OBM

August 12, 2013

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

FROM: Timothy S. Keen, Director TK

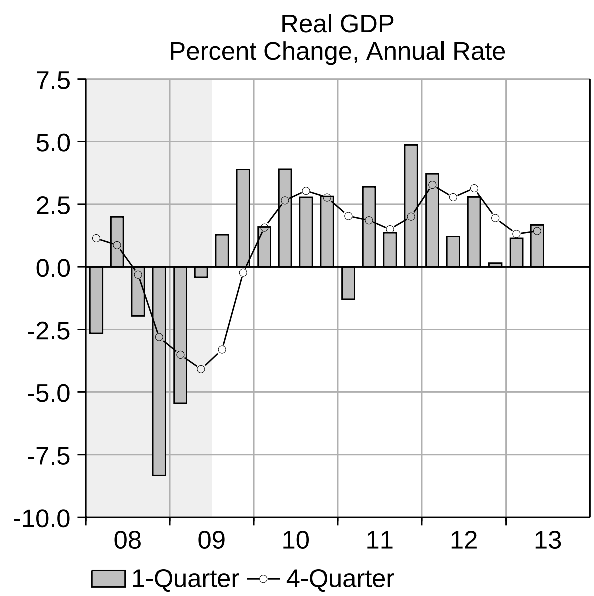
SUBJECT: Monthly Financial Report

ECONOMIC SUMMARY

Economic Performance Overview

- Real GDP expanded by 1.7% 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 1.4%. Forecasters project a gradual increase in the rate of growth from approximately 2.5% in the second half to near 3.0% by the end of 2014.
- U.S. employment growth slowed to 162,000 jobs in July, compared with an average of 200,000 per month during the most recent six months. The unemployment rate decreased by 0.2 points to 7.4% – the lowest level so far in this expansion.
- Ohio employment decreased by 12,500 jobs in June, but is up 26,500 jobs year-to-date. The Ohio unemployment rate increased by 0.2 points to 7.2% in June, up from the low for the cycle of 6.7% last December.
- Leading economic indicators remain consistent with uninterrupted growth at a modest pace across the country and especially in Ohio.

Economic Growth



Real GDP expanded by 1.7% 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 1.4%. Data revisions back to 1929 substantially increased the size of the economy, but left the growth pattern largely unchanged. The economy is approximately $550 billion, or 3.4%, larger than previously estimated, largely by virtue of including the value of research and development and newly created intellectual property rights in gross domestic product.

The revised data also indicates that the economy shrank by a slightly smaller amount during the recession and grew by 0.1% faster at an annual rate during the recovery, leaving the overall growth pattern essentially unchanged. The revisions did, however, result in downward adjustments to the quarter-to-quarter growth rates during the previous four quarters, indicating that the slowdown is somewhat more pronounced than previously reported.

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, investment in plant and equipment and nonresidential structures, private inventory investment 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, a smaller decrease in federal government spending than in the first quarter, and a shift from a decline to an increase in spending by state and local governments. 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 about 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 *Blue Chip Financial Forecasts*.

Leading indicators remain consistent with slow but uninterrupted growth through 2013. The 4-week moving average of the **Weekly Leading Index** increased in the three weeks ending in late July after declining in eight of the previous nine weeks. The 6-month smoothed rate of change improved to 4.9% from a low of 4.3% in early July, but remains well below the recent peak of 7.4% two months ago. The index continues to point to continued growth immediately ahead.

The composite **Leading Economic Index** from the Conference Board was unchanged in June after a 0.2% gain in May. Six of the ten components made positive contributions in June, led by interest rate spreads and a measure of credit conditions. The 6-month smoothed rate of change was 3.0% – down from 3.3% in May but up from a recent low of 0.8% in August 2012.

The **ratio of the coincident index to lagging index** – itself a leading indicator – also was unchanged in June after a 0.3% decline in May. The index has been flat or has declined in four of the past six months and is down 1.5% from a year earlier. The recent pattern is the most negative of the leading indicators.

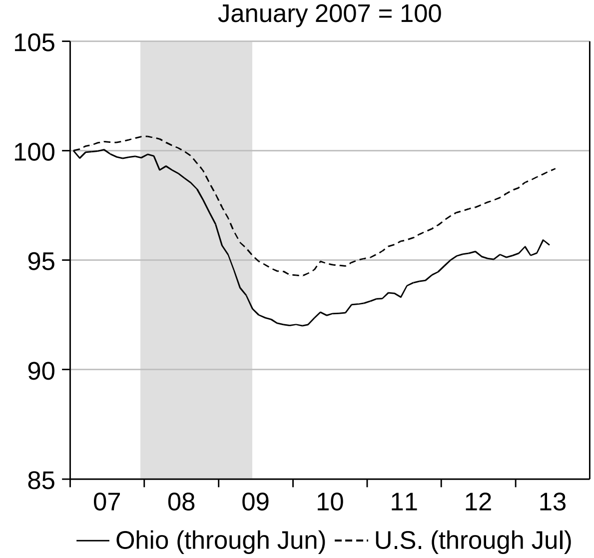
The Ohio economy continued to make progress through June, according to the **Ohio Coincident Economic Index**, compiled by the Federal Reserve Bank of Philadelphia. The index increased 0.2% in June, following monthly gains of 0.1% during the four previous months. Compared with a year earlier, the index was higher by 1.7%, 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 29 states and higher than three months earlier in 42 states, down from 34 states and 45 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** remained below 2.0% in June for the sixth consecutive month and below 3.0% for the seventeenth 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 the ongoing expansion of the Ohio economy through the summer and 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 negative projective decreases increased to twelve states – a level not observed frequently outside of significant slowdowns and recessions.

