



September 11, 2013

MEMORANDUM TO: The Honorable John R. Kasich, Governor  
 The Honorable Mary Taylor, Lt. Governor

FROM: Timothy S. Keen, Director *TK*

SUBJECT: Monthly Financial Report

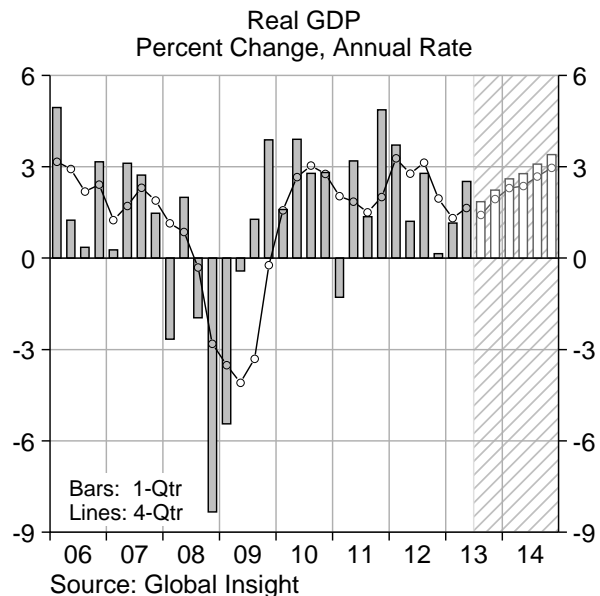
## ECONOMIC SUMMARY

### Economic Performance Overview

- Real GDP expanded at an upwardly revised rate of 2.5% in the second quarter, following gains of 1.1% in the first quarter and only 0.1% in last year's fourth quarter. Year-over-year growth was a subdued 1.6%. Forecasters project a gradual increase in the rate of growth from approximately 2.5% in the second half of this calendar year to near 3.0% by the end of 2014.
- U.S. employment grew by 169,000 jobs in August, slightly above the average of 160,000 per month during the most recent six months. Employment gains for June and July were revised downward somewhat. The unemployment rate decreased 0.1 point to 7.3% – the lowest level so far in this expansion.
- Ohio employment increased by 5,300 jobs in July and the June change was revised upward. Ohio employment is up 35,900 jobs year-to-date. The Ohio unemployment rate was unchanged at 7.2% in July.
- Leading economic indicators remain consistent with uninterrupted growth at a modest pace across the country and especially in Ohio.

### Economic Growth

**Real GDP** expanded 2.5% in the second quarter, following gains of 1.1% in the first quarter and only 0.1% in last year's fourth quarter. Year-over-year growth was a subdued 1.6%. Since the expansion officially began in the second quarter of 2009, real GDP has advanced at an annual rate of 2.2% – the slowest pace during the first sixteen quarters of any expansion that has lasted at least that long during the post-war period. In contrast, real GDP grew at a compound annual rate of 3.4% on average during the first sixteen quarters of the expansions following the 1990-91 and 2001 recessions, according to the revised data.



Growth in the second quarter was driven by personal consumption expenditures, exports, private inventory investment, investment in plant and equipment and nonresidential structures, and investment in residential structures. Federal government spending subtracted from overall GDP growth. Stronger growth in imports indicated that a greater share of domestic demand was satisfied by goods and services that were produced overseas.

The acceleration in second quarter real GDP resulted from the shift from falling to rising nonresidential fixed investment and exports, and smaller decreases in federal and state and local government spending than in the first quarter. Faster growth in imports and slowdowns in private inventory investment and personal consumption expenditures subtracted from the acceleration in real GDP.

The consensus is that real GDP is expanding at 2.0% to 2.5% in the third quarter and will continue to grow at a modest pace thereafter, picking up to roughly 3% by the end of 2014, according to the August *Blue Chip Financial Forecasts* consensus.

The upward revision to the second-quarter growth rate mainly reflected the upward revision to exports and a downward revision to imports and an upward revision to inventory investment. Subtracting from the acceleration was a downward revision to state and local government spending.

Leading indicators remain consistent with slow but uninterrupted growth through 2013. The 4-week moving average of the **Weekly Leading Index** decreased in the two weeks ending in late August after increasing in the six previous weeks. The 6-month smoothed rate of change slowed a bit to 3.9% – well below the recent peak of 7.4% in early May. Nonetheless, the index continues to point to continued growth immediately ahead.

The composite **Leading Economic Index** from the Conference Board increased 0.6% in July after no change in June. Eight of the ten components made positive contributions in July, led by interest rate spreads and a measure of credit conditions. The index is up 3.1% from a year earlier and 3.9% on a smoothed 6-month rate of change basis.

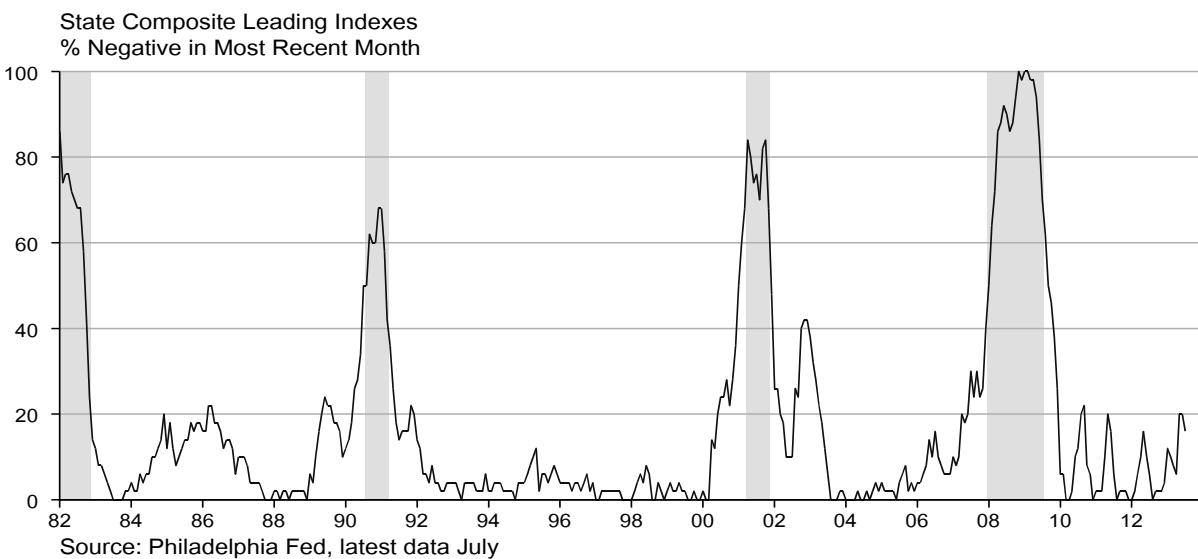


The **ratio of the coincident index to lagging index** – itself a leading indicator – increased 0.3% in July in its best showing since February. The index has been flat or has declined in five of the past twelve months and remains down 0.6% from a year earlier. The recent pattern is the most worrisome of the leading indicators, but remains an outlier among leading indicators.

The Ohio economy continued to make progress through July, according to the **Ohio Coincident Economic Index**, compiled by the Federal Reserve Bank of Philadelphia. The index increased

0.3% in July, and the gains for the three previous months were revised notably higher. Compared with a year earlier, the index was higher by 2.6%, down from a recent high of 5.6% last May. The state coincident index combines four state-level indicators to summarize current economic conditions. The four components are nonfarm payroll employment, average hours worked in manufacturing, the unemployment rate and real wage and salary disbursements.

