

Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

JANUARY 2014

STATUS OF THE GRF

HIGHLIGHTS

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

GRF tax revenue was slightly below estimate in December, due primarily to the nonauto sales and use tax. Despite the negative variance for the month, tax revenue continued to track estimates remarkably closely: the \$1.7 million negative variance for the month brought the positive year-to-date variance down to \$6.4 million (0.1%) through the first half of FY 2014.

Ohio's unemployment rate decreased to 7.4% in November, from 7.5% the preceding month, in spite of a decrease in payroll employment of 12,000. The decrease in the unemployment rate was only the second in calendar year 2013 through November. The unemployment rate reached a post-recession low of 6.7% in December 2012.

Through December 2013, GRF sources totaled \$14.64 billion:

- Revenue from the personal income tax was \$46.2 million above estimate;
- Sales and use tax receipts were \$2.6 million below estimate.

Through December 2013, GRF uses totaled \$16.59 billion:

- Program expenditures were \$137.4 million below estimate, despite a positive variance of \$233.3 million for Primary and Secondary Education, due primarily to large negative variances for Medicaid (\$211.0 million) and Health and Human Services (\$79.7 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 2013				
(\$ in thousands)				
(Actual based on report run in OAKS Actuals Ledger on January 8, 2014)				
	Actual	Estimate*	Variance	Percent
STATE SOURCES				
TAX REVENUE				
Auto Sales	\$97,452	\$87,900	\$9,552	10.9%
Nonauto Sales and Use	\$736,776	\$754,500	-\$17,724	-2.3%
Total Sales and Use Taxes	\$834,227	\$842,400	-\$8,173	-1.0%
Personal Income	\$793,157	\$791,500	\$1,657	0.2%
Corporate Franchise	-\$8,096	\$0	-\$8,096	---
Financial Institutions	\$120	\$0	\$0	---
Public Utility	\$49	\$0	\$49	---
Kilowatt-Hour Excise	\$20,864	\$19,300	\$1,564	8.1%
Natural Gas Consumption (MCF)	\$15	\$0	\$15	---
Commercial Activity Tax	\$4,536	-\$1,200	\$5,736	478.0%
Foreign Insurance	-\$438	\$0	-\$438	---
Domestic Insurance	\$1	\$0	\$1	---
Business and Property	\$0	\$0	\$0	---
Cigarette	\$74,981	\$71,900	\$3,081	4.3%
Alcoholic Beverage	\$7,037	\$4,500	\$2,537	56.4%
Liquor Gallonage	\$3,570	\$3,400	\$170	5.0%
Estate	\$1,530	\$1,500	\$30	2.0%
Total Tax Revenue	\$1,731,553	\$1,733,300	-\$1,747	-0.1%
NONTAX REVENUE				
Earnings on Investments	\$3	\$0	\$3	---
Licenses and Fees	\$458	\$6,000	-\$5,542	-92.4%
Other Revenue	\$1,692	\$3,625	-\$1,933	-53.3%
Total Nontax Revenue	\$2,153	\$9,625	-\$7,472	-77.6%
TRANSFERS				
Liquor Transfers	\$0	\$0	\$0	---
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers In	\$0	\$200	-\$200	-100.0%
Total Transfers In	\$0	\$200	-\$200	-100.0%
TOTAL STATE SOURCES	\$1,733,706	\$1,743,125	-\$9,419	-0.5%
Federal Grants	\$681,108	\$756,155	-\$75,048	-9.9%
TOTAL GRF SOURCES	\$2,414,814	\$2,499,280	-\$84,467	-3.4%
* Estimates of the Office of Budget and Management as of September 2013.				
<i>Detail may not sum to total due to rounding.</i>				

	Actual	Estimate*	Variance	Percent	FY 2013	Percent Change
STATE SOURCES						
TAX REVENUE						
Auto Sales	\$589,538	\$564,700	\$24,838	4.4%	\$531,152	11.0%
Nonauto Sales and Use	\$3,922,959	\$3,950,400	-\$27,441	-0.7%	\$3,673,890	6.8%
Total Sales and Use Taxes	\$4,512,497	\$4,515,100	-\$2,603	-0.1%	\$4,205,042	7.3%
Personal Income	\$4,274,081	\$4,227,900	\$46,181	1.1%	\$4,279,650	-0.1%
Corporate Franchise	-\$18,543	\$0	-\$18,543	---	\$51,659	-135.9%
Financial Institutions	\$120	\$0	\$0	---	\$0	---
Public Utility	\$48,134	\$46,300	\$1,834	4.0%	\$43,974	9.5%
Kilowatt-Hour Excise	\$147,947	\$156,450	-\$8,503	-5.4%	\$158,430	-6.6%
Natural Gas Consumption (MCF)	\$18,708	\$17,000	\$1,708	10.0%	\$15,189	23.2%
Commercial Activity Tax	\$388,627	\$417,739	-\$29,112	-7.0%	\$397,483	-2.2%
Foreign Insurance	\$146,638	\$142,500	\$4,138	2.9%	\$142,438	2.9%
Domestic Insurance	\$105	\$1,000	-\$895	-89.5%	\$4,625	-97.7%
Business and Property	\$455	\$0	\$455	---	\$360	26.3%
Cigarette	\$370,880	\$367,800	\$3,080	0.8%	\$368,140	0.7%
Alcoholic Beverage	\$28,460	\$28,200	\$260	0.9%	\$28,699	-0.8%
Liquor Gallonage	\$20,919	\$20,400	\$519	2.5%	\$20,252	3.3%
Estate	\$29,119	\$21,400	\$7,719	36.1%	\$73,373	-60.3%
Total Tax Revenue	\$9,968,148	\$9,961,789	\$6,359	0.1%	\$9,789,314	1.8%
NONTAX REVENUE						
Earnings on Investments	\$3,764	\$3,000	\$764	25.5%	\$2,284	64.8%
Licenses and Fees	\$10,859	\$36,000	-\$25,141	-69.8%	\$11,354	-4.4%
Other Revenue	\$17,532	\$21,750	-\$4,218	-19.4%	\$18,038	-2.8%
Total Nontax Revenue	\$32,155	\$60,750	-\$28,595	-47.1%	\$31,676	1.5%
TRANSFERS						
Liquor Transfers	\$0	\$0	\$0	---	\$81,500	-100.0%
Budget Stabilization	\$0	\$0	\$0	---	\$0	---
Other Transfers In	\$52,730	\$6,200	\$46,530	750.5%	\$5,372	881.6%
Total Transfers In	\$52,730	\$6,200	\$46,530	750.5%	\$86,872	-39.3%
TOTAL STATE SOURCES	\$10,053,033	\$10,028,739	\$24,294	0.2%	\$9,907,862	1.5%
Federal Grants	\$4,586,145	\$4,572,008	\$14,137	0.3%	\$4,159,806	10.2%
TOTAL GRF SOURCES	\$14,639,178	\$14,600,747	\$38,430	0.3%	\$14,067,668	4.1%

* Estimates of the Office of Budget and Management as of September 2013.
Detail may not sum to total due to rounding.

REVENUES

– Russ Keller, Economist, 614-644-1751

Overview

First-half
GRF tax
receipts in
FY 2014
were
\$6.4 million
above
estimate.

At the halfway point of FY 2014, GRF tax receipts were \$6.4 million above the estimate released by the Office of Budget and Management (OBM) in September 2013, federal grants were \$14.1 million above expected revenues, and total GRF sources were \$38.4 million ahead of projections. Tables 1 and 2 show GRF sources for the month of December and for FY 2014 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 \$2.41 billion and were \$84.5 million (3.4%) below estimate, mostly due to a negative variance of \$75.0 million in federal grants. GRF Medicaid expenditures were \$115.3 million below estimate in December. Federal grants' year-to-date positive variance decreased to \$14.1 million at the end of December, down from \$89.2 million through November.

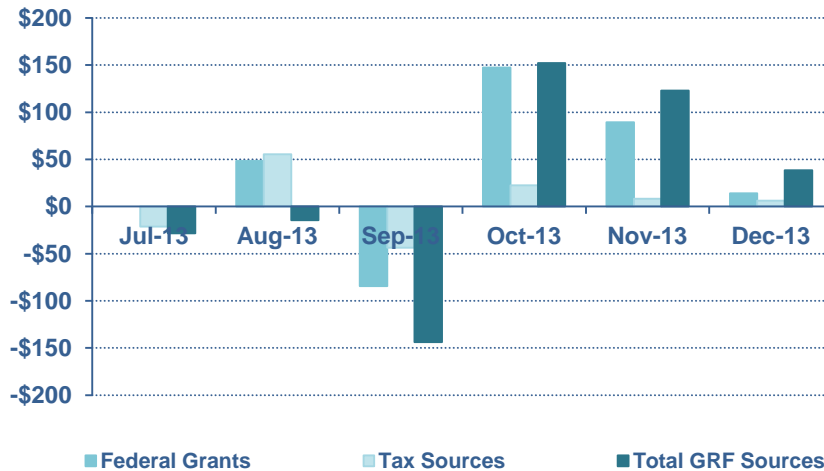
Through
December,
FY 2014
GRF
sources
were
\$38.4 million
above
estimate.

GRF tax sources were \$1.7 million (0.1%) below estimate in December. Tax receipts have tracked the OBM estimate very closely this year, and that trend continued last month. Significant negative variances in two tax revenue sources were partially offset by positive variances for several others. The sales and use tax was below anticipated receipts by \$8.2 million (1.0%), and the corporate franchise tax (CFT) was weak, posting a negative variance of \$8.1 million in December. Those amounts were partially offset by positive variances totaling \$14.6 million in the commercial activity tax (CAT, \$5.7 million), the cigarette tax (\$3.1 million), the alcoholic beverage tax (\$2.5 million), personal income tax (\$1.7 million), and the kilowatt-hour tax (\$1.6 million). The CFT's year-to-date variance remained negative, as refunds have exceeded remittances by \$18.5 million through December.