Employment

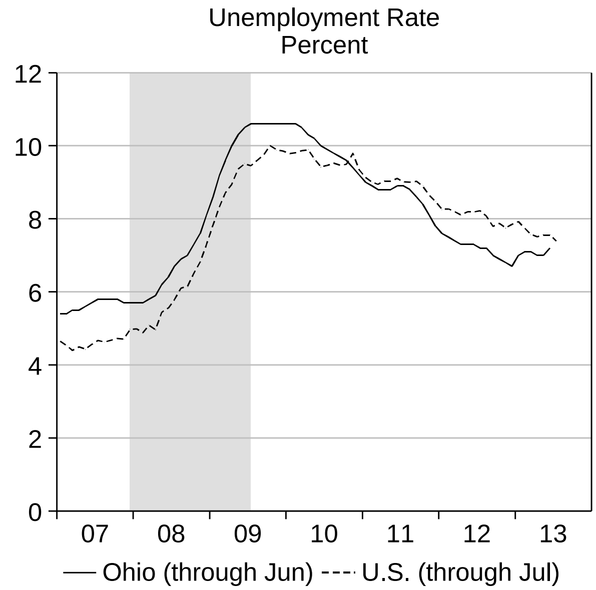
Nonfarm Payroll Employment
January 2007 = 100



Nonfarm payroll employment increased by 162,000 jobs in July and the May and June gains were revised down by a total of 26,000 jobs. Employment increased at an average of 175,000 jobs per month during the three months ending in July, compared with an average of 215,000 jobs per month during the previous six months. The slowdown in net hiring is accounted for entirely by weakness in construction, manufacturing and temporary help jobs, many of which are in light manufacturing.

The **unemployment rate** fell 0.2 points to 7.4% – the lowest level since the recession.

The decline in the unemployment rate was driven by a 227,000 worker increase in total employment and a 37,000 person decrease in the labor force, 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 14.0% – the same as the average during the previous four months.



Private service-producing sectors accounted for most of the growth in employment again in July. The 6,000 job increase in manufacturing employment was offset by an equal size decrease in construction employment. Total government employment increased by 1,000 jobs. Within private sector services, trade, transportation and utilities added 63,000 jobs, with retail accounting for 46,800 of those. Professional and business services added 36,000 jobs, followed by leisure and hospitality with 23,000 jobs and financial activities with 15,000 jobs.

Ohio employment decreased by 12,500 jobs in June, but is up 26,500 jobs year-to-date and 16,000 jobs year-over-year. The Ohio unemployment rate increased 0.2 points to 7.2% in June, up from the low for the cycle of 6.7% last December, but remained 0.4 points below the national rate in June.

During the twelve months ending in June, increases in Ohio employment were the result of net private sector growth of 25,000 jobs. Most notably, increases in educational and health services (+12,300), leisure and hospitality (+11,500), manufacturing (+4,800) and professional and business services (+2,900) combined to offset a decrease of 4,200 jobs in construction. Weakness was concentrated in the government sector, where state, local, and federal government employment decreased by 9,000 jobs.

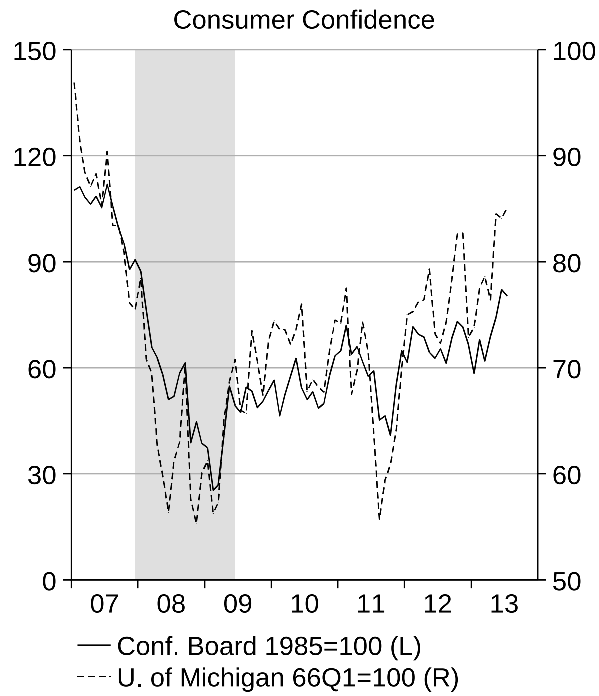
Among the **contiguous states**, year-over-year employment growth was strongest in Indiana (+1.4%) and Michigan (+1.3%), compared with increases in Kentucky (+0.8%), Pennsylvania (+0.6%), West Virginia (+0.4%), and Ohio (+0.3%). Year-over-year growth in manufacturing was 0.7% in Ohio. Among the contiguous states, manufacturing employment increased 2.5% in Michigan, 1.8% in Indiana, 0.9% in Kentucky, and 0.4% in West Virginia and declined 0.3% in Pennsylvania.

<u>Consumer Income and Consumption</u>

Personal income and consumption gained strength again in June after a series of large monthly swings around year end caused by tax planning. **Personal income** increased 0.3% after a 0.4% gain in May for a 3.1% year-over-year increase, which is back in line with the year-over-year trend this time last year. Disposable personal income also was higher by 0.3% but to only 1.9%

above the year earlier level. Wage and salary disbursements increased 0.5% after a 0.3% rise in May to 3.5% above the year earlier level.

Personal consumption expenditures increased 0.5% in June after essentially no change on balance during the previous two months. Compared with a year ago, spending was higher by 3.3% – the best since January. After adjustment for inflation, personal consumption increased just 0.1% to 2.0% year-over-year. Real disposable personal income decreased 0.1% in June, and was only 0.6% above the year earlier level. The saving rate was 4.4% in June – down from 5.6% in June 2012, as households maintained the pace of spending in the face of weaker income gains.



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.

C**onsumer 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 retreated a bit in July from its June level, which was the highest since January 2008. The Reuters/University of Michigan index increased in July to its highest mark since before the recession. Both indexes detected a pullback in assessments of current conditions, but revealed further improvement in expectations. Although considerable slack remains in labor markets, job gains have been sufficient to fuel sustained increases in income and spending and brighten the views of consumers.

Manufacturing

Industrial activity is gaining some strength. **Industrial production** increased 0.3% in June after no change in May. Manufacturing output was also up 0.3% after a 0.2% gain in May that was preceded by two consecutive declines in March and April. Year-over-year comparisons remain modest, with industrial production up 2.0% and manufacturing higher by only 1.8%. Despite these modest gains, a number of related indicators suggest that activity is turning the corner.

Of particular importance to the Ohio economy, production of motor vehicles and parts increased 1.3% in June after a 0.5% gain in May. Motor vehicle assemblies increased 2.6% to a seasonally adjusted annual rate of 15.831 million units in June – the highest rate since right before the recession. Sales pulled back in July, but remained at a still-high pace of 15.731 million units.