Across the 50 states, the Coincident Economic Index was higher than one month earlier in 34 states and higher than three months earlier in 38 states, down from 36 states and 43 states, respectively, the month before. The diffusion of increases and decreases across states in the past has been a reliable and timely indicator of turning points in the business cycle, and continues to suggest uninterrupted growth in the Ohio and national economies.



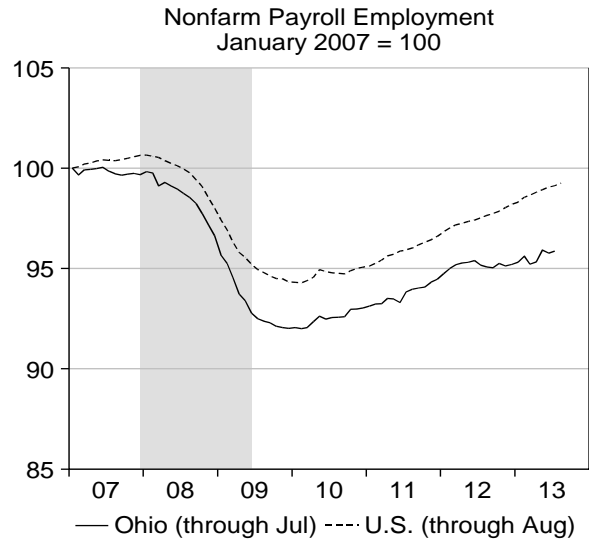
The companion **Ohio Leading Economic Index** increased to 1.8% in July, but remained below 3% for the eighteenth straight month. The index, which is compiled by the Federal Reserve Bank of Philadelphia, is designed to predict the rate of increase in the coincident index during the next six months. Index values have been revised significantly on occasion, but as it stands the recent pattern is consistent with ongoing expansion of the Ohio economy through the fall but at a slower pace than early in 2012.

The diffusion of positive readings had been fairly broad until May and June, when the number of states for which the index was negative increased to double-digits. The number of states with negative readings returned to relatively low level of 8 in July.

## **Employment**

**Nonfarm payroll employment** increased by 169,000 jobs in August and the June and July gains were revised down by a total of 74,000 jobs. Employment increased an average of 160,000 jobs per month during the six months ending in August, compared with an average of 207,000 jobs per month during the previous six months.

The **unemployment rate** fell 0.1 point to 7.3% – the lowest level since the recession. The decline in the unemployment rate was driven by a 312,000 person decrease in the labor force. The number of unemployed declined by 198,000 and the number employed declined 115,000, according to the Household Survey. The **U-6 unemployment rate**, which includes people who are working part-time because they could not get a full-time job or have stopped looking for work, decreased 0.3 points to 13.7% – the lowest since December 2008.



Private service-producing sectors accounted for most of the growth in employment again in August. Retail trade added 44,000 jobs, followed by education and health services (+43,000), leisure and hospitality (+27,000) and professional and business services (+23,000). Manufacturing employment rebounded by 14,000 jobs, following a 5-month string of declines that culminated in a 16,000 job decline in July. Construction employment was unchanged and government employment increased by 17,000 jobs.

Over the most recent six months including August, service employment has increased by an average of 160,000 jobs per month, while goods producing employment has been unchanged.

**Ohio employment** increased by 5,300 jobs in July, and the June decline was revised lower from -12,500 to -8,400. The July gain brings the year-to-date increase to 35,900 jobs and the year-over-year change to +37,700 jobs. Private-sector employment gains were somewhat larger: the year-to-date increase is 39,300 jobs, and the year-over-year change is 47,500 jobs.

The Ohio unemployment rate was unchanged at 7.2% in July after an increase of 0.2 points in June. The rate is up from the low for the cycle of 6.7% that was reached last December, but remained 0.2 points below the national rate in July.

During the twelve months ending in July, increases in Ohio employment were led by educational and health services (+20,800), leisure and hospitality (+14,600), manufacturing (+8,200) and professional and business services (+6,500). Weakness was concentrated in the government sector, where employment decreased 9,800 jobs year-over-year, and construction, where employment was down 6,300 jobs year-over-year. Employment was also lower in information (-2,400) and financial activities (-600).

Among the **contiguous states**, year-over-year employment growth was strongest in Indiana (+1.9%) and Michigan (+1.7%), compared with increases in Kentucky (+1.0%), West Virginia (+0.8%), Ohio (+0.7%), and Pennsylvania (+0.5%). Year-over-year growth in manufacturing was 1.2% in Ohio. Among the contiguous states, manufacturing employment increased 3.6% in Michigan, 1.0% in Indiana and West Virginia and declined 0.6% in Kentucky and 0.2% in Pennsylvania.

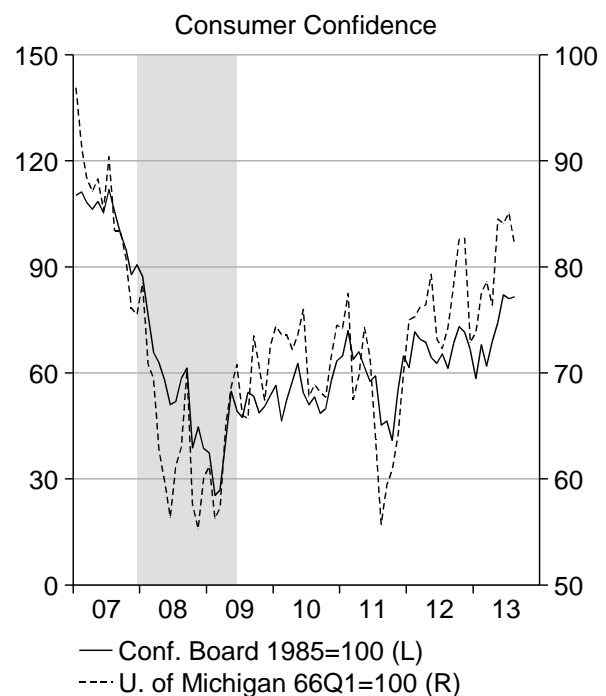
## Consumer Income and Consumption

Personal income and consumption softened in July. Wage and salary disbursements decreased 0.3%, reversing most of the 0.4% gain in June. Personal income increased 0.1%, fueling a 0.1% rise in personal consumption spending. Disposable personal income increased 0.2%, and the saving rate was unchanged at 4.4%. After adjusting for inflation, real disposable income increased 0.1% in July and real personal consumption expenditures were flat.

Compared with a year earlier, personal income is higher by 3.3%, wage and salary disbursements are higher by 3.4%, and disposable income is higher by 2.2%. After adjusting for inflation of 1.4% year-over-year, as measured with the personal consumption price deflator, personal income is up 1.9%, wage and salary disbursements are up 2.0%, and disposable personal income is up just 0.8%.

Consumer spending presumably has benefited from the improvements in labor markets, which include a notable decline in the pace of layoffs, and wage gains that exceed inflation. In addition, gains in net worth arising from increases in prices of houses and financial assets, such as stocks and bonds, has supported spending out of current income. Higher gasoline prices have worked against gains in real consumer spending.