At the midway point of FY 2014, GRF tax revenue was \$6.4 million above estimate, due primarily to the income tax (\$46.2 million) and the auto sales and use tax (\$24.8 million). The most significant negative variances for the first six months of the year were from the CAT (\$29.1 million) and the nonauto sales and use tax (\$27.4 million). Along with the negative variance for the CFT described above, these shortfalls nearly offset the positive variances from a number of tax sources.

The overall year-to-date positive variance in GRF state sources decreased to \$24.3 million (0.2%), down from \$33.7 million (0.4%) at the end of November. Revenue from federal grants in December narrowed the positive year-to-date variance to \$14.1 million (0.3%). 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 2014
(Variance from Estimates, in millions)**



Compared to FY 2013, FY 2014 total GRF sources increased \$571.5 million (4.1%). Gains of \$178.8 million in GRF tax revenues, \$0.5 million in nontax revenues, and \$426.3 million in federal grants were partially offset by a decline of \$34.1 million in transfers in. Year-over-year comparisons of receipts from some of the taxes are complicated by changes in tax rates included in H.B. 59, the current operating budget act. Receipts from the personal income tax declined \$5.6 million (0.1%) from FY 2013 to FY 2014, but H.B. 59 reduced income tax rates by 8.5% for tax year (TY) 2013, and withholding rates were reduced (by 9.0%) starting in September to reflect that. H.B. 59 made several other changes to the income tax, the effects of which have not yet been apparent, but likely will be seen in estimated tax payments received in January. Similarly, receipts from the sales and use tax increased \$307.5 million (7.3%) year over year, but that reflects in part an increase in the tax rate, enacted in H.B. 59, from 5.5% (for the statewide rate only) to 5.75% in September. Such comparisons are also complicated for the estate tax, which was repealed for dates of death beginning in calendar year 2013 by H.B. 153 of the 129th General Assembly, and for the CFT (which was phased out due to H.B. 510 of the 129th General Assembly, to be replaced by the financial institutions tax).

Through December, FY 2014 GRF sources were \$571.5 million above GRF sources in FY 2013.

Personal Income Tax

In December, GRF personal income tax receipts of \$793.2 million were \$1.7 million (0.2%) above estimate, but \$28.8 million (3.5%) below receipts in December 2012. The decrease from a year ago is due not only to the tax rate cut, but the final month of 2012 was a particularly strong period for the income tax because payments of compensation and dividend distributions were reportedly moved into 2012 in anticipation of 2013 federal tax law changes. 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, trust payments, payments associated with annual returns, and miscellaneous payments.

In December, monthly employer withholding was \$3.7 million below estimate, but this was offset by quarterly estimated tax payments, which were \$6.1 million above estimate, and refunds, which were \$3.0 million below the projected level. For the fiscal year through December, the GRF has received \$4.27 billion from the personal income tax, \$46.2 million (1.1%) above estimate. The table below summarizes year-to-date FY 2014 income tax revenue variances from estimates and annual changes by component. As seen from the table, the positive year-to-date variance is mostly due to lower than expected refunds. Employer withholding was above estimate by \$18.3 million, but that positive variance was more than offset by shortfalls in other categories, including \$17.6 million in quarterly estimated payments.

Through
December,
FY 2014
GRF income
tax receipts
were
\$46.2 million
above
estimate.

FY 2014 Year-to-Date Income Tax Revenue Variances and Changes by Component				
Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2013	
	Amount (\$ in millions)	Percentage (%)	Amount (\$ in millions)	Percentage (%)
Withholding	\$18.3	0.5%	-\$35.3	-0.9%
Quarterly Estimated Payments	-\$17.6	-3.5%	\$23.0	4.9%
Trust Payments	-\$1.8	-12.1%	-\$3.6	-21.3%
Annual Return Payments	\$9.5	6.4%	\$29.6	23.2%
Miscellaneous Payments	-\$12.7	-21.1%	-\$8.7	-15.4%
Gross Collections	-\$4.4	-0.1%	\$5.0	0.1%
Less Refunds	-\$51.3	-22.3%	\$8.0	4.7%
Less LGF Distribution	\$0.8	0.4%	\$2.5	1.5%
Income Tax Revenue	\$46.2	1.1%	-\$5.6	-0.1%

FY 2014 GRF receipts from the income tax were \$5.6 million (0.1%) below receipts in the first half of FY 2013. Gross collections actually increased by \$5.0 million (0.1%); the decrease in GRF receipts was due to an increase in refunds and in distributions to the LGF. Growth in gross collections was mostly due to gains in annual payments (\$29.6 million) and quarterly estimated payments (\$23.0 million). However, those gains were partly offset by a decline in receipts from employer withholding of \$35.3 million (0.9%).

As discussed in prior issues of *Budget Footnotes*, new withholding rates were established for payrolls that end on or after September 1, 2013. The new tables reflect a 9.0% reduction in the withholding rates to conform with the 8.5% and 9.0%¹ decreases in individual income tax rates in effect for taxable years 2013 and 2014, respectively. Withholding receipts were \$36.5 million (2.8%) above FY 2013 levels through August, but they were \$83.9 million (4.1%) below prior year levels for the first three full month period (i.e., October through December) since the new withholding rate reductions were enacted. Withholding receipts in the second quarter of FY 2014 suggest growth in the tax base of nearly 5.0% (equal to 9.0% minus 4.1%), stronger growth than was evident earlier in the year.

H.B. 59 enacted several other changes to the income tax that are expected to impact FY 2014 receipts, but the timing of such impacts is less clear. One such provision permitted individuals who have income from a trade or business to deduct one-half of the net business income apportioned to Ohio beginning in TY 2013, up to \$250,000. Another was an earned income tax credit (EITC) based on the federal EITC. The small business income deduction would most likely show up through quarterly estimated payments and payments accompanying annual returns; the EITC would most likely show up when annual returns are filed. Only one quarterly estimated payment was due since H.B. 59 enactment, on September 15, but receipts were 4.9% higher than the prior year's amount through December. Theoretically the small business income deduction would have shown up in the September payment, but very possibly neither of these H.B. 59 provisions has yet shown up in FY 2014 revenues. Looking ahead, the final quarterly payment for TY 2013 is due by January 15.

Sales and Use Tax

December GRF receipts from the sales and use tax of \$834.2 million were \$8.2 million (1.0%) below estimate, but \$77.6 million (10.3%) above receipts in December 2012. First-half FY 2014 GRF sales and use tax receipts

¹ The 9.0% reduction in tax rates is as compared to TY 2012 tax rates.

totalled \$4.51 billion, \$2.6 million (0.1%) below estimate, but \$307.5 million (7.3%) above receipts in FY 2013. December was the fourth month for which the sales tax rate was at the 5.75% rate enacted by H.B. 59, up one-quarter cent from previous levels. For a given sales tax base, the one-quarter cent increase would raise revenues by 4.5%; any additional revenue increases are indicative of growth in the sales tax base.

For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections generally arise from the sale of motor vehicles 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.

Nonauto Sales and Use Tax

Monthly nonauto sales and use tax receipts were below estimate, the first such negative variance since September. December GRF receipts from the tax were \$736.8 million, \$17.7 million (2.3%) below estimate, increasing the year-to-date negative variance of this GRF source to \$27.4 million (0.7%), from a shortfall of \$9.7 million through November. Total nonauto sales and use tax receipts of \$3.92 billion through December 2013 were \$249.1 million (6.8%) above revenue in the corresponding period in FY 2013. FY 2014 year-to-date receipts include \$226.1 million in tax payments by Medicaid health insuring corporations; those receipts rose \$30.6 million (15.6%) compared to the year-ago period.

National results from the holiday season, the most important period for retailers, ended well despite a lull in the middle of the season. According to the financial press, discounts and promotions were necessary to entice consumers, which experienced modest gains in disposable income this past year. According to ShopperTrak, a retail analytics firm, national retail sales increased 2.7% during the holiday shopping season of November and December 2013, but it also added that "sales in the Midwest were flat compared to 2012." Online sales continued to grow as comScore, a digital measurement and analytics firm, reported that U.S. retail e-commerce spending during the holiday season increased 10% from prior year levels.

Looking ahead, the International Council of Shopping Centers (ISCS) consumer tracking survey found that the consumers' average share of total holiday spending that was in the form of a gift card rose to a record 23.7% in 2013. ISCS says "this is good news as it means that the 'extended season' – the weeks after Christmas into January – will play an important role in the final tally of the season's performance."

Through
December,
FY 2014
nonauto
sales and
use tax
receipts were
\$27.4 million
below
estimate.

Auto Sales and Use Tax

GRF receipts from the auto sales and use tax totaled \$97.5 million in December. Those receipts were \$9.6 million (10.9%) above estimate, and also \$21.2 million (27.9%) above December 2012 receipts. First-half FY 2014 GRF receipts from the auto sales and use tax of \$589.5 million were \$24.8 million (4.4%) above estimate and \$58.4 million (11.0%) above receipts for the corresponding period in FY 2013.

U.S. auto and light truck sales reached 15.3 million units on a seasonally adjusted annualized basis in December, which is down from the previous month's annualized pace of 16.3 million units. Ohio sales and use tax receipts diverged from national trends for the second consecutive month. Whereas the Ohio receipts were weak in November while the nationwide trends surged, the December receipts were very strong while the national sales declined.

The year ended with strong U.S. sales of light-duty trucks and SUV/cross-over vehicles, which outperformed sales for cars. Discounting played a role in the year-end sales results as research firm TrueCar.com estimated that the average transaction price for light vehicles in the U.S. was \$30,786 in December 2013, down \$201 (0.6%) from December 2012; and down \$35 (0.1%) from November 2013. For the calendar year, sales trended higher and totaled 15.5 million units, 7.5% higher than in 2012, and the highest sales pace since 2007.