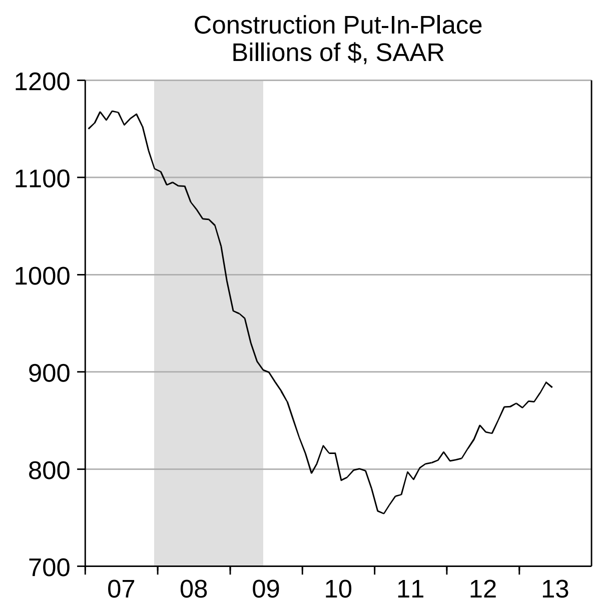
Also important to Ohio, production of primary metal fell by 0.4%, production of fabricated metal increased by 0.4%, and production of machinery fell by 1.5%. Together with the motor vehicle industry, these three industries account for almost one-half of manufacturing jobs in Ohio and approximately one out of every thirteen private sector jobs in the state, before seasonal adjustment.

Telegraphing further improvements in industrial activity, the **purchasing managers index** jumped to 55.4 in July from 50.9 in June. The index had slumped a full point below the neutral level of 50 in May, raising some concerns about the sector. In addition, the Philadelphia and New York Federal Reserve surveys of business activity improved notably in June and July, consistent with better activity levels than were observed in the winter and spring.

Manufacturers in and around Ohio recently reported that new orders and production were largely stable or increasing, according to the Federal Reserve Bank of Cleveland. The strongest reports were from companies in the residential construction and transportation industries. Steel producers reported that shipping volumes were little changed. Production at motor vehicle plants was steady, and up slightly from a year ago.

Construction

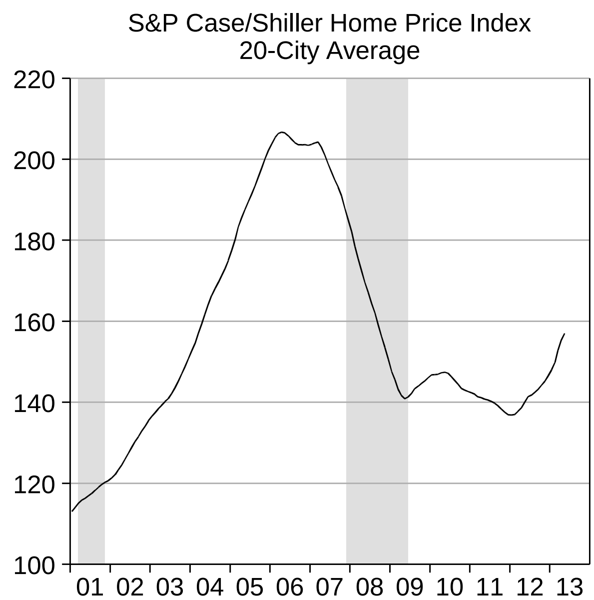
Total **construction put-in-place** decreased 0.6% in June, but the May estimate was revised up from 0.5% to 1.3%. Excluding residential improvements, which is poorly estimated and often revised significantly, construction decreased 1.0% in June after a 0.5% gain in May. Total private construction slipped 0.5% in June, as residential construction was unchanged and nonresidential construction fell by 0.9%. From a year earlier, total construction increased 3.3% (3.1% excluding improvements) and private construction was up 9.7%. Private residential construction was up 18.1% year-over-year, while private nonresidential construction was up just 1.4%. Total public construction was down 9.3% year-over-year.



Housing construction pulled back in the spring. **Housing starts** across the country decreased 6.1% in June on a 3-month moving average basis but were still 17.7% higher than a year earlier. The more forward-looking measure of permits issued advanced 0.7% on a 3-month moving average basis to 24.0% higher than a year earlier. Permits were 82.5% above the low reached in May 2009, but remained 56.6% below the peak reached in September 2005 on a 3-month moving average basis.

In the Midwest, housing starts retreated by 3.3% after little change in May that was preceded by a 15.9% increase in April. The current pace of starts is the lowest so far this year, but is still well ahead of readings from the recession to late 2012. Permits issued in the Midwest tacked 1.5% in June onto the gains of 1.1% in May and 4.1% in April. Midwest permits were 79.8% above the low reached in April 2009, but remained 60.1% below the peak reached in November 2003 on a 3-month moving average basis.

Home sales were stronger again in June. **Existing home sales** increased 0.9% across the country and 1.4% in the Midwest on a three-month moving average basis. **Sales of newly built homes** were up 4.0% across the country and 2.5% in the Midwest. Sales of new single-family homes in and around Ohio were down slightly in June compared with levels earlier in the spring, according to the Cleveland Federal Reserve Bank. Buyer traffic and inquiries reportedly have been notably better than this time last year. New sales contracts are most prevalent in the mid to higher price categories, and demand for multi-family homes reportedly has been strong.



The **inventory of homes for sale** – both existing and newly built – increased slightly in June. The number of existing homes on the market increased to 2.19 million, which at the June pace of sales would require 5.2 months to be sold. The number of new homes for sale increased to 161,000, and the number of months required to clear the inventory at the June sales pace was 3.9 months. For both existing and new homes, the length of time necessary to sell all homes on the market at the current pace of sales is in line with pre-crisis historical averages.

Home prices increased for the sixteenth straight month in May, according to the S&P/Case-Shiller Index of prices in 20 major markets. The 1.0% increase was the fifth in a row at least that large and lifted the index to 12.1% above the year earlier level. Even so, the index was 24.0% below the peak reached seven years ago. Home prices in Cleveland, the only Ohio city in the index, decreased 0.5% in May after no change in April. Cleveland home prices are 5.8% higher than a year earlier, but remain 16.5% below the peaked reached in January 2006.

REVENUES

July **GRF receipts totaled $2,100.0 million** and were $27.1 million (1.3%) below the estimate. Monthly tax receipts totaled $1,471.3 million and were $20.1 million (1.4%) below the estimate, while non-tax receipts totaled $623.4 million and were $7.1 million (1.1%) below estimate. Variances for the entire fiscal year by category are provided in the following table ($ in millions).

