Data on existing home sales are from the National Association of Realtors.

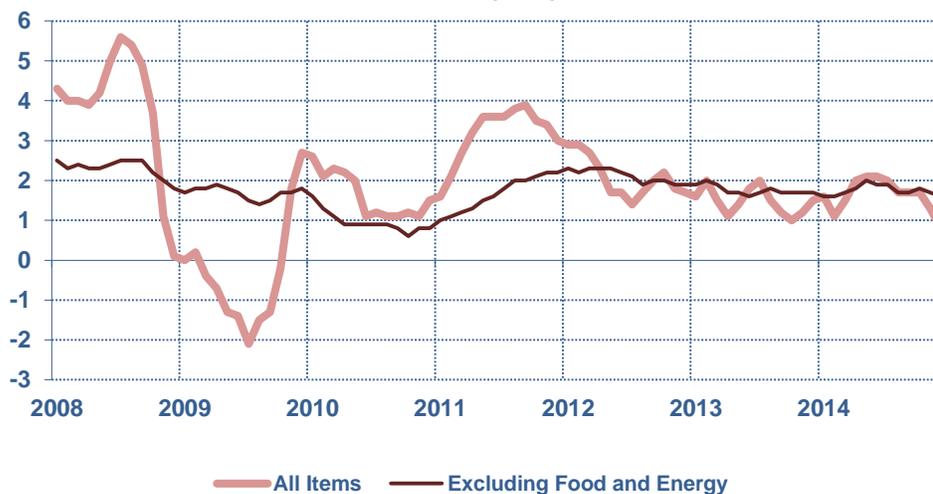
¹¹ Home prices cited in this document are as reported by the Federal Housing Finance Agency.

¹² Federal Reserve System, "Summary of Commentary on Current Economic Conditions by Federal Reserve District," January 2015.

Finished goods price inflation remains below 2%.

Almost all of the members of the Federal Reserve's policy-making group indicated in December that they expect to begin raising short-term interest rates this year.

Chart 6: Consumer Price Index
Seasonally Adjusted

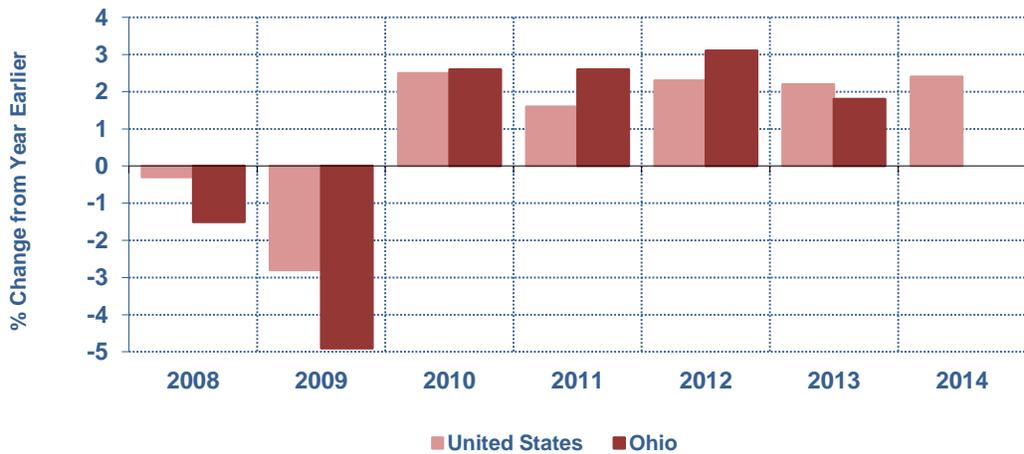


U.S. monetary policy has held short-term interest rates at near-zero levels since late 2008. In October 2014, the Federal Reserve System ended a program of buying U.S. Treasury notes and bonds and federal agency mortgage-backed securities to keep longer-term interest rates low. Almost all of the members of the Federal Reserve's policy-making group indicated in December that they expect to begin raising short-term interest rates this year.

