Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION DECEMBER 2012

STATUS OF THE GRF

HIGHLIGHTS

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

National and Ohio labor markets continue to improve at a slow but steady pace. U.S. nonfarm employment rose 0.1% in November from October, and the national unemployment rate fell to 7.7%, despite disruption caused by Hurricane Sandy. In Ohio, the unemployment rate was 6.9% in October, which was below 7.0% for the first time since August 2008. Nonfarm employment grew 0.3% from the September level and increased 1.9% over October 2011.

Through November, FY 2013 GRF tax receipts were almost $55 million above estimate; however, GRF sources were almost $338 million below estimates due to lower than expected federal grants. Total GRF uses were also below estimates by $362 million, largely due to lower than expected expenditures in certain programs receiving federal funding, particularly Medicaid.

Through November 2012, GRF sources totaled $11.50 billion:

- Receipts from the personal income tax were $16.0 million above estimate; and
- Receipts from the sales and use tax were $29.0 million below estimate.

Through November 2012, GRF uses totaled $13.10 billion:

- Public Assistance and Medicaid expenditures were $266.0 million below estimate; and
- Expenditures for Primary, Secondary, and Other Education were $33.8 million below estimate.

VOLUME 36, NUMBER 4

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

Legislative Service Commission
77 South High Street, 9th Floor
Columbus, Ohio 43215

Telephone: 614-466-3615

Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of November 2012
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on December 5, 2012)

	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	$78,033	$81,100	-$3,067	-3.8%
Nonauto Sales and Use	$606,087	$596,000	$10,087	1.7%
Total Sales and Use Taxes	$684,120	$677,100	$7,020	1.0%
Personal Income	$640,698	$650,954	-$10,256	-1.6%
Corporate Franchise	-$9,910	-$3,000	-$6,910	-230.3%
Public Utility	$16,905	$21,000	-$4,095	-19.5%
Kilowatt Hour Excise	$20,761	$17,800	$2,961	16.6%
Natural Gas Consumption (MCF)	$4,487	$4,400	$87	2.0%
Commercial Activity Tax	$168,550	$184,500	-$15,950	-8.6%
Foreign Insurance	$1,676	$300	$1,376	458.5%
Domestic Insurance	$11	$0	$11	---
Business and Property	$130	$0	$130	---
Cigarette	$67,114	$65,200	$1,914	2.9%
Alcoholic Beverage	$4,553	$4,300	$253	5.9%
Liquor Gallonage	$3,321	$3,300	$21	0.6%
Estate	$11,637	$11,100	$537	4.8%
Total Tax Revenue	**$1,614,052**	**$1,636,954**	**-$22,902**	**-1.4%**
NONTAX REVENUE				
Earnings on Investments	-$1	$0	-$1	---
Licenses and Fees	$440	$714	-$274	-38.4%
Other Revenue	$12,237	$3,169	$9,068	286.2%
Total Nontax Revenue	**$12,676**	**$3,883**	**$8,794**	**226.5%**
TRANSFERS				
Liquor Transfers**	$11,000	$11,000	$0	0.0%
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$0	$0	$0	---
Total Transfers In	**$11,000**	**$11,000**	**$0**	**0.0%**
TOTAL STATE SOURCES	**$1,637,728**	**$1,651,837**	**-$14,109**	**-0.9%**
Federal Grants	$465,924	$720,114	-$254,190	-35.3%
TOTAL GRF SOURCES	**$2,103,652**	**$2,371,950**	**-$268,298**	**-11.3%**

*Estimates of the Office of Budget and Management as of August 2012.
**Liquor Transfers based on a report run in OAKS as of November 30, 2012.
Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Actual vs. Estimate
FY 2013 as of November 30, 2012
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on December 5, 2012)

	Actual	Estimate*	Variance	Percent	FY 2012	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	$454,940	$452,700	$2,240	0.5%	$431,059	5.5%
Nonauto Sales and Use	$2,993,517	$3,024,800	-$31,283	-1.0%	$2,863,338	4.5%
Total Sales and Use Taxes	$3,448,457	$3,477,500	-$29,043	-0.8%	$3,294,397	4.7%
Personal Income	$3,457,679	$3,441,659	$16,020	0.5%	$3,166,177	9.2%
Corporate Franchise	$53,298	-$1,000	$54,298	5429.8%	$2,310	2207.1%
Public Utility	$43,968	$50,700	-$6,732	-13.3%	$55,988	-21.5%
Kilowatt Hour Excise	$137,046	$143,100	-$6,054	-4.2%	$135,366	1.2%
Natural Gas Consumption (MCF)	$15,189	$18,100	-$2,911	-16.1%	$18,169	-16.4%
Commercial Activity Tax	$393,749	$409,400	-$15,651	-3.8%	$195,906	101.0%
Foreign Insurance	$142,754	$137,700	$5,054	3.7%	$134,243	6.3%
Domestic Insurance	$4,764	-$500	$5,264	1052.8%	$58	8184.4%
Business and Property	$346	-$1,200	$1,546	128.8%	-$1,788	119.3%
Cigarette	$301,692	$302,700	-$1,008	-0.3%	$307,318	-1.8%
Alcoholic Beverage	$23,679	$25,400	-$1,721	-6.8%	$25,194	-6.0%
Liquor Gallonage	$16,809	$16,600	$209	1.3%	$16,279	3.3%
Estate	$68,262	$32,700	$35,562	108.8%	$34,500	97.9%
Total Tax Revenue	**$8,107,692**	**$8,052,859**	**$54,833**	**0.7%**	**$7,384,116**	**9.8%**
NONTAX REVENUE						
Earnings on Investments	$2,279	$1,500	$779	51.9%	$1,202	89.5%
Licenses and Fees	$10,916	$12,176	-$1,260	-10.3%	$19,104	-42.9%
Other Revenue	$15,873	$17,066	-$1,193	-7.0%	$12,446	27.5%
Total Nontax Revenue	**$29,068**	**$30,742**	**-$1,674**	**-5.4%**	**$32,753**	**-11.3%**
TRANSFERS						
Liquor Transfers**	$65,500	$62,000	$3,500	5.6%	$58,132	12.7%
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$5,372	$5,166	$206	4.0%	$173,136	-96.9%
Total Transfers In	**$70,872**	**$67,166**	**$3,706**	**5.5%**	**$231,268**	**-69.4%**
TOTAL STATE SOURCES	**$8,207,632**	**$8,150,767**	**$56,865**	**0.7%**	**$7,648,137**	**7.3%**
Federal Grants	$3,288,124	$3,682,774	-$394,650	-10.7%	$3,395,000	-3.1%
TOTAL GRF SOURCES	**$11,495,756**	**$11,833,541**	**-$337,786**	**-2.9%**	**$11,043,138**	**4.1%**

*Estimates of the Office of Budget and Management as of August 2012.
**Liquor Transfers based on a report run in OAKS as of November 30, 2012.
Detail may not sum to total due to rounding.

Through November, GRF tax receipts in FY 2013 were $54.8 million above estimate.

Through November, FY 2013 GRF sources were $337.8 million below estimate.

REVENUES

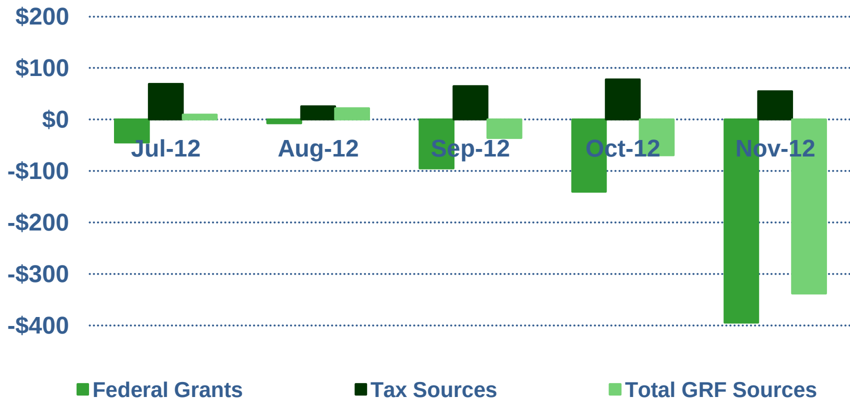
– Jean J. Botomogno, Principal Economist, 614-644-7758

Overview

GRF sources totaled $2.10 billion in November 2012. These sources were $268.3 million below the estimate released by the Office of Budget and Management (OBM) in August 2012, mostly due to a shortfall of $254.2 million in federal grants. Additionally, GRF tax sources were $22.9 million below estimate. Tables 1 and 2 show GRF sources for the month of November and for FY 2013 through November, respectively. GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants, which are federal reimbursements for Medicaid and certain other human service programs that receive federal funding. Federal grants have been below estimates every month this fiscal year, mainly due to continued lower than expected spending for Medicaid. November's negative variance raised the year-to-date's shortfall of federal grants to $394.7 million, up from $140.5 million through October 2012. According to OBM, an accounting coding error also contributed to the negative variance in federal grants. In November, some federal grants were erroneously credited to certain non-GRF funds. Those grants will be reverted back to the GRF in December.

November receipts from the personal income tax and the commercial activity tax (CAT) were below anticipated receipts by, respectively, $10.3 million and $16.0 million. Also, the corporate franchise tax and the public utility tax were short of estimates, by $6.9 million and $4.1 million. On the other hand, the sales and use tax rebounded in November from a weak performance in October by posting a positive variance of $7.1 million; and the kilowatt hour excise tax and the cigarette tax were ahead of anticipated receipts by, respectively, $3.0 million and $1.9 million. The overall year-to-date positive variance in GRF tax sources decreased to $54.8 million, down from $77.7 million at the end of October. The shortfall in November federal grants pushed the fiscal year's negative variance in total GRF sources to $337.8 million, up from $69.5 million through October. Chart 1 below shows the cumulative variances against estimate for federal grants, tax sources, and total GRF sources.