Despite some modest deterioration in August, **consumer confidence** essentially held onto the impressive gains made in recent months both in terms of views regarding current conditions and expectations. The Conference Board index was little changed in August, as improvement in expectations was offset by a small deterioration in the assessment of current conditions. The Reuters/University of Michigan index decreased by a few points, as assessments of the both the future and current conditions retreated moderately. In general, these key measures of consumer attitudes are consistent with uninterrupted economic growth near the recent pace.



## Manufacturing

Industrial activity has slowed a bit this summer. **Industrial production** was unchanged in July, and the June increase was lowered to 0.2%. Manufacturing production fell by 0.1%. Year-over-year comparisons remain modest, with industrial production up just 1.4% and manufacturing higher by only 1.3%. But a number of related indicators continue to suggest that activity will turn up in the fall.

Of particular importance to the Ohio economy, production of motor vehicles and parts decreased 1.7% in July, more than reversing the 1.2% gain in June. Motor vehicle assemblies decreased 5.9% to a seasonally adjusted annual rate of 10.3 million units in July – back to just above the January level. Continued strength in sales topped the 16 million unit annual rate in August for the first time since the recession and is expected to boost the pace of assemblies in the months ahead.

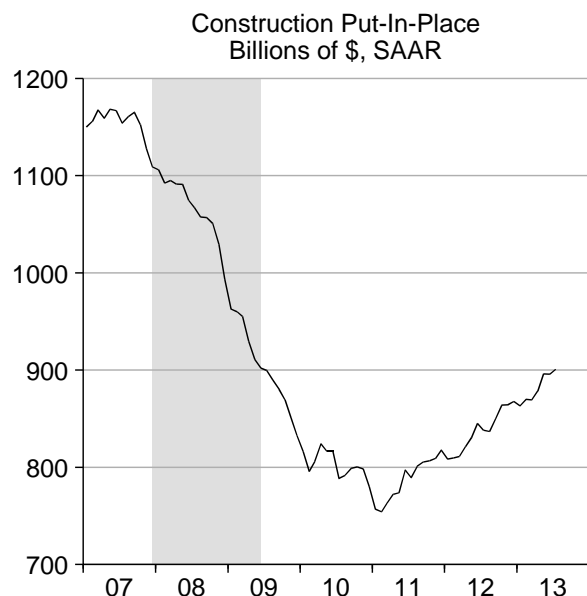
Also important to Ohio, production of primary metal increased by 2.6% in July, production of fabricated metal inched higher, and production of machinery fell by 1.0%. Together with the motor vehicle industry, these three industries account for almost one-half of manufacturing jobs in Ohio and approximately one out of every thirteen private sector jobs in the state, before seasonal adjustment.

Telegraphing further improvements in industrial activity, the **purchasing managers index** remained comfortably above the neutral level again in August, strongly suggesting that the sizable gain in July truly reflects broadening improvement in the sector. The index had dropped to a full point below the neutral level of 50 in May, raising some concerns about the sector, before the recent rebound. In addition, the Philadelphia and New York Federal Reserve surveys of business activity improved notably in June and July and remained solidly positive although somewhat less robust in August, consistent with better activity than recently has been observed.



### Construction

Total **construction put-in-place** increased 0.6% in July and June activity was revised up from a decline of 0.6% to no change. Excluding residential improvements, which is poorly estimated and often revised significantly, construction increased 0.5% in July after a 0.2% decline in June. Total private construction rebounded 0.9% in July, and June activity was revised higher to a decline of 0.2% instead of the 0.5% originally reported. Residential construction increased 0.6%, and nonresidential construction increased 1.3%. From a year earlier, total construction increased 5.2% (5.9% excluding improvements) and private construction was



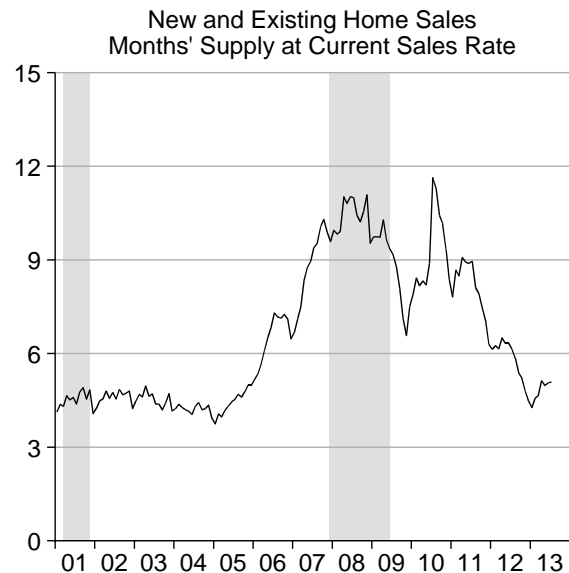
up 9.5%. Private residential construction was up 17.2% year-over-year, while private nonresidential construction was up just 2.0%. Total public construction was down 3.7% year-over-year.

Housing construction turned up over the summer after pulling back in the spring. **Housing starts** across the country increased 1.7% in July on a 3-month moving average basis to 20.5% higher than a year earlier. The more forward-looking measure of permits issued retreated 2.1% on a 3-month moving average basis to 17.1% higher than a year earlier, due largely to a 6.5% decrease in structures with five or more units. Permits were 79.0% above the low reached in May 2009, but remained 57.4% below the peak reached in September 2005 on a 3-month moving average basis.

In the Midwest, housing starts increased by 1.0% in July after a 3.3% decline in June. The current pace of starts is near the lowest so far this year, but is still well ahead of readings from the recession to late 2012. Permits issued in the Midwest decreased 3.5% in July after a string of three monthly increases. Midwest permits were 73.3% above the low reached in April 2009, but remained 61.6% below the peak reached in November 2003 on a 3-month moving average basis.

**Existing home sales** increased 2.8% across the country and 4.5% in the Midwest on a three-month moving average basis. **Sales of newly built homes** moved in the opposite direction, falling 3.9% across the country and 4.5% in the Midwest, as higher mortgage rates began to have an effect.

The **inventory of homes for sale** – both existing and newly built – increased slightly again in July. The number of existing homes on the market increased to 2.28 million units, which at the July pace of sales would require 5.1 months to be sold. The number of new homes for sale increased to 171,000 – the highest since April 2011. The number of months required to clear the inventory of newly built homes at the July sales pace increased to 5.2 months – the highest since January 2012. Even after the increases, the length of time necessary to sell both existing and newly built homes on the market at the current pace of sales is in line with pre-crisis historical averages.



**Home prices** increased for the seventeenth straight month in June, according to the S&P/Case-Shiller Index of prices in 20 major markets. The 0.9% increase was the seventh in a row at least that large and lifted the index to 12.0% above the year earlier level. Even so, the index was 23.4% below the peak reached seven years ago. Home prices in Cleveland (the lone Ohio market in the index) decreased 0.1% in June after a 0.3% decline in May and no change in April. Cleveland home prices are 3.4% higher than a year earlier, but remain 16.4% below the peaked reached in January 2006.

## **REVENUES**

August **GRF receipts totaled \$2,589.8 million** and were \$13.7 million (0.5%) above the estimate. Monthly tax receipts totaled \$1,697.8 million and were \$33.9 million (2.0%) below the estimate, while non-tax receipts totaled \$889.5 million and were \$45.3 million (5.4%) above estimate. Variances for the entire fiscal year by category are provided in the following table (\$ in millions).

