

Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

JANUARY 2013

STATUS OF THE GRF

HIGHLIGHTS

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

December GRF tax revenues were well above estimate, due especially to a good month for the income tax. GRF tax revenues have generally tracked close to estimates so far during FY 2013, and halfway through the year they stood \$131.2 million (1.4%) above estimate. GRF sources as a whole were essentially on target, posting \$5.7 million above estimate through December. On the other side of the ledger, GRF expenditures remain well below estimate, so the state budget starts calendar year 2013 looking healthy.

The unemployment rate in Ohio in November declined to 6.8%, compared to a national rate of 7.7% that month. Ohio manufacturers added a net 4,700 jobs in November, more than offsetting decreases in the number of construction jobs and of jobs in the service sector.

Through December 2012, GRF sources totaled \$14.07 billion:

- Revenue from the personal income tax was \$76.2 million above estimate;
- Sales and use tax receipts were \$17.8 million below estimate.

Through December 2012, GRF uses totaled \$14.93 billion:

- Program expenditures were \$324.5 million below estimate, due primarily to Public Assistance and Medicaid (\$199.0 million), Primary, Secondary, and Other Education (\$37.4 million), and Justice and Public Protection (\$30.7 million).

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STATUS OF THE GRF

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Table 1: General Revenue Fund Sources				
Actual vs. Estimate				
Month of December 2012				
(\$ in thousands)				
(Actual based on report run in OAKS Actuals Ledger on January 7, 2013)				
	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	\$76,212	\$72,900	\$3,312	4.5%
Nonauto Sales and Use	\$680,373	\$672,400	\$7,973	1.2%
Total Sales and Use Taxes	\$756,585	\$745,300	\$11,285	1.5%
Personal Income	\$821,971	\$761,797	\$60,174	7.9%
Corporate Franchise	-\$1,639	\$1,000	-\$2,639	-263.9%
Public Utility	\$6	\$200	-\$194	-97.1%
Kilowatt Hour Excise	\$21,384	\$18,700	\$2,684	14.4%
Natural Gas Consumption (MCF)	\$0	\$0	\$0	---
Commercial Activity Tax	\$3,735	\$1,200	\$2,535	211.2%
Foreign Insurance	-\$316	\$0	-\$316	---
Domestic Insurance	-\$139	\$0	-\$139	---
Business and Property	\$15	\$0	\$15	---
Cigarette	\$66,447	\$68,200	-\$1,753	-2.6%
Alcoholic Beverage	\$5,020	\$4,600	\$420	9.1%
Liquor Gallonage	\$3,443	\$3,200	\$243	7.6%
Estate	\$5,111	\$1,100	\$4,011	364.6%
Total Tax Revenue	\$1,681,622	\$1,605,297	\$76,325	4.8%
NONTAX REVENUE				
Earnings on Investments	\$4	\$0	\$4	---
Licenses and Fees	\$438	\$950	-\$512	-53.9%
Other Revenue	\$2,165	\$3,652	-\$1,487	-40.7%
Total Nontax Revenue	\$2,608	\$4,602	-\$1,994	-43.3%
TRANSFERS				
Liquor Transfers**	\$16,000	\$16,000	\$0	0.0%
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers In	\$0	\$0	\$0	---
Total Transfers In	\$16,000	\$16,000	\$0	0.0%
TOTAL STATE SOURCES	\$1,700,230	\$1,625,898	\$74,331	4.6%
Federal Grants	\$871,682	\$602,483	\$269,199	44.7%
TOTAL GRF SOURCES	\$2,571,912	\$2,228,381	\$343,531	15.4%
*Estimates of the Office of Budget and Management as of August 2012.				
**Liquor Transfers based on a report run in OAKS as of January 1, 2013.				
<i>Detail may not sum to total due to rounding.</i>				

Table 2: General Revenue Fund Sources

Actual vs. Estimate

FY 2013 as of December 31, 2012

(\$ in thousands)

(Actual based on report run in OAKS Actuals Ledger on January 7, 2013)

	Actual	Estimate*	Variance	Percent	FY 2012	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	\$531,152	\$525,600	\$5,552	1.1%	\$511,260	3.9%
Nonauto Sales and Use	\$3,673,890	\$3,697,200	-\$23,310	-0.6%	\$3,512,017	4.6%
Total Sales and Use Taxes	\$4,205,042	\$4,222,800	-\$17,758	-0.4%	\$4,023,277	4.5%
Personal Income	\$4,279,650	\$4,203,456	\$76,194	1.8%	\$3,917,132	9.3%
Corporate Franchise	\$51,659	\$0	\$51,659	---	\$6,007	759.9%
Public Utility	\$43,974	\$50,900	-\$6,926	-13.6%	\$55,307	-20.5%
Kilowatt Hour Excise	\$158,430	\$161,800	-\$3,370	-2.1%	\$157,027	0.9%
Natural Gas Consumption (MCF)	\$15,189	\$18,100	-\$2,911	-16.1%	\$18,170	-16.4%
Commercial Activity Tax	\$397,483	\$410,600	-\$13,117	-3.2%	\$196,507	102.3%
Foreign Insurance	\$142,438	\$137,700	\$4,738	3.4%	\$134,249	6.1%
Domestic Insurance	\$4,625	-\$500	\$5,125	1025.0%	\$61	7424.5%
Business and Property	\$360	-\$1,200	\$1,560	130.0%	-\$1,783	120.2%
Cigarette	\$368,140	\$370,900	-\$2,760	-0.7%	\$378,529	-2.7%
Alcoholic Beverage	\$28,699	\$30,000	-\$1,301	-4.3%	\$29,829	-3.8%
Liquor Gallonage	\$20,252	\$19,800	\$452	2.3%	\$19,473	4.0%
Estate	\$73,373	\$33,800	\$39,573	117.1%	\$35,808	104.9%
Total Tax Revenue	\$9,789,314	\$9,658,156	\$131,159	1.4%	\$8,969,595	9.1%
NONTAX REVENUE						
Earnings on Investments	\$2,284	\$1,500	\$784	52.2%	\$1,206	89.3%
Licenses and Fees	\$11,354	\$13,126	-\$1,772	-13.5%	\$20,071	-43.4%
Other Revenue	\$18,038	\$20,718	-\$2,680	-12.9%	\$16,383	10.1%
Total Nontax Revenue	\$31,676	\$35,344	-\$3,668	-10.4%	\$37,660	-15.9%
TRANSFERS						
Liquor Transfers**	\$81,500	\$78,000	\$3,500	4.5%	\$72,632	12.2%
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers In	\$5,372	\$5,166	\$206	4.0%	\$229,561	-97.7%
Total Transfers In	\$86,872	\$83,166	\$3,706	4.5%	\$302,193	-71.3%
TOTAL STATE SOURCES	\$9,907,862	\$9,776,665	\$131,197	1.3%	\$9,309,448	6.4%
Federal Grants	\$4,159,806	\$4,285,257	-\$125,451	-2.9%	\$4,037,470	3.0%
TOTAL GRF SOURCES	\$14,067,668	\$14,061,923	\$5,745	0.0%	\$13,346,919	5.4%

*Estimates of the Office of Budget and Management as of August 2012.

**Liquor Transfers based on a report run in OAKS as of January 1, 2013.

Detail may not sum to total due to rounding.

REVENUES

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

Overview

First-half
GRF tax
receipts in
FY 2013
were
\$131.2 million
above
estimate.

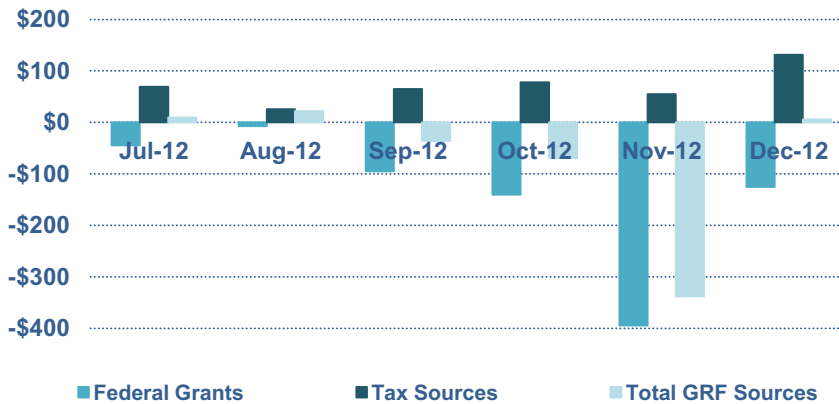
At the halfway point of FY 2013, GRF tax receipts were \$131.2 million above estimate, federal grants were \$125.5 million below expected revenues, and total GRF sources were \$5.7 million ahead of projections. Tables 1 and 2 show GRF sources for the month of December and for FY 2013 through December, 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.