Chart 1: Cumulative Variances of GRF Sources in FY 2013
(Variance from Estimates, in millions)



Compared to FY 2012, FY 2013 total GRF sources increased $452.6 million. Gains of $723.6 million in GRF tax revenues were reduced by a decline of $164.1 million in nontax revenue and transfers in, and a decrease of $106.9 million in federal grants. Receipts from the personal income tax grew $291.5 million, while those from the CAT and the sales and use tax increased $197.8 million and $154.1 million, respectively. Growth in GRF receipts from the income tax and the CAT was due in part to changes that H.B. 153 (the current operating budget act) made to revenue sharing with local governments.

Personal Income Tax

Through November, FY 2013 GRF income tax receipts were $16.0 million above estimate.

In November, GRF personal income tax receipts were below estimate for the second consecutive month. Receipts from November were $10.3 million (1.6%) below estimate, following a shortfall of $17.6 million in October. However, receipts in November 2012 were $57.5 million (9.9%) above receipts in November 2011. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the Local Government Fund (LGF). Gross collections are the sum of employer withholding, quarterly estimated payments,[1] trust payments, payments associated with annual returns, and miscellaneous payments.

The latest monthly negative variance was due to poor employer withholding receipts, quarterly estimated payments, and annual returns payments. November monthly employer withholding was below estimate

[1] Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than $500. Payments are generally 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.

Through November, FY 2013 withholding tax receipts were $4.4 million above estimate.

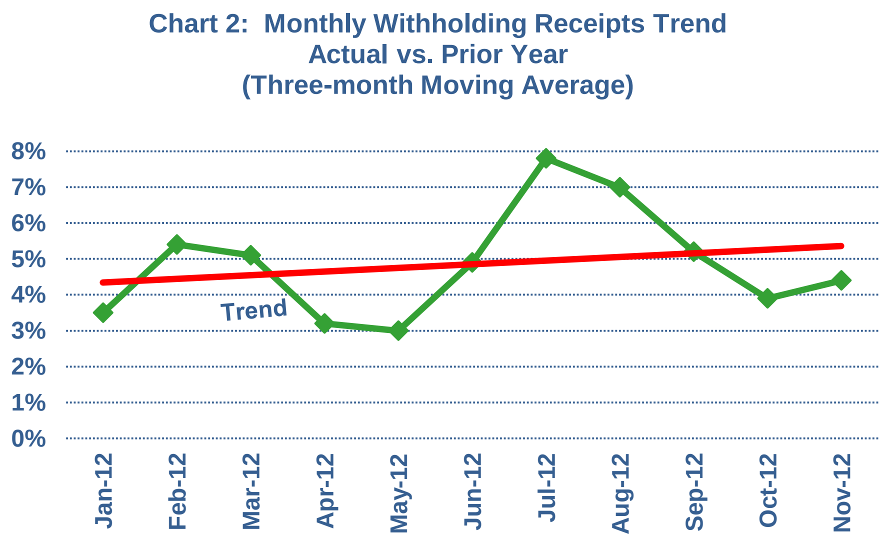
by $9.3 million. Quarterly estimated payments and taxes paid with annual returns were below estimates, respectively, by $1.3 million and $1.9 million. For the fiscal year to date, the GRF received $3.46 billion from the personal income tax. Though revenues in three of the five months this fiscal year have been below projections, yearly receipts were $16.0 million (0.5%) above estimate. The table below summarizes year-to-date FY 2013 income tax revenue variances from estimates and annual changes by component. All components, except for receipts from annual tax returns, were above estimates.

FY 2013 Year-to-Date Income Tax Revenue Variances and Changes by Component

Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2012	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	$4.4	0.1%	$173.0	5.7%
Quarterly Estimated Payments	$19.2	5.8%	$19.2	5.8%
Trust Payments	$4.8	49.8%	$4.9	51.0%
Annual Return Payments	-$4.2	-3.5%	-$4.2	-3.5%
Miscellaneous Payments	$6.6	15.8%	$6.6	16.0%
Gross Collections	$30.9	0.8%	$199.6	5.6%
Less Refunds	$10.1	6.8%	$10.1	6.7%
Less LGF Distribution	$4.8	3.4%	-$102.0	-41.6%
Income Tax Revenue	$16.0	0.5%	$291.5	9.2%

FY 2013 GRF receipts from the income tax were $291.5 million (9.2%) above receipts in the corresponding period in FY 2012. As in previous months, growth in income tax receipts was largely due to gains in employer withholding and quarterly estimated payments, and reduced distributions to the LGF. Through November, FY 2013 revenues from employer withholding were $173.0 million (5.7%) above receipts in this category in FY 2012, and quarterly estimated payments increased $19.2 million (5.8%). Chart 2, below, which illustrates the trend in employer withholding receipts in 2012, indicates an upturn in the latest months after the slowdown experienced in the summer months. Distributions to the LGF were $102.2 million (41.6%) below amounts in that category through November in FY 2012, due to H.B. 153 which reduced revenue sharing of state tax revenues with local governments.[2]

[2] Whereas LGF distributions are debited from personal income tax receipts, Public Library Fund distributions are debited from the kilowatt hour tax (50%) and the nonauto sales and use tax (50%). Thus, H.B. 153 also enhances GRF receipts to the latter two tax sources.



Sales and Use Tax

November GRF receipts from the sales and use tax of $684.1 million were $7.0 million (1.0%) above estimate and $23.1 million (3.5%) above receipts in November 2011. Through November, FY 2013 GRF sales and use tax receipts totaled $3.45 billion, $29.0 million (0.8%) below estimate, but $154.1 million (4.7%) above receipts in FY 2012. For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[3] generally arise from the sale of motor vehicles while nonauto sales and use tax collections arise from other sales. However, auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax instead of the auto tax.

Through November, FY 2013 sales and use tax receipts were $29.0 million below estimate.

Nonauto Sales and Use Tax

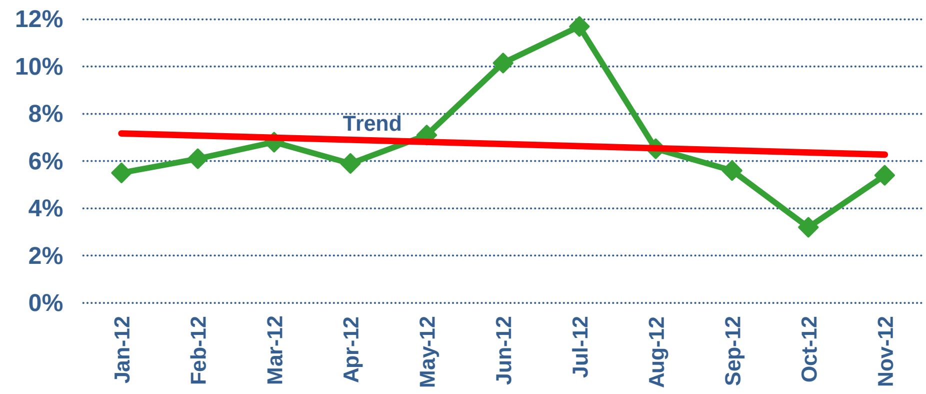
November GRF receipts from the nonauto sales and use tax were $606.1 million, $10.1 million (1.7%) above estimate. Year to date, GRF nonauto sales and use tax receipts were $2.99 billion for FY 2013, $31.3 million (1.0%) below estimate, but $130.2 million (4.5%) above receipts through November in FY 2012. Chart 3, below, shows the trend in 2012 nonauto sales and use tax monthly receipts against prior year receipts in the same month. As seen from the chart, and similarly to the trend in income tax withholding, the rate of growth in nonauto sales and use tax receipts has increased in the latest month.

Through November, FY 2013 nonauto sales and use tax receipts were $31.3 million below estimate.

---

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

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

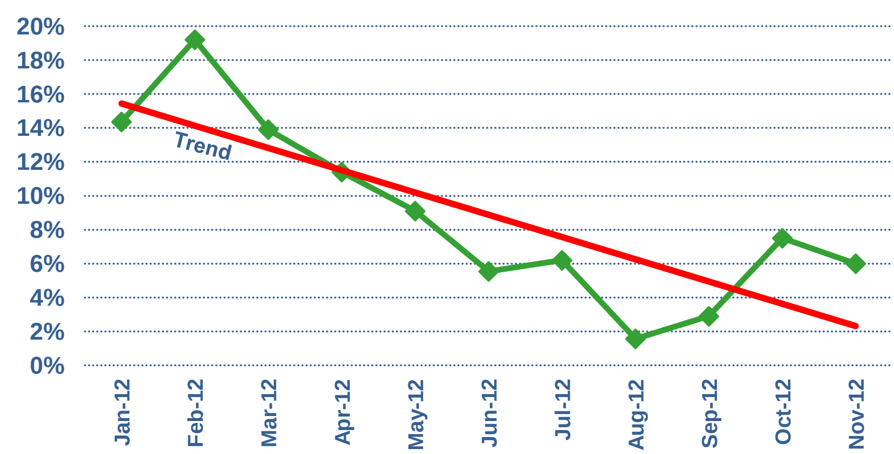


Through November, FY 2013 auto sales and use tax receipts were $2.2 million above estimate.