<b>Category</b>	<b>Includes:</b>	<b>YTD Variance</b>	<b>% Variance</b>
Tax receipts	Sales & use, personal income, corporate franchise, commercial activity, MCF, public utility, kilowatt hour, foreign & domestic insurance, other business & property taxes, cigarette, alcoholic beverage, liquor gallonage, & estate	(\$55.3 million)	-1.7%
Non-tax receipts	Federal grants, earnings on investments, licenses & fees, other income, intrastate transfers	\$38.3million	2.6%
Transfers	Budget stabilization, liquor transfers, capital reserve, other	\$2.3 million	42.9%
<b>TOTAL REVENUE VARIANCE:</b>		(\$14.7 million)	-0.3%

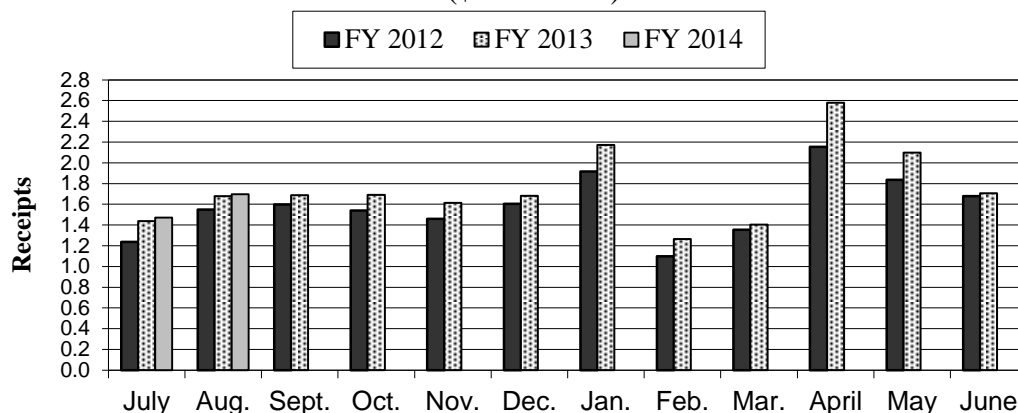
On a year-over-year basis, monthly receipts were \$47.3 million (1.9%) higher than they were in August 2012, primarily as a result of a \$59.6 million (7.2%) year-over-year growth in federal grants. Total tax receipts were up by \$18.3 million, or 1.1%, from a year ago. This growth was led by the income tax growing 1.3% (\$8.5 million) and the sales tax growing by 4.2% (\$29.1 million). In percentage terms, growth in the auto portion of the sales tax, 12.3% (\$12.2 million), exceeded that of the non-auto portion, 2.9% (\$16.8 million). Year-over-year declines occurred for the commercial activity, kilowatt hour, foreign insurance, cigarette, and alcoholic beverage taxes. The corporate franchise and estate taxes also experienced declines; however this was due to their recent elimination.



GRF Revenue Sources Relative to Monthly Estimates - August 2014  
(\$ in millions)

<b>Individual Sources Above Estimate</b>		<b>Individual Sources Below Estimate</b>	
Auto Sales Tax	\$10.0	Non-Auto Sales Tax	(\$19.6)
Corporate Franchise Tax	\$1.2	Personal Income Tax	(\$5.4)
MCF Tax	\$1.3	Commercial Activity Tax	(\$18.5)
Foreign Insurance Tax	\$1.0	Kilowatt Hour Tax	(\$1.7)
Federal Grants	\$48.3	ISTV's	(\$3.7)
License and Fees	\$1.4		
Transfers In – Other	\$2.2		
Other Sources Above Estimate	\$0.2	Other Sources Below Estimate	(\$3.1)
<b>Total above</b>	<b>\$65.6</b>	<b>Total below</b>	<b>(\$51.9)</b>

**Tax Revenue Comparison by Month**  
(\$ in billions)



**Non-Auto Sales and Use Tax**

August non-auto sales and use tax receipts totaled \$602.4 million and were \$19.6 million (3.2%) below estimate. On a year-over-year basis, August 2013 receipts were \$16.8 million (2.9%) above those of August 2012. Despite strengthening national economic data for consumer spending, August's tax revenue performance relative to the estimate and to a lesser extent relative to the same month in the previous year appears to reflect a continuing softening in consumer spending for taxable items other than autos and is consistent with the recent experience of some neighboring states. As a result, OBM will continue to closely monitor the performance of this tax in the months ahead.

**Auto Sales Tax**

Auto sales tax receipts exceeded the estimate in August as receipts totaled \$111.5 million and were \$10.0 million (9.9%) above estimate for the month. On a year-over-year basis, monthly receipts were \$12.2 million (12.3%) higher than receipts for the same month in the previous year reflecting continued strength in auto sales. Auto sales in August were at an annual rate of 16.1

million units, the highest mark since the recession, and average monthly sales in 2013 are at 15.5 million units, about 7% above the 2012 monthly pace.

### Personal Income Tax

August personal income tax receipts totaled \$664.7 million and were \$5.4 million (0.8%) below the estimate. Income tax component totals are preliminary for August due to accounting requirements. Similar to July, the withholding component accounted for more than the entire shortfall, totaling \$668.9 million or \$6.6 million (1.0%) below estimate. The second component with a notable shortfall was quarterly estimated payments. Estimated payments totaled \$14.9 million and were \$3.9 million (20.8%) below estimate. Compared to estimate, these shortfalls were partially offset by the refunds component, which ended the month \$5.5 million (22.3%) lower than expected. For the year-to-date, personal income tax receipts total \$1,288.4 million and are \$10.4 million (0.8%) below estimate, with more than the entire shortfall accounted for in the withholding component.

On a year-over-year basis, August personal income tax collections were \$8.5 million (1.3%) above the August 2012 level, with the withholding component accounting for the majority of this growth with receipts that were \$8.0 million (1.2%) above the same month a year ago. On a year-over-year basis, personal income receipts through August were \$38.7 million (3.1%) higher than at the same point a year ago, with the withholding component responsible for most of this growth (\$36.5 million).

FY2014 PERSONAL INCOME TAX RECEIPTS BY COMPONENT (\$ in millions)						
(August Component Actuals Are Preliminary)						
	ESTIMATE	ACTUAL	\$ VAR	ESTIMATE	ACTUAL	\$ VAR
	AUGUST	AUGUST	AUGUST	Y-T-D	Y-T-D	Y-T-D
Withholding	\$675.5	\$668.9	(\$6.6)	\$1,340.1	\$1,323.5	(\$16.6)
Quarterly Est.	\$18.8	\$14.9	(\$3.9)	\$35.8	\$33.4	(\$2.4)
Trust Payments	\$0.7	\$0.3	(\$0.4)	\$1.4	\$0.7	(\$0.7)
Annual Returns & 40 P	\$16.0	\$17.8	\$1.8	\$24.3	\$27.4	\$3.1
Other	\$9.6	\$7.6	(\$2.0)	\$18.1	\$14.9	(\$3.2)
Less: Refunds	(\$24.9)	(\$19.4)	\$5.5	(\$64.9)	(\$55.7)	\$9.2
Local Distr.	(\$25.6)	(\$25.4)	\$0.2	(\$56.0)	(\$55.8)	\$0.2
<b>Net to GRF</b>	<b>\$670.1</b>	<b>\$664.7</b>	<b>(\$5.4)</b>	<b>\$1,298.8</b>	<b>\$1,288.4</b>	<b>(\$10.4)</b>

### Corporate Franchise Tax

As noted in the July report, though the corporate franchise tax has been eliminated, prior year settlement activity continues and has resulted in receipts of \$1.2 million in August, while the estimate for the tax is zero. Small amounts of refund and other settlement activity are likely to occur in the months ahead. On a year-over-year basis, August 2013 receipts for this tax source were \$10.7 million (89.8%) below those of August 2012.