For the month of December, GRF sources totaled \$2.57 billion and were \$343.5 million above the estimate released by the Office of Budget and Management (OBM) in August 2012, mostly due to a positive variance of \$269.2 million in federal grants. According to OBM, and as noted in last month's *Budget Footnotes*, parts of federal grants received in November were erroneously credited to certain non-GRF funds due to an accounting coding error. Those transactions were reversed in December, resulting in outsized federal grants this month. Prior to December 2012, federal grants had been below estimates every month this fiscal year, mainly due to continued lower than expected spending for Medicaid. December's positive variance reduced the year-to-date's shortfall of federal grants to \$125.5 million, down from \$394.7 million through November.

GRF tax sources were \$76.3 million above estimate in December, with the two largest tax revenue sources performing well. The personal income tax and the sales and use tax were above anticipated receipts by \$60.2 million and \$11.3 million, respectively. Additionally, the estate tax, the kilowatt hour tax, and the commercial activity tax (CAT) were above estimates, respectively, by \$4.0 million, \$2.7 million, and \$2.5 million. Conversely, the cigarette tax and the corporate franchise tax (CFT) were weak, posting negative variances of \$1.8 million and \$2.6 million, respectively, in December. However, CFT's year-to-date performance remained strong, registering a positive variance of \$51.7 million through December. Other taxes above estimates at the midway point included the estate tax (\$39.6 million), the insurance taxes (\$9.9 million), and the business and property tax (\$1.6 million). On the other hand, year-to-date performances in energy-related taxes (public utility, kilowatt hour, and MCF) were weak, posting a combined negative variance of \$13.2 million.

The overall year-to-date positive variance in GRF tax sources increased to \$131.2 million, up from \$54.8 million at the end in November. Revenue from federal grants in December reversed the fiscal year's negative variance in total GRF sources of \$337.8 million through November, into a positive variance of \$5.7 million for the first half of FY 2013. Chart 1 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)**



Through
December,
FY 2013
GRF
sources
were
\$5.7 million
above
estimate.

Compared to FY 2012, FY 2013 total GRF sources increased \$720.7 million. Declines of \$215.3 million in transfers in and \$6.0 million in nontax revenues partly offset gains of \$819.7 million in GRF tax revenues and \$122.3 million in federal grants. Receipts from the personal income tax grew \$362.5 million, while those from the CAT and the sales and use tax increased \$201.0 million and \$181.8 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

In December, GRF personal income tax receipts of \$822.0 million were \$60.2 million (7.9%) above estimate, after two consecutive monthly negative variances (\$17.6 million in October and \$10.3 million in November 2012). Receipts in December 2012 were also \$71.0 million (9.5%) above receipts in December 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 positive variance this month was due to higher than expected monthly employer withholding (by \$47.2 million) and quarterly estimated payments (by \$10.6 million). Published reports in the press suggested a number of firms moved payments of compensation and dividend distributions into 2012 in anticipation of federal tax law changes in 2013, and these actions may have boosted December income tax receipts.

For the fiscal year to date, the GRF received \$4.28 billion from the personal income tax, an amount that was \$76.2 million above estimates. 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	\$51.8	1.3%	\$218.9	5.9%
Quarterly Estimated Payments	\$29.8	6.8%	\$24.8	5.6%
Trust Payments	\$5.4	47.0%	\$5.4	48.1%
Annual Return Payments	-\$2.8	-2.2%	-\$2.8	-2.1%
Miscellaneous Payments	\$6.5	13.1%	\$6.6	13.3%
Gross Collections	\$90.6	2.0%	\$252.9	5.8%
Less Refunds	\$9.1	5.7%	\$9.1	5.7%
Less LGF Distribution	\$5.3	3.2%	-\$118.7	-41.2%
Income Tax Revenue	\$76.2	1.8%	\$362.5	9.3%

FY 2013 GRF receipts from the income tax were \$362.5 million (9.3%) 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. First-half revenues from employer withholding in FY 2013 were \$218.9 million (5.9%) above receipts in this category in FY 2012, and quarterly estimated payments increased

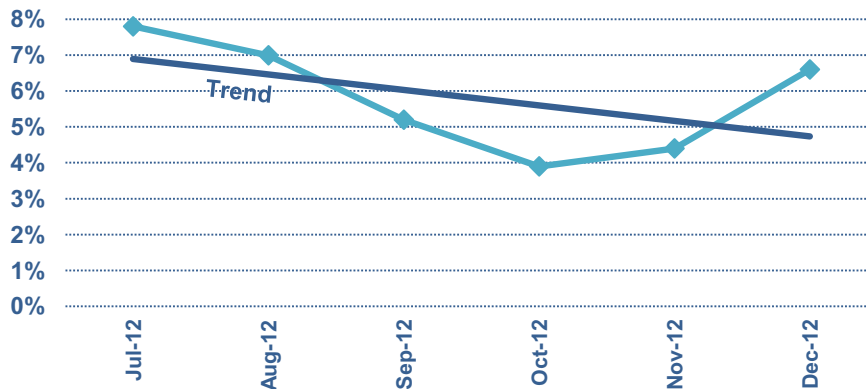
¹ Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than \$500. Payments are generally due on or before April 15, June 15, and September 15 of the tax year and January 15 of the following year. Most estimated payments are made by high-income taxpayers.

Through
December,
FY 2013
GRF income
tax receipts
were
\$76.2 million
above
estimate.

Through
December,
FY 2013
withholding
tax receipts
were
\$51.8 million
above
estimate.

\$24.8 million (5.6%). Chart 2, below, which illustrates the trend in employer withholding receipts in 2012, indicates an upturn in the latest months after a slowdown experienced in the summer months. Distributions to the LGF were \$118.7 million (41.2%) below amounts in that category through December in FY 2012, due to H.B. 153 which reduced revenue sharing of state tax revenues with local governments.²

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



Sales and Use Tax

December GRF receipts from the sales and use tax of \$756.6 million were \$11.3 million (1.5%) above estimate and \$27.7 million (3.8%) above receipts in December 2011. Through December, FY 2013 GRF sales and use tax receipts totaled \$4.21 billion, \$17.8 million (0.4%) below estimate, but \$181.8 million (4.5%) 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 collections³ 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

Through December, FY 2013 sales and use tax receipts were \$17.8 million below estimate.

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.

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.

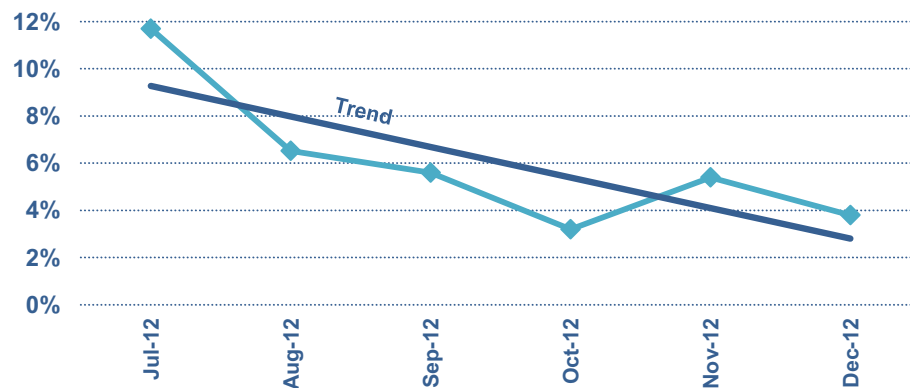
signing and are mostly recorded under the nonauto tax instead of the auto tax.