Auto Sales and Use Tax

GRF receipts from the auto sales and use tax totaled $78.0 million in November. Those receipts were $3.1 million (3.8%) below estimate and $1.6 million (2.1%) below November 2011 receipts. However, for the fiscal year through November, the auto sales and use tax receipts of $454.9 million were $2.2 million (0.5%) above estimate and $23.9 million (5.5%) above receipts for the corresponding period in FY 2012. Chart 4, below, compares 2012 monthly auto sales and use tax receipts with year-ago receipts in the same period and shows the auto sales and use tax base continues to grow.

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



Nationwide, autos and light truck sales were 15.8 million units on a seasonally adjusted annualized basis in November, a 1.3 million increase from October (when Hurricane Sandy affected sales) to post the highest sales pace since January 2008. On a year-ago basis, sales grew 15% over November 2011's level.

Commercial Activity Tax

Receipts from the second payment in FY 2013 by CAT taxpayers who must file quarterly returns (due in November for gross receipts in the July to September period) were probably poor. November GRF receipts from the CAT of $168.6 million were $16.0 million (8.6%) below estimate but $80.2 million (90.8%) above November 2011 revenue. Through November, FY 2013 CAT receipts to the GRF totaled $393.7 million, $15.6 million (3.8%) below estimate, but were $197.8 million (101.0%) above receipts in the corresponding period in FY 2012. The revenue increase is largely due to H.B. 153 which increased the share of receipts distributed to the GRF from the CAT with corresponding decreases to local government funds that share revenues from those tax sources. The GRF share of CAT receipts doubled to 50% in FY 2013, up from 25% in FY 2012. Through November, all-fund CAT receipts were $804.8 million, $12.6 million (1.6%) above revenue through November in FY 2012. CAT receipts that are deposited into the local government funds are used to reimburse school districts and other units of local government for lost revenues from the phase-out and reductions in tangible personal property taxes.

Through November, FY 2013 GRF CAT receipts were $15.6 million below estimate.

Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax of $67.1 million in November 2012 were $1.9 million (2.9%) above estimate but $2.2 million (3.1%) below receipts in the same month in FY 2012. Through November, FY 2013 receipts of $301.7 million were $1.0 million (0.3%) below estimate. Receipts from cigarette sales were $279.1 million, and sales of products other than cigarettes provided $22.6 million. Compared to FY 2012, total receipts from the tax were $5.6 million (1.8%) lower. Receipts from the sale of cigarettes and other tobacco products decreased, respectively, by $4.8 million and $0.8 million.

Through November, FY 2013 cigarette tax receipts were $1.0 million below estimate.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of December 2012
($ in thousands)
(Actual based on OAKS reports run December 4, 2012)

PROGRAM	Actual	Estimate*	Variance	Percent
Primary, Secondary, and Other Education	$583,098	$557,975	$25,124	4.5%
Higher Education	$183,231	$191,990	-$8,759	-4.6%
Total Education	$766,329	$749,965	$16,364	2.2%
Public Assistance and Medicaid	$1,042,851	$1,143,343	-$100,492	-8.8%
Health and Human Services	$71,451	$75,546	-$4,095	-5.4%
Total Welfare and Human Services	$1,114,302	$1,218,889	-$104,587	-8.6%
Justice and Public Protection	$125,395	$126,202	-$806	-0.6%
Environment and Natural Resources	$13,729	$13,950	-$221	-1.6%
Transportation	$1,200	$884	$316	35.7%
General Government	$15,921	$18,103	-$2,182	-12.1%
Community and Economic Development	$3,695	$6,653	-$2,957	-44.5%
Capital	$0	$0	$0	---
Total Government Operations	$159,940	$165,792	-$5,852	-3.5%
Tax Relief and Other	$178,606	$212,087	-$33,481	-15.8%
Debt Service	$5	$0	$5	---
Total Other Expenditures	$178,611	$212,087	-$33,476	-15.8%
Total Program Expenditures	**$2,219,183**	**$2,346,733**	**-$127,550**	**-5.4%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$0	$0	$0	---
Total Transfers Out	$0	$0	$0	---
TOTAL GRF USES	**$2,219,183**	**$2,346,733**	**-$127,550**	**-5.4%**

* August 2012 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 2013 as of November 30, 2012
($ in thousands)
(Actual based on OAKS reports run December 4, 2012)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2012**	**Percent Change**
Primary, Secondary, and Other Education	$3,009,047	$3,042,797	-$33,750	-1.1%	$3,015,079	-0.2%
Higher Education	$908,435	$921,845	-$13,410	-1.5%	$930,231	-2.3%
Total Education	$3,917,482	$3,964,643	-$47,161	-1.2%	$3,945,310	-0.7%
Public Assistance and Medicaid	$5,958,130	$6,224,081	-$265,951	-4.3%	$5,855,728	1.7%
Health and Human Services	$449,824	$468,473	-$18,649	-4.0%	$507,545	-11.4%
Total Welfare and Human Services	$6,407,954	$6,692,554	-$284,600	-4.3%	$6,363,274	0.7%
Justice and Public Protection	$898,079	$915,235	-$17,156	-1.9%	$828,066	8.5%
Environment and Natural Resources	$38,476	$39,281	-$806	-2.1%	$39,908	-3.6%
Transportation	$3,752	$4,998	-$1,246	-24.9%	$4,522	-17.0%
General Government	$157,399	$177,916	-$20,517	-11.5%	$142,627	10.4%
Community and Economic Development	$46,840	$50,305	-$3,466	-6.9%	$48,241	-2.9%
Capital	$137	$0	$137	---	$120	14.4%
Total Government Operations	$1,144,682	$1,187,735	-$43,053	-3.6%	$1,063,485	7.6%
Tax Relief and Other	$881,711	$873,058	$8,653	1.0%	$864,645	2.0%
Debt Service	$421,840	$430,803	-$8,963	-2.1%	$172,167	145.0%
Total Other Expenditures	$1,303,551	$1,303,861	-$310	0.0%	$1,036,812	25.7%
Total Program Expenditures	**$12,773,669**	**$13,148,793**	**-$375,124**	**-2.9%**	**$12,408,881**	**2.9%**
TRANSFERS						
Budget Stabilization	$235,096	$235,096	$0	0.0%	$246,899	-4.8%
Other Transfers Out	$92,112	$79,002	$13,110	16.6%	$310,439	-70.3%
Total Transfers Out	$327,208	$314,098	$13,110	4.2%	$557,338	-41.3%
TOTAL GRF USES	**$13,100,878**	**$13,462,891**	**-$362,014**	**-2.7%**	**$12,966,218**	**1.0%**

* August 2012 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

Table 5: FY 2013 Medicaid Expenditures
($ in thousands)
(Actuals based on OAKS report run on December 6, 2012)

Medicaid (600525) Payments by Service Category	November Actual	November Estimate	November Variance	November Percent Variance	Year to Date Actual thru Nov	Year to Date Estimate thru Nov	Year to Date Variance	Year to Date Percent Variance
Managed Care Plans	$555,214	$610,804	-$55,590	-9.1%	$2,929,192	$3,027,435	-$98,243	-3.2%
Nursing Facilities	$212,034	$210,683	$1,351	0.6%	$1,037,003	$1,031,780	$5,223	0.5%
Hospitals	$91,828	$105,102	-$13,274	-12.6%	$532,938	$573,574	-$40,636	-7.1%
Aging Waivers	$42,873	$54,471	-$11,598	-21.3%	$238,567	$273,040	-$34,473	-12.6%
Prescription Drugs	$36,346	$40,360	-$4,014	-9.9%	$195,016	$212,008	-$16,992	-8.0%
Physicians	$23,258	$24,200	-$942	-3.9%	$127,558	$130,496	-$2,938	-2.3%
ODJFS Waivers	$18,539	$20,213	-$1,674	-8.3%	$105,310	$112,395	-$7,085	-6.3%
All Other	$185,172	$196,007	-$10,835	-5.5%	$910,126	$934,517	-$24,391	-2.6%
Total Payments	$1,165,264	$1,261,840	-$96,576	-7.7%	$6,075,710	$6,295,245	-$219,535	-3.5%
Total Offsets (non-GRF)	-$204,181	-$205,694	$1,513	-0.7%	-$562,616	-$569,447	$6,831	-1.2%
Total 600525 (net of offsets)	$961,083	$1,056,146	-$95,063	-9.0%	$5,513,094	$5,725,798	-$212,704	-3.7%
Medicare Part D (600526)	$20,047	$22,898	-$2,851	-12.5%	$115,972	$116,523	-$551	-0.5%
Total GRF	**$981,130**	**$1,079,044**	**-$97,914**	**-9.1%**	**$5,629,066**	**$5,842,321**	**-$213,255**	**-3.7%**
Total All Funds	**$1,185,311**	**$1,284,738**	**-$99,427**	**-7.7%**	**$6,191,682**	**$6,411,768**	**-$220,086**	**-3.4%**

Estimates from the Ohio Department of Job and Family Services (ODJFS)

EXPENDITURES

– *Russ Keller, Economist, 614-644-1751*
– *Todd A. Celmar, Senior Economist, 614-466-7358*

Overview

Through November, FY 2013 GRF uses totaled $13.10 billion, $362.0 million below the estimate released by the Office of Budget and Management (OBM) in August 2012. GRF uses mainly consist of program expenditures but also include transfers out. For the first five months of FY 2013, GRF program expenditures were $12.77 billion, $375.1 million below estimate. Year-to-date GRF transfers out were $327.2 million, $13.1 million above estimate. Tables 3 and 4 show GRF uses for the month of November and for FY 2013 through November, respectively.

For the first five months of FY 2013, GRF uses were $362.0 million below estimate.