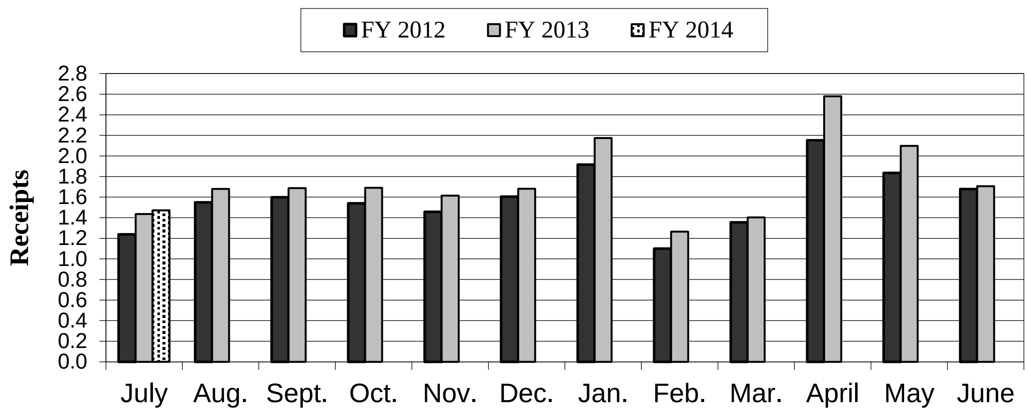
Category	**Includes:**	**YTD Variance**	**% Variance**
Tax receipts	Sales & use, personal income, corporate franchise, commercial activity, MCF, public utility, kilowatt hour, foreign & domestic insurance, other business & property taxes, cigarette, alcoholic beverage, liquor gallonage, & estate	($20.1 million)	-1.4%
Non-tax receipts	Federal grants, earnings on investments, licenses & fees, other income, intrastate transfers	($7.1 million)	-1.1%
Transfers	Budget stabilization, liquor transfers, capital reserve, other	$0.1 million	1.4%
TOTAL REVENUE VARIANCE:		($27.1 million)	-1.3%

On a year-over-year basis, monthly receipts were $59.5 million (2.8%) lower than they were in July 2012, primarily as a result of a $95.6 million (13.3%) year-over-year decline in federal grants. Year-over-year declines also occurred for the corporate franchise, commercial activity, kilowatt hour, and alcoholic beverage taxes, with the decline in the corporate franchise tax due to its elimination beginning in fiscal year 2014. Total tax receipts, however, were up by $35.1 million, or 2.4%, from a year ago, with the income tax growing 5.1% ($30.2 million) and the auto sales tax growing by 6.9% ($6.6 million).

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

Individual Sources Above Estimate		**Individual Sources Below Estimate**	
Auto Sales Tax	$2.0	Non-Auto Sales Tax	($10.5)
Cigarette Tax	$1.9	Personal Income Tax	($5.0)
Other Sources Above Estimate	$2.7	Commercial Activity Tax	($8.8)
		Kilowatt Hour Tax	($2.4)
		License and Fees	($5.5)
		ISTV's	($1.3)
		Other Sources Below Estimate	($0.4)
Total above	**$6.8**	**Total below**	**($26.7)**

Tax Revenue Comparison by Month
($ in billions)



Non-Auto Sales and Use Tax

July non-auto sales and use tax receipts totaled $670.6 million and were $10.5 million (1.5%) below estimate. On a year-over-year basis, July 2013 receipts were $6.0 million (0.9%) above those of July 2012. Although the national economic data show some improvement in consumer spending (see the prior section) July's tax revenue performance relative to both the estimate and relative to the same month in the previous year appears to reflect recent softening in consumer spending for items other than autos and is also consistent with the recent experience of some neighboring states. As a result, OBM will closely monitor the performance of this tax in the months ahead.

Auto Sales Tax

Auto sales tax receipts exceeded the estimate in July as receipts totaled $101.8 million and were $2.0 million (2.0%) above estimate for the month. On a year-over-year basis, monthly receipts were $6.6 million (6.9%) higher than receipts for the same month in the previous year reflecting continued strength in auto sales.

Personal Income Tax

July personal income tax receipts totaled $623.7 million and were $5.0 million (0.8%) below the estimate. Similar to June, the last month in FY 2013, the withholding component accounted for more than the entire shortfall, totaling $654.9 million or $9.7 million (1.5%) below estimate and more than offsetting better than expected performance in refunds and quarterly estimated payments.

On a year-over-year basis, July personal income tax collections were $30.2 million (5.1%) higher than the July 2012 level, with withholding the major contributor to this growth with receipts that were $28.7 million (4.6%) above the same month a year ago and that was attributable in part to an additional collection day in July 2013.

FY2014 PERSONAL INCOME TAX RECEIPTS BY COMPONENT ($ in millions)

	ESTIMATE JULY	ACTUAL JULY	$ VAR JULY	ACTUAL JULY 13	ACTUAL JULY 12	$ VAR Y-over-Y
Withholding	$664.6	$654.9	(9.7)	$654.9	$626.2	$28.7
Quarterly Est.	$17.0	$18.5	1.5	$18.5	$15.2	$3.3
Trust Payments	$0.7	$0.3	(0.4)	$0.3	$0.4	($0.1)
Annual Returns &40P	$8.3	$9.5	1.2	$9.5	$9.3	$0.2
Other	$8.5	$7.2	(1.3)	$7.2	$8.9	($1.6)
Less: Refunds	($40.0)	($36.4)	3.6	($36.4)	($35.0)	($1.4)
Local Distr.	($30.4)	($30.4)	(0.0)	($30.4)	($31.6)	$1.2
Net to GRF	**$628.7**	**$623.7**	**($5.0)**	**$623.7**	**$593.5**	**$30.2**

Corporate Franchise Tax

Despite the elimination of the corporate franchise tax prior year settlement activity resulted in July receipts of $0.9 million. While the estimate for the tax for fiscal year 2014 is zero, small amounts of refund and other settlement activity is likely to occur in the months ahead. On a year-over-year basis, July 2013 receipts for this tax source were $5.5 million (85.7%) below those of July 2012.