Nonauto Sales and Use Tax

December GRF receipts from the nonauto sales and use tax were \$680.4 million, \$8.0 million (1.2%) above estimate. Year to date, GRF nonauto sales and use tax receipts were \$3.67 billion for FY 2013, \$23.3 million (0.6%) below estimate, but \$161.9 million (4.6%) above receipts through December in FY 2012. (Nonauto sales and use tax receipts included \$195.6 million in revenue from Medicaid health insuring corporations. Last fiscal year through December, revenue from those corporations totaled \$166.4 million.) 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, the rate of growth in nonauto sales and use tax receipts is slower than that at the start of the fiscal year, though the tax base is growing.

Through December, FY 2013 nonauto sales and use tax receipts were \$23.3 million below estimate.

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



Results from the holiday season, the most important period for retailers, appear mixed. The index of sales at stores opened at least a year grew 3.1% in the November-December period, compared to the corresponding period a year ago, according to the International Council of Shopping Centers. This growth rate was weaker than the previous two years when the economy was emerging from the recession. (Total store sales, including those opened less than a year, grew 1.8% in November and 5.1% in December.) As measured by MasterCard Advisors SpendingPulse, U.S. holiday sales grew 0.7% from October 28 through December 24, relative to the same period last year, slowing from a growth of 2% in 2011. (SpendingPulse tracks total U.S. sales at stores

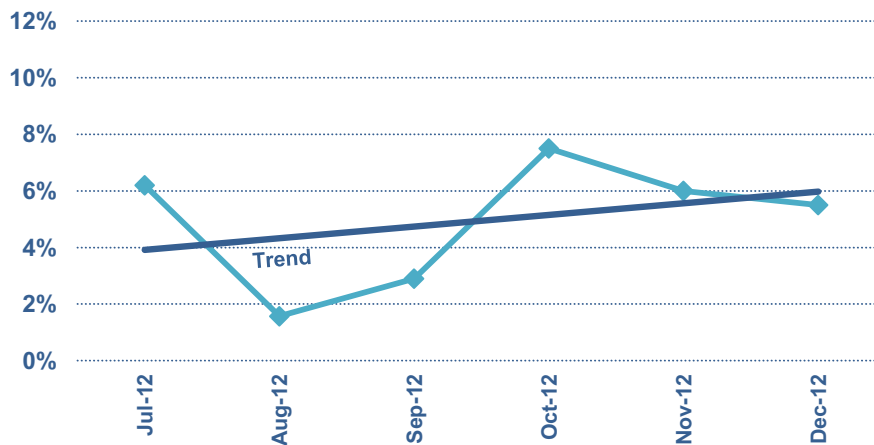
and online via all payment forms.) Looking ahead, consumer spending growth may be affected by recent federal tax changes. While the expiration of previous tax cuts on households making \$450,000 or more may affect only a small portion of U.S. consumers, most workers are likely to be negatively affected by the end of the payroll tax holiday (which return to 6.2% of payroll this year, up from 4.2% last year), which will result in smaller paychecks.

Auto Sales and Use Tax

GRF receipts from the auto sales and use tax totaled \$76.2 million in December. Those receipts were \$3.3 million (4.5%) above estimate, but \$4.0 million (5.0%) below December 2011 receipts. First-half FY 2013 GRF receipts from the auto sales and use tax of \$531.2 million were \$5.6 million (1.1%) above estimate and \$19.9 million (3.9%) above receipts for the corresponding period in FY 2012. Chart 4, which compares 2012 monthly auto sales and use tax receipts with year-ago receipts in the same period, shows the auto sales and use tax base continues to grow.

Through December, FY 2013 auto sales and use tax receipts were \$5.6 million above estimate.

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



U.S. auto and light truck sales reached 15.3 million units on a seasonally adjusted annualized basis in December. Sales ended the year on a strong note due to the slowly improving labor market, the need to replace aging vehicles (which average about 11 years), and better access to credit for vehicle buyers with less than prime credit histories. For the calendar year, sales trended higher and totaled 14.4 million units, about 13% higher than in 2011, and the highest sales pace since 2007.

Commercial Activity Tax

Through
December,
FY 2013
GRF CAT
receipts
were
\$13.1 million
below
estimate.

December GRF receipts from the CAT were \$3.7 million, \$2.5 million (211.2%) above estimate, also \$3.1 million (520.8%) above December 2011 revenue. Through December, FY 2013 CAT receipts to the GRF totaled \$397.5 million, \$13.1 million (3.2%) below estimate, but were \$201.0 million (102.3%) above receipts in the corresponding period in FY 2012. The shortfall in year-to-date CAT revenue was due to unanticipated refunds and taxpayers claiming more credits than previously anticipated in the second fiscal quarter. The revenue increase compared to FY 2012 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 December, all-fund CAT receipts were \$802.7 million, \$2.6 million (0.4%) above revenue through December 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
December,
FY 2013
cigarette tax
receipts
were
\$2.8 million
below
estimate.

Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax of \$66.4 million in December 2012 were \$1.8 million (2.6%) below estimate and \$4.8 million (6.7%) below receipts in the same month in FY 2012. Through December, FY 2013 receipts of \$368.1 million were \$2.8 million (0.7%) below estimate. Receipts from cigarette sales were \$342.3 million, and sales of products other than cigarettes provided \$25.8 million. Compared to FY 2012, total receipts from the tax were \$10.4 million (2.7%) lower. Receipts from the sale of cigarettes and other tobacco products decreased, respectively, by \$8.3 million and \$2.1 million.

PROGRAM	Actual	Estimate*	Variance	Percent
Primary, Secondary, and Other Education	\$279,160	\$282,857	-\$3,697	-1.3%
Higher Education	\$172,253	\$170,922	\$1,331	0.8%
Total Education	\$451,413	\$453,779	-\$2,366	-0.5%
Public Assistance and Medicaid	\$1,160,940	\$1,093,969	\$66,970	6.1%
Health and Human Services	\$63,823	\$62,073	\$1,749	2.8%
Total Welfare and Human Services	\$1,224,763	\$1,156,043	\$68,720	5.9%
Justice and Public Protection	\$112,086	\$125,621	-\$13,536	-10.8%
Environment and Natural Resources	\$2,888	\$3,791	-\$903	-23.8%
Transportation	\$1,836	\$563	\$1,273	226.2%
General Government	\$20,052	\$19,718	\$333	1.7%
Community and Economic Development	\$4,021	\$5,625	-\$1,604	-28.5%
Capital	\$0	\$0	\$0	---
Total Government Operations	\$140,883	\$155,319	-\$14,436	-9.3%
Tax Relief and Other	\$141	\$1,036	-\$895	-86.3%
Debt Service	\$9,901	\$10,287	-\$385	-3.7%
Total Other Expenditures	\$10,043	\$11,323	-\$1,280	-11.3%
Total Program Expenditures	\$1,827,101	\$1,776,464	\$50,637	2.9%
TRANSFERS				
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers Out	\$5,000	\$4,750	\$250	5.3%
Total Transfers Out	\$5,000	\$4,750	\$250	5.3%
TOTAL GRF USES	\$1,832,101	\$1,781,214	\$50,887	2.9%
* August 2012 estimates of the Office of Budget and Management. <i>Detail may not sum to total due to rounding.</i>				

Table 4: General Revenue Fund Uses
Actual vs. Estimate
FY 2013 as of December 31, 2012
(\$ in thousands)
(Actual based on OAKS reports run January 8, 2013)