Public Assistance and Medicaid had the largest year-to-date negative variance at $266.0 million, followed by Primary, Secondary, and Other Education at $33.8 million. Other program categories with significant year-to-date negative variances include General Government ($20.5 million), Health and Human Services ($18.6 million), and Justice and Public Protection ($17.2 million). The variances in these five program categories will be briefly discussed below, followed by a summary of the prior year encumbrance activity as of December 1, 2012.

Public Assistance and Medicaid

For the month of November, GRF expenditures under the Public Assistance and Medicaid program category were $1.04 billion, which was $100.5 million (8.8%) below estimate. For the year to date, GRF expenditures for Public Assistance and Medicaid totaled $5.96 billion, which was $266.0 million (4.3%) below estimate. Medicaid, including both state and federal shares, accounts for about 94.5% of this program category's year-to-date expenditures. Through November, FY 2013 Medicaid GRF expenditures totaled $5.63 billion, which was $213.3 million (3.7%) below estimate. The federal share of Medicaid expenditures is about 64% and the state's share is about 36%. Medicaid is mainly funded by the GRF, but is also supported by various non-GRF funds. Across all funds, year-to-date Medicaid expenditures amounted to $6.19 billion, which was $220.1 million (3.4%) below estimate. Table 5 details Medicaid GRF expenditures by service category and also summarizes Medicaid expenditures across all funds.

Year-to-date GRF Medicaid expenditures were $213.3 million below estimate.

As seen from Table 5, GRF expenditures were below their year-to-date estimates for all but one category. The Managed Care Plans category had the largest variance at $98.2 million (3.2%), of which $55.6 million

According to ODJFS, managed care will finish FY 2013 below estimate.

occurred in the month of November. According to the Ohio Department of Job and Family Services (ODJFS), the caseload used during the H.B. 153 deliberation process assumed too many individuals would be enrolled in managed care. This resulted in setting the forecast of managed care expenditures too high. Expenditures in this category are expected to remain under estimate for the rest of the fiscal year.

The Hospitals category had the next largest negative variance of $40.6 million (7.1%) due largely to lower than expected expenditures from prior year encumbrances. At the end of FY 2012, funds were encumbered to make payments in FY 2013 for any potential hospital claims for services provided in FY 2012. However, thus far such claims have not yet occurred. Other significant negative variances include Aging Waivers ($34.5 million, 12.6%), All Other ($24.4 million, 2.6%), and Prescription Drugs ($17.0 million, 8.0%).

Primary, Secondary, and Other Education

GRF expenditures for the Primary, Secondary, and Other Education program category were $583.1 million in November, which was $25.1 million (4.5%) above estimate. This positive variance narrowed the category's year-to-date negative variance for the second consecutive month. Through the first five months of FY 2013, GRF expenditures for Primary, Secondary, and Other Education were $3.01 billion, which was $33.8 million (1.1%) below estimate. As in prior months, the Ohio Department of Education's (ODE's) GRF appropriation item 200550, Foundation Funding, continued to be the main source of this variance. This item provides the majority of funding for the state's subsidy for schools. Through October, expenditures for item 200550 were $44.3 million below the year-to-date estimate; that negative variance narrowed to $16.4 million by the end of November.

General Government

For the month of November, expenditures under the General Government program category were $15.9 million, which was $2.2 million (12.1%) below estimate. The November variance increased the category's year-to-date negative variance to $20.5 million (11.5%). Within this program category, the Department of Administrative Services (DAS) had the largest year-to-date negative variance at $11.8 million. This variance was largely due to a slower than expected process for DAS to finalize the FY 2013 rates for operating and maintaining various state office buildings, thereby delaying payments for those expenses. Other agencies that contributed to General Government's year-to-date negative variance include the Legislative

Service Commission ($3.1 million), Auditor of State ($2.4 million), and Department of Taxation ($1.3 million).

Health and Human Services

GRF expenditures for the Health and Human Services program category were $71.5 million in November, which was $4.1 million (5.4%) below estimate. The November variance widened this category's year-to-date negative variance to $18.6 million (4.0%). Of this total, $13.6 million (73.1%) occurred in the Department of Health (DOH). DOH's GRF appropriation item 440418, Immunizations, was $6.8 million below its year-to-date estimate. This variance was due to a purchase that was originally planned for October but had not yet been completed by the end of November. Item 440444, AIDS Prevention and Treatment, was $2.6 million below estimate through November due primarily to timing. In the first five months of FY 2013, DOH relied more on federal sources and rebate moneys to fund AIDS prevention and treatment activities. OBM expects this item to be fully expended by the end of the fiscal year. In addition to DOH, expenditures for the Department of Developmental Disabilities and Department of Mental Health were also below their year-to-date estimates, by $2.5 million and $1.5 million, respectively.

Justice and Public Protection

For the month of November, expenditures under the Justice and Public Protection program category were $125.4 million, which was $0.8 million (0.6%) below estimate. For the year to date, this category's expenditures totaled $898.1 million, which was $17.2 million (1.9%) below estimate. The Department of Rehabilitation and Correction (DRC) was the primary source of this variance with year-to-date expenditures being $9.9 million below estimate. Other major contributors were the Department of Youth Services ($4.6 million) and the Judiciary/Supreme Court ($2.7 million). DRC's GRF appropriation item 501321, Institutional Operations, was $18.2 million below its year-to-date estimate. This negative variance was partially offset by a positive year-to-date variance of $8.1 million in item 505321, Institution Medical Services.

Prior Year Encumbrances

As reported in the July issue of *Budget Footnotes*, state agencies carried into FY 2013 a total of $602.4 million in encumbered GRF funds that were originally appropriated for fiscal years prior to FY 2013. An agency generally has five months to spend prior year encumbrances for operating expenses. Any unspent operating expense encumbrances will lapse at the end of the five-month period and will become part of the GRF cash balance once OBM cancels the encumbrances. Subject to the approval of the Director of Budget and Management, an agency may carry funds encumbered for purposes other than operating expenses beyond the five-month period. Encumbrances for some grant and aid payments may be carried for several months or even years.

Prior Year GRF Encumbrances by Agency ($ in millions)				
Agency	**Prior Year Encumbrances as of July 1, 2012**	**Amount Expended**	**Outstanding Encumbrances as of December 1, 2012**	**Amount Lapsed**
Job & Family Services	$263.2	$50.8	$185.3	$27.2
Development Services	$45.1	$13.2	$30.3	$1.6
Education	$137.9	$75.3	$17.1	$45.5
Developmental Disabilities	$15.8	$4.0	$11.8	$0.0
Regents	$13.6	$4.4	$9.1	$0.0
Transportation	$6.2	$2.5	$3.7	$0.0
Rehabilitation and Correction	$87.8	$85.1	$0.6	$2.0
All Other Agencies	$32.9	$27.1	$1.5	$4.2
Total	**$602.4**	**$262.4**	**$259.4**	**$80.6**

Detail may not sum to total due to rounding.

As of December 1, 2012, outstanding prior year GRF encumbrances totaled $259.4 million.

As shown in the table above, as of December 1, 2012, $262.4 million (43.6%) of the $602.4 million in total encumbrances was expended, $259.4 million was still outstanding, and the remaining $80.6 million lapsed. ODJFS had the largest share (71.4%) of the total outstanding encumbrances, followed by the Development Services Agency (DSA) at 11.7% and ODE at 6.6%. Together, these three agencies had $232.7 million (89.7%) of the $259.4 million in total outstanding prior year encumbrances.

ODJFS had $185.3 million in outstanding encumbrances as of December 1, 2012. Medicaid accounted for $177.1 million (95.6%) of the total. At the end of FY 2012, ODJFS encumbered $211.7 million in item 600525, Health Care/Medicaid, and $10.0 million in item 600526, Medicare Part D. By the end of November, $167.1 million was still outstanding in item 600525 and the whole $10.0 million was still outstanding in item 600526 as well.

The vast majority of DSA's outstanding encumbrances were for various economic development grants. Many of these grant programs are operated on a reimbursement basis, under which grantees have to carry out the programs and certify that certain requirements or objectives have been met before they are reimbursed by the state. Depending on the scope of a project, the grantee may not actually receive the award until several years after the award was originally made.

Item 200550, Foundation Funding, and item 200540, Special Education Enhancements, accounted for $8.8 million (51.4%) and $5.7 million (33.3%), respectively, of ODE's total $17.1 million in outstanding encumbrances as of December 1, 2012. These encumbrances will be used for making any necessary subsidy payment adjustments for schools and county boards of developmental disabilities.

ISSUE UPDATES

Just Under 500 Dangerous Wild Animals and Restricted Snakes Registered with the Department of Agriculture by November 5, 2012 Deadline

– Terry Steele, Budget Analyst, 614-387-3319

As of the November 5 statutory deadline, 130 owners have registered 483 dangerous wild animals with the Ohio Department of Agriculture (ODA) under the Dangerous Wild Animal Permitting Program established by S.B. 310 of the 129th General Assembly. The program is overseen by ODA's Division of Animal Health. Under the act, there is no fee associated with these registrations, but the owners are required to have the registered animals microchipped at their own expense. Another important deadline arrives on January 1, 2014, when all owners of dangerous wild animals or restricted snakes must either part with those animals or apply for a permit to keep them after that date. The permit fees are summarized in the table below. The proceeds will be deposited into the Dangerous and Restricted Animal Fund created by S.B. 310.

Dangerous Wild Animal Permit Fees Under S.B. 310	
Permit Type	**Permit Fee**
Wildlife Shelter Permit	$250-$1,000*
Wildlife Propagation Permit	$1,000-$3,000
Restricted Snake Possession Permit	$150
Restricted Snake Propagation Permit	$300
Rescue Facility Permit	$500-$2,000

*An additional fee of $125 applies for every animal over 15.