Through
December,
FY 2014
auto sales
and use tax
receipts were
\$24.8 million
above
estimate.

Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax of \$75.0 million in December 2013 were \$3.1 million (4.3%) above estimate and also \$8.5 million (12.8%) above receipts in the same month in FY 2013. Through December, FY 2014 receipts of \$370.9 million were slightly above estimate. Receipts from cigarette sales were \$341.7 million, and sales of products other than cigarettes provided \$29.2 million. Compared to FY 2013, total receipts were \$2.7 million (0.7%) higher. Receipts from cigarette sales experienced a slight year-over-year decrease of \$0.6 million, while revenue from the sale of other tobacco products increased \$3.3 million. The increase in the other tobacco products receipts is partially explained by recent policy changes. H.B. 59 increased the excise tax rate on little cigars from 17% to 37% of wholesale price beginning October 1, 2013.

Corporate Franchise Tax

GRF receipts from the corporate franchise tax were negative \$8.1 million in December, which indicates that refunds exceeded tax remittances. FY 2014 receipts through December were negative \$18.5 million, which contrasts with the comparable period in FY 2013,

when the CFT collected \$51.7 million. The \$70.2 million (135.9%) yearly decline in CFT revenues is attributable to policy changes. H.B. 510 of the 129th General Assembly eliminated the CFT at the end of calendar year 2013, and replaced it with the financial institutions tax. Taxpayers may receive refunds by filing amended returns that refund previous tax payments or by utilizing refundable tax credits (rehabilitation of historic buildings, motion picture, and venture capital credits).

Through
December,
FY 2014
GRF CAT
receipts were
\$29.1 million
below
estimate.

Commercial Activity Tax

December GRF receipts from the CAT were \$4.5 million, \$5.7 million (478.0%) above estimate, and also \$0.8 million (21.4%) above December 2012 revenue. Through December, FY 2014 CAT receipts to the GRF totaled \$388.6 million, \$29.1 million (7.0%) below estimate, and were also \$8.9 million (2.2%) below receipts in the corresponding period in FY 2013. As discussed in the previous issue of *Budget Footnotes*, the revenue from the tax has failed to keep up with the general improvement in the economy over the past year. The next significant date for this tax is a quarterly payment due in February. Quarterly payments must be remitted by taxpayers with gross receipts greater than \$1 million.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of December 2013
(\$ in thousands)
(Actual based on OAKS reports run January 7, 2014)

PROGRAM	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	\$286,334	\$291,603	-\$5,270	-1.8%
Higher Education	\$192,216	\$177,207	\$15,009	8.5%
Other Education	\$5,050	\$2,132	\$2,917	136.8%
Total Education	\$483,599	\$470,942	\$12,657	2.7%
Medicaid	\$1,126,644	\$1,241,911	-\$115,267	-9.3%
Health and Human Services	\$97,408	\$77,943	\$19,464	25.0%
Total Welfare and Human Services	\$1,224,051	\$1,319,854	-\$95,802	-7.3%
Justice and Public Protection	\$126,139	\$125,936	\$203	0.2%
General Government	\$23,656	\$25,782	-\$2,126	-8.2%
Total Government Operations	\$149,795	\$151,718	-\$1,923	-1.3%
Property Tax Reimbursements	\$2,187	\$73	\$2,114	2907.6%
Capital Outlay	\$0	\$0	\$0	---
Debt Service	\$2	\$6,858	-\$6,856	-100.0%
Total Other Expenditures	\$2,189	\$6,931	-\$4,742	-68.4%
Total Program Expenditures	\$1,859,634	\$1,949,445	-\$89,810	-4.6%
TRANSFERS				
Budget Stabilization	\$0	\$0	\$0	---
Other Transfers Out	\$3,500	\$9,177	-\$5,677	-61.9%
Total Transfers Out	\$3,500	\$9,177	-\$5,677	-61.9%
TOTAL GRF USES	\$1,863,134	\$1,958,621	-\$95,487	-4.9%
* September 2013 estimates of the Office of Budget and Management. Detail may not sum to total due to rounding.				

PROGRAM	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	\$3,581,528	\$3,348,195	\$233,333	7.0%
Higher Education	\$1,034,279	\$1,054,070	-\$19,791	-1.9%
Other Education	\$29,756	\$31,127	-\$1,371	-4.4%
Total Education	\$4,645,564	\$4,433,392	\$212,172	4.8%
Medicaid	\$7,310,019	\$7,521,011	-\$210,992	-2.8%
Health and Human Services	\$653,057	\$732,758	-\$79,701	-10.9%
Total Welfare and Human Services	\$7,963,075	\$8,253,769	-\$290,694	-3.5%
Justice and Public Protection	\$929,738	\$950,973	-\$21,236	-2.2%
General Government	\$179,235	\$196,568	-\$17,333	-8.8%
Total Government Operations	\$1,108,973	\$1,147,541	-\$38,569	-3.4%
Property Tax Reimbursements	\$893,067	\$903,173	-\$10,106	-1.1%
Capital Outlay	\$0	\$0	\$0	---
Debt Service	\$771,899	\$782,134	-\$10,235	-1.3%
Total Other Expenditures	\$1,664,966	\$1,685,306	-\$20,340	-1.2%
Total Program Expenditures	\$15,382,578	\$15,520,009	-\$137,431	-0.9%
TRANSFERS				
Budget Stabilization	\$995,930	\$995,930	\$0	0.0%
Other Transfers Out	\$216,014	\$227,588	-\$11,574	-5.1%
Total Transfers Out	\$1,211,944	\$1,223,518	-\$11,574	-0.9%
TOTAL GRF USES	\$16,594,522	\$16,743,527	-\$149,006	-0.9%
* September 2013 estimates of the Office of Budget and Management. <i>Detail may not sum to total due to rounding.</i>				

Table 5: All-Funds Medicaid Expenditures by Payment Category

Actual vs. Estimate

(\$ in thousands)

(Actuals based on OAKS report run on January 6, 2014)

Payment Category	December				Year to Date Through December			
	Actual	Estimate*	Variance	Percent	Actual	Estimate*	Variance	Percent
Managed Care	\$615,068	\$635,795	-\$20,727	-3.3%	\$3,722,432	\$3,768,572	-\$46,140	-1.2%
Nursing Facilities	\$201,267	\$204,064	-\$2,798	-1.4%	\$1,225,266	\$1,237,973	-\$12,708	-1.0%
DDD Services	\$191,006	\$201,970	-\$10,964	-5.4%	\$1,128,939	\$1,145,044	-\$16,105	-1.4%
Hospitals	\$106,455	\$125,756	-\$19,301	-15.3%	\$640,428	\$686,118	-\$45,690	-6.7%
Behavioral Health	\$69,303	\$92,327	-\$23,023	-24.9%	\$400,691	\$430,720	-\$30,029	-7.0%
Administration	\$78,073	\$97,219	-\$19,146	-19.7%	\$390,036	\$490,862	-\$100,825	-20.5%
Aging Waivers	\$42,883	\$55,769	-\$12,886	-23.1%	\$271,971	\$307,593	-\$35,622	-11.6%
Prescription Drugs	\$38,351	\$44,601	-\$6,250	-14.0%	\$202,314	\$241,319	-\$39,005	-16.2%
Medicare Buy-In	\$36,025	\$36,222	-\$197	-0.5%	\$215,964	\$215,651	\$312	0.1%
Physicians	\$27,755	\$35,672	-\$7,917	-22.2%	\$466,025	\$401,160	\$64,866	16.2%
Medicare Part D	\$25,437	\$26,530	-\$1,093	-4.1%	\$150,662	\$156,758	-\$6,096	-3.9%
Home Care Waivers	\$23,472	\$24,615	-\$1,143	-4.6%	\$129,181	\$131,944	-\$2,763	-2.1%
All Other	\$122,670	\$143,356	-\$20,686	-14.4%	\$652,629	\$746,952	-\$94,323	-12.6%
Total All Funds	\$1,577,766	\$1,723,896	-\$146,130	-8.5%	\$9,596,538	\$9,960,666	-\$364,128	-3.7%

* Estimates of the Office of Budget and Management as of September 2013

Detail may not sum to total due to rounding.

**Table 6: Medicaid Expenditures by Department
Actual vs. Estimate**

(\$ in thousands)