PROGRAM	Actual	Estimate*	Variance	Percent	FY 2012	Percent Change
Primary, Secondary, and Other Education	\$3,288,207	\$3,325,655	-\$37,448	-1.1%	\$3,529,957	-6.8%
Higher Education	\$1,080,688	\$1,092,768	-\$12,079	-1.1%	\$1,091,718	-1.0%
Total Education	\$4,368,895	\$4,418,422	-\$49,527	-1.1%	\$4,621,675	-5.5%
Public Assistance and Medicaid	\$7,119,069	\$7,318,050	-\$198,981	-2.7%	\$6,765,252	5.2%
Health and Human Services	\$513,647	\$530,546	-\$16,899	-3.2%	\$557,982	-7.9%
Total Welfare and Human Services	\$7,632,716	\$7,848,597	-\$215,880	-2.8%	\$7,323,234	4.2%
Justice and Public Protection	\$1,010,164	\$1,040,856	-\$30,692	-2.9%	\$949,023	6.4%
Environment and Natural Resources	\$41,364	\$43,073	-\$1,709	-4.0%	\$42,440	-2.5%
Transportation	\$5,588	\$5,561	\$27	0.5%	\$5,265	6.1%
General Government	\$177,450	\$197,634	-\$20,184	-10.2%	\$160,207	10.8%
Community and Economic Development	\$50,861	\$55,931	-\$5,070	-9.1%	\$53,230	-4.4%
Capital	\$137	\$0	\$137	---	\$120	14.4%
Total Government Operations	\$1,285,565	\$1,343,055	-\$57,490	-4.3%	\$1,210,284	6.2%
Tax Relief and Other	\$881,853	\$874,094	\$7,759	0.9%	\$865,060	1.9%
Debt Service	\$431,742	\$441,090	-\$9,349	-2.1%	\$185,268	133.0%
Total Other Expenditures	\$1,313,594	\$1,315,184	-\$1,590	-0.1%	\$1,050,328	25.1%
Total Program Expenditures	\$14,600,770	\$14,925,257	-\$324,487	-2.2%	\$14,205,521	2.8%
TRANSFERS						
Budget Stabilization	\$235,096	\$235,096	\$0	0.0%	\$246,899	-4.8%
Other Transfers Out	\$97,112	\$83,752	\$13,360	16.0%	\$316,720	-69.3%
Total Transfers Out	\$332,208	\$318,848	\$13,360	4.2%	\$563,619	-41.1%
TOTAL GRF USES	\$14,932,979	\$15,244,106	-\$311,127	-2.0%	\$14,769,139	1.1%

* 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 January 7, 2013)

Medicaid (600525) Payments by Service Category	December				Year to Date			
	Actual	Estimate	Variance	Percent Variance	Actual thru Dec	Estimate thru Dec	Variance	Percent Variance
Managed Care Plans	\$570,560	\$611,603	-\$41,043	-6.7%	\$3,499,751	\$3,639,038	-\$139,287	-3.8%
Nursing Facilities	\$203,402	\$202,808	\$594	0.3%	\$1,240,297	\$1,234,588	\$5,709	0.5%
Hospitals	\$110,000	\$126,309	-\$16,309	-12.9%	\$642,904	\$699,882	-\$56,978	-8.1%
Aging Waivers	\$40,534	\$54,765	-\$14,231	-26.0%	\$279,101	\$327,805	-\$48,704	-14.9%
Prescription Drugs	\$45,092	\$50,911	-\$5,819	-11.4%	\$240,102	\$262,918	-\$22,816	-8.7%
Physicians	\$25,806	\$29,767	-\$3,961	-13.3%	\$154,066	\$160,263	-\$6,197	-3.9%
ODJFS Waivers	\$23,640	\$25,246	-\$1,606	-6.4%	\$129,176	\$137,641	-\$8,465	-6.2%
All Other	\$228,888	\$225,634	\$3,254	1.4%	\$1,139,137	\$1,160,151	-\$21,014	-1.8%
Total Payments	\$1,247,922	\$1,327,043	-\$79,121	-6.0%	\$7,324,534	\$7,622,286	-\$297,752	-3.9%
Total Offsets (non-GRF)	-\$163,788	-\$305,912	\$142,124	-46.5%	-\$726,706	-\$875,359	\$148,653	-17.0%
Total 600525 (net of offsets)	\$1,084,134	\$1,021,131	\$63,003	6.2%	\$6,597,828	\$6,746,927	-\$149,099	-2.2%
Medicare Part D (600526)	\$25,453	\$22,948	\$2,505	10.9%	\$141,424	\$139,471	\$1,953	1.4%
Total GRF	\$1,109,587	\$1,044,079	\$65,508	6.3%	\$6,739,252	\$6,886,398	-\$147,146	-2.1%
Total All Funds	\$1,273,375	\$1,349,991	-\$76,616	-5.7%	\$7,465,958	\$7,761,757	-\$295,799	-3.8%

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

For the first six months of FY 2013, GRF program expenditures totaled \$14.60 billion. These expenditures were \$324.5 million below the estimate released by the Office of Budget and Management (OBM) in August 2012. Year-to-date GRF transfers out totaled \$332.2 million, \$13.4 million above estimate. Including both program expenditures and transfers out, year-to-date GRF uses were \$14.93 billion. These uses were \$311.1 million below estimate. Tables 3 and 4 show GRF uses for the month of December and for FY 2013 through December, respectively.

Of the 12 program categories, nine had negative year-to-date variances and the other three had positive year-to-date variances. Expenditures under the Tax Relief and Other, Capital, and Transportation program categories were above their year-to-date estimates by a total of \$7.9 million. These positive variances were offset by a combined negative year-to-date variance of \$332.4 million in the other nine program categories. Public Assistance and Medicaid had the largest negative year-to-date variance at \$199.0 million. Other major negative variance contributors include Primary, Secondary, and Other Education (\$37.4 million), Justice and Public Protection (\$30.7 million), General Government (\$20.2 million), and Health and Human Services (\$16.9 million). The negative variances in these five program categories are briefly discussed below. Together, they accounted for \$304.2 million (97.8%) of the total negative year-to-date variance in GRF uses.

Public Assistance and Medicaid

Year-to-date GRF expenditures for Public Assistance and Medicaid totaled \$7.12 billion, \$199.0 million (2.7%) below estimate. Medicaid, including both state and federal shares, accounts for about 95% of expenditures in this program category. Table 5 details Medicaid GRF expenditures by service category and also summarizes Medicaid expenditures across all funds. Medicaid is mainly funded with the GRF but is also supported by various non-GRF funds.

Through December, FY 2013 Medicaid GRF expenditures totaled \$6.74 billion, which was \$147.1 million (2.1%) below estimate. The federal share of Medicaid expenditures is about 64% and the state's share

For the first half of FY 2013, total GRF uses were below estimate by \$311.1 million.

Year-to-date GRF expenditures for Public Assistance and Medicaid were \$199.0 million below estimate.

is about 36%. Across all funds, year-to-date Medicaid expenditures amounted to \$7.47 billion, which was \$295.8 million (3.8%) below estimate.

As seen from Table 5, Medicaid expenditures were below their year-to-date estimates for all but one category. The Managed Care Plans category had the largest variance at \$139.3 million (3.8%), due mainly to lower than expected caseloads. The Hospitals category had the next largest negative variance of \$57.0 million (8.1%) 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, but such claims did not occur. Other significant negative variances include Aging Waivers (\$48.7 million, 14.9%), Prescription Drugs (\$22.8 million, 8.7%), and All Other (\$21.0 million, 1.8%).

For the month of December, Medicaid expenditures were \$76.6 million (5.7%) below estimate across all funds. However, GRF expenditures for the month were \$65.5 million (6.3%) above estimate. This variance is due to lower than estimated spending from non-GRF funds. Expenditures from non-GRF funds were estimated to total \$305.9 million in December, but actual expenditures totaled \$163.8 million, \$142.1 million (46.5%) below estimate.

Primary, Secondary, and Other Education

GRF expenditures for the Primary, Secondary, and Other Education program category totaled \$3.29 billion for the first six months of FY 2013, \$37.4 million (1.1%) below estimate. The vast majority of the variance was attributable to the Ohio Department of Education (ODE), which accounts for 99.1% of this category's year-to-date expenditures. Expenditures for ODE's GRF appropriation items 200550, Foundation Funding, and 200426, Ohio Educational Computer Network, were \$18.2 million and \$5.8 million, respectively, below their year-to-date estimates. Several other items in the ODE budget had smaller negative year-to-date variances as well. Item 200550 provides the majority of funding for the state's subsidy for schools. It is not uncommon to see variances in this item; ODE adjusts the bimonthly subsidy payments to individual school districts as updated enrollment and other relevant data become available. Item 200426 is mainly used to support connecting public and state-chartered nonpublic schools to the state's education information network.