Until ODA begins collecting permit fees, the costs of administering the program, including inspection and enforcement, will be paid from the GRF. Specifically, H.B. 487 of the 129th General Assembly provided interim funding of $500,000 for this purpose in FY 2013 under appropriation item 700426, Dangerous and Restricted Animals. As of November 2012, ODA has spent approximately $37,000 in preparing registration forms and registering animals.

Receipts from Casinos and Video Lottery Terminals Totaled $70.0 Million in the First Quarter of FY 2013

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

During the first quarter of FY 2013, the state and local governments gained a total of $70.0 million in revenues from casinos and video lottery terminals (VLTs). This total consists of \$59.2 million receipts from the Cleveland and Toledo casinos[4] and \$12.8 million receipts from VLTs at Scioto Downs. The July-September quarter casino tax receipts were allocated in October 2012 to various funds according to the shares prescribed by the November 2009 casino ballot measure and implemented in R.C. 5753.02(D). As seen from the table below, the Gross Casino Revenue County Fund is the biggest beneficiary of the 33% tax on casino gross receipts at 51%, followed by the Gross Casino Revenue County Student Fund at 34%, and the Gross Casino Revenue Host City Fund at 5%. Moneys from these funds will be distributed to various local governments, including counties, municipalities, townships, and school districts. Except for school districts, funds will be distributed quarterly, on or before July 31st, October 31st, January 31st, and April 30th. School district distribution will occur twice a year, one on or before January 31st and one on or before August 31st.

Allocation of First Quarter Casino Tax Receipts in FY 2013 (\$ in millions)		
Fund	**Share**	**Amount**
Gross Casino Revenue County Fund (Fund 5JG0)	51%	\$30.2
Gross Casino Revenue County Student Fund (Fund 5JH0)	34%	\$20.1
Gross Casino Revenue Host City Fund (Fund 5JJ0)	5%	\$3.0
Racing Commission Fund (Fund 5JK0)	3%	\$1.8
Casino Control Commission Fund (Fund 5HS0)	3%	\$1.8
Problem Casino Gambling and Addiction Fund (Fund 5JL0)	2%	\$1.2
Ohio Law Enforcement Training (Fund 5JN0)	2%	\$1.2
Total	**100%**	**\$59.2**

Net revenues from VLTs (revenue after prizes are paid to players) are shared between the racetrack owners (66.5%) and the Ohio Lottery (33.5%). The Ohio Lottery received \$12.8 million of the \$38.2 million July-September receipts in FY 2013 from Scioto Downs (Columbus). Receipts from VLTs, along with other lottery receipts, are transferred and deposited into the Lottery Profits Education Fund (Fund 7017) on a monthly basis. These funds are used to help pay state subsidy payments for schools. The VLTs were installed in June 2012 at Scioto Downs, transforming this horseracing track into the first "racino" in the state.[5] The Ohio Lottery is continuing to review video lottery sales agent applications received from River Downs and Lebanon Raceway (Cincinnati), Thistledown (Cleveland), Beulah Park (Columbus), and Raceway Park (Toledo). As of November 1, 2012, Northfield Park (Cleveland) is the only horseracing track that has not yet filed an application to install VLTs.

[4] In November 2009, Ohio voters approved a constitutional amendment that authorized casinos in Cincinnati, Cleveland, Columbus, and Toledo. Cleveland and Toledo casinos opened in May 2012; the Columbus casino opened in October; and the Cincinnati Casino is to open in the second quarter of 2013.

[5] The Ohio Lottery also received \$3.7 million in VLT revenue in June 2012.

Board of Regents Receives "Reverse-Transfer" Degree Completion Grant

– Mary Turocy, Senior Budget Analyst, 614-466-2927

In October 2012, Ohio became one of 12 states to receive funds from the Credit When It's Due: Recognizing the Value of Quality Associate Degrees grant program, which was established by the Lumina Foundation. Ohio will receive $500,000 of the $6.4 million awarded in the program. The award will help fund Ohio's continued effort to improve the degree completion of Ohio students by identifying students that are eligible for a "reverse-transfer" degree. Reverse-transfers are those through which students who transfer from a 2-year college to a 4-year university before completing an associate degree can transfer subsequent earned credits back to satisfy the requirements for an associate degree. Students benefit from reverse-transfer through increased recognition and additional credentials, while colleges benefit from an increase in the number of degree completions. The goal of Ohio's program will be to award at least 1,300 additional associate degrees over two years.

Ohio has received several grants from the Lumina Foundation over the past few years. The Lumina Foundation is a private, nonprofit organization dedicated to enrolling and graduating more students from college. Currently, Lumina Foundation grants fund Ohio's Making Opportunity Affordable Program, which identifies higher education policies that create unnecessary expenses or waste, and the Win-Win Program, which identifies students who stopped their education when they were very close to earning a degree and assists those students in completing necessary courses and credits.

Cleveland Voters Approve 15 Mill School Levy

– Michele Perch, Budget Analyst, 614-644-1262

On November 6, 2012, voters in the Cleveland Municipal School District (CMSD) approved a four-year, 15 mill levy for the current expenses of the district's traditional public schools and community schools. Typically, community schools in Ohio only receive funding through deductions from school districts' state aid (at least $5,704 per pupil in FY 2013) and public and private grants. However, H.B. 525 of the 129th General Assembly, enacted in June 2012, specifically permits CMSD to levy a tax to benefit both the district's schools and community schools that educate the district's students. The levy language allocates one mill – about $5 million – to community schools, which will receive funds in proportion to the number of enrolled students who reside in CMSD. In addition to enabling the district's community schools to receive levy revenues, H.B. 525 also authorizes CMSD to extend the length of the school day or school year; requires CMSD to develop performance measures by which to evaluate the district's schools; and changes teacher layoff, contract, and evaluation procedures in the district.

New Funds and Line Items Created to Improve Cash Management and Accounting Practices for Certain Child Nutrition Programs

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

On October 29, 2012, the Controlling Board approved the creation of four new funds and line items to be used by the Ohio Department of Education (ODE) to discretely account for federal funds associated with certain United States Department of Agriculture (USDA) nutrition programs. Three new funds and line items will track funds distributed through the Summer Food Service Program, the Fresh Fruit and Vegetable Program, and other miscellaneous nutrition grants. Under each program, federal dollars are distributed to participating school districts or other agencies as reimbursement for costs incurred. A fourth new fund and line item will account for repayments to the USDA of child nutrition program funds returned by program sponsors. The new funds and line items were created to improve ODE's cash management and accounting practices for the programs. Previously, the federal dollars for the above programs were deposited into funds used largely for other purposes, such as the Federal School Lunch Program. The table below lists the funds and line items previously used to account for each of the programs and the new funds, line items, and appropriations established by the Controlling Board.

Comparison of Funding Sources for Certain Child Nutrition Programs		
Program	**New Fund and Line Item** ***Old Fund and Line Item***	**New FY 2013 Appropriation**
Summer Food Service Program	Fund 3GE0, 200674, Summer Food Service Program *Fund 3L60, 200617, Federal School Lunch*	$13,200,000
Fresh Fruit and Vegetable Program	Fund 3GG0, 200676, Fresh Fruit and Vegetable Program *Fund 3L60, 200617, Federal School Lunch*	$4,600,000
Child Nutrition Program Refunds	Fund 5MM0, 200677, Child Nutrition Refunds *Fund 3L60, 200617, Federal School Lunch* *Fund 3L70, 200618, Federal School Breakfast* *Fund 3L80, 200619, Child/Adult Food Programs*	$500,000
Miscellaneous Nutrition Grants	Fund 3GF0, 200675, Miscellaneous Nutrition Grants Fund 3670, 200607, School Food Services	$350,000

College Preparatory Boarding School Receives $16 Million from SFC

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

In October 2012, the Ohio School Facilities Commission (SFC) announced that they had approved $16 million in state funds for the SEED School of Cincinnati, Ohio's first college preparatory boarding school. The school, which will serve at-risk and underserved children in a 24-hour, five-day per week education environment, will also receive private funds from the SEED Foundation. In all, the SEED School will receive approximately $40 million for facilities, including over $24 million in SFC ($16 million) and SEED Foundation ($8 million) support for classroom facilities and almost $16 million in SEED Foundation funding for construction of a 176 bed dormitory where the students will live during the week. The school plans to open in the 2013-2014 school year and serve approximately 80 sixth-grade students, eventually reaching enrollment of nearly 400 students in grades 6 through 12 in future years.

H.B. 153 authorized the creation of college preparatory boarding schools, which are public schools, operated by an approved private nonprofit corporation. It also established the College Preparatory Boarding School Facilities Program through which SFC may assist a college preparatory boarding school in the acquisition of classroom facilities. In order to receive SFC funds, the school has to secure at least $20 million in private funds.

New Ohio Facilities Construction Commission Meets

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

In September 2012, the new three-member Ohio Facilities Construction Commission (OFCC) held its first meeting. H.B. 487 of the 129th General Assembly created OFCC to administer the design and construction of improvements to state public facilities, combining the former State Architect's Office under the Department of Administrative Services (DAS) and SFC. SFC remains an independent entity under OFCC and will continue to focus on funding K-12 public school projects and assisting school districts in the planning, design, and renovation of schools. The OFCC staff is capped at 98 positions including 32 positions moved from DAS. Appropriations for operating expenses for OFCC total $21.6 million in FY 2013, including $11.4 million transferred from DAS. This transferred appropriation consists of $2.7 million from the GRF and $8.8 million supported by fees paid by state agencies for management and support of capital improvement projects. In December, the combined staff will move into new consolidated offices in the Bureau of Workers' Compensation William Green Building. OFCC estimates rent savings at the new location will exceed $100,000 per year.