Ohio

Annual changes in real GDP in Ohio compared with those for the U.S. are shown in Chart 7. The 2007-2009 recession was more severe in Ohio than nationwide. State real GDP fell 1.5% in 2008 and 4.9% in 2009, compared with declines in U.S. real GDP of 0.3% and 2.8% in those years. Following the end of the recession in mid-2009, recovery in Ohio appears to have been somewhat stronger than in the rest of the U.S., on average, through 2012, based on the GDP data shown in the chart. In 2013, Ohio's real GDP grew 1.8%, a little less than U.S. real GDP growth of 2.2%. State GDP figures are available from the U.S. Bureau of Economic Analysis (BEA) only annually and with a long lag. BEA is scheduled to release its initial estimate of 2014 Ohio GDP next June. Estimates of Ohio GDP on a quarterly basis are not from the source agency but are provided by Global Insight.

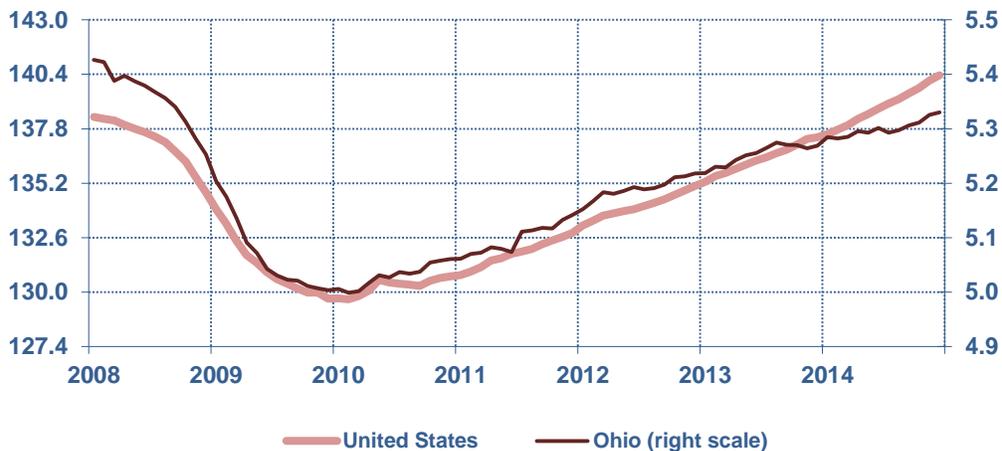
Chart 7: Real Gross Domestic Product



Nonfarm payroll employment in Ohio, compared with that in the U.S., is shown in Chart 8. Ohio nonfarm payroll employment reached a low point in early 2010, and had recovered by 6.6%, 330,000 additional jobs, by the end of last year. U.S. nonfarm payroll employment also reached its low point in February 2010, and through December 2014 had risen 8.2%, 10.7 million more jobs. Employment growth in Ohio outpaced that in the U.S. in the first two years of recovery but has since lagged, as shown in the chart.

Ohio nonfarm payroll employment reached a low point in early 2010, and had recovered by 6.6% by the end of last year.

Chart 8: Total Nonfarm Payroll Employment Millions, Seasonally Adjusted



Ohio's statewide unemployment rate, the number of people not employed and actively seeking work as a percent of the labor force, declined to 4.8% in December, its lowest level since 2001. The U.S. unemployment rate was 5.6% in December, lowest since 2008. Unemployment rates during and since the 2007-2009 recession are shown

Ohio's statewide unemployment rate declined to 4.8% in December, its lowest level since 2001.