## **Commercial Activity Tax**

August commercial activity tax (CAT) receipts to the GRF totaled \$170.2 million and were \$18.5 million (9.8%) below estimate. The all-funds CAT receipts for August totaled \$340.9 million and were \$39.7 million (10.4%) below the \$380.6 million estimate. On a year-over-year basis, GRF CAT receipts were \$0.5 million (0.3%) below the August 2012 level, while all-funds CAT receipts were \$10.3 million (2.9%) below the August 2012 level. OBM is concerned about the performance of the tax and will closely monitor it in the months ahead.

## **Kilowatt-Hour Tax**

August kilowatt hour receipts totaled \$30.3 million and were \$1.7 million (5.2%) below the \$32.0 million estimate. On a year-over-year basis, this tax source was \$2.8 million (8.6%) below the August 2012 level of \$33.1 million. OBM believes that both the monthly shortfall and the year-over-year decline in this tax source reflect lower than-expected electricity use as a result of the relatively mild summer weather.

## **Cigarette Tax**

Cigarette tax receipts for the month of August totaled \$69.9 million and were \$0.9 million (1.3%) below the estimate of \$70.8 million. Year-to-date, the net variance is a positive \$1.0 million (1.2%). On a year-over-year basis, August 2013 cigarette tax receipts were \$7.4 million (9.5%) below the level for the same month a year ago.

**GRF non-tax receipts** totaled \$889.5 million in August and were \$45.3 million (5.4%) above estimate. On a year-over-year basis, August's receipts were \$58.3 million (7.0%) higher than August 2012. August **GRF transfers** totaled \$2.4 million and were somewhat over the estimate of \$0.2 million and \$29.3 million lower than the same month in the previous year. The year-over-year difference is due to the transfer of liquor profits that occurred in fiscal year 2013 that are no longer received due to the lease of the state's liquor enterprise to JobsOhio.

**Table 1**  
**GENERAL REVENUE FUND RECEIPTS**  
**ACTUAL FY 2014 VS ESTIMATE FY 2014**  
(\$ in thousands)

REVENUE SOURCE	MONTH				YEAR-TO-DATE			
	ACTUAL AUGUST	ESTIMATE AUGUST	\$ VAR	% VAR	ACTUAL Y-T-D	ESTIMATE Y-T-D	\$ VAR	% VAR
<b>TAX RECEIPTS</b>								
Non-Auto Sales & Use	602,376	622,000	(19,624)	-3.2%	1,272,984	1,303,100	(30,116)	-2.3%
Auto Sales & Use	111,503	101,500	10,003	9.9%	213,333	201,300	12,033	6.0%
Subtotal Sales & Use	713,878	723,500	(9,622)	-1.3%	1,486,317	1,504,400	(18,083)	-1.2%
Personal Income	664,688	670,107	(5,419)	-0.8%	1,288,363	1,298,800	(10,437)	-0.8%
Corporate Franchise	1,219	0	1,219	N/A	2,145	0	2,145	N/A
Financial Institutions Tax	0	0	0	N/A	0	0	0	N/A
Commercial Activity Tax	170,227	188,700	(18,473)	-9.8%	190,343	218,839	(28,496)	-13.0%
Public Utility	25,859	26,500	(641)	-2.4%	25,859	26,500	(641)	-2.4%
Kilowatt Hour	30,297	31,950	(1,653)	-5.2%	53,549	57,650	(4,101)	-7.1%
MCF Tax	12,123	10,800	1,323	12.3%	13,541	11,900	1,641	13.8%
Foreign Insurance	1,176	200	976	488.2%	1,401	200	1,201	600.6%
Domestic Insurance	5	0	5	N/A	54	0	54	N/A
Other Business & Property	3	0	3	N/A	29	0	29	N/A
Cigarette	69,900	70,800	(900)	-1.3%	89,845	88,800	1,045	1.2%
Alcoholic Beverage	4,818	5,700	(882)	-15.5%	9,858	10,400	(542)	-5.2%
Liquor Gallonage	3,622	3,500	122	3.5%	7,023	6,900	123	1.8%
Estate	23	0	23	N/A	802	0	802	N/A
Total Tax Receipts	1,697,838	1,731,757	(33,919)	-2.0%	3,169,128	3,224,389	(55,261)	-1.7%
<b>NON-TAX RECEIPTS</b>								
Federal Grants	882,861	834,540	48,321	N/A	1,503,712	1,455,391	48,321	3.3%
Earnings on Investments	0	0	0	N/A	0	0	0	N/A
License & Fees	7,373	6,000	1,373	22.9%	7,920	12,000	(4,080)	-34.0%
Other Income	1,721	2,375	(654)	-27.5%	3,730	4,750	(1,020)	-21.5%
ISTV'S	(2,443)	1,250	(3,693)	-295.4%	(2,443)	2,500	(4,943)	-197.7%
Total Non-Tax Receipts	889,512	844,165	45,348	5.4%	1,512,919	1,474,641	38,278	2.6%
<b>TOTAL REVENUES</b>	<b>2,587,350</b>	<b>2,575,922</b>	<b>11,429</b>	<b>0.4%</b>	<b>4,682,047</b>	<b>4,699,030</b>	<b>(16,983)</b>	<b>-0.4%</b>
<b>TRANSFERS</b>								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Liquor Transfers	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	2,445	200	2,245	1122.6%	7,719	5,400	2,319	42.9%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	2,445	200	2,245	1122.6%	7,719	5,400	2,319	42.9%
<b>TOTAL SOURCES</b>	<b>2,589,795</b>	<b>2,576,122</b>	<b>13,674</b>	<b>0.5%</b>	<b>4,689,766</b>	<b>4,704,430</b>	<b>(14,664)</b>	<b>-0.3%</b>