Year-to-date
GRF
Medicaid
expenditures
were
\$147.1 million
below
estimate; all
fund
Medicaid
expenditures
were
\$295.8 million
below
estimate.

Justice and Public Protection

In the month of December, GRF expenditures under the Justice and Public Protection program category were \$112.1 million, \$13.5 million (10.8%) below estimate. For the year to date, GRF expenditures for Justice and Public Protection totaled \$1.01 billion, \$30.7 million (2.9%) below estimate. The Department of Rehabilitation and Correction (DRC) contributed \$22.3 million to the total negative year-to-date variance. As in prior months, DRC's GRF appropriation item 501321, Institutional Operations, continued to be the main source of this variance. Through December, expenditures for item 501321 were \$29.5 million below estimate, which was partially offset by a positive year-to-date variance of \$7.2 million in item 505321, Institution Medical Services. Item 501321 is the primary funding source for DRC's operations whereas item 505321 funds medical services for inmates housed in the state's prison system.

The Department of Youth Services (DYS) contributed another \$5.5 million to this program category's total negative year-to-date variance. Expenditures for the largest appropriation item in the DYS budget, item 470401, RECLAIM Ohio, were \$4.5 million below the year-to-date estimate. This item funds institutional placement and community program services to youth who have been convicted of a felony offense and to other delinquent youth.

General Government

GRF expenditures for the General Government program category totaled \$177.5 million for the first six months of FY 2013, \$20.2 million (10.2%) below estimate. Within this program category, the Department of Administrative Services (DAS) had the largest year-to-date negative variance at \$12.5 million, followed by the Legislative Service Commission (\$3.9 million). The variance in DAS 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.

Health and Human Services

Year-to-date GRF expenditures for the Health and Human Services program category totaled \$513.6 million, \$16.9 million (3.2%) below estimate. The Department of Health (DOH) was the primary source of this variance, accounting for \$14.1 million of the total variance. DOH's GRF appropriation item 440418, Immunizations, was \$6.9 million below its year-to-date estimate, due largely to a slower than anticipated process to complete several large vaccine purchases. Item 440444, AIDS

Prevention and Treatment, was \$2.7 million below estimate through December. It was below estimate because DOH relied less on GRF funding and more on federal sources and rebate moneys than originally planned in the first half of FY 2013 to fund AIDS prevention and treatment activities. OBM expects this negative variance to be substantially narrowed before year end. Finally, item 440416, Mothers and Children Safety Net Services, was \$1.5 million below its year-to-date estimate. This was because DOH was waiting for sub-grantees to complete all compliance requirements prior to distributing funding to them.

ISSUE UPDATES

Controlling Board Approves Third Round of Local Government Innovation Grants and Loans

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

On December 17, 2012, the Controlling Board approved the third round of grants and loans through the Local Government Innovation Program. Established by H.B. 153 and initiated in FY 2013, the program funds projects that promote efficiency, shared services, collaboration, and mergers among local governments. Overall, \$9.0 million was made available for grants and \$36.0 million was made available for loans in FY 2013. The table below shows the third round of awards by project category. Round Three grant funding accounts for approximately \$2.8 million of the total of \$6.2 million in grants awarded in FY 2013, which leaves another \$2.8 million available for additional grant awards in FY 2013. The \$1.1 million awarded in loans brings the approved loan total to \$4.5 million, leaving \$31.5 million in loan funding available for the final round of projects in FY 2013. Under the program, no more than \$100,000 in total loans may be awarded to an individual political subdivision for each project. For a project involving a group of political subdivisions, the award maximum is \$500,000, with the average amount per political subdivision not to exceed \$100,000. Applications for Round Four loan projects were due on December 3, 2012.

Local Government Innovation Awards – Round 3				
Project Category	Number of Grants	Grant Total	Number of Loans	Loan Total
Educational Instructional Support	6	\$563,000	0	\$0
Technology	6	\$425,000	0	\$0
Public Works	5	\$418,776	1	\$450,000
Administration	4	\$356,295	0	\$0
Public Safety	7	\$355,756	1	\$350,000
Economic Development	4	\$327,600	0	\$0
Fleet Management	2	\$186,180	1	\$300,000
Health & Human Services	2	\$138,000	0	\$0
Total	36	\$2,770,607	3	\$1,100,000

Ohio Nets \$4.5 Million from Civil Action Settlements with Pharmaceutical Companies

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

The Ohio Attorney General's Office has recently been involved in the negotiations to resolve two separate civil actions involving the GlaxoSmithKline and Pfizer pharmaceutical companies. The resolution of these two civil actions resulted in Ohio netting \$4.5 million in settlement revenues, including \$3.0 million from the GlaxoSmithKline settlement and \$1.5 million from the Pfizer settlement.

On November 15, 2012, the Ohio Attorney General and 37 other state attorneys general announced a \$90 million settlement of a civil action involving allegations that GlaxoSmithKline unlawfully promoted its diabetes drug Avandia. Ohio's share of the settlement will be \$3.0 million and will be deposited into the Consumer Protection Enforcement Fund (Fund 6310). This fund is used to pay expenses incurred by the Attorney General's Consumer Protection Section.

On December 12, 2012, the Ohio Attorney General and 32 other state attorneys general announced that they had reached a \$42.9 million Consent Judgment with Pfizer to resolve allegations that Pfizer unlawfully promoted the broadened use of the drug Zyvox and the off-label use of the drug Lyrica. Under this settlement, Ohio will receive \$1.5 million. Of this amount, \$1.4 million will be deposited into Fund 6310 to help support the Attorney General's Consumer Protection Section. The remaining \$100,000 will be utilized to support the Attorney General's prescription drug take-back and collection programs.

Ohio Expositions Commission Reports Profit of Just Over \$280,000 from 2012 State Fair

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

The Ohio Expositions Commission reported a profit of approximately \$280,000 from the 2012 State Fair. Overall revenue from the event, held July 25 through August 5, was nearly \$8.0 million, of which \$5.6 million (70.0%) was derived from admission fees, ticket sales for entertainment and attractions, and exhibition space rental fees. The remaining \$2.4 million (30.0%) came from event sponsorships, parking and camping fees, and other sources such as concessions and livestock auction revenues. Expenses totaled \$7.7 million, with payroll and entertainment contracts accounting for \$4.8 million (62.3%) of that amount. The remaining \$2.9 million (37.7%) was spent on prizes, advertising, fairground maintenance, supplies, utilities, and other items. Attendance for the 2012 State Fair was just over 840,000, an increase of more than 7,000 from the 2011 State Fair.

The Expositions Commission has a FY 2013 budget of \$14.5 million, of which \$12.9 million is funded by anticipated revenues from the State Fair and approximately 150 other events held on the state fairgrounds throughout the year. A GRF appropriation of \$250,000 is used to support the Junior Fair held in conjunction with the State Fair. Under certain conditions, the Commission may tap the State Fair Reserve Fund if receipts from the annual event fall short of expenses. The last time the Commission exercised this authority was in 2002. As of December 12, 2012, the reserve fund had a cash balance of approximately \$125,000.

Most of Ohio's Mineral Resources Gained Value in 2011

– *Brian Hoffmeister, Senior Budget Analyst, 614-644-0089*

According to the 2011 Mineral Industries Report issued in October 2012 by the Ohio Department of Natural Resources (DNR), Ohio-produced minerals gained value overall in 2011. Despite fluctuations in sales and production, the total value of all minerals produced in Ohio increased from approximately \$2.73 billion in 2010 to \$2.83 billion in 2011.⁴ Of the nine types of mineral resources tracked in the report, six saw increases in value and the other three experienced decreases. The largest percentage gain in value between 2010 and 2011 was for sandstone and conglomerate (25.0%), followed by oil (22.7%). More modest gains were seen in limestone and dolomite (9.2%), shale (9.0%), sand and gravel (4.5%), and coal (4.0%). Salt (-16.5%), clay (-20.5%), and natural gas (-14.2%) all decreased in value from 2010 to 2011. DNR calculates value based on the tonnage of each mineral sold, or in the case of oil and gas, the volume produced.