DAS Collected $6.6 Million from State Agencies Under New Funding Mechanism to Improve State Agency IT Efficiency

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

As of November 2012, DAS has collected $6.6 million in quarterly billings from state agencies as part of a new strategy to streamline the development and reduce the cost of various statewide IT systems. These receipts are deposited into the Information Technology Development Fund (Fund 5LJ0). This new funding mechanism was approved by the Controlling Board in August 2012, along with a plan for DAS's Office of Information Technology (OIT) to spend $13.2 million on these activities during FY 2013. Initially, the focus will be on completing the consolidation of e-mail services as well as consolidation and virtualization of servers, mainframes, data storage, and other network services used by agencies, boards, and commissions in the executive branch. Of the $13.2 million in funding approved by the Controlling Board, $8.3 million (68.0%) will be devoted to purchased personal services, with the remainder allocated for supplies, maintenance, and equipment for these projects.

According to a January 2012 report prepared by OIT, the overarching goal of this new approach is to streamline the state's IT development and implementation process and reduce IT costs for state agencies.[6] Historically, development of IT services has been done in response to the needs of an agency that would be billed directly for those costs. Over time, this approach has caused IT services to be conducted in a "siloed" manner. Under the new strategy, OIT will be able to develop IT services that can be implemented centrally and used across agencies without relying on a single agency to cover the cost.

Justice Center Reports 11% Decline in Ohio's Three-Year Recidivism Rate

– Matthew L. Stiffler, Budget Analyst, 614-466-5654

According to a September 2012 policy brief released by the Council of State Governments Justice Center,[7] Ohio's three-year recidivism rate[8] of 34% for 2007 prison releases represents an 11% decrease from the rate of 38% for 2005 prison releases. This decrease indicates that 1,278 fewer persons returned to prison and corresponds to an annual prison cost savings to the Department of Rehabilitation and Correction (DRC) of at least $4.6 million.

The reduction in the recidivism rate was partly attributed to DRC incorporating evaluation outcomes from a series of studies conducted by the University of Cincinnati into its funding strategy for community corrections programs. These studies aided DRC in the formation of evidence-based practices and the development of training programs for probation and parole officers in areas such as conducting assessments and effective interventions, planning case supervision, and improving communication skills.

[6] The full report, titled "Information Technology Strategies," can be viewed at: http://das.ohio.gov/Divisions/InformationTechnology/ITOptimization.aspx.

[7] The States Report Reductions in Recidivism policy brief is available on the Justice Center's web site at: www.justicecenter.csg.org.

[8] Ohio defines recidivism as the individual's first return to prison within the three-year tracking period after release from incarceration.

Ohio is continuing to make changes to the criminal justice system to further reduce the recidivism rate. H.B. 86 of the 129th General Assembly, which became effective on September 30, 2011, contains several such provisions. The act mandated the consistent use of risk assessment tools across various phases of the criminal justice system to ensure those most at risk are placed under supervision upon release from parole, and to improve reentry services for individuals returning from incarceration. For the FY 2012-FY 2013 biennium, DRC has set aside $10 million in GRF funding for grants to improve felony probation supervision and to provide incentive funding for community corrections agencies that successfully reduce recidivism. DRC anticipates the continuation of this grant funding in the FY 2014-FY 2015 biennium.

Public Safety Awards $14.3 Million in Traffic Safety Grants

– Sara D. Anderson, Senior Budget Analyst, 614-728-4812

In November 2012, the Department of Public Safety's Office of Criminal Justice Services awarded 160 federal traffic safety grants totaling $14.3 million to state and local law enforcement and safety partners.[9] That is six more grants than were issued in federal fiscal year (FFY) 2012 and an increase in grant awards of $1.8 million. The grants are focused on traffic safety priority areas such as seat belt use, impaired driving, motorcycle safety, and youthful drivers. The types of grants issued include 83 High Visibility Enforcement Overtime grants, 39 Safe Communities Program grants, 23 General Traffic Safety grants, 12 Countywide OVI Task Force Program grants, 2 Traffic Engineering grants, and 1 Occupant Protection for Children Program grant. Of the 160 grants awarded, 13 were for statewide projects totaling $5.0 million and the remaining were for local projects in 69 counties, five more counties than the previous year.

Cash Assistance Caseload at Lowest Level in Program's History

– Todd A. Celmar, Senior Economist, 614-466-7358

In September 2012, the Ohio Works First (OWF) cash assistance caseload was at its lowest level since the program was created in 1997. The caseload has declined steadily over the past federal fiscal year from 89,425 in October 2011 to 70,411 in September 2012, a decrease of 21.3%. The caseload generally decreases as the economy improves; however, it has decreased by a larger amount than would normally be expected, due mainly to measures implemented as part of the state's corrective

[9] A complete list of funded projects can be found at: http://publicsafety.ohio.gov/links/FY13_TrafficGrantList.xls.

compliance plan. As required by the federal government, the plan is to help meet federal OWF work participation rate requirements. Under the plan, the Ohio Department of Job and Family Services terminated 37,458 assistance groups for not meeting work requirements and some county departments of job and family services denied eligibility to 4,652 assistance groups for not participating in job readiness activities. The federal government requires 90% of two-parent assistance groups and 50% of all groups to be involved in work activities. Over the past few years, the state has not met these rates and could be fined $32.8 million in the form of a reduction to the state's Temporary Assistance for Needy Families (TANF) Block Grant in FFY 2013. However, the federal government may waive this penalty if the state makes progress toward meeting work participation rates. The state would have to replace any lost federal grant moneys with state 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 guidelines (about $9,265 annually for a family of three). The most recent average monthly payment per assistance group was about $372. Benefits are terminated when an assistance group has received assistance for 36 months and in cases where the assistance group failed to comply with certain administrative requirements of the program. Extensions are available in limited situations. For child-only cases, there are no time limits for cash assistance.

OWF benefits are funded by state and federal TANF dollars. The state receives $728 million each year from the federal government and must expend about $417 million in state dollars to receive the federal grant. In addition to cash assistance, TANF funds are used for other public assistance programs such as child care, noncash support programs, and summer youth employment programs. The state expended $354.9 million for OWF cash assistance in FFY 2012.

Scripps Gerontology Center Releases PACE Evaluation

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

In October 2012, the Scripps Gerontology Center at Miami University released its evaluation of the Medicaid Program of All Inclusive Care for the Elderly (PACE). H.B. 153 required the Director of Aging to contract with Scripps for the evaluation to assess whether PACE should be expanded statewide. The evaluation contract was funded with $200,000 in GRF money.

Scripps compared PACE with another in-home care Medicaid program, PASSPORT, and analyzed their costs over a four-year period for individuals residing in the areas where PACE is offered. Scripps found that Medicaid costs for PACE were higher than for PASSPORT. The two PACE sites, which are located in Cincinnati and Cleveland, had average monthly Medicaid expenditures of $3,118 and $2,612 per participant, respectively. PASSPORT participants residing in the Cincinnati and Cleveland areas had an average per member per month cost of $2,093 and $2,266, respectively.

Scripps made several recommendations to improve PACE, including factors that should be considered if PACE is expanded statewide. One recommendation was that state policymakers clarify the goals of PACE and develop criteria to achieve those goals. Another recommendation was that PACE's role in providing long-term care services should be defined.[10]

PACE is a managed care program that provides individuals with all necessary health care and support services. To be eligible, an individual must be 55 years of age or older, be nursing home eligible under Medicaid, and live in one of the geographic areas served by PACE. The Department of Aging contracts with Tri-Health Senior Link in Cincinnati and McGregor PACE in Cleveland for the operation of the PACE sites. The PASSPORT program, which is also administered by the Department of Aging, provides in-home care to individuals who are 60 years of age and older and are nursing home eligible under Medicaid. PASSPORT services are available statewide.

[10] The complete report may be viewed on the Scripps Gerontology Center's web site: http://www.scripps.muohio.edu/sites/scripps.muohio.edu/files/Evaluation_PACE_10-8-2012.pdf.

TRACKING THE ECONOMY

– Todd A. Celmar, Senior Economist, 614-466-7358

Overview

The economy expanded in the third quarter of 2012 at an upward revised rate. Gross domestic product, adjusted for inflation (real GDP), rose at an annualized rate of 2.7% from the second to third quarter, driven mainly by increases in consumer spending, business inventories, and federal spending on defense. However, in October, some preliminary estimates indicate that economic activity slowed somewhat, likely in part due to the effects of Hurricane Sandy. The Federal Reserve estimates that the storm reduced industrial production in October by almost one percentage point. Output may be increased in future months as structures and equipment damaged by the storm are rebuilt or replaced.

Employment continued to increase from October to November, albeit at rates lower than following previous post-WWII recessions. Unemployment fell to 7.7%, the lowest rate since December 2008. The trend of expansion in the housing sector continues, particularly in the area of multi-family structures. There were increases in housing starts, construction activity, existing home sales, and house prices. Mortgage rates continue to linger at historic lows. However, manufacturing output and consumer spending fell in October.

There remains uncertainty in the economic outlook in 2013 due to the possibility of increased taxes and reduced federal spending and to slow growth or recession in international markets, particularly in the Eurozone.

