OBM

March 10, 2014

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

FROM: Timothy S. Keen, Director TK

SUBJECT: Monthly Financial Report