Commercial Activity Tax

July commercial activity tax (CAT) receipts to the GRF totaled $20.1 million and were $10.0 million (33.3%) below the estimate of $30.1 million. The all-funds CAT receipts for July totaled $49.9 million and were $10.9 million (17.9%) below the $60.9 million estimate. On a year-over-year basis, GRF CAT receipts were $5.1 million (20.3%) below the July 2012 level, while all-funds CAT receipts were $6.3 million (11.3%) below the July 2012 level. Since the first quarterly CAT payment of fiscal year 2014 is due August 10th, OBM will have to examine the July and August collections together to determine if July's performance is the result of timing or due to other factors.

Kilowatt-Hour Tax

July kilowatt hour receipts totaled $23.3 million and were $2.4 million (9.5%) below the $25.7 million estimate. On a year-over-year basis, this tax source was $0.8 million (3.5%) below the July 2012 level of $24.1 million. OBM believes that both the monthly shortfall and the year-over-year decline in this tax source reflect lower than-then-expected electricity use as a result of the relatively mild summer weather.

Cigarette Tax

Cigarette tax receipts for the month of July totaled $19.9 million and were $1.9 million (10.8%) above the estimate of $18.0 million. On a year-over-year basis, July 2013 cigarette tax receipts were $4.0 million (25.5%) higher than for the same month a year ago. This sizeable year-over-year growth in percentage terms is likely due to timing issues that occurred last July and should correct itself in August.

GRF non-tax receipts totaled $623.4 million in July and were $7.1 million (1.1%) below estimate. On a year-over-year basis, July's receipts were $94.7 million (13.2%) lower than July 2012, as a result of reduced federal grants. July **GRF transfers** totaled $5.3 million and were marginally above the estimate of $5.2 million and $0.1 million higher than the same month in the previous year.

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

REVENUE SOURCE	MONTH ACTUAL JULY	MONTH ESTIMATE JULY	MONTH $ VAR	MONTH % VAR	YEAR-TO-DATE ACTUAL Y-T-D	YEAR-TO-DATE ESTIMATE Y-T-D	YEAR-TO-DATE $ VAR	YEAR-TO-DATE % VAR
TAX RECEIPTS								
Non-Auto Sales & Use	670,608	681,100	(10,492)	-1.5%	670,608	681,100	(10,492)	-1.5%
Auto Sales & Use	101,831	99,800	2,031	2.0%	101,831	99,800	2,031	2.0%
Subtotal Sales & Use	772,439	780,900	(8,461)	-1.1%	772,439	780,900	(8,461)	-1.1%
Personal Income	623,675	628,693	(5,018)	-0.8%	623,675	628,693	(5,018)	-0.8%
Corporate Franchise	926	0	926	N/A	926	0	926	N/A
Financial Institutions Tax	0	0	0	N/A	0	0	0	N/A
Commercial Activity Tax	20,116	30,139	(10,023)	-33.3%	20,116	30,139	(10,023)	-33.3%
Public Utility	0	0	0	N/A	0	0	0	N/A
Kilowatt Hour	23,253	25,700	(2,447)	-9.5%	23,253	25,700	(2,447)	-9.5%
MCF Tax	1,418	1,100	318	28.9%	1,418	1,100	318	28.9%
Foreign Insurance	225	0	225	N/A	225	0	225	N/A
Domestic Insurance	49	0	49	N/A	49	0	49	N/A
Other Business & Property	26	0	26	N/A	26	0	26	N/A
Cigarette	19,944	18,000	1,944	10.8%	19,944	18,000	1,944	10.8%
Alcoholic Beverage	5,040	4,700	340	7.2%	5,040	4,700	340	7.2%
Liquor Gallonage	3,401	3,400	1	0.0%	3,401	3,400	1	0.0%
Estate	779	0	779	N/A	779	0	779	N/A
Total Tax Receipts	1,471,290	1,492,632	(21,342)	-1.4%	1,471,290	1,492,632	(21,342)	-1.4%
NON-TAX RECEIPTS								
Federal Grants	620,851	620,851	0	0.0%	620,851	620,851	0	0.0%
Earnings on Investments	0	0	0	N/A	0	0	0	N/A
License & Fees	547	6,000	(5,453)	-90.9%	547	6,000	(5,453)	-90.9%
Other Income	2,009	2,375	(366)	-15.4%	2,009	2,375	(366)	-15.4%
ISTV'S	0	1,250	(1,250)	N/A	0	1,250	(1,250)	N/A
Total Non-Tax Receipts	623,407	630,476	(7,070)	-1.1%	623,407	630,476	(7,070)	-1.1%
TOTAL REVENUES	**2,094,697**	**2,123,108**	**(28,411)**	**-1.3%**	**2,094,697**	**2,123,108**	**(28,411)**	**-1.3%**
TRANSFERS								
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	5,274	5,200	74	1.4%	5,274	5,200	74	1.4%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	5,274	5,200	74	1.4%	5,274	5,200	74	1.4%
TOTAL SOURCES	**2,099,971**	**2,128,308**	**(28,337)**	**-1.3%**	**2,099,971**	**2,128,308**	**(28,337)**	**-1.3%**