**Table 2**  
**GENERAL REVENUE FUND RECEIPTS**  
**ACTUAL FY 2014 VS ACTUAL FY 2013**  
(\$ in thousands)

REVENUE SOURCE	MONTH				YEAR-TO-DATE			
	AUGUST FY 2014	AUGUST FY 2013	\$ VAR	% VAR	ACTUAL FY 2014	ACTUAL FY 2013	\$ VAR	% VAR
<b>TAX RECEIPTS</b>								
Non-Auto Sales & Use	602,376	585,536	16,840	2.9%	1,272,984	1,250,185	22,798	1.8%
Auto Sales & Use	111,503	99,264	12,238	12.3%	213,333	194,502	18,832	9.7%
Subtotal Sales & Use	<u>713,878</u>	<u>684,800</u>	<u>29,078</u>	4.2%	<u>1,486,317</u>	<u>1,444,687</u>	<u>41,630</u>	2.9%
Personal Income	664,688	656,170	8,518	1.3%	1,288,363	1,249,687	38,676	3.1%
Corporate Franchise	1,219	11,950	(10,731)	-89.8%	2,145	18,402	(16,258)	-88.3%
Financial Institutions Tax	0	0	0	N/A	0	0	0	N/A
Commercial Activity Tax	170,227	170,679	(452)	-0.3%	190,343	195,912	(5,570)	-2.8%
Public Utility	25,859	25,051	808	3.2%	25,859	25,060	799	3.2%
Kilowatt Hour	30,297	33,133	(2,836)	-8.6%	53,549	57,230	(3,680)	-6.4%
MCF Tax	12,123	9,323	2,800	30.0%	13,541	10,216	3,325	32.5%
Foreign Insurance	1,176	1,349	(173)	-12.8%	1,401	1,360	41	3.0%
Domestic Insurance	5	0	5	N/A	54	220	(166)	-75.5%
Other Business & Property	3	8	(6)	-66.7%	29	215	(186)	-86.4%
Cigarette	69,900	77,272	(7,372)	-9.5%	89,845	93,167	(3,322)	-3.6%
Alcoholic Beverage	4,818	5,441	(623)	-11.4%	9,858	11,178	(1,320)	-11.8%
Liquor Gallonage	3,622	3,382	240	7.1%	7,023	6,827	196	2.9%
Estate	23	1,020	(998)	-97.8%	802	1,623	(821)	-50.6%
Total Tax Receipts	<u>1,697,838</u>	<u>1,679,579</u>	<u>18,259</u>	1.1%	<u>3,169,128</u>	<u>3,115,784</u>	<u>53,344</u>	1.7%
<b>NON-TAX RECEIPTS</b>								
Federal Grants	882,861	823,281	59,579	7.2%	1,503,712	1,539,731	(36,019)	-2.3%
Earnings on Investments	0	0	0	N/A	0	0	0	N/A
License & Fee	7,373	7,309	64	0.9%	7,920	7,706	214	2.8%
Other Income	1,721	586	1,135	193.7%	3,730	1,858	1,872	100.8%
ISTV'S	(2,443)	0	(2,443)	N/A	(2,443)	22	(2,465)	N/A
Total Non-Tax Receipts	<u>889,512</u>	<u>831,176</u>	<u>58,336</u>	7.0%	<u>1,512,919</u>	<u>1,549,316</u>	<u>(36,397)</u>	-2.3%
<b>TOTAL REVENUES</b>	<b>2,587,350</b>	<b>2,510,755</b>	<b>76,596</b>	<b>3.1%</b>	<b>4,682,047</b>	<b>4,665,101</b>	<b>16,946</b>	<b>0.4%</b>
<b>TRANSFERS</b>								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Liquor Transfers	0	28,000	(28,000)	N/A	0	28,000	(28,000)	N/A
Transfers In - Other	2,445	3,706	(1,261)	-34.0%	7,719	8,872	(1,153)	-13.0%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	<u>2,445</u>	<u>31,706</u>	<u>(29,261)</u>	N/A	<u>7,719</u>	<u>36,872</u>	<u>(29,153)</u>	-79.1%
<b>TOTAL SOURCES</b>	<b>2,589,795</b>	<b>2,542,460</b>	<b>47,335</b>	<b>1.9%</b>	<b>4,689,766</b>	<b>4,701,972</b>	<b>(12,206)</b>	<b>-0.3%</b>

## **DISBURSEMENTS**

August 2013 GRF disbursements, across all fund uses, totaled \$2,498.9 million and were \$54.5 million (2.1%) below estimate. This was primarily attributable to lower than expected disbursements in the Medicaid and Primary and Secondary Education categories. On a year-over-year basis, disbursements for August were \$226.5 million (10.0%) higher than those of August in the previous fiscal year. Year-to-date variances by category are provided in the table below.

<b>Category</b>	<b>Description</b>	<b>YTD Variance</b>	<b>% Variance</b>
Expenditures and transfers between agencies (ISTVs)	State agency operations, subsidies, tax relief, debt service payments, and pending payroll (if applicable)	(\$54.5 million)	(1.0%)
Transfers	Temporary or permanent transfers out of the GRF that are not agency expenditures	\$0.0 million	0.0%
<b>TOTAL DISBURSEMENTS VARIANCE:</b>		<b>(\$54.5 million)</b>	<b>(0.8%)</b>

GRF disbursements are reported according to functional categories. This section contains information describing spending and variances within each of these categories.

### **Primary and Secondary Education**

This category contains only GRF spending for the Ohio Department of Education, minus property tax reimbursements. August disbursements for the Department of Education totaled \$556.4 million and were \$32.3 million (5.5%) below the estimate. Expenditures for the school foundation program totaled \$504.0 million and were \$28.1 million (5.3%) below the estimate. The variance in the foundation funding line item is due to normal fluctuations between the actual Average Daily Membership (ADM) and estimated ADM for the month. The Department of Education will continue to use estimates until the finalization of the October ADM count for fiscal year 2014 and the implementation of the new school funding system in October.

### **Higher Education**

August disbursements for Higher Education totaled \$161.2 million and were \$2.7 million (1.6%) below the monthly estimate. Year-to-date disbursements are \$313.5 million, which is \$2.7 million (0.9%) below the estimate. The monthly variance is due primarily to spending in the Ohio National Guard and the Ohio College Opportunity Grant Scholarship Programs that were below the monthly estimate by \$2.5 million as a result of lower than expected requests for reimbursement from higher education institutions.

On a year-over-year basis, disbursements in this category were \$7.1 million (4.2%) lower than for the same month in the previous fiscal year while year-to-date expenditures are \$15.0 million (4.6%) lower than at the same point in fiscal year 2013.

## Other Education

This category includes non-debt service expenditures made by the Broadcast Education Media Commission, Ohio Facilities Construction Commission, Ohio State School for the Blind, Ohio School for the Deaf, as well as disbursements made to libraries, cultural, and arts organizations. August disbursements in this category totaled \$4.5 million and were \$1.2 million (20.3%) below estimated spending.

## Medicaid

As discussed in the previous Monthly Financial Report, this category includes all Medicaid disbursements from the H.B. 59-created “650 series” Medicaid line items. As such, this category includes all Medicaid spending on services and program support by the following six agencies: the new Department of Medicaid (651 prefix), the Department of Mental Health and Addiction Services (652), the Department of Developmental Disabilities (653), the Department of Health (654), the Department of Job and Family Services (655), and the Department of Aging (656).

While this line item restructuring was done to greatly improve the transparency of Medicaid spending across state agencies, it does create a one-time challenge for year-over-year comparisons by month. That is because a number of line items that contained Medicaid spending in fiscal year 2013 (and prior) also included non-Medicaid spending. While we can determine the annual Medicaid spending within these “mixed use” lines for fiscal year 2013, it is very difficult to determine the Medicaid/non-Medicaid breakdown by month. Therefore, fiscal year 2013 monthly expenditures were established to enable year-over-year comparisons by applying the respective line item’s annual percentage of Medicaid spending to the monthly actual spending.

### Expenditures

Year-to-date GRF disbursements for the Medicaid Program were \$2,675.5 million, which is \$39.8 million (1.5%) below the estimate and \$ 163.8 million (6.5%) above the same point in the previous fiscal year. GRF disbursements in August totaled \$1,328.2 million and were \$39.8 million (2.9%) below the estimate and \$118.1 million (9.8%) above disbursements in August 2012.

August all funds disbursements were \$1,524.0 million and were \$63.1 million (4.0%) below the estimate and \$63.6 million (4.4%) above this point in the previous fiscal year.