Actuals based on OAKS report run on January 6, 2014

Department	Month of December 2013				Year to Date Through December 2013			
	Actual	Estimate*	Variance	Percent	Actual	Estimate*	Variance	Percent
Medicaid	\$1,366,363	\$1,497,305	-\$130,941	-8.7%	\$8,351,809	\$8,667,884	-\$316,075	-3.6%
GRF	\$1,080,796	\$1,195,871	-\$115,076	-9.6%	\$7,041,952	\$7,249,127	-\$207,175	-2.9%
Non-GRF	\$285,567	\$301,433	-\$15,866	-5.3%	\$1,309,857	\$1,418,757	-\$108,900	-7.7%
Developmental Disabilities	\$194,489	\$205,195	-\$10,706	-5.2%	\$1,161,675	\$1,179,028	-\$17,353	-1.5%
GRF	\$37,563	\$38,911	-\$1,348	-3.5%	\$231,594	\$233,574	-\$1,980	-0.8%
Non-GRF	\$156,926	\$166,284	-\$9,358	-5.6%	\$930,080	\$945,454	-\$15,374	-1.6%
Job and Family Services	\$14,278	\$18,867	-\$4,589	-24.3%	\$66,835	\$97,237	-\$30,402	-31.3%
GRF	\$7,429	\$6,467	\$962	14.9%	\$31,988	\$33,422	-\$1,434	-4.3%
Non-GRF	\$6,850	\$12,400	-\$5,551	-44.8%	\$34,847	\$63,815	-\$28,967	-45.4%
Aging	\$387	\$566	-\$178	-31.5%	\$2,692	\$3,228	-\$536	-16.6%
GRF	\$282	\$263	\$18	6.9%	\$1,737	\$1,773	-\$36	-2.0%
Non-GRF	\$106	\$302	-\$197	-65.0%	\$954	\$1,455	-\$501	-34.4%
Health	\$1,691	\$1,498	\$193	12.9%	\$10,678	\$9,854	\$824	8.4%
GRF	\$371	\$258	\$113	44.0%	\$1,720	\$1,594	\$126	7.9%
Non-GRF	\$1,321	\$1,241	\$80	6.5%	\$8,957	\$8,260	\$697	8.4%
Mental Health and Addiction	\$556	\$465	\$91	19.6%	\$2,850	\$3,435	-\$585	-17.0%
GRF	\$204	\$140	\$64	45.8%	\$1,027	\$1,522	-\$495	-32.5%
Non-GRF	\$352	\$325	\$27	8.4%	\$1,823	\$1,914	-\$91	-4.7%
Total GRF	\$1,126,644	\$1,241,911	-\$115,267	-9.3%	\$7,310,019	\$7,521,011	-\$210,992	-2.8%
Total Non-GRF	\$451,122	\$481,985	-\$30,863	-6.4%	\$2,286,519	\$2,439,655	-\$153,135	-6.3%
Total All Funds	\$1,577,766	\$1,723,896	-\$146,130	-8.5%	\$9,596,538	\$9,960,666	-\$364,128	-3.7%

*Estimates of the Office of Budget and Management as of September 2013

Detail may not sum to total due to rounding.

EXPENDITURES

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

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

Overview

For the first six months of FY 2014, GRF program expenditures totaled \$15.38 billion. These expenditures were \$137.4 million below the estimate released by the Office of Budget and Management (OBM) in September 2013. Year-to-date GRF transfers out totaled \$1.21 billion, \$11.6 million below estimate. Including both program expenditures and transfers out, year-to-date GRF uses were \$16.59 billion. These uses were \$149.0 million below estimate. Tables 3 and 4 show GRF uses for the month of December and for FY 2014 through December, respectively.

Medicaid had the largest negative year-to-date variance at \$211.0 million. Other categories with significant negative year-to-date variances include Health and Human Services (\$79.7 million), Justice and Public Protection (\$21.2 million), Higher Education (\$19.8 million), and General Government (\$17.3 million). These negative variances were partially offset by a positive year-to-date variance of \$233.3 million in Primary and Secondary Education, which is expected to narrow in the second half of FY 2014.

Medicaid

Year-to-date GRF Medicaid expenditures totaled \$7.31 billion. These expenditures were \$211.0 million (2.8%) below estimate, of which \$115.3 million occurred in the month of December. Medicaid is a joint federal-state program. 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 totaled \$9.60 billion, which was \$364.1 million (3.7%) below estimate.

Table 5 details Medicaid expenditures by payment category across all funds and agencies. As seen from Table 5, all-funds expenditures were below their year-to-date estimates for all but two payment categories. The category with a significant positive year-to-date variance is Physicians (\$64.9 million, 16.2%). Categories with significant negative year-to-date variances include Administration (\$100.8 million, 20.5%), All Other (\$94.3 million, 12.6%), and Managed Care (\$46.1 million, 1.2%).

Table 6 details the GRF and non-GRF portions of Medicaid expenditures from each of the six agencies that take part in administering Medicaid. The Ohio Department of Medicaid (ODM), the largest agency

For the first half of FY 2014, GRF uses were \$149.0 million below estimate.

GRF Medicaid expenditures were \$211.0 million below their year-to-date estimate; all-funds expenditures were \$364.1 million below estimate.

within this program category, had the largest year-to-date variance. GRF year-to-date expenditures for ODM totaled \$7.04 billion, which was \$207.2 million (2.9%) below estimate. ODM's GRF Medicaid expenditures are funded through three appropriation items: item 651525, Medicaid/Health Care Services; item 651526, Medicare Part D; and item 651425, Medicaid Program Support – State. Expenditures from item 651525, which provides the majority of funding for Medicaid, were \$192.4 million below their year-to-date estimate. Expenditures for items 651425 and 651526 were also below estimate by \$8.7 million and \$6.1 million, respectively.

ODM's non-GRF Medicaid expenditures totaled \$1.31 billion, which was \$108.9 million (7.7%) below their year-to-date estimate. The main contributors were item 651623, Medicaid Services Federal (\$49.3 million); item 651624, Medicaid Program Support – Federal (\$83.2 million); and item 651654, Medicaid Program Support (\$15.2 million). These negative variances were partially offset by a positive year-to-date variance of \$40.7 million in item 651603, Medicaid Health Information Technology. Across all funds, ODM's year-to-date expenditures totaled \$8.35 billion, which was \$316.1 million (3.6%) below estimate

Health and Human Services

Year-to-date GRF expenditures from the Health and Human Services program category totaled \$653.1 million. These expenditures were \$79.7 million (10.9%) below estimate, of which \$62.1 million occurred in the Ohio Department of Job and Family Services (ODJFS). As reported in prior issues of *Budget Footnotes*, ODJFS primarily used federal dollars for child care subsidy payments last October because it was uncertain whether GRF payments during the partial federal government shutdown would be counted toward the state's maintenance of effort requirement. As a result, two items that provide GRF funding for child care subsidy payments – item 600413, Child Care State/Maintenance of Effort, and item 600535, Early Care and Education – had a combined negative year-to-date variance of \$68.9 million at the end of October. Through the end of December, these two items' expenditures were still \$47.4 million below their year-to-date estimates. Other items in the ODJFS budget that had significant negative year-to-date variances include item 600416, Information Technology Projects (\$7.8 million); item 600321, Program Support (\$5.9 million); and item 600410, TANF State/Maintenance of Effort (\$5.0 million). Expenditures from item 600521, Family Assistance – Local, on the other hand, were \$10.2 million above their year-to-date estimate, which partially offset the negative year-to-date variances in other items.

Year-to-date expenditures from the Health and Human Services program category were \$79.7 million below estimate.

In addition to ODJFS, the Ohio Department of Mental Health and Addiction Services (OMHAS) and the Department of Health (DOH) contributed \$7.0 million and \$6.3 million, respectively, to the Health and Human Services program category's total negative year-to-date variance. Expenditures from item 335421, Continuum of Care Services, in the OMHAS budget were \$5.4 million below their year-to-date estimate. This item is used to distribute funds to local boards for mental health and alcohol, drug, and gambling addiction services to meet locally determined needs. Year-to-date expenditures from item 440418, Immunizations, in the DOH budget were \$4.7 million below estimate. This item is used to purchase vaccines for immunization against vaccine-preventable infectious disease for children who do not qualify for the federal Vaccines for Children Program.

Justice and Public Protection

Year-to-date GRF expenditures from the Justice and Public Protection program category totaled \$929.7 million, \$21.2 million (2.2%) below estimate. The Department of Rehabilitation and Correction (DRC) contributed \$7.8 million to the category's total negative year-to-date variance. Expenditures for item 505321, Institution Medical Services, were \$8.4 million below the year-to-date estimate. This negative variance was partially offset by a \$1.5 million positive year-to-date variance for item 501403, Prisoner Compensation. Item 501403 pays inmates for their work performed while incarcerated.

The Department of Youth Services (DYS) contributed another \$6.2 million to the Justice and Public Protection program category's total negative year-to-date variance. Expenditures for the largest appropriation item in the DHS budget, item 470401, RECLAIM Ohio, were \$5.3 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.

The Judiciary/Supreme Court of Ohio (JSC) also contributed \$5.1 million to the category's \$21.2 million negative year-to-date variance. The largest appropriation item within the JSC budget, GRF item 005321, Operating Expenses – Judiciary/Supreme Court, was \$3.6 million below its six-month estimate. This item funds the operation of the Supreme Court and also helps support the salaries and benefits of judges in various courts across the state. Item 005409, Ohio Courts Technology Initiative, which provides funding to facilitate the exchange of information and warehousing of data by and between Ohio courts and other justice system partners, was \$1.5 million below its year-to-date estimate.

Year-to-date expenditures from the Justice and Public Protection program category were \$21.2 million below estimate.

Higher Education

Year-to-date expenditures from the Higher Education program category were \$19.8 million below estimate.

Year-to-date GRF expenditures from the Higher Education program category totaled \$1.03 billion. These expenditures were \$19.8 million (1.9%) below estimate due largely to timing. The major contributors include: item 235438, Choose Ohio First Scholarship (\$5.8 million); item 235563, Ohio College Opportunity Grant (\$5.1 million); item 235538, University of Toledo Clinical Teaching (\$3.1 million); and item 235540, Ohio University Clinical Teaching (\$1.5 million). Item 235438 provides scholarships to students studying in the fields of science, technology, engineering, mathematics, and medicine (STEM). Item 235563 funds a need-based financial aid program for Ohioans pursuing post-secondary education. Items 235538 and 235540 are two of the six appropriation items providing support of laboratory and clinical teaching components of the medical and other health-related curricula at each of Ohio's six public medical colleges.

General Government

Year-to-date expenditures from the General Government program category were \$17.3 million below estimate.

Year-to-date GRF expenditures from the General Government program category totaled \$179.2 million. These expenditures were \$17.3 million (8.8%) below estimate. The Department of Administrative Services (DAS) had the largest negative year-to-date variance within this program category, at \$5.1 million. The majority of this negative variance occurred in item 100449, DAS-Building Operating Payments, which is mainly used to pay the operating expenses of state facilities maintained by DAS that are not billed to building tenants. The Development Services Agency (DSA) contributed another \$4.5 million to the category's total negative year-to-date variance. DSA's item 195434, Industrial Training Grants, was \$2.5 million below its year-to-date estimate. Finally, the Department of Taxation's item 110321, Operating Expenses, contributed another \$3.2 million to the General Government program category's total negative year-to-date variance.