Coal remained Ohio's most valuable mineral resource in 2011, with a total value of approximately \$1.19 billion, up from \$1.15 billion in 2010, due to increases in price. Coal production fell from approximately 28.4 million tons in 2010 to 27.9 million tons in 2011, while coal sales decreased from 27.2 million tons to 26.9 million tons. Clay and natural gas also experienced decreases in production and sales, while those for all other mineral resources increased.

Ohio Works First Cash Benefits Increase 1.7% in 2013

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

Beginning January 2013, Ohio Works First (OWF) cash assistance benefits will increase 1.7%. For a family of three this increases the monthly benefit from \$450 to

⁴ DNR's Mineral Industries Reports are usually issued in the fall of the year following the year for which data is being reported.

\$458. The table below shows monthly benefit amounts for various assistance groups in 2012 and amounts in 2013 after the increase.

OWF Monthly Cash Benefits, 2012 and 2013		
Assistance Group Size	2012 Monthly Benefit	2013 Monthly Benefit
1	\$268	\$273
2	\$368	\$374
3	\$450	\$458
4	\$555	\$564
5	\$650	\$661

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 2012, the index rose 1.7% above the level from the third quarter of 2011, which increases benefits by that percentage beginning January 2013. The last annual COLA increase for OWF cash benefits went into effect January 2012, which increased benefits by 3.6%.

OWF cash benefits are funded through the federal 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 guidelines (about \$9,265 annually for a family of three). Benefits are 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.

New Initiative to Improve the Prescribing of Behavioral Health Medications for Children Enrolled in Medicaid

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

In late September 2012, the Best Evidence Advancing Child Health in Ohio Now (BEACON) Council, in collaboration with multiple state agencies, universities, and other stakeholders, launched a three-year, \$2.3 million initiative to improve the prescribing of behavioral health medications for children enrolled in Medicaid. Approximately half of the \$2.3 million funding for the initiative comes from federal Medicaid reimbursement. The goals of the initiative are to increase timely access to safe and effective medications and other behavioral health treatments for children, improve

pediatric patient health outcomes for these children, and reduce medication-related adverse effects. The first stage of the project will be to develop and test interventions in three pilot communities that have a sufficient number of children and providers willing to participate. The initial focus will primarily be on foster children who have been prescribed four or more psychotropic medications, two or more atypical antipsychotic medications, and children under age 5 who have been prescribed an atypical antipsychotic medication. The pilots will operate for 18 months and any strategies that prove effective will be implemented statewide in the third year of the initiative.

The BEACON Council is a statewide partnership of individuals and organizations focusing on developing and supporting initiatives to achieve measurable improvements in children's health outcomes. Its membership includes the departments of Health, Mental Health, and Job and Family Services, as well as the Ohio Academy of Family Physicians, Ohio Chapter of the American Academy of Pediatrics, Voices for Ohio's Children, Ohio Children's Hospital Association, National Alliance for the Mentally Ill of Ohio, the Ohio State University's Government Resource Center, and the American College of Obstetricians and Gynecologists.

Attorney General Releases Report on Ohio's Child Welfare System

– *Jamie L. Doskocil, Senior Budget Analyst, 614-387-0477*

In December 2012, the office of the Attorney General released its report on Ohio's child welfare system.⁵ Over the past year, the Attorney General held eight child safety summits throughout the state in Cincinnati, Cleveland, Toledo, Youngstown, Akron, Dayton, Columbus, and St. Clairsville. These summits were in response to the deaths of several children in recent years within the state's foster care system, a system that services more than 12,000 children at any given time. They were open to the public and panelists were chosen from local children services agencies, juvenile courts and prosecutors' offices, nonprofit child welfare agencies, former foster youth, and other statewide foster care organizations. Some of the subject areas that were discussed and recommendations provided for include:

- Foster parent participation;
- Guardian ad litem noncompliance (Rules of Superintendence, Rule 48);⁶
- Mentoring for foster youth;
- Normalizing the experience for youth in foster care;
- Accountability and funding the system;

⁵ The complete report, entitled *Child Safety Summit, Report of Findings*, is available at www.ohioattorneygeneral.gov.

⁶ Rule 48 sets out mandatory minimum expectations of guardian ad litem.

- Planned permanent living arrangements.

As a result of the summits' findings, Attorney General DeWine has also announced the formation of a Foster Care Advisory Group. This group will, within 90 days of the report's release, provide specific recommendations to tackle the issues identified in the report.

State Library Board Awards \$400,000 to Six Libraries and Organizations

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

In late September 2012, the State Library of Ohio (LIB) announced that the State Library Board had awarded \$400,000 in federal Library Services and Technology Act (LSTA) grants to six libraries and organizations. Each of the grants were awarded in one of three categories: Automation Grants, which may be used to convert a card catalog, to join a consortium, or to participate in statewide resource sharing; Technological Innovation Grants, which are awarded for the use of new or modified technologies to improve access, services, and support to library customers; and, Targeted Population Grants, which are used to provide services to certain targeted populations such as individuals with disabilities or people of diverse geographic, cultural, and socioeconomic backgrounds. According to LIB, each entity must provide a match of 25% of the total grant amount in order to be eligible for the LSTA award. The organizations receiving the grant, the amounts each was awarded, and descriptions of the program's activities are listed below.

- **Hamilton County Educational Service Center (\$42,050).** Funds will be used by ten schools in four school districts to automate and connect to the INFOhio union catalog, a statewide cooperative school library and information network.
- **Holmes County District Public Library (\$38,853).** Funds will be used to provide increased services to rural populations, particularly the Amish community.
- **Mount Sterling Public Library (\$112,485).** Funds will be used to purchase a mobile library to enhance service in underserved areas of the district. The library expects to make 40 visits per month with the mobile library to area locations.
- **Oakstone Academy (\$92,118).** Funds will be used to purchase additional tablets for use by children with Autism Spectrum Disorders (ASD) and related disabilities.
- **Ohio Historical Society (\$53,825).** Funds will be used to microfilm and digitize the *Ohio State Journal*, which, according to the Society, was the primary paper for Ohio throughout much of the 19th and early 20th centuries and is widely used by scholars, students, and genealogists.
- **University of Cincinnati Libraries (\$60,669).** Funds will be used to digitize approximately 8,000 historically significant photographs and negatives.

Regents Receives Continued Federal John R. Justice Program Funding

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

In December 2012, the Board of Regents received a grant of \$77,930 from the Federal Bureau of Justice Assistance for the FY 2013 Federal John R. Justice Student Loan Repayment Program. This new award brings Ohio's three-year total funding for the John R. Justice Program to more than \$590,000. The program is intended to bolster the number of recent law school graduates serving as public defenders and prosecutors. There is a shortage of attorneys working in these positions, leading to public defenders and prosecutors with large caseloads. Recipients of the Ohio John R. Justice grants must commit to three additional years of service as a public defender or prosecutor in Ohio, and are chosen based on factors such as the type and length of public service, student loan debt, and the duration of loan repayment. The FY 2011 and FY 2012 rounds of the program granted a total of 621 awards and provided over \$460,000 in loan repayments. The Board of Regents indicates that the FY 2013 cohort of award recipients may be selected as early as January 2013.

Public Safety Awards Federal Violence Against Women Act and JAG 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 grants from two federal programs, the Violence Against Women Act (VAWA) and the Edward Byrne Memorial Justice Assistance Grant (JAG). The total VAWA award was \$4.3 million for federal fiscal year (FFY) 2012, an increase of \$200,000 over FFY 2011 awards. These grants fund projects designed to improve the criminal justice system's response to violence against women and enhance services for victims.⁷ There were 123 awards for projects focusing on 48 different counties, receiving \$4.2 million in funding. The remaining \$0.1 million was awarded for three statewide projects. All but three of the 126 VAWA awards were renewals. The total JAG award was \$5.6 million for FFY 2012, a decrease of \$700,000 from the FFY 2011 award. These grants fund projects are designed to support crime prevention and control activities.⁸ Awards totaling \$5.4 million were made for 132 projects in 56 counties. The remaining \$0.2 million was awarded for eight statewide projects. While there were 35 projects receiving JAG awards for the first time, awards for the other 115 projects were renewals.

⁷ A complete project list can be found at: www.ocjs.ohio.gov/FY2012_VAWA_Decisions.xls.