The chart below shows the current month’s disbursement variance by funding source:

*(in millions, totals may not add due to rounding)*

	<b>August Projection</b>	<b>August Actual</b>	<b>Variance</b>	<b>Variance %</b>
GRF	\$ 1,368.0	\$ 1,328.2	\$ (39.8)	-2.9%
Non-GRF	\$ 219.0	\$ 195.7	\$ (23.3)	-10.6%
All Funds	\$ 1,587.0	\$ 1,524.0	\$ (63.1)	-4.0%

## Categorical Variances

Prescribed Drugs – Due to the correction of a previous overpayment, spending in the prescribed drugs category was \$22.0 million below estimate for the month of August

All Agency Administration – This new category represents administrative spending on Medicaid across all departments. Spending is \$8.1 million under estimate mainly due to recently authorized changes in accounting having delayed the expense of certain cancelled and reestablished purchase orders.

All Other – Spending in this category is \$16.1 million under estimate mainly due to certain waiver claims not being realized as quickly as projected.

## *Caseload*

Total August enrollment across all categories was 2.4 million. The most significant components are the Covered Families and Children (CFC) category, which decreased by 4,319 persons to an August total of 1.68 million persons, and the Aged, Blind and Disabled (ABD) category, which decreased by 130 people to an August total of 432,800 covered lives.

Total enrollment across all categories for the same period last year was 2.4 million covered persons, including 1.79 million persons in the CFC category and 411,107 people in the ABD category. Please note that these data are subject to revision.

## **Health and Human Services**

This category includes non-debt service GRF expenditures for the following state agencies: Job and Family Services, Health, Aging, Developmental Disabilities, Mental Health and Addiction Services, and others. Examples of expenditures in this category include: child care, TANF, administration of the state's psychiatric hospitals, operating subsidies to county boards of developmental disabilities, various immunization programs, and Ohio's long term care ombudsman program. To the extent that these agencies spend GRF to support Medicaid services, that spending is reflected in the previous category.

August disbursements in this category totaled \$123.9 million and were \$17.2 million (12.2%) below the \$141.2 million projected spending for the month.

## Department of Job and Family Services

The Ohio Department of Job and Family Services (ODJFS) GRF disbursements totaled \$53.2 million for the month of August and were \$19.8 million (27.0%) below expected levels. In general, this is due to lower than expected allocations based on requests from county agencies. Selected major variances were attributable to the following:

- Program Support disbursements were \$1.0 million (37.1%) under estimate due to lower than expected central administration expenses.



- Family Assistance – Local county disbursements were \$1.9 million (33.5%) below projections due to lower than expected county draws.
- Early Care and Education disbursements were \$6.1 million (19.5%) below expected levels due to actual vendor payments falling lower than agency projections. This variance is expected to be offset in future months.
- Child Care State/Maintenance of Effort expenditures were \$1.0 million (44.5%) below expected spending due to county subsidy payments being lower than expected.

#### Department of Health

August 2013 disbursements for the Department of Health totaled \$12.5 million, which was \$3.0 million (32.1%) above estimated expenditures. This is primarily attributable to the following:

- The Mothers and Children Safety Net Services program exceeded estimates by \$1.1 million as the department distributed FY14 subsidies to local entities earlier than expected. The subsidies support prenatal, child health, and women’s health services. It is expected that this variance will be offset in future months.
- Help Me Grow expenditures exceeded estimates by \$1.2 million as the department distributed FY14 funding to local providers through subsidies earlier than originally planned. This variance is expected to be offset in future months.

#### Department of Developmental Disabilities

August disbursements for the Department of Developmental Disabilities totaled \$31 thousand and were \$1.8 million (98.3%) below estimated expenditures. This is due primarily to the fact that \$1.7 million in spending expected in August for the Employment First Pilot Program will occur in later months instead.

#### Department of Mental Health and Addiction Services

The Department of Mental Health and Addiction Services (MHAS) is the result of the merger between the Ohio Department of Alcohol and Drug Addiction Services (ODADAS) and the Ohio Department of Mental Health as enacted in H.B.59. Disbursements for the month of August were \$52.2 million, which was \$0.6 million (1.1%) above projected expenditures. Year to date expenditures are \$83.8 million, which is \$0.6 million (0.7%) above estimates.

#### **Justice and Public Protection**

This category includes non-debt service GRF expenditures by the Department of Rehabilitation & Correction, the Department of Youth Services, the Attorney General, judicial agencies, and other justice-related entities. August disbursements in this category totaled \$162.1 million and were \$31.4 million (24.0%) higher than projected totals.

#### Department of Rehabilitation and Correction

Department of Rehabilitation and Correction disbursements totaled \$126.3 million in August and were \$25.9 million (25.7%) above the estimate. This variance was largely in the Institutional Services and Parole and Community Operations lines, due to payroll posting in August that was anticipated in September.

### Department of Youth Services

Department of Youth Services disbursements totaled \$13.6 million in August and were \$2.6 million (23.8%) above the estimate. This variance was largely in the RECLAIM Ohio line, due to payroll posting in August that was anticipated in September.

### **General Government**

This category includes non-debt service GRF expenditures by the Department of Natural Resources, Development Services Agency, Department of Agriculture, Department of Taxation, Office of Budget and Management, the remaining statewide elected officials, legislative agencies, and others. August disbursements in this category totaled \$36.6 million and were \$2.4 million (7.0%) higher than the \$34.2 million estimate.

### Department of Natural Resources

August disbursements for the Department of Natural Resources totaled \$5.8 million and were \$1.5 million above estimate (26.6%). Year-to-date disbursements are \$17.2 million which is \$1.5 million (9.0%) above the estimate.

Major monthly variances were attributable to the following: the Coal Mine Safety Program was above estimate by \$0.2 million; the Forestry program was over estimate by \$0.25 million; the Parks and Recreation line was above estimate by \$0.65 million; and Soil and Water Resources was over estimate by \$0.45 million. All variances were due to the programs using more GRF funds than planned in lieu of State Special Revenue and/or federal funds. These trends will be reversed in future months.

### Development Services Agency

The Development Services Agency disbursements totaled \$3.1 million and were \$2.6 million (46.1%) below estimate due primarily to a lower than anticipated number of grants reimbursements being paid in August.

### **Property Tax Reimbursements**

Payments from the property tax reimbursement category are made to local governments and school districts to reimburse these entities for revenues foregone as a result of the 10.0 percent and 2.5 percent rollback, as well as the homestead exemption. August disbursements of property tax reimbursements were \$57.7 million and were \$7.2 million (14.2%) above the monthly estimate of \$50.5 million. For the year-to-date, property tax reimbursement payments total \$58.3 million and are \$7.2 million (14.1%) above estimate. Both the monthly and year-to-date variance are the result of a number of counties submitting requests for reimbursement earlier than anticipated, which should result in lower than estimated combined disbursements for the period of September through December.

**Debt Service**

This category contains all debt service expenditures made from the GRF. August disbursements in this category totaled \$61.3 million and were \$2.2 million (3.5%) below the \$63.5 million in estimate. Lower than expected disbursements for principal and interest payments on PWC capital improvement and conservation bonds were responsible for the variance.

**Transfers Out**

August transfers out of the GRF totaled \$6.9 million and were equal to the estimate.