Primary and Secondary Education

GRF expenditures from the Primary and Secondary Education program category were \$5.3 million below estimate in the month of December. However, the category's year-to-date expenditures of \$3.58 billion were \$233.3 million (7.0%) above estimate, which is entirely attributable to item 200550, Foundation Funding. In fact, year-to-date expenditures from item 200550 were \$255.5 million above estimate. This positive variance was partially offset by a negative year-to-date variance of \$13.7 million in item 200540, Special Education Enhancements. Item 200540 is mainly used to fund preschool special education and related

services at school districts, educational service centers, and county boards of developmental disabilities and special education and related services for school-aged children at county boards of developmental disabilities.

Item 200550 is the primary funding source for school foundation payments, which are made twice per month. The item's large positive year-to-date variance was mainly due to the standard practice followed by the Department of Education when adjusting for over and under payments to school districts. As indicated in prior issues of *Budget Footnotes*, for the first quarter of FY 2014, schools were largely paid based on what they received in FY 2013. The school funding formula enacted in H.B. 59 for FY 2014, which increases total funding allocations for most districts, became effective on October 1, 2013. FY 2014 October student count data became available for the first payment in December. Schools have been paid under the new formula since October and under the new student enrollment data since December. The Department of Education's standard practice is to include retroactive payments for the already completed portion of the fiscal year when new calculations indicate an annual funding increase for a school and to spread any reductions across the remainder of the fiscal year if new calculations indicate an annual funding decrease for a school. This practice is the main contributor to the large positive year-to-date variance in item 200550 since total funding allocations for most school districts increase in FY 2014. The positive variance in item 200550 should narrow gradually in the remaining months of FY 2014.

Year-to-date expenditures from Foundation Funding (item 200550) were \$255.5 million above estimate; however, this variance is expected to narrow in the second half of FY 2014.

ISSUE UPDATES

Controlling Board Approves \$500,000 in Funding for the Department of Agriculture's High Volume Breeder Control Program

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

On December 2, 2013, the Controlling Board authorized the Department of Agriculture to use up to \$500,000 in kennel licensing fees in FY 2014 to support the High Volume Breeder Control Program, created by S.B. 130 of the 129th General Assembly. The Department began collecting license fees on December 1, 2013. Under the program, breeders that produce at least nine dog litters and dog retailers must pay an annual licensing fee and undergo annual inspections by Department of Agriculture staff. Dog rescue individuals and organizations are also subject to regulation under the program but pay no fee. As shown in the table below, license fees for breeders range between \$150 and \$750, depending on the number of litters produced each year, and are \$500 for dog retailers. Licensing receipts are deposited into the High Volume Breeder Kennel Control Fund (Fund 5MN0). S.B. 130 limited the amount that may be expended from Fund 5MN0 to no more than \$2.5 million per biennium.

High Volume Breeder Control Program License Fees	
License Type	Annual Fee
High Volume Breeder (9-15 litters)	\$150
High Volume Breeder (16-25 litters)	\$250
High Volume Breeder (26-35 litters)	\$350
High Volume Breeder (36-45 litters)	\$500
High Volume Breeder (46+ litters)	\$750
Dog Retailers	\$500

Of the \$500,000 in spending authorized by the Controlling Board, \$225,000 will cover payroll for inspectors assigned to the High Volume Breeder Control Program. A further \$170,000 will be used to buy supplies, cover travel costs for inspections, and reimburse dog breeders for the cost of criminal background checks that are required for licensure. Finally, \$105,000 of the amount approved will be distributed to county auditors where high volume breeders are located to offset the loss in kennel registration fees that were formerly retained by counties. To supplement funding for the High Volume Breeder Control Program, H.B. 59 provided funding of \$400,000 in FY 2014 and \$200,000 in FY 2015 under GRF appropriation item 700427, High Volume Breeder Kennel Control.

Development Services Agency Announces Awards for 13 Projects under Round Seven of the Local Government Innovation Program

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

On December 5, 2013, the Local Government Innovation Council awarded the seventh round of grants and loans under the Local Government Innovation Program (LGIP). Awards in the seventh round include ten grants totaling \$969,000 and three loans totaling \$1.5 million. Under the LGIP, grants are awarded for feasibility studies into local government improvement and collaboration projects, and are limited to a maximum of \$50,000. Loans of up to \$100,000 per participating political subdivision (\$500,000 in total) may be awarded for projects that promote efficiency, collaboration, or shared services. Applications for Round Eight projects were due on December 8, 2013. Awards under that round will be selected in February 2014.

New to Round Eight awards will be the first round of funding for projects under the Local Government Efficiency Program, a subprogram of LGIP created under H.B. 59. The Local Government Efficiency Program is administered in partnership with the Department of Administrative Services and includes two components: (1) grants of up to \$100,000 for local governments to learn and use the Lean Six Sigma methodology to improve processes and make services simpler, faster, better, and less costly, and (2) scholarships of \$2,000 for local government staff to attend a one-week "Lean for Public Sector" training course. Up to \$4.6 million in FY 2014 may be used for the Local Government Efficiency Program from the total FY 2014 appropriation of \$20.7 million to Local Government Innovation Fund (Fund 5KN0) line item 195640, Local Government Innovation.

Development Services Agency Awards \$15.2 million to 48 Entities for Homelessness Prevention and Avoidance

– Tynita M. White, LSC Fellow, 614-466-1523

On December 2, 2013, the Controlling Board approved a Development Services Agency request to award \$15.2 million from the Ohio Housing Trust Fund (Fund 6460) to 48 nonprofit and local government agencies under the Homeless Crisis Response Program (HCRP). The HCRP consists of two components. The first is emergency shelter assistance. Funding for this aspect of HCRP makes up \$5.3 million of the amount awarded. The second component is homelessness prevention and rapid re-housing activities services. Funding for this component makes up \$9.9 million of the amount awarded. The table below shows the number of grant recipients and amounts distributed by region.

Homeless Crisis Response Program Grant Recipients by Region		
Region	Recipients	Amount
Northeast	12	\$4,443,900
Northwest	8	\$2,866,600
Central	14	\$4,463,800
Southeast	5	\$998,100
Southwest	9	\$2,425,100
Total	48	\$15,197,500

The state assistance provided under the HCRP will be combined with \$4.5 million in federal Emergency Solutions Grant (ESG) funding from the U.S. Department of Housing and Urban Development. Overall, the total dollar amount allocated for homelessness prevention and housing assistance between the HCRP and ESG is \$19.7 million among 57 grantees. The combined state and federal funding will assist about 31,000 individuals in 19,100 households.

Ohio Works First Cash Benefits Increase 1.5% in 2014

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

Beginning January 2014, Ohio Works First (OWF) cash assistance benefits will increase 1.5%. For a family of three, this increases the monthly benefit from \$458 to \$465. The table below shows monthly benefit amounts for various assistance groups in 2013 and amounts in 2014 after the increase.

OWF Monthly Cash Benefits, 2013 and 2014		
Assistance Group Size	2013 Amount	2014 Amount
1	\$273	\$277
2	\$374	\$380
3	\$458	\$465
4	\$564	\$572
5	\$661	\$671

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 2013, the index rose 1.5% above the level from the third quarter of 2012, which increases benefits by that percentage beginning January 2014. OWF benefits increased 1.7% in January 2013 and by 3.6% in January 2012, based on the COLAs calculated for those years.

OWF cash benefits are funded through the federal Temporary Assistance for Needy Families (TANF) Block Grant and the state maintenance of effort dollars. To be eligible for OWF, an assistance group must have at least one child and family income must be less than 50% of the federal poverty guidelines (about \$9,765 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.

OMHAS Provides \$1.5 million for 12 Community Innovations Projects

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

In November 2013, the Ohio Department of Mental Health and Addiction Services (OMHAS) announced \$1.5 million in funding for 12 projects as part of the new "Community Innovations" initiative. These projects focus on forging collaborative partnerships between the behavioral health treatment system and the criminal justice system, with the objective of increasing public safety and minimizing harm to those with behavioral health needs who come in contact with law enforcement. Projects include improving community linkages between recently released offenders and community behavioral health treatment services, funding case managers and behavioral health assessors to help provide treatment services to individuals in the criminal justice system, and funding behavioral health treatment services such as medication-assisted treatment, individual counseling, group counseling, and community psychiatric support treatment. The table below lists the location of each project and the award amounts, which range from about \$55,000 to \$146,000.

The project funding comes from savings achieved by the consolidation of the Ohio Department of Mental Health and the Ohio Department of Alcohol and Drug Addiction Services into OMHAS, which occurred on July 1, 2013. A second round of funding totaling \$1.5 million will be awarded in FY 2015, bringing the total to \$3.0 million over the biennium.

Community Innovations Projects			
Counties	Amount	Counties	Amount
Butler/Clinton/Highland/ Pike/Warren	\$54,832	Holmes/Wayne	\$141,800
Carroll/Tuscarawas	\$134,250	Lucas	\$134,000
Crawford/Marion	\$145,640	Mahoning	\$74,880
Erie/Huron/Ottawa/ Sandusky/Seneca/Wyandot	\$142,315	Montgomery	\$146,294
Hamilton	\$137,500	Preble	\$108,000
Hancock	\$140,353	Summit	\$145,743
Total		\$1,505,607	

Schools for the Blind and Deaf Celebrate Opening of New Facilities

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

On December 3, 2013, the Ohio State School for the Blind (OSB) and the Ohio School for the Deaf (OSD) celebrated the completion of new academic and residential facilities with ribbon-cutting ceremonies. The ceremonies capped off the multi-million dollar projects for both schools, which began using the new facilities for the first time during the 2013-2014 school year. OSB added 56,728 square feet of academic and residential space, including the addition of 23 classrooms. OSD added 55,185 square feet, including the addition of 26 classrooms.