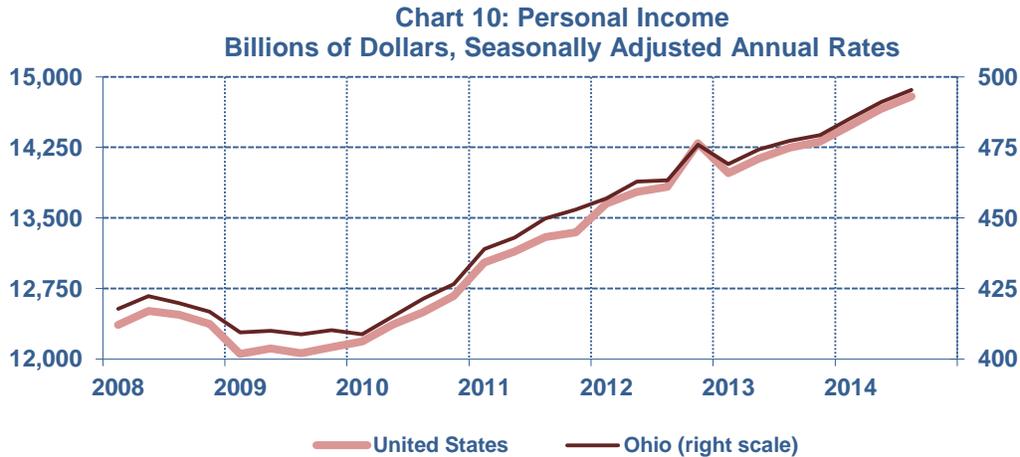
in Chart 9. Ohio's unemployment rate fell below the nationwide average in February 2014.

Labor markets appear to have more slack than these unemployment rates suggest. Since the end of the recession, most of the growth in the U.S. population of working age (16 and over) has been accounted for by an increase in the number of people not in the labor force. In Ohio, the increase in the number of working-age persons not in the labor force has exceeded growth of population in this age group, as Ohio's labor force has declined. The resulting fall in the labor force participation rate has tended to hold down the reported rate of unemployment, since some of those no longer in the labor force would plausibly otherwise be searching for work. Only part of the decline in the labor force participation rate among all working-age persons is due to increasing numbers of retirees age 65 and older, as the labor force participation rate has declined among persons younger than 65.

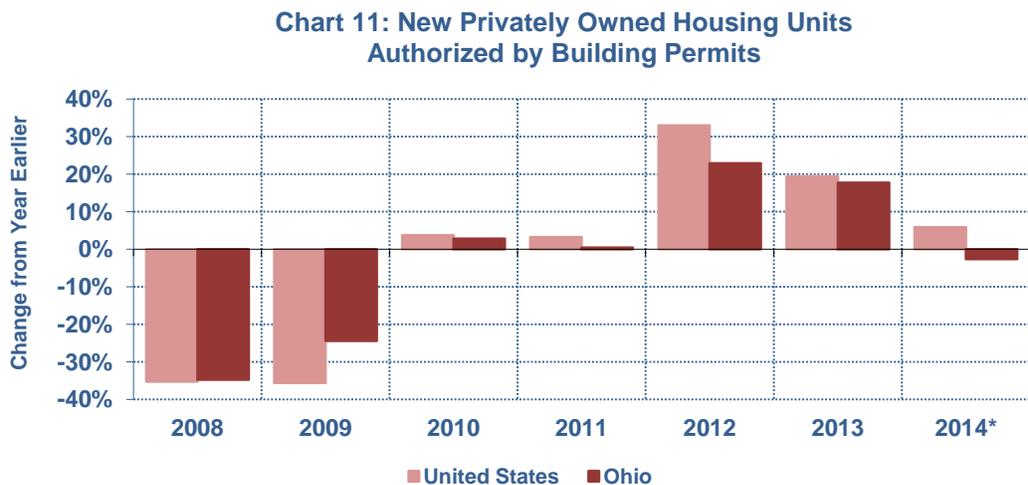
**Chart 9: Unemployment Rate
Seasonally Adjusted**



Personal income has been growing in the nation and Ohio since 2009, as shown in Chart 10. Both series in the chart are shown in dollars of current purchasing power. Ohio personal income as well as U.S. personal income rose 3.8% in the latest year. U.S. personal income rose further in the fourth quarter.



Housing construction growth slowed last year nationwide, and activity in this sector of the economy fell in Ohio, as indicated by building permits data for new privately owned units through November. Earlier, housing construction weakened ahead of and during the 2007-2009 recession, but recovered significantly in 2012 and 2013. These trends are shown in Chart 11. Residential building activity remains far below past peaks, in Ohio and around the country. Average housing prices have recovered substantially since 2011, in Ohio and the U.S., but remain below pre-recession peaks in 2006 and 2007.