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

	MONTH				YEAR-TO-DATE			
REVENUE SOURCE	**JULY FY 2014**	**JULY FY 2013**	**$ VAR**	**% VAR**	**ACTUAL FY 2014**	**ACTUAL FY 2013**	**$ VAR**	**% VAR**
TAX RECEIPTS								
Non-Auto Sales & Use	670,608	664,650	5,958	0.9%	670,608	664,650	5,958	0.9%
Auto Sales & Use	101,831	95,237	6,594	6.9%	101,831	95,237	6,594	6.9%
Subtotal Sales & Use	772,439	759,887	12,552	1.7%	772,439	759,887	12,552	1.7%
Personal Income	623,675	593,517	30,158	5.1%	623,675	593,517	30,158	5.1%
Corporate Franchise	926	6,453	(5,527)	-85.7%	926	6,453	(5,527)	-85.7%
Financial Institutions Tax	0	0	0	N/A	0	0	0	N/A
Commercial Activity Tax	20,116	25,233	(5,118)	-20.3%	20,116	25,233	(5,118)	-20.3%
Public Utility	0	9	(9)	N/A	0	9	(9)	N/A
Kilowatt Hour	23,253	24,097	(844)	-3.5%	23,253	24,097	(844)	-3.5%
MCF Tax	1,418	893	525	58.8%	1,418	893	525	58.8%
Foreign Insurance	225	11	214	1973.6%	225	11	214	1973.6%
Domestic Insurance	49	220	(171)	-77.8%	49	220	(171)	-77.8%
Other Business & Property	26	207	(180)	-87.2%	26	207	(180)	-87.2%
Cigarette	19,944	15,895	4,049	25.5%	19,944	15,895	4,049	25.5%
Alcoholic Beverage	5,040	5,738	(698)	-12.2%	5,040	5,738	(698)	-12.2%
Liquor Gallonage	3,401	3,445	(44)	-1.3%	3,401	3,445	(44)	-1.3%
Estate	779	603	176	29.3%	779	603	176	29.3%
Total Tax Receipts	1,471,290	1,436,206	35,084	2.4%	1,471,290	1,436,206	35,084	2.4%
NON-TAX RECEIPTS								
Federal Grants	620,851	716,449	(95,598)	-13.3%	620,851	716,449	(95,598)	-13.3%
Earnings on Investments	0	0	0	N/A	0	0	0	N/A
License & Fee	547	397	150	37.7%	547	397	150	37.7%
Other Income	2,009	1,272	737	57.9%	2,009	1,272	737	57.9%
ISTV'S	0	22	(22)	N/A	0	22	(22)	N/A
Total Non-Tax Receipts	623,407	718,140	(94,733)	-13.2%	623,407	718,140	(94,733)	-13.2%
TOTAL REVENUES	**2,094,697**	**2,154,346**	**(59,649)**	**-2.8%**	**2,094,697**	**2,154,346**	**(59,649)**	**-2.8%**
TRANSFERS								
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	5,274	5,166	108	2.1%	5,274	5,166	108	2.1%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	5,274	5,166	108	N/A	5,274	5,166	108	2.1%
TOTAL SOURCES	**2,099,971**	**2,159,512**	**(59,541)**	**-2.8%**	**2,099,971**	**2,159,512**	**(59,541)**	**-2.8%**

DISBURSEMENTS

Readers of the Monthly Financial Report will notice a change in the major reporting categories contained in Tables 3 and 4 beginning this month. By incorporating certain accounting improvements made in H.B. 59 as well as making a few other modifications, these category changes are intended to better reflect how the state expends its resources. The most notable of these changes are the creation of a new Medicaid category and revisions to what is included in the Debt Service category.

Prior to July 2013, the Public Assistance and Medicaid category included all GRF spending by the Ohio Department of Job and Family Services (JFS). Furthermore, there were two subcomponents that were generally discussed: 1) Public Assistance and Non-Medicaid, and 2) Medicaid Services. The latter component, Medicaid Services, was limited to only JFS Medicaid spending in the JFS 600525 and 600526 line items. Not only did that construction leave out JFS Medicaid spending that occurred outside those two line items (which, therefore, was included in the former component whose name suggested it included no Medicaid spending); it also left out Medicaid spending by agencies other than JFS, which would have been reflected in the Health and Human Services category. Because H.B. 59 created a new line item structure for Medicaid in which all Medicaid disbursements across the six Medicaid-administering agencies are now made from line items beginning with a "650 series" prefix, the new Medicaid category now comprehensively includes all GRF Medicaid program spending contained in the new 650 series line items. In turn, the modified Health and Human Services category now contains all non-Medicaid spending across such agencies, including non-Medicaid JFS spending. (It should be noted that debt service payments relating to these agencies are excluded from this category, as discussed next.)

Additionally, the Debt Service category will now include all GRF-supported debt service payments, including for both general obligation and non-general obligation bonds. Previously, only debt service payments on general obligation bonds were included in this category, while debt service payments for non-general obligation bonds were reported under the category to which the agency making the payment belonged. This change will result in reduced amounts being reported in the various programmatic categories. In order to provide a proper year-over-year comparison, fiscal year 2013 disbursements contained in Table 4 also reflect the new categories.

Consistent with the practice at the beginning of each biennium, OBM is currently working with state agencies to estimate and finalize a monthly schedule for disbursements, transfers, and outstanding encumbrances for fiscal year 2014. The fiscal year 2014 estimated disbursements will be completed in August and included in the September Monthly Financial Report. As a result, OBM has set disbursement estimates for July at the actual disbursement amounts for the month. Therefore, Table 3 in this report shows no monthly variances.

July 2013 GRF disbursements, across all fund uses, totaled $3,898.1 million and were without variation as a result of estimates being under development. Year-over-year disbursement variances by category are available in the table below.

Category	Description	YOY Variance	% Variance
Expenditures and transfers between agencies (ISTVs)	State agency operations, subsidies, tax relief, debt service payments, and pending payroll (if applicable)	($224.0 million)	-7.6%
Transfers	Temporary or permanent transfers out of the GRF that are not agency expenditures	891.1 million	302.2%
TOTAL DISBURSEMENTS VARIANCE:		$667.1 million	20.6%

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 now contains only GRF spending for the Ohio Department of Education, minus property tax reimbursements. July 2013 disbursements of $574.1 million were $266.5 million (31.7%) lower than the July 2012 disbursements of $840.6 million. This variance is primarily due to a payment timing issue in the school foundation program, which totaled $549.8 million in July 2013 compared to $804.4 million in July of the previous year. July 2012 disbursements included three payments to school districts, while the July 2013 disbursements included only two payments. This caused similar variances in non-foundation Education line items.

Higher Education

July disbursements for Higher Education, which consists of non-debt service spending by the Board of Regents, were $152.3 million, representing a variance of $7.9 million (4.9%) below disbursements in July of fiscal year 2013. The variance is due to a decision by the Board of Regents to implement more robust subsidy distribution and monitoring guidelines beginning in fiscal year 2014, resulting in a temporary delay in the distribution of a portion of their subsidy line items.

Other Education

This category includes non-debt service expenditures made by the Broadcast Education Media Commission, the Ohio Facilities Construction Commission, the Ohio State School for the Blind, the Ohio School for the Deaf, as well as disbursements made to libraries, cultural, and arts organizations. July disbursements in this category totaled $5.3 million and were $0.1 million (2.1%) above disbursements in July of fiscal year 2013.