The construction phase of the combined project was funded through a \$37.1 million appropriation in H.B. 562 of the 127th General Assembly for the School Facilities Commission (SFC). SFC also received an appropriation of \$4.0 million, for the planning and design phase of the project, in H.B. 699 of the 126th General Assembly. The final construction payment was approved by the Director of the Office of Budget and Management on October 11, 2013.

Controlling Board Approves First Round of Straight A Grant Awards

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

On December 16, 2013, the Controlling Board approved 24 grants totaling \$88.7 million in the first round of awards under the Straight A Program created in H.B. 59. The Straight A Program provides competitive grants for projects that aim to achieve significant advancement in one or more of the following: (1) student achievement, (2) spending reduction in the entity's five-year fiscal forecast, and (3) utilization of a greater share of resources in the classroom. The awards are limited to \$5 million for an individual entity and \$15 million for a consortium. Lottery profits provide the funding for the grant program, which is appropriated in Fund 7017 line item 200648, Straight A Fund. Grant proposals were selected by a nine-member governing board on December 6, 2013, after undergoing multiple levels of evaluation. The governing board's recommendations required Controlling Board approval pursuant to H.B. 59.

Most of the grant recipients are partnerships of varying sizes; only three are individual entities. All selected projects aim to increase student achievement, 63% aim to utilize a greater share of resources in the classroom, and 58% aim to reduce spending. In terms of geographic characteristics, ten lead applicants are rural or small town school districts, five are suburban, three are urban, and one is an island district. There were also three community school and two joint vocational school district lead applicants awarded grants. The governing board will next begin executing grant agreements with the selected applicants. The list of awardees and project descriptions are available on

the Ohio Department of Education website (education.ohio.gov) by searching for "Straight A Fund." The second round of awards will occur in FY 2015 with \$144.7 million available for distribution.

Department of Health Receives Lead Remediation Funding

– Jacquelyn Schroeder, Budget Analyst, 614-466-3279

In November 2013, the Ohio Department of Health (ODH) received \$2.5 million in funding from the United States Department of Housing and Urban Development (HUD) to remediate lead hazards in homes with young children. ODH was one of 37 agencies nationally that were selected to receive funding. In addition to the federal funding, the Ohio Housing Finance Agency and the Ohio Development Services Agency are each providing \$115,000 in matching funds. Funding will be made available to eligible families in 16 counties.² In order to be eligible, a family must have a low to moderate income, and have a family member who is pregnant, or a child under the age of six. ODH will focus on enrolling families who live in properties that have been identified as having a lead problem in the past and have a lead hazard control order.

ODH previously received a \$2.1 million HUD grant for the Lead-Based Paint Hazard Control program for 37 counties in Appalachia and northwestern Ohio in 2011. According to ODH, since 1999 its efforts to reduce lead hazards in homes have led to a 73% reduction in the lead poisoning rate in Ohio.

Ohio EPA Issues Loans to City of Akron for Sanitary Sewer and Drinking Water Systems Upgrades

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

In November 2013, the Ohio Environmental Protection Agency (EPA) issued two loans totaling \$1.86 million from the Ohio Water Pollution Control Loan Fund to the city of Akron to continue upgrading the city's sanitary sewer and drinking water systems. The fund, which is managed by the Ohio EPA with assistance from the Ohio Water Development Authority, provides financial and technical assistance to public or private applicants for the planning, design, and construction of a wide variety of projects to protect or improve the quality of Ohio's rivers, streams, lakes, and other water resources. A loan of \$333,200 was issued for Akron's Water Reclamation Facility (WRF) to evaluate changes in wastewater flows once the construction of combined sewer overflow tunnels and storage basins is completed. An additional loan of

² These 16 counties are Allen, Ashland, Ashtabula, Carroll, Columbiana, Coshocton, Holmes, Huron, Knox, Mahoning, Muskingum, Portage, Richland, Stark, Tuscarawas, and Wayne.

\$1.52 million was issued for design work in rebuilding the WRF's final settling tanks. Both loans have a five-year term with a 3.59% interest rate. Since the beginning of this year, Ohio EPA has awarded the city more than \$20 million in low-interest loans for infrastructure improvements.

The city of Akron treats its own wastewater and that of several neighboring communities. The total area served is about 96 square miles with an estimated population of 330,000. Neighboring communities served include Cuyahoga Falls, Stow, Springfield, Mogadore, Lakemore, Tallmadge, Fairlawn, Bath, Montrose, and some unincorporated areas of Summit County.

Controlling Board Approves Contract to Demolish Vacant Sandusky Veterans Home Cottages

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

On December 16, 2013, the Controlling Board approved a request by the Department of Veterans Services to contract for the demolition of five vacant two-story stone cottages located on the grounds of the Ohio Veterans Home in Sandusky (Erie County). The work will be performed by Baumann Enterprises of Garfield Heights for an amount not to exceed \$133,800. Baumann was the lowest of eight bids submitted. The money to pay for this work will be drawn from GRF line item 900321, Veterans' Homes, which is generally used to pay for operating expenses incurred in the administration and operation of the state veterans' homes in Sandusky and Georgetown (Brown County).

The cottages are about 125 years old, dating to the time that the facility was known as the Ohio Soldiers and Sailors Home. The cottages previously housed domiciliary residents but have not been used for this purpose since April 1992.³ To date, there have been limited viable uses identified for any of the cottages. The condition of the cottages in their current state make it cost prohibitive to maintain or repurpose according to current building code standards. They are also viewed as a serious security and safety hazard. Demolition has been determined to be the most prudent and cost effective course.

Recognizing the historical significance of these cottages, the Department has included a provision in the contract with the vendor to set aside "5,500 limestone blocks of good quality" from the removal of the cottages. The Department intends to use these blocks around the campus to incorporate history in future projects. All demolition work is to be completed by April 1, 2014.

³ Pursuant to the terms of a memorandum of agreement signed in 1989 by the Veterans Home, the U.S. Department of Veterans Affairs, the Ohio Historic Preservation Office, and the Federal Advisory Council on Historic Preservation, these cottages were authorized for removal in September 1999, if alternative uses could not be found as a result of a marketing plan.

TRACKING THE ECONOMY

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

Overview

The U.S. economy continued to expand in the fourth quarter of 2013. Payroll employment growth averaged 172,000 per month in the fourth quarter, while the national unemployment rate fell to 6.7% in December, its lowest level in over five years. In November, total industrial production increased to its highest level on record, above its prerecession peak in December 2007, largely from gains in mining output; total manufacturing output, while growing, remains below its prerecession peak. Wage and salary income increased in November, as did consumer spending, especially for durable goods. Prices for homes continue to recover. In October, the annualized rate of new home sales increased to its highest level in five years and remained elevated in November.

However, the slowdown in sales of existing homes continued in November, as the annualized sales rate fell for the third straight month. The rate was lower than the rate registered in November 2012, after 29 consecutive months of year-over-year increases. The National Association of Realtors attributed the decreases to higher interest rates, constrained inventory, and tight credit.

Third quarter inflation-adjusted gross domestic product (real GDP) was revised from a 3.6% annualized growth rate to a 4.1% rate, based on more complete data showing higher levels of consumer spending and nonresidential fixed investment than was previously estimated.

Leading indicators point toward growth in the U.S. economy in early 2014. The Conference Board's Leading Economic Index increased 0.8% in November due to a number of factors including "improving labor markets and new orders in manufacturing." New orders of durable goods manufacturers increased 3.4% in November, and new orders for nondefense capital goods increased 9.1%. In the housing sector, the annualized rate of issued private housing permits rose in October to its highest level in five years, and remained at a high level in November. The annualized rate of housing starts increased in November to its highest level in nearly six years.

Leading indicators point toward growth in the U.S. economy in early 2014.

In December, the Federal Reserve announced it will continue to buy U.S. Treasury and mortgage-backed securities each month, albeit at a slower rate.

In December, the Federal Reserve announced it will continue to buy U.S. Treasury and mortgage-backed securities each month, albeit at a slower rate. Also, on December 26, the President signed the Bipartisan Budget Agreement (HJR 59), which sets appropriation caps for defense and total nondefense discretionary spending for federal fiscal years (FFYs) 2014 and 2015.

In Ohio, total nonfarm employment decreased in November. Since June 2012, employment has increased slightly (0.1%), as gains in the private service sector have offset losses in government and construction. Ohio's unemployment rate edged down to 7.4% in November after increasing from a four-year low of 6.7% in December 2012. Home sales continued to increase in November over year-ago levels. In the third quarter of 2013, natural gas production from horizontal shale wells climbed to 33.6 billion cubic feet (about 12.8 billion cubic feet were produced in all of 2012), and crude oil production from these wells totaled 1.3 million barrels (up from 0.6 million barrels in 2012).

The National Economy

Monetary and Fiscal Policy

On December 18, the Federal Open Market Committee (FOMC) of the Federal Reserve, the nation's central bank, indicated it will continue its policy of asset purchases, though at a "tapered" rate of \$75 billion in each month instead of \$85 billion. Beginning in January, the Federal Reserve will purchase \$35 billion (instead of \$40 billion) of mortgage-backed securities and \$40 billion (instead of \$45 billion) of longer-term U.S. Treasury securities each month. The FOMC expects to keep its short-term interest rate target for federal funds near zero (between 0% and 0.25%) at least until the national unemployment rate falls to 6.5%, and as long as expected inflation is no more than half a percentage point above the 2.0% goal. The Federal Reserve has expanded its balance sheet by about \$3 trillion through asset purchases, from about \$1 trillion in the third quarter of 2008 to about \$4 trillion in January 2014.