⁸ A complete project list can be found at: www.ocjs.ohio.gov/FY2012_JAG_Decisions.xls.

TRACKING THE ECONOMY

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

Overview

In 2012, national employment grew at an average rate of 153,000 per month on nonfarm payrolls. The rate of unemployment decreased from 8.3% in January to 7.8% in December. In the first three quarters of the year, the gross domestic product adjusted for inflation (real GDP) expanded at annualized rates of 2.0%, 1.3%, and 3.1%, respectively. Housing starts and construction activity increased, particularly for private multifamily residences. Housing prices increased after falling since 2007, on average. Mortgage rates hit all-time lows on records kept since 1971. Consumer prices increased less than 2.0% in the year through November.

According to the Federal Reserve's economic projections, in 2013, real GDP is estimated to grow between 2.3% and 3.0%, and the national unemployment rate is estimated to be between 7.4% and 7.7%. In 2014 and 2015, real GDP is forecasted to grow annually between 3.0% and 3.7%. The unemployment rate is expected to decline to between 6.0% and 6.6% by the final quarter of 2015. Inflation is expected to be 2.0% or less each year.⁹

In December, the Federal Reserve announced plans to keep short-term interest rates near zero and to continue purchasing \$40 billion in mortgage-backed securities each month in order to help lower borrowing costs. These monthly purchases began in September 2012. In addition, the central bank announced plans to continue to purchase \$45 billion in longer-term Treasury securities each month, while ending the sale of an equal amount of shorter-term Treasury securities. The Federal Reserve expects to keep the interest rate on federal funds exceptionally low until the unemployment rate decreases to 6.5%, provided that expected inflation is no more than a half percentage point above the 2.0% goal. Most of the Federal Reserve forecasts predict the unemployment rate will not fall this low until after 2014. However, Federal Reserve members are not in complete agreement as to how long it would be best to maintain

According to the Federal Reserve, in 2013 real GDP is estimated to grow between 2.3% and 3.0%.

⁹ The forecasts, released on December 12, 2012, were made by the members of the Open Market Committee, which sets monetary policy; annual changes are measured from fourth quarter to fourth quarter; the unemployment estimates are fourth quarter averages.

these policies. The intent of these policies is to lower borrowing costs in order to stimulate borrowing, spending, and investment.

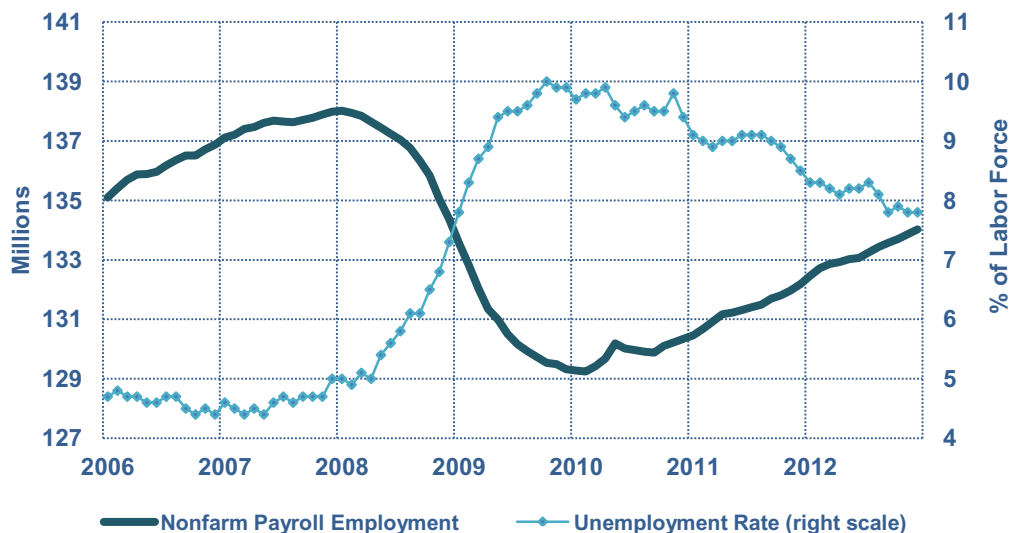
Congress passed legislation to avert the so-called "fiscal cliff." Among many other provisions, the legislation raised the top tax rates for incomes, capital gains, and estates; delayed the effects of "sequestration," or the automatic federal spending cuts, by two months; extended unemployment benefits; and ended the payroll tax "holiday." Uncertainty remains with how sequestration will be addressed in the coming months as well as with the expected need to increase the national debt ceiling, likely in February.

The National Economy

Employment and Unemployment

U.S. total nonfarm employment rose by 155,000 (0.1%) in December from November's revised total. Unemployment remained level at November's revised estimate of 7.8% of the labor force. Trends in nationwide employment and unemployment are shown in Chart 5 below.

Chart 5: U.S. Employment and Unemployment



Over 2012, total nonfarm payroll employment grew at an average of 153,000 per month.

The largest gain in employment in December among major industries was in health care (45,000) in the areas of ambulatory services, hospitals, and residential care facilities. There were also gains in food services and drinking places (38,000), construction (30,000), and manufacturing (25,000). Employment fell in some other industries, including clothing and accessory stores and local government. Local government employment is at its lowest level since 2005.

Over 2012, total nonfarm payroll employment grew 1.4% to 134.0 million in December at an average of 153,000 per month. This was

about the same monthly rate as in 2011. Over the year, the largest gains in employment by industry were in health care, which increased by 338,000.

Production, Shipments, and Inventories

On December 20, the Bureau of Economic Analysis revised its estimate of third quarter real GDP growth up from an annualized rate of 2.7% to an annualized rate of 3.1%. Real GDP grew at a 2.0% annualized rate in the first quarter and 1.3% in the second. The upward revision to the third quarter accounted for upwardly revised estimates for net exports, consumer spending, and state and local government investments in structures. Overall third quarter growth was driven by increases in consumer spending, business inventory investment, and federal expenditures on defense.

The industrial production index increased in November by 1.1%. The index was revised for October, and now shows a decrease in that month of 0.7% (instead of a 0.4% decrease). The index is 2.5% higher than it was in November of last year. According to the Federal Reserve, which publishes the index, much of the increase in November is attributable to production recovering from the effects of Hurricane Sandy. The increase is also attributable to a 4.5% increase in production of motor vehicles and parts. Production in this industry group was 16.5% greater than in November 2011.

According to surveys from the Institute for Supply Management, in December, purchasing managers overall reported growing business activity or production, but shrinking order backlogs. More purchasing managers with manufacturers reported declining inventories than said inventories were growing. Purchasing managers with nonmanufacturing organizations who reported higher new orders outnumbered those saying new orders were lower.

Consumer Spending and Personal Income

Consumer spending and personal income grew in November, adjusted for inflation. From October to November, personal consumption expenditures (in real terms) grew by 0.6% after a decline of 0.2% in October. Nearly half of the fluctuation in both months was due to purchases of motor vehicles and parts. 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. However, light vehicle sales decreased in December to an annualized rate of 15.3 million.

Third
quarter real
GDP growth
was revised
up from an
annualized
rate of 2.7%
to an
annualized
rate of 3.1%.

Real seasonally adjusted disposable personal income grew by 0.8% from October to November. Nominal incomes increased at 0.6%; the real increase was greater due to the decreases in consumer prices.

Inflation

Consumer Prices

The
consumer
price index
(CPI) fell
0.3% in
November,
seasonally
adjusted.

The consumer price index (CPI) fell 0.3% in November, seasonally adjusted. The decrease in November follows increases of 0.6% in August and September and a slight increase of 0.1% in October. The index last fell in May 2012 (also by 0.3%). Compared with November 2011, the CPI is 1.8% higher before seasonal adjustment. The decrease in November is mainly due to a 7.4% drop in the gasoline index, which more than offset smaller gains in most other indexes. The index for food items increased 0.2% in November. When food and energy are excluded (the core index), the CPI increased by 0.1%.

In December, nationwide average gasoline prices for regular unleaded fuel decreased 4.1% from \$3.44 on November 26 to \$3.30 on December 31, based on the U.S. Energy Information Administration's (USEIA) weekly surveys. The price on December 31 was 16.2% lower than the peak average price in 2012 of \$3.94 on April 9.