Medicaid

As previously discussed at the beginning of the Disbursements section, this new category includes all Medicaid disbursements from the H.B. 59-created “650 series” Medicaid line items. Therefore, this category includes all Medicaid spending on services and program support by the following six agencies: the new Department of Medicaid (651 prefix), the merged 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 FY 2013 (and prior) also included non-Medicaid spending. While we can determine the annual Medicaid spending within these "mixed use" lines for FY 2013, it is very difficult to determine the Medicaid/non-Medicaid breakdown by month. Therefore, FY 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. Consequently, the Health and Human Services category is similarly affected.

Expenditures

GRF disbursements for the Medicaid program for the month of July were $1,347.3 million, which was $45.6 million (3.5%) higher than disbursements in the same period of the previous fiscal year.

All Funds disbursements for July were $1,534.8 million and were $6.6 million (0.4%) lower than expenditures in the same period of the previous fiscal year.

	July FY13	July FY14	Variance	Variance %
GRF	$ 1,301,694,678	$ 1,347,317,149	$ 45,622,471	3.5%
Non-GRF	$ 239,700,509	$ 187,466,739	$ (52,233,771)	-21.8%
	$ 1,541,395,187	$ 1,534,783,888	$ (6,611,300)	-0.4%

Caseload

Total July enrollment across all categories was 2.38 million. The most significant components are the Covered Families and Children (CFC) category, which decreased by 3,760 persons to a July total of 1.68 million persons, and the Aged, Blind and Disabled (ABD) category, which decreased by 2,246 people to a July total of 431.0 thousand covered lives.

Total enrollment across all categories for the same period last year was 2.37 million covered persons, including 1.76 million persons in the CFC category and 411.3 thousand 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.

July disbursements in this category totaled $134.3 million and were $20.6 million (13.3%) below the $154.9 million disbursement in July of the previous fiscal year.

Department of Job and Family Services

The Ohio Department of Job and Family Services (ODJFS) GRF disbursements totaled $72.0 million for the month of July and were $2.6 million (3.7%) above July 2012 levels. Major year-over-year monthly variances were attributable to the following:

- Early Care and Education subsidies were $6.5 million (100.8%) above agency spending this time last year as more child care expenditures were coded to the GRF line for the month.
- Family Assistance – Local county disbursements were $1.4 million (58.1%) above July 2012 levels as the line item supported more food and disability assistance-related county administrative support allocations.
- Program Support disbursements were $2.2 million (271.2%) above July 2012 levels as the line item funded additional central office operational expenses when compared to the same month in the previous year.
- Information Technology Project expenses were $3.6 million (65.2%) below July 2012 spending as the line item funded fewer IT related invoices for the month.
- Child Care State/Maintenance of Effort expenditures were $3.4 million (31.1%) below spending this time last year due to lower child care subsidies being made from the line item.

Department of Health

July 2013 disbursements for the Department of Health totaled $6.7 million, which was $2.5 million (26.8%) below July 2012 disbursements. This is primarily attributable to the following:

- The Mothers and Children Safety Net Services line item was below July 2012 disbursements by $0.5 million (88.5%) as a result of subsidy payments occurring in July 2012 not scheduled for distribution until August in this fiscal year.
- The AIDS Prevention and Treatment line was below prior year expenditures by $1.1 million (81.9%) because subsidy payments are not scheduled for distribution until August.
- The Help Me Grow line was below July 2012 expenditures by $1.0 million (31.2%) due to a larger portion of subsidy payments occurring in later months this fiscal year.
- The Medically Handicapped Children line was below last year by $0.5 million (19.7%) due to a larger portion of subsidy payments expected to occur in later months this fiscal year.

Department of Aging

July 2013 disbursements for the Department of Aging totaled $0.5 million, which was $0.6 million (55.1%) below July 2012 disbursements. This is primarily attributable to the Alzheimer's Respite line item quarterly disbursement that was made in July 2012, while this year, the Department of Aging will make this payment in August.

Department of Developmental Disabilities
July disbursements for the Department of Developmental Disabilities totaled $20.4 million and were $0.2 million (0.9%) above July 2012 levels.

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 July in the new agency were $30.1 million, which is $5.7 million (23.6%) above combined spending of the two agencies in the previous year. This is due to a yearly bulk pharmaceutical purchase (made by the Office of Support Services for use in several Ohio institutions) made from a GRF source in the current year, as opposed to a non-GRF fund in FY 2013.

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. July disbursements in this category totaled $213.7 million and were $0.1 million (0.4%) higher than in July of the previous year.

Department of Rehabilitation and Correction
Department of Rehabilitation and Correction disbursements totaled $149.6 million in July and were $1.8 million (1.2%) above last year’s spending. This variance was largely in the Institutional Operations line item, where encumbrances were paid out more quickly than last year. However, these increases were largely offset by fewer disbursements in the medical services line.

Department of Youth Services
Department of Youth Services disbursements totaled $47.4 million in July and were $0.5 million (1.2%) below last year’s spending. This variance was largely in the RECLAIM Ohio line, where encumbrances were not paid out as quickly as they were last year.

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. July disbursements in this category totaled $32.6 million and were $4.3 million (15.3%) higher than in July of the previous year.

Department of Natural Resources
July 2013 disbursements for the Department of Natural Resources totaled $6.7 million. When compared to July 2012 actuals, in aggregate, actual disbursements were $2.1 million above last year (46.5%). This is primarily due to the following:

- July Division of Wildlife disbursements were $0.5 million lower than the same month in the previous year due to a payment being made in August that was originally planned for July.
- July Soil and Water Districts disbursements were $1.5 million above those of the same month of the previous year due to a payment being made in July that was originally planned for August.
- Coal Mine Safety Program disbursements in July were $0.2 million higher than the same month of the previous fiscal year as this is a new line item for fiscal year 2014.
- Division of Parks and Recreation disbursements in July were $1.0 million higher than the same month in the previous year due to more GRF funds being used for supplies, equipment, and maintenance in lieu of state special revenue funds.

Development Services Agency
Development Services Agency disbursements totaled $4.9 million and were $2.8 million (136%) above July 2012 disbursements due mostly to the timing of TourismOhio's media buys and invoicing and the payment of indirect costs for the Business Assistance line.

Department of Agriculture
Department of Agriculture disbursements totaled $1.3 million and were $0.2 million (13.4%) below July 2012 disbursements due to the improved cash situation of corresponding rotary funds for the Food Safety and Animal Disease Control lines, which should allow Agriculture to use its GRF more evenly throughout the year.