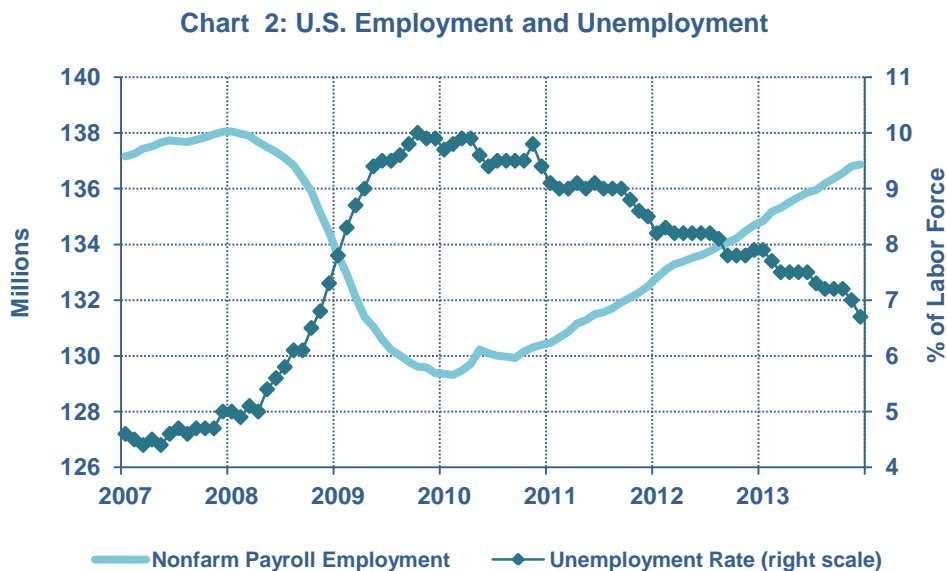
On December 26, the President signed into law the Bipartisan Budget Agreement. The agreement sets appropriation caps for defense and total nondefense discretionary spending for FFYs 2014 and 2015. The spending caps are higher than would have been permitted under the automatic spending cuts, referred to as sequestration, in prior law. However, the resolution maintains sequestration funding reductions for mandatory programs (e.g., Medicare and other programs where spending authority resides in existing law and does not depend on

annual appropriation acts) and extends sequestration for such programs from FFY 2021 to FFY 2023. Congress still needs to pass appropriations legislation within the caps established in the resolution before January 15, 2014, when the current continuing resolution that is funding the federal government expires. Several federal programs also expire on that date if Congress does not extend them. As of the writing of this report, no such legislation has been passed by Congress and signed by the President.

In addition, emergency and extended unemployment benefits were not renewed by Congress and expired at the end of 2013, resulting in an estimated 1.3 million individuals no longer receiving these benefits. Unemployment benefits average about \$300 per week. The economic forecasting firm Global Insight estimates that not renewing these benefits will reduce GDP growth in 2014 by 0.1-0.2 percentage point, mainly in the first quarter. Congress is currently considering renewal of extended unemployment benefits, but as of the writing of this report, no legislation has been passed.

Employment and Unemployment

Employment increased by 74,000 in December, according to the Bureau of Labor Statistics (BLS), while the unemployment rate fell to 6.7%, its lowest level in over five years, as shown in Chart 2.



In December, employment gains in the private service sector offset losses in government, while employment in goods-producing industries held fairly level, based on establishment survey data. In the private service sector, employment in trade, transportation, and utilities

In December, employment gains in the private service sector offset losses in government, while employment in goods-producing industries held fairly level.

increased 69,000, mainly due to gains in retail food and beverage stores and clothing and clothing accessories stores. Employment in professional and business services increased 19,000, with large gains in temporary help services. Employment in education and health services held level, while employment in information fell. Government employment fell on balance by 13,000, with most losses in local government education. In goods-producing industries, employment grew in mining and logging (4,000) and manufacturing (9,000), while construction employment fell (-16,000).

Over 2013, employment grew by an average of about 182,000 per month, about the same as average growth in 2012 of 183,000 per month.

According to household survey data, the total number of individuals unemployed declined 490,000 to 10.4 million in December, seasonally adjusted, as more individuals exited the labor force than found employment. The labor force fell to 154.9 million, down from an all-time high of 155.8 million in June 2013, and the labor force participation rate decreased from 63.0% to 62.8%, the lowest since 1978. (The labor force participation rate includes those employed or actively seeking work as a share of the working age population.) The number of long-term unemployed (27 weeks or more) edged down from 4.0 million to 3.9 million, the lowest since early 2009 but above levels in earlier years since 1948. The number of individuals working part-time (up to 34 hours per week) for economic reasons ticked up from 7.7 million to 7.8 million.

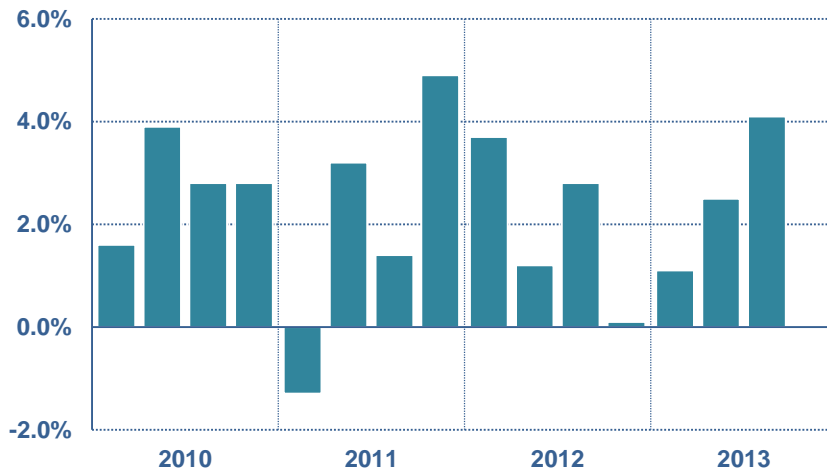
Production

GDP

Real U.S. GDP rose at a 4.1% annual rate in the third quarter of 2013, according to the third estimate released by the U.S. Bureau of Economic Analysis (BEA), up from a 2.5% rate of growth in the second quarter and 1.1% in the first quarter. BEA's initial estimate for the third quarter was 2.8%, which was revised in November to 3.6% based in part on data showing higher private inventory investment than in the previous estimate. The upward revision to 4.1% incorporated more complete data which showed that consumer spending and nonresidential fixed investment were higher than previously estimated. The chart below shows annualized quarterly real GDP growth rates from 2010 up to the third quarter of 2013.

Real U.S.
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**Chart 3: Inflation-adjusted Gross Domestic Product
Annualized Quarterly Growth Rates**



Industrial Production

In November, total industrial production increased 1.1%, seasonally adjusted, to its highest level ever, surpassing the December 2007 peak, at the start of the 2007-2009 recession. Part of the increase was due to a 3.9% gain in utility output. According to the Federal Reserve, this gain was from an increased demand for heating in November, which was colder than average in parts of the country. Mining output increased 1.7% in November, seasonally adjusted. Manufacturing output increased 0.6%, in November, but remains lower than its prerecession peak. Among industry groups, the largest percentage increase in manufacturing output from October to November was for motor vehicles and parts, which increased 3.4%, and was up 7.5% from November of last year.

Total industrial output was 3.2% higher than in November of last year, and total manufacturing production was about 2.9% higher.

Leading Indicators

New orders for all manufactured goods increased 1.8% in November, seasonally adjusted, to its highest level ever, according to the Census Bureau. For *durable* manufactured goods new orders increased 3.4% in November, shipments rose 1.8% to its highest recorded level, and inventories also rose to its highest level on record. New orders for nondefense capital goods increased by 9.1% and by 4.1% when aircraft are excluded.

In November, total industrial production increased 1.1%, seasonally adjusted, to its highest level ever.

In December, total factory activity appears to have expanded further, based on an Institute for Supply Management (ISM) monthly survey of purchasing managers. The ISM indexes for production and new orders over the second half of 2013 have registered much higher levels than in the first half of the year, pointing toward continuing growth in the manufacturing sector.

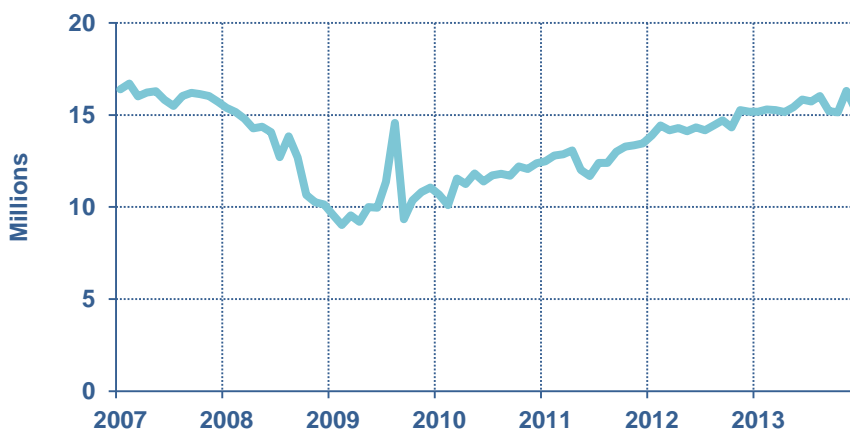
In 2013, light vehicle sales exceeded 15.5 million units, the first year that sales were this strong since 2007.

Consumer Spending and Personal Incomes

In November, real consumer spending increased 0.5%, seasonally adjusted, after increasing 0.4% in October. The increase in November was propelled by a 2.2% increase in purchases of durable goods.

The annualized rate of nationwide light vehicle sales (cars and light trucks) decreased to 15.3 million units in December, following a six-year high of 16.3 million units recorded in November, according to the BEA. In total for all of 2013, light vehicle sales exceeded 15.5 million units, the first year that sales were this strong since 2007. Light vehicle sales are shown in the chart below.