The National Economy

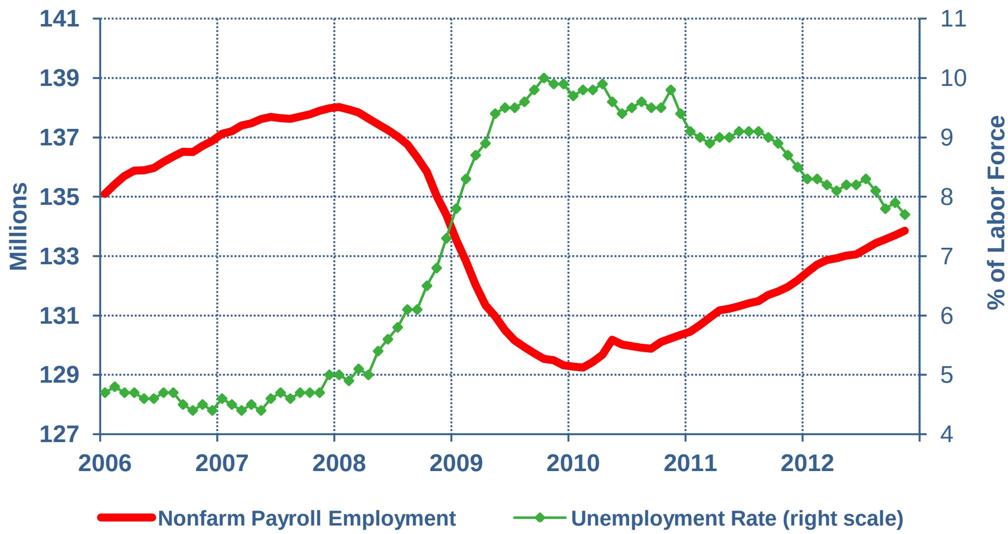
Employment and Unemployment

U.S. total nonfarm employment rose by 146,000 (0.1%) in November from October's revised total. Unemployment fell in November to 7.7% of the labor force. According to the Bureau of Labor Statistics (BLS), which collects employment data, the response rates from states affected by Hurricane Sandy were in the normal ranges. Therefore, BLS concludes that the storm did not "substantively impact" employment estimates in November. Trends in nationwide employment and unemployment are shown in Chart 5, below.

U.S. total nonfarm employment rose by 146,000 (0.1%) in November.

The nationwide unemployment rate fell to 7.7% in November, the lowest since December 2008.

Chart 5: U.S. Employment and Unemployment



The largest gain in employment in November was in the category of retail trade (53,000), mainly in clothing, general merchandise, and electronics and appliances. There were also large gains in professional and business services (43,000), mainly computer systems design, in leisure and hospitality (23,000), and in health care (20,000), mainly hospitals and nursing facilities. There were smaller gains in information services, transportation and warehousing, and mining and logging. Employment decreased in construction (20,000) and manufacturing (7,000). Though there were gains in the manufacturing of motor vehicles and parts, there were offsetting decreases in food manufacturing and chemicals. So far in 2012, gains in employment have averaged about 151,000 per month, which is similar to the rate of monthly growth in 2011 of about 153,000 per month.

The nationwide unemployment rate fell to 7.7% in November from 7.9% in October, and was below the previous 2012 low of 7.8% in September. November's rate was the lowest since December 2008. The number of unemployed individuals fell to about 12.0 million in November, which represents a 1.9% decrease from October (12.3 million) and a 9.7% decrease from November 2011 (13.3 million). Of those counted as unemployed, about 4.8 million (40%) have been out of work and actively seeking jobs for more than six months. This is a decrease of about 4% (216,000) from October and a decrease of about 16% (894,000) from November 2011.

The number counted in the labor force, either working or actively seeking work, decreased 0.2% after an all-time peak in October. The labor force participation rate decreased from 63.8% to 63.6%.

Production, Shipments, and Inventories

Real GDP rose at a revised 2.7% annual rate in the third quarter of 2012. The rate was revised upward by the U.S. Bureau of Economic Analysis from the initially reported rate of 2.0% based on more complete data. In the previous two quarters real GDP rose at lower annualized rates: 2.0% in the first quarter and 1.3% in the second quarter.

Real GDP rose at a revised 2.7% annual rate in the third quarter.

From the second to third quarter, consumer spending accounted for almost one percentage point of the GDP increase. An increase in business inventories accounted for the next largest share (three quarters of a percentage point) followed by an increase in federal government spending, particularly for national defense (seven tenths of a percentage point). Residential fixed investment increased at a seasonally adjusted annualized rate at 14.2%, which was the highest percentage increase among the major final demand categories, and accounted for about one-third of a percentage point in overall GDP growth. This component has had quarterly increases since the second quarter of 2011. There were decreases in nonresidential fixed investment in structures and equipment as well as in state and local government expenditures. State and local government spending has fallen for 12 straight quarters.

The industrial production index decreased in October by 0.4%. The index was revised for the last two months, and now shows a decrease in August of 1.1% (instead of a 1.4% decrease) and a small increase in September of 0.2% (instead of a 0.4% increase). The index is 1.7% higher than it was in October of last year.

October's decrease in industrial production is attributed to Hurricane Sandy. The Federal Reserve estimates that the storm reduced total output by almost one percentage point. Though the index for manufacturing in October decreased by 0.9%, when the effects of the storm are excluded, the index is "roughly" unchanged from September. The decrease in manufacturing was somewhat offset by gains in mining. The index for mining increased 1.5% from September to October, seasonally adjusted, mainly due to increases in the extraction of crude oil. Over the past 12 months, the mining index has increased 3.4%.

Consumer Spending

Consumer spending and personal income declined in October, adjusted for inflation. Estimates of personal income and spending were affected by Hurricane Sandy, though the exact impact cannot be quantified, according to the Bureau of Economic Analysis (BEA). BEA made adjustments to October's estimates to account for the likely impact of the storm. The storm made landfall on October 29 and impacted 24 states, particularly New York and New Jersey.

From September to October, personal consumption expenditures (in real terms) declined by 0.3%. Consumption of durable goods decreased 1.7%, which was mainly driven by a decrease in purchases of motor vehicles and parts. Consumption of services decreased slightly by 0.1%. Real seasonally adjusted personal incomes and real disposable income also decreased slightly (0.1%) from September to October. Private wages and salaries also fell in October due to work interruptions caused by Hurricane Sandy.

Light vehicle sales rebounded in November to a 15.5 million unit annual rate, highest since January 2008.

Though vehicle sales declined in October, they rebounded in November. The seasonally adjusted annualized rate of light vehicle sales increased to 15.5 million, the highest annualized rate since January 2008. Some of the increase may be from replacing vehicles that were significantly damaged by Hurricane Sandy.

Real disposable incomes and real personal consumption expenditures continue to increase over levels from last year. Real disposable incomes in October were 1.2% higher than in October 2011. Likewise, real personal consumption expenditures were 1.3% higher. The highest 12-month increase among major expenditure components was in durable goods (5.5%).

In addition, the Conference Board's consumer confidence index rose again in November to its highest level since February 2008.

Construction and Real Estate

Housing Starts and Construction

From September to October, the seasonally adjusted annualized rate of housing starts increased 3.6%, marking the third consecutive month of increases, according to the U.S. Census Bureau. October's increase in housing starts occurred in the Western (17.2%) and Midwest (8.9%) regions of the country; there were smaller decreases in starts the Northeast (6.5%) and Southern (2.5%) regions. The increases in October were in starts on multi-family structures, particularly of those with five or more units, which increased by 10%. There was a slight decrease (0.2%) in single-family starts.

October's seasonally adjusted annualized rate of housing starts nationwide is about 42% higher than the rate in October of last year. Over that time period, single-family unit starts increased 35% from 439,000 to 594,000, while multi-family unit starts increased about 57% from 191,000 to 300,000.

Total construction activity, measured in dollars, continued to grow in October. The seasonally adjusted annual rate in October rose 1.4% above the revised estimate in September. Most of the gains in October were in private residential construction (3.0%), mainly new multi-family units, which increased 6.2%. Year-to-date construction spending in 2012 (January through October) is 9.3% higher than last year for the same period. Again, the highest percentage gain was in private residential in the area of new multi-family units with an increase of 42.5%. New single family housing construction was up 17.3%. However, public construction was down for the year to date (2.0%) compared to the previous year.

Home Sales, House Prices, Interest Rates

From September to October, the seasonally adjusted annualized rate of existing home sales increased 2.1%, according to the National Association of Realtors (NAR). NAR noted that Hurricane Sandy likely had little impact on the increase in October, as the storm hit the coast after most transactions were completed. However, NAR expects that home sales may begin to lag in the Northeast in the coming months due the storm's effects. Sales in October were almost 11% higher than in October of last year.

Nationwide house prices increased 1.1% from the second quarter to the third quarter of 2012, according to the Federal Housing Finance Agency's seasonally adjusted purchase-only house price index. This marks the third consecutive quarter of increases in this index, which last happened from the third quarter of 2006 to the first quarter of 2007. The index for the third quarter of 2012 was 4.0% higher than the third quarter of 2011. The index level in September, which increased slightly from August (by 0.2%), is about the same as it was in June 2004.

Nationwide house prices increased 1.1% from the second quarter to the third quarter of 2012, the third consecutive quarter of increases.

Interest rates on home loans decreased in November to a new record low. The 30-year fixed-rate mortgage interest rate averaged 3.31% nationwide in the Freddie Mac weekly survey for the period ending November 21. The monthly average rate for November was 3.35%, the lowest rate on record since the series began in 1971.

Inflation

Consumer Prices

The consumer price index (CPI) rose 0.1% in October, seasonally adjusted. This slight increase follows higher increases of 0.6% in August and September. Compared with October 2011, the CPI increased 2.2% before seasonal adjustment.