Department of Taxation
Department of Taxation disbursements for the month of July totaled $6.6 million and were $1.6 million (19.3%) below the amount expended in the same month in the previous fiscal year. Most of the year-over-year monthly decrease results from reduced postage, office supplies, and other non-payroll operating expenses being paid from the GRF relative to July 2012.

Property Tax Reimbursements

Property tax reimbursement payments are made to local governments and school districts to reimburse for revenues foregone as a result of the 10 percent and 2.5 percent rollback, as well as the homestead exemption. July disbursements for property tax reimbursements totaled $0.7 million and were $3.2 million (83.2%) below the $3.9 disbursed during the same month a year ago. July has historically been a light month for these disbursements with the level of reimbursements picking up considerably in the months of August through November as more and more counties submit their requests.

Debt Service

As previously discussed, this category now contains all debt service expenditures made from the GRF. July disbursements in this category totaled $251.8 million and were $23.4 million (10.2%) higher than for the same month in the previous fiscal year. The year-over-year increase in debt service expenditures for July were the result of a $55.5 million increase in payments on higher education and Public Works Commission general obligation debt service payments, as well as a

$13.0 million increase in debt service payments on certificates of participation made by the Department of Administrative Services for the OAKS system. These increases were partially offset by a $39.0 million year-over-year decrease in payments from the higher education lease-rental debt service line item.

Transfers Out

July transfers out of the GRF totaled $1,186.0 million and were $891.1 (302.2%) million higher than in the same month of the previous fiscal year. This large year-over-year increase is the result of a combination of $171.3 million in operating transfers from the fiscal year 2013 surplus revenue to various funds in the Controlling Board, Department of Job and Family Services, and the Department of Natural Resources as well as a $995.9 million transfer to the Budget Stabilization Fund to fill it to its statutory target.

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

Functional Reporting Categories Description	MONTH ACTUAL JULY	MONTH ESTIMATED JULY	MONTH $ VAR	MONTH % VAR	YEAR-TO-DATE YTD ACTUAL	YEAR-TO-DATE YTD ESTIMATE	YEAR-TO-DATE $ VAR	YEAR-TO-DATE % VAR
Primary and Secondary Education	574,117	574,117	N/A	N/A	574,117	574,117	N/A	N/A
Higher Education	152,280	152,280	N/A	N/A	152,280	152,280	N/A	N/A
Other Education	5,322	5,322	N/A	N/A	5,322	5,322	N/A	N/A
Medicaid	1,347,317	1,347,317	N/A	N/A	1,347,317	1,347,317	N/A	N/A
Health and Human Services	134,332	134,332	N/A	N/A	134,332	134,332	N/A	N/A
Justice and Public Protection	213,682	213,682	N/A	N/A	213,682	213,682	N/A	N/A
General Government	32,593	32,593	N/A	N/A	32,593	32,593	N/A	N/A
Property Tax Reimbursements	653	653	N/A	N/A	653	653	N/A	N/A
Capital Outlay	0	0	N/A	N/A	0	0	N/A	N/A
Debt Service	251,821	251,821	N/A	N/A	251,821	251,821	N/A	N/A
Total Expenditures & ISTV's	**2,712,116**	**2,712,116**	**N/A**	**N/A**	**2,712,116**	**2,712,116**	**N/A**	**N/A**
Transfers Out:								
BSF Transfer Out	995,930	995,930	N/A	N/A	995,930	995,930	N/A	N/A
Operating Transfer Out	190,050	190,050	N/A	N/A	190,050	190,050	N/A	N/A
Temporary Transfer Out	0	0	N/A	N/A	0	0	N/A	N/A
Total Transfers Out	**1,185,981**	**1,185,981**	**N/A**	**N/A**	**1,185,981**	**1,185,981**	**N/A**	**N/A**
Total Fund Uses	**3,898,096**	**3,898,096**	**N/A**	**N/A**	**3,898,096**	**3,898,096**	**N/A**	**N/A**

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

Functional Reporting Categories Description	MONTH				YEAR-TO-DATE			
	JULY FY 2014	JULY FY 2013	$ VAR	% VAR	ACTUAL FY 2014	ACTUAL FY 2013	$ VAR	% VAR
Primary and Secondary Education	574,117	840,632	(266,515)	-31.7%	574,117	840,632	(266,515)	-31.7%
Higher Education	152,280	160,179	(7,899)	-4.9%	152,280	160,179	(7,899)	-4.9%
Other Education	5,322	5,210	112	2.1%	5,322	5,210	112	2.1%
Medicaid	1,347,317	1,301,695	45,622	3.5%	1,347,317	1,301,695	45,622	3.5%
Health and Human Services	134,332	154,901	(20,569)	-13.3%	134,332	154,901	(20,569)	-13.3%
Justice and Public Protection	213,682	212,853	829	0.4%	213,682	212,853	829	0.4%
General Government	32,593	28,261	4,331	15.3%	32,593	28,261	4,331	15.3%
Property Tax Reimbursements	653	3,880	(3,226)	-83.2%	653	3,880	(3,226)	-83.2%
Capital Outlay	0	69	(69)	N/A	0	69	(69)	N/A
Debt Service	251,821	228,452	23,369	10.2%	251,821	228,452	23,369	10.2%
Total Expenditures & ISTV's	**2,712,116**	**2,936,130**	**(224,014)**	**-7.6%**	**2,712,116**	**2,936,130**	**(224,014)**	**-7.6%**
Transfers Out:								
BSF Transfer	995,930	235,096	760,834	323.6%	995,930	235,096	760,834	323.6%
Operating Transfer Out	190,050	59,758	130,292	218.0%	190,050	59,758	130,292	218.0%
Temporary Transfer Out	0	0	0	N/A	0	0	0	N/A
Total Transfers Out	**1,185,981**	**294,855**	**891,126**	**302.2%**	**1,185,981**	**294,855**	**891,126**	**302.2%**
Total Fund Uses	**3,898,096**	**3,230,985**	**667,111**	**20.6%**	**3,898,096**	**3,230,985**	**667,111**	**20.6%**

FUND BALANCE

The Office of Budget and Management (OBM) is currently working to complete the analysis necessary for the preparation of the fiscal year 2014 General Revenue Fund (GRF) balance. As mentioned above, OBM is currently finalizing the fiscal year 2014 projections of disbursements, transfers, and encumbrances. This analysis will be completed in August and reflected in the September 2013 Monthly Financial Report. The GRF ending fund balance for fiscal year 2013 was $963.1 million.

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.