Chart 4: Annualized Rates for Light Vehicle Sales, Seasonally Adjusted



The highest monthly level of sales over the past seven years was registered in February 2007, at an annual rate of 16.7 million. The spike in August 2009 can be attributed to federal government incentives for new vehicle purchases under the "cash for clunkers" program.

Real disposable personal incomes increased 0.1% from October to November, seasonally adjusted. Current-dollar (not adjusted for inflation) total wages and salaries for all employees rose 0.4%. Private wages and salaries increased in both the goods-producing sector and the services sector; government wages also increased.

Housing

Home Sales

The annualized rates of existing and new home sales fell in November, by 4.3% and 2.1%, respectively, seasonally adjusted. The table below shows annualized sales rates and median sales prices in that month.

U.S. Home Sales Data, November 2013		
Sales Rates and Prices	Existing Homes*	New Homes**
Annualized Sales Rate	4,900,000	464,000
% change, 12 months	-1.2%	16.6%
% change, prior month	-4.3%	-2.1%
Median Sales Price	\$196,300	\$270,900
% change, 12 months	9.4%	10.6%

Sales rates are seasonally adjusted; sales prices are not seasonally adjusted

* From the National Association of Realtors

** From the U.S. Census Bureau

The rate of completed *existing* home sales fell for the third straight month in November, which was the first time in the past 29 months that the sales rate was less than the rate a year earlier. According to the National Association of Realtors (NAR), from October to November the existing home sales rate dropped in all four regions of the country: Northeast, Midwest, South, and West. But the 12-month drop in the rate only occurred in the West, where the sales rate was down 10.1%, due to "constrained inventory conditions." Compared to November 2012, the sales rate was up in the Northeast (6.6%) and the South (1.0%) and was unchanged in the Midwest. The annualized rate of 4.9 million units sold in November remains above the actual sales registered over the past three years, which were 4.2 million in 2010, 4.3 million in 2011, and 4.7 million in 2012.

The rate of completed existing home sales fell for the third straight month in November.

The rate of *new* homes sold fell in November from October's revised rate, which was the highest registered in five years. November's rate, though lower, was the second highest registered over that time. The decrease from October to November was the result of lower sales in the Midwest and South offsetting gains in the Northeast and West.

House prices increased 0.5% in October after increasing 0.2% in September, seasonally adjusted, according to the Federal Housing Finance Agency's House Price Index. October marked the 21st consecutive month of increases in the index.

The average nationwide 30-year, fixed-rate mortgage interest rate increased over the fourth quarter, according to the Freddie Mac survey. The average rate rose from 4.22% in the period ending October 3, 2013, to

4.53% in the period ending January 2, 2014. The average rate for all of 2013 was 3.98%, higher than the 2012 average rate of 3.66%, but lower than all other years on record since the series began in 1971.

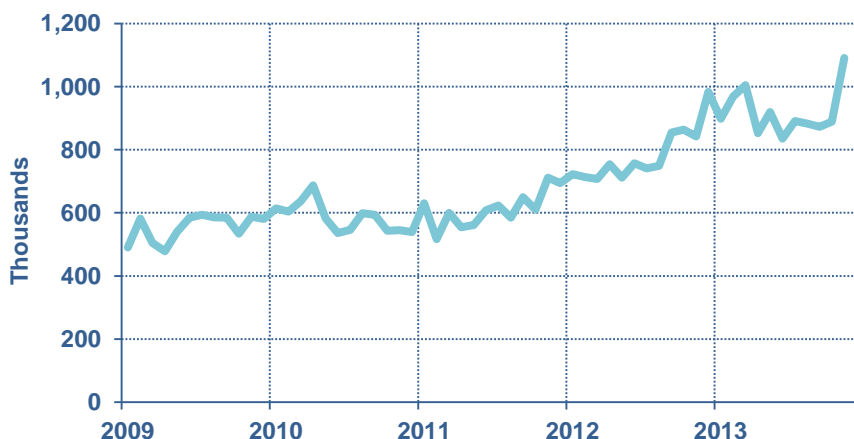
The annualized rate of new housing starts hit a near six-year high in November.

Leading Indicators

The annualized rate of new housing *permits* decreased 3.1% from October to November, seasonally adjusted, but still remained higher than previous monthly rates since June 2008.

The annualized rate of new housing *starts* hit a near six-year high in November at 1.1 million units. The chart below shows the annualized rates of housing starts from January 2009 to November 2013.

Chart 5: Annualized Rate for Housing Units Started, Seasonally Adjusted (January 2009-November 2013)



The lowest annualized rate in this data series (going back to 1959) was registered in April 2009, at 478,000 units.

Construction Activity

Total construction activity was up 5.9% in November over a year earlier, according to the Census Bureau, with gains in private construction (8.6%) offsetting decreases in public construction (-0.2%). Private residential construction was up 16.6% from November of last year with new multifamily housing up 36.3%.

From October to November, the rate of total construction activity increased 1.0%, seasonally adjusted, with private construction up 2.2% and public construction down 1.8%.

Inflation

The consumer price index (CPI) for all items less food and energy (core index) increased 0.2% in November, seasonally adjusted, while the all-items CPI remained unchanged. According to BLS, indexes for gasoline and natural gas decreased "significantly," offsetting increases in other energy indexes and in other item categories. The core index was up 1.7% over November of last year, and the all-items index was up 1.2%. Compared to November of last year, the CPI energy index is down 2.4% with gasoline (all types) down 5.8%.

The producer price index (PPI) for all finished goods decreased in November, due to lower energy prices, while the "core" PPI (without food or energy) increased. The all-items PPI for finished goods decreased 0.1% in November, falling for the third straight month mainly due to lower prices for gasoline, as well as for diesel fuel and home heating oil. The core PPI for finished goods increased 0.1%. The PPI for intermediate goods decreased 0.5%, due to decreases in energy and food indexes; the PPI for core intermediate goods also decreased (by 0.1%). The PPI for crude goods fell 2.6%, largely due to an 11.7% decrease in the index for crude petroleum. The PPI for core crude goods rose 1.4%.

The Ohio Economy

Employment and Unemployment

Total nonfarm payroll employment in Ohio decreased 12,000 in November, seasonally adjusted, while Ohio's unemployment rate ticked down from 7.5% to 7.4% of the labor force. Trends in employment and the unemployment rate are shown in Chart 6.

Chart 6: Ohio Employment and Unemployment



Total nonfarm payroll employment in Ohio decreased 12,000 in November, seasonally adjusted.

Employment growth in the state has been fairly flat on balance since June 2012.

From October to November, employment losses were widespread. Employment in the private service sector fell by 9,500, as losses in leisure and hospitality and other areas offset gains in health services as well as in trade, transportation, and utilities. Employment in the goods-producing sector fell by 3,100, due to lower employment in construction. Government employment rose by 600.

The number of unemployed job-seekers held at about 427,000. The unemployment rate edged down because of growth in the labor force.

As shown in the chart, employment growth in the state has been fairly flat on balance since June 2012. In November, total nonfarm employment in Ohio was up by 5,100 (0.1%) from June 2012. During that time, employment gains in the private service sector outweighed losses in government and construction. More specifically, over that time period:

- Employment in private service industries was up 31,500 (0.9%) led by gains in trade, transportation, and utilities (15,700, 1.6%) and education and health care (13,400, 1.5%).
- Employment in goods-producing industries was down 8,400 (-1.0%) with construction down 8,600 (-4.8%), manufacturing down 100 (-0.02%), and mining up 300 (2.4%).
- Employment in government (at the federal, state, and local levels) was down 18,000 (-2.4%).

Personal Income

Personal income in Ohio rose 0.8%, seasonally adjusted but not adjusted for inflation, from the second to third quarter (not at an annual rate), after rising 1.2% from the first to second quarter. Ohio's personal income growth from the first to second quarter of 1.2% matched that of the nation overall, while Ohio's growth of 0.8% from the second to third quarter lagged national growth of 1.1%.

Home Sales

The number of homes sold in Ohio was 1.6% higher in November than a year earlier, according to the Ohio Association of Realtors, the 29th consecutive month of year-over-year increases in home sales. Homes sold from January through November totaled 120,254, a 6.8% increase from the number of homes sold in the same period a year ago. The average selling price in November of \$136,468 statewide was 0.7% higher than in the year-earlier period.

Shale Activity

In the third quarter of 2013, 245 horizontal shale wells in Ohio produced about 33.6 billion cubic feet of natural gas and 1.3 million barrels of oil, according to a report from the Ohio Department of Natural Resources (ODNR). Data on the first and second quarters of 2013 will be included by ODNR in a full report for 2013 to be released later in the year. In all of 2012, production was 12.8 billion cubic feet of natural gas and 636,000 barrels of oil.

In December, the Ohio Department of Job and Family Services released a report on employment and businesses in shale-related industries in Ohio in the first quarter of 2013. According to the report, employment in such industries totaled 169,435 in the first quarter, which is higher than in the first quarters of the prior two years, at 167,310 in 2012 and 161,435 in 2011. There were 13,480 shale-related business establishments in the first quarter of 2013, up from 13,412 in the first quarter of 2012 and 13,387 in the first quarter of 2011.

Population

The Census Bureau recently released state population estimates for 2013. As of July 1 in that year, Ohio's population was about 11.6 million, ranking 7th in the nation, after Pennsylvania (6th) with 12.8 million and ahead of Georgia (8th) with 10.0 million. The total U.S. population was estimated at 316.1 million. From 2012 to 2013, Ohio's population grew 0.15%, which ranked 40th among states in terms of growth; the U.S. population grew 0.72% from 2012 to 2013. From 2010 to 2013, Ohio's population grew 0.22%, which ranked 45th out of all states and was below nationwide growth of 2.20%.

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