**Table 3**  
**GENERAL REVENUE FUND DISBURSEMENTS**  
**ACTUAL FY 2014 VS ESTIMATE FY 2014**  
(\$ in thousands)

Functional Reporting Categories Description	MONTH				YEAR-TO-DATE			
	ACTUAL AUGUST	ESTIMATED AUGUST	\$ VAR	% VAR	YTD ACTUAL	YTD ESTIMATE	\$ VAR	% VAR
Primary and Secondary Education	556,364	588,696	(32,332)	-5.5%	1,130,481	1,162,813	(32,332)	-2.8%
Higher Education	161,227	163,929	(2,703)	-1.6%	313,507	316,209	(2,703)	-0.9%
Other Education	4,510	5,661	(1,152)	-20.3%	10,006	11,158	(1,152)	-10.3%
Medicaid	1,328,196	1,367,988	(39,793)	-2.9%	2,675,513	2,715,305	(39,793)	-1.5%
Health and Human Services	123,949	141,191	(17,242)	-12.2%	258,281	275,523	(17,242)	-6.3%
Justice and Public Protection	162,110	130,708	31,402	24.0%	375,792	344,389	31,402	9.1%
General Government	36,579	34,189	2,389	7.0%	68,996	66,606	2,389	3.6%
Property Tax Reimbursements	57,684	50,490	7,194	14.2%	58,338	51,143	7,194	14.1%
Capital Outlay	0	0	0	N/A	0	0	0	N/A
Debt Service	61,321	63,543	(2,222)	-3.5%	313,143	315,364	(2,222)	-0.7%
<b>Total Expenditures &amp; ISTV's</b>	<b>2,491,940</b>	<b>2,546,396</b>	<b>(54,456)</b>	<b>-2.1%</b>	<b>5,204,056</b>	<b>5,258,512</b>	<b>(54,456)</b>	<b>-1.0%</b>
<b>Transfers Out:</b>								
BSF Transfer Out	0	0	0	N/A	995,930	995,930	0	0.0%
Operating Transfer Out	6,945	6,945	0	0.0%	196,995	196,995	0	0.0%
Temporary Transfer Out	0	0	0	N/A	0	0	0	N/A
<b>Total Transfers Out</b>	<b>6,945</b>	<b>6,945</b>	<b>0</b>	<b>0.0%</b>	<b>1,192,925</b>	<b>1,192,925</b>	<b>0</b>	<b>0.0%</b>
<b>Total Fund Uses</b>	<b>2,498,885</b>	<b>2,553,341</b>	<b>(54,456)</b>	<b>-2.1%</b>	<b>6,396,981</b>	<b>6,451,437</b>	<b>(54,456)</b>	<b>-0.8%</b>

**Table 4**  
**GENERAL REVENUE FUND DISBURSEMENTS**  
**ACTUAL FY 2014 VS ACTUAL FY 2013**  
(\$ in thousands)

Functional Reporting Categories Description	MONTH				YEAR-TO-DATE			
	AUGUST FY 2014	AUGUST FY 2013	\$ VAR	% VAR	ACTUAL FY 2014	ACTUAL FY 2013	\$ VAR	% VAR
Primary and Secondary Education	556,364	484,569	71,795	14.8%	1,130,481	1,325,201	(194,720)	-14.7%
Higher Education	161,227	168,369	(7,142)	-4.2%	313,507	328,548	(15,041)	-4.6%
Other Education	4,510	3,334	1,176	35.3%	10,006	8,543	1,463	17.1%
Medicaid	1,328,196	1,210,062	118,133	9.8%	2,675,513	2,511,757	163,756	6.5%
Health and Human Services	123,949	61,040	62,909	103.1%	258,281	215,940	42,341	19.6%
Justice and Public Protection	162,110	141,935	20,175	14.2%	375,792	354,788	21,003	5.9%
General Government	36,579	33,300	3,278	9.8%	68,996	61,493	7,503	12.2%
Property Tax Reimbursements	57,684	108,332	(50,647)	-46.8%	58,338	112,211	(53,874)	-48.0%
Capital Outlay	0	0	0	N/A	0	69	(69)	N/A
Debt Service	61,321	60,960	362	0.6%	313,143	289,412	23,731	8.2%
<b>Total Expenditures &amp; ISTV's</b>	<b>2,491,940</b>	<b>2,271,900</b>	<b>220,040</b>	<b>9.7%</b>	<b>5,204,056</b>	<b>5,207,962</b>	<b>(3,906)</b>	<b>-0.1%</b>
<b>Transfers Out:</b>								
BSF Transfer	0	0	0	N/A	995,930	235,096	760,834	323.6%
Operating Transfer Out	6,945	452	6,492	1436.1%	196,995	60,210	136,784	227.2%
Temporary Transfer Out	0	0	0	N/A	0	0	0	N/A
<b>Total Transfers Out</b>	<b>6,945</b>	<b>452</b>	<b>6,492</b>	<b>1436.1%</b>	<b>1,192,925</b>	<b>295,307</b>	<b>897,618</b>	<b>304.0%</b>
<b>Total Fund Uses</b>	<b>2,498,885</b>	<b>2,272,352</b>	<b>226,532</b>	<b>10.0%</b>	<b>6,396,981</b>	<b>5,503,269</b>	<b>893,712</b>	<b>16.2%</b>

## ***FUND BALANCE***

Table 5 describes the estimated General Revenue Fund (GRF) ending fund balance for FY 2014. Based on the estimated revenue sources for FY 2014 and the estimated FY 2014 disbursements, transfers, and encumbrances, the GRF ending fund balance for FY 2014 is an estimated \$287.1 million.

The GRF ending fund balance should not be considered as a balance available for expenditure in FY 2014 nor should it be considered as equivalent to the FY 2014 surplus calculation as defined in Section 131.44 of the Ohio Revised Code.

It is important to note that the GRF ending fund balance will be impacted by any GRF expenditures or transfers that may be authorized by the General Assembly or by the Controlling Board during the course of the fiscal year.

FUND BALANCE  
GENERAL REVENUE FUND  
FISCAL YEAR 2014  
(\$ in thousands)

<b>July 1, 2013 Beginning Cash Balance</b>	<b>\$ 2,639,250</b>
Plus FY 2014 Actual Revenues	20,091,089
Plus FY 2014 Actual Federal Revenues	8,863,000
Plus FY 2014 Actual Transfers to GRF	373,613
<b>Total Sources Available for Expenditure &amp; Transfer</b>	<b>31,966,951</b>
Less FY 2014 Actual Disbursements	29,983,436
Less FY 2014 Actual Total Encumbrances as of June 30, 2014	439,068
Less FY 2014 Actual Transfers Out	1,257,369
<b>Total Actual Uses</b>	<b>31,679,873</b>
<b>FY 2014 UNENCUMBERED ENDING FUND BALANCE</b>	<b>287,078</b>

OBM staff that contributed to the development of this report were:

Jason Akbar, Astrid Arca, Jim Bennett, Benjamin Boettcher, Frederick Church, Jim Coons, Paul DiNapoli, Catherine Hookway, Joshua Hope, Kurt Kauffman, Sári Klepacz, Isabel Louis, Matthew Martin, Jeff Newman, Katherine Nickey, Lawrence Parson, Steven Peishel, Leslie Piatt, Penny Rader, Aaron Rausch, Daniel Schreiber, Lillian Stockell, and Chris Whistler.