*Through November.

Housing construction growth slowed last year nationwide, and this sector of the economy fell in Ohio, as indicated by building permits.

Economic Forecasts

The predictions for the economic outlook in the tables that follow are from Global Insight's baseline forecasts released in December 2014. Economic forecasting is inherently uncertain, and projections may turn out to be too optimistic or too pessimistic. LSC's forecasts for state tax revenues, based in part on some of the variables provided by Global Insight, could in consequence also be either too high or too low.

Quarterly changes shown, the first line in each table, are from the preceding quarter. Changes shown in the second line compare average values for the four quarters ending in the second calendar quarter, coinciding with Ohio's fiscal year, with average values for the four quarters one year earlier. The unemployment rate tables show average unemployment rates for the quarters indicated (first line) and for the four quarters ending in the second quarter (second line).

U.S. Gross Domestic Product

U.S. real GDP is projected to increase at about a 2.5% annual rate on average over the forecast horizon through 2017, as shown below.

Forecast	2015				2016				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----percent change at annual rate-----											
Quarterly	2.4	2.6	2.4	2.2	2.2	2.9	3.1	2.9	2.4	2.5	2.5	2.4
Fiscal Year	2.6				2.4				2.7			

Ohio Gross Domestic Product

Economic growth in Ohio is expected to continue through 2017 but at a somewhat slower pace than the U.S. Predicted growth of real GDP in Ohio averages 2.0% per year in 2015 through 2017.

Forecast	2015				2016				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----percent change at annual rate-----											
Quarterly	1.8	2.1	2.1	2.0	1.3	2.3	2.6	2.5	2.0	1.9	1.9	1.9
Fiscal Year	1.4				1.9				2.2			

U.S. Inflation

In Global Insight's December baseline forecast, the consumer price index turns up in this year's second quarter, after falling as a result of lower energy prices. Inflation averages about a 2.2% annual rate in the next two years.

U.S. Consumer Price Index Inflation												
Forecast	2015				2016				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----percent change at annual rate-----											
Quarterly	-2.0	0.8	2.6	1.7	2.5	2.1	2.0	2.5	1.7	1.8	2.1	2.6
Fiscal Year	0.7				1.2				2.1			

U.S. Personal Income

Nationwide personal income growth is projected to average 4.9% at an annual rate in 2015 through 2017. These growth rates are based on the dollar amounts of income, not adjusted for inflation.

U.S. Personal Income Growth												
Forecast	2015				2016				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----percent change at annual rate-----											
Quarterly	5.2	3.8	4.0	4.6	5.4	4.8	5.0	5.3	6.1	5.2	5.0	4.9
Fiscal Year	4.1				4.4				5.2			

Ohio Personal Income

Income to persons who reside in Ohio also is forecast to grow through 2017. Growth of Ohio personal income averages 4.2% at an annual rate in 2015 through 2017, lagging behind growth of personal income nationwide.

Ohio Personal Income Growth												
Forecast	2015				2016				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----percent change at annual rate-----											
Quarterly	4.6	3.4	3.5	3.9	4.6	3.9	4.1	4.3	5.5	4.5	4.3	4.0
Fiscal Year	3.9				3.8				4.4			

U.S. Unemployment Rate

Unemployment nationwide is expected to decline slowly through the forecast period shown in the table.

Forecast	2015				2016				2017			
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
	-----percent of the labor force-----											
Quarterly	5.7	5.6	5.5	5.5	5.5	5.4	5.4	5.4	5.3	5.3	5.3	5.3
Fiscal Year	5.8				5.5				5.4			

Ohio Unemployment Rate

The unemployment rate in Ohio is projected to be 5.4% in almost every quarter through the end of 2017. As the rate was down to 4.8% in December 2014, it would have to rise for this forecast to be realized.

Forecast	2015				2016				2017			
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
	-----percent of the labor force-----											
Quarterly	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.5
Fiscal Year	5.5				5.4				5.4			