The higher increases to the CPI in August and September were mainly due to higher energy costs. The energy index decreased slightly (0.2%) in October, which was more than offset by increases in other component indexes. Over half of the overall CPI increase in October is attributable to an increase in the shelter index of 0.3%, which is the largest increase in that index since March 2008.

The producer price index for finished goods declined in October by 0.2%.

In November, nationwide average gasoline prices for regular unleaded fuel decreased 1.4% from $3.49 on November 5 to $3.44 on November 26, based on the U.S. Energy Information Administration's (USEIA) weekly surveys. The price on November 26 was 13% lower than the peak average price so far in 2012 of $3.94 on April 9. The day before Thanksgiving (November 21), the average nationwide price was $3.43 per gallon, which was $0.08 per gallon higher than the previous record high of $3.35 on Thanksgiving 2011, according to the American Automobile Association as reported by USEIA. The Thanksgiving holiday weekend is generally the most heavily traveled time of year in the U.S. Ohio's average gasoline price for regular unleaded fuel increased 6.6% in November from $3.31 on November 5 to $3.53 on November 26.

Producer Prices

The producer price index (PPI) for finished goods declined slightly in October by 0.2%, seasonally adjusted. This decrease follows two straight months of sizeable increases: 1.1% in September and 1.7% in August. The fluctuations in the PPI for finished goods over the past three months were mainly due to the fluctuations in the index for energy goods, particularly gasoline. Gasoline prices decreased 2.2% in October after having risen 9.8% in September. Home heating oil and liquefied petroleum gas also registered lower prices in the finished energy goods index in October. Also contributing to October's decrease in the PPI for finished goods, the index for goods other than food and energy (core) declined by 0.2%, mainly driven by lower prices for cars and light motor trucks. This was the first decline in the core index for finished goods since November 2010.

The PPI for intermediate goods also decreased in October (by 0.1%) after two months of increases: 1.5% in September and 1.1% in August. Again, fluctuations were largely due to price changes in energy goods, including gasoline, as well as industrial electrical power. The PPI for crude goods increased by 0.9% in October. Much of an increase in energy prices was driven by a 9.5% increase in the index for natural gas. There was also an increase in the index for slaughter hogs, which reverses decreases in that index in previous months.

The Ohio Economy

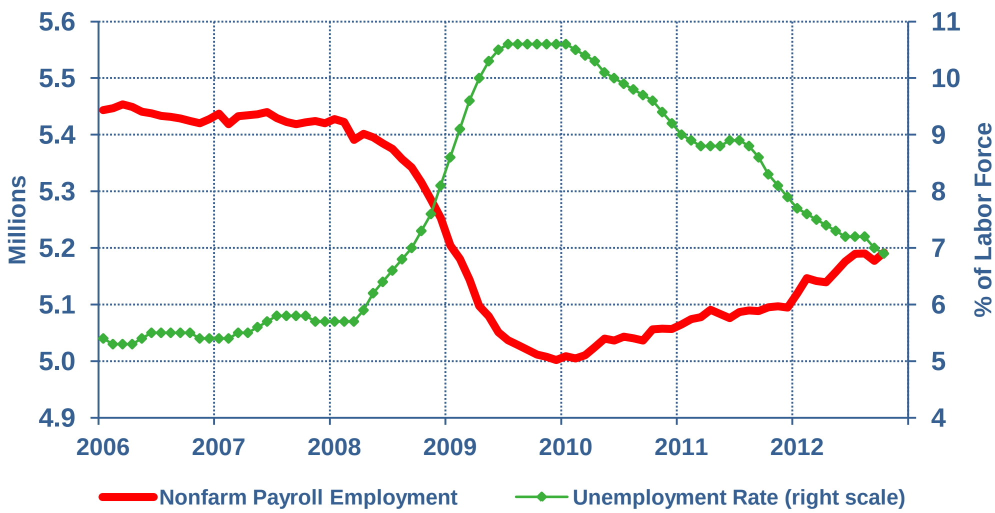
Employment

In October, Ohio's nonfarm payroll employment totaled about 5,191,900, an increase of 13,900 (0.3%) over September's revised total, and an increase of 96,500 (1.9%) over October of last year. These employment figures are seasonally adjusted.

In October, Ohio nonfarm payroll employment increased 13,900 (0.3%) over September and 96,500 (1.9%) over October of last year.

Unemployment in Ohio declined to 6.9% of the labor force in October (from 7.1% in September), which marks the first month the state's unemployment rate was below 7.0% since August 2008. Unemployment rates vary among counties and in October ranged from 3.8% (Mercer) to 11.5% (Pike). County unemployment rates are not adjusted for seasonality.

Chart 6: Ohio Employment and Unemployment



Trends in Ohio employment and unemployment are shown in Chart 6. Ohio's increase in employment from September to October brought employment up slightly higher than where it had been in August. Though employment increased by 13,900 over September, it increased by only 1,900 (less than 0.1%) over August.

The increase in employment from September to October was the result of net increases in the service sector with some smaller offsetting net decreases in the goods-producing sector. The service sector registered a net increase in employment of 16,000. Increases in this sector were mostly in the areas of professional services, government, and health services. The largest decrease in the services sector occurred in retail trade. The goods-producing sector registered a net decrease of 2,100, with the major decrease occurring in manufacturing.

Unemployment in Ohio declined to 6.9% of the labor force in October, the first month below 7.0% since August 2008.

Over the last 12 months, the greatest increases in employment in Ohio were in the service sector, mainly in education and health services (25,300) and in professional and business services (21,300). Employment also increased in manufacturing (13,500), mainly in the area of durable goods. Over the last 12 months, decreases in employment occurred in government, information, and mining and logging.

Ohio's labor force increased slightly to 5,772,000 in October, an increase of 14,000 (0.2%) over September. However, over the past 12 months, Ohio's labor force has decreased by 25,000 (0.4%). Over the time period shown in Chart 6, Ohio's labor force has decreased by 122,900 (2.1%) from 5,894,900 in January 2006.

The change in overall employment in Ohio shown in Chart 6 has been uneven among the various industries. Two of Ohio's industries have actually gained employment since January 2006. However, employment in most other industries remains at lower levels relative to January 2006. The table below shows the changes in employment in Ohio's industries from January 2006 to October 2012; industries are listed in order of largest employment increase to largest employment decrease.

Ohio Employment by Industry, Seasonally Adjusted

Industry	January 2006	October 2012	Increase/Decrease	
Education and Health Services	771,900	878,900	+107,000	+13.9%
Professional and Business Services	651,600	669,600	+18,000	+2.8%
Mining and Logging	11,500	11,200	-300	-2.6%
Other Services	223,400	220,200	-3,200	-1.4%
Information	89,300	76,900	-12,400	-13.9%
Leisure and Hospitality	500,700	485,700	-15,000	-3.0%
Financial Activities	307,900	281,200	-26,700	-8.7%
Government	800,700	764,500	-36,200	-4.5%
Construction	234,700	178,000	-56,700	-24.2%
Trade, Transportation, and Utilities	1,046,400	970,600	-75,800	-7.2%
Manufacturing	805,500	655,100	-150,400	-18.7%
Total Nonfarm Payroll Employment	**5,443,600**	**5,191,900**	**-251,700**	**-4.6%**

Employment in education and health services has steadily increased over the time period shown in the table, from about 771,900 in January 2006 to 878,900 in October 2012, an overall increase of almost 14%. Employment in professional and business services has also increased from 651,600 in January 2006 to 669,600 in January 2008, an increase of 2.8%. However, this industry experienced a sharp decline in employment during the economic downturn from 678,100 in February 2008, to 606,900 in August 2009.

Employment in manufacturing and construction declined slowly in 2006 and 2007 with sharp declines in 2008 and 2009 followed by slow increases starting in 2010 and continuing to 2012 (similar to aggregate data shown in Chart 6). Employment in trade, transportation, and utilities, held fairly level from 2006 to early 2008, declined sharply in 2008 and 2009, and generally increased from the beginning of 2011 into this year. Employment in financial activities declined from 2006 through 2009, and since then, has been unevenly and slowly increasing. Government employment did not begin to sharply decline until 2009, and has generally continued on a downward trend since then.

Housing Sales

The number of homes sold in Ohio in October was about 23% higher than in October of last year, according to a report from the Ohio Association of Realtors. This marks 16 straight months of increases. Year-to-date unit sales through October were 13% higher than in the year-earlier period, at an average price of about $135,000, up 5% from a year ago. The highest volume of homes sold were in the urban areas, with sales in the areas of northeast Ohio (30,572), Columbus (18,474), Cincinnati (16,038), Dayton (9,561), and Toledo (6,073) accounting for about 85% of total sales. However, the greatest percentage increases in year-to-date units sold have been in the areas of Athens (21%), northeast Ohio (17%), Marion (17%), and Knox County (16%).

The number of homes sold in Ohio in October was 23% higher than in October of last year, according to the Ohio Association of Realtors.

Regional Economy

According to a report from the Federal Reserve Bank of Cleveland, business activity continued to expand in this part of the country.[11] The rate of growth remained modest though with gains in manufacturing, construction (especially in multi-family units), purchases of existing homes, and auto sales. There were lower levels of freight transport and coal production. The report says that hiring in this part of the country was "sluggish" except in the auto industry and in construction where payrolls have been growing.

[11] This Federal Reserve Bank of Cleveland report is contained in the latest Beige Book, a Federal Reserve System publication that summarizes information gathered before November 14 on economic developments received from outside contacts. It is published about every six weeks. The Federal Reserve Bank of Cleveland's district includes all of Ohio and parts of Kentucky, Pennsylvania, and West Virginia.