Ohio's average gasoline price for regular unleaded fuel decreased 6.0% in December from \$3.53 on November 26 to \$3.32 on December 31.

Producer Prices

The producer price index (PPI) for finished goods declined in November by 0.8%, seasonally adjusted. This decrease follows a 0.2% decrease in October; the index increased by 1.1% in September and 1.7% in August. The fluctuations in the PPI for finished goods over the past four months were mainly due to the fluctuations in the index for energy goods, particularly gasoline. Energy goods increased 6.5% in August and 4.7% in September, and then decreased 0.5% in October and 4.6% in November. Over 90% of the monthly decrease in energy goods in November was due to the decrease in gasoline prices, which decreased 10.1%. The decrease in November in energy goods was the largest monthly decrease since March 2009.

The PPI for intermediate goods decreased in November by 1.2%, which was the largest decline since March 2009. The decline was broad based but was led by price changes in energy goods, particularly diesel fuel, which decreased 11.0%. Lower prices for gasoline and jet fuel also contributed to the decrease. The PPI for crude goods increased slightly by 0.1% in November.

Construction and Real Estate

Housing Starts and Construction

From October to November, the seasonally adjusted annualized rate of housing starts decreased 3.0%, after three consecutive months of increases, according to the U.S. Census Bureau. Single family starts decreased by 4.1%, while starts on structures with five or more units increased by 1.4%. November's seasonally adjusted annualized rate of housing starts nationwide is 21.6% higher than the rate in November of last year.

Total construction activity, measured in dollars, fell slightly in November. The seasonally adjusted annual rate in November declined 0.3% from the revised estimate in October. Declines in nonresidential construction (-0.6%) offset gains in residential construction (0.4%). Construction spending is 7.7% higher than November of last year, largely driven by gains in private residential construction (19.0%), mainly new multifamily units (45.9%). New single family housing construction was up 29.4% compared to November 2011. Public construction was down 2.6% compared to November of last year.

Home Sales, House Prices, and Interest Rates

According to the U.S. Census Bureau, the annualized rate of new home sales increased 4.4% from October to November, on average nationwide. The rate for November 2012 was 15.3% higher than the rate in November 2011. From October to November, the seasonally adjusted annualized rate of existing home sales increased 5.9%, according to the National Association of Realtors (NAR). NAR noted that Hurricane Sandy caused some "disruptions" in home sales in affected areas. Yet, seasonally adjusted annualized sales in the Northeast were still up by 6.9%. Sales in November were 14.5% higher than in November of last year.

Nationwide house prices increased 0.5% from September to October, according to the Federal Housing Finance Agency's seasonally adjusted purchase-only house price index. Prices decreased slightly in October in New England (-0.3%) and Middle Atlantic (-1.3%) states, while prices increased in all other areas. The index in October is 5.6% higher than it was in October 2011.

Interest rates on home loans held steady and remained near record lows in December. The 30-year fixed-rate mortgage interest rate averaged 3.35% nationwide in the Freddie Mac weekly survey for the month, the same as November. This is the lowest rate on record since the series began in 1971. For the year, the average 30-year fixed rate mortgage

Interest rates on home loans held steady and remained near record lows in December.

interest rate was 3.66%. In 2011, the average rate was 4.45%. Before the recession, in 2006, the average rate was 6.41%.

The Ohio Economy

Employment and Unemployment

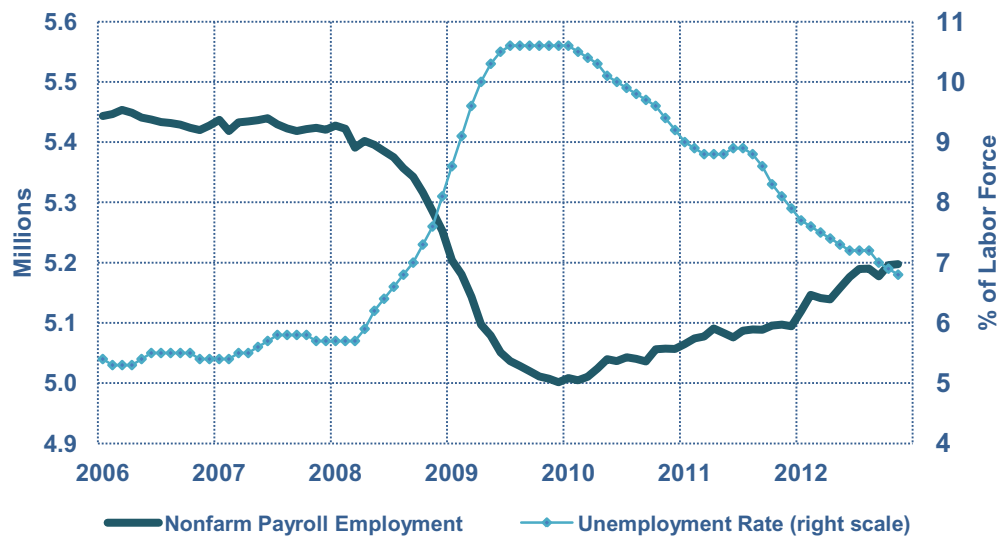
In November, Ohio's nonfarm payroll employment totaled about 5,197,500, an increase of 1,600 over October's revised total, and an increase of 100,400 (2.0%) over November 2011, seasonally adjusted. Employment figures are derived from a survey of businesses and government agencies.

Unemployment in Ohio declined to 6.8% of the labor force in November from 6.9% in October and from 8.1% in November 2011, seasonally adjusted. Unemployment rates for states are based on a survey of households. In most Ohio counties, unemployment rates were between 5.0% and 9.0%. In November, unemployment rates were at or below 5.0% in five counties and above 9.0% in 12 counties. County unemployment rates are not adjusted for seasonality.

Trends in Ohio employment and unemployment are shown in Chart 6 below.

Unemployment in Ohio declined to 6.8% of the labor force in November.

Chart 6: Ohio Employment and Unemployment



The increase in employment of 1,600 from October to November was the result of net increases in the goods-producing sector with some smaller offsetting net decreases in the service sector. The goods-producing sector had a net increase in employment of 3,700, mainly in manufacturing. The service sector registered a net decrease of 2,100, with the major decreases occurring in leisure and hospitality, professional and

business services, and government. The service sector also registered gains in trade, transportation, and utilities and in financial activities.

Over the last 12 months, the greatest increases in employment in Ohio were in the service sector, mainly in education and health services (25,100) and in trade, transportation, and utilities (20,000). Employment also increased in manufacturing (15,300), in both durable and nondurable goods. Over the last 12 months, decreases in employment occurred in government, information, and mining and logging.

From November 2011 to November 2012, Ohio ranked third in the U.S. for the increase in employment with a gain of 100,400. Only Texas (278,800) and California (268,600) registered higher gains. However, the gain for Ohio represented a 2.0% increase, which ranked Ohio 13th among other states in terms of a *percentage* increase in employment. The states with the highest percentage gains in employment were North Dakota (4.7%), Utah (3.1%), and Hawaii (3.0%). In addition, nine states had percentage increases between 2.0% and 3.0%.

Housing Sales

The number of homes sold in Ohio in November was about 24% higher than in November of last year, according to a report from the Ohio Association of Realtors. This marks 17 straight months of increases. Year-to-date unit sales through November were 14% higher than in the year-earlier period, at an average price of about \$135,000, up 5% from a year ago.

Population estimates

On December 20, 2012, the U.S. Census Bureau released population estimates for all states for 2012. From July 1, 2011, to July 1, 2012, Ohio's population remained fairly static, increasing by only about 3,200 individuals, or by 0.03%. Ohio's estimated population in 2012 was 11,544,225, making it the 7th most populated state in the nation. In terms of population growth, Ohio ranked 45th, and in terms of percentage growth, Ohio ranked 47th. Generally, southern – as well as some western – states experienced the highest increases in population, including Texas (1), California (2), Florida (3), Georgia (4), North Carolina (5), Arizona (6), Virginia (7), and Washington (8).

From
November
2011 to
November
2012, Ohio
ranked third
in the U.S.
for the
increase in
employment
with a gain
of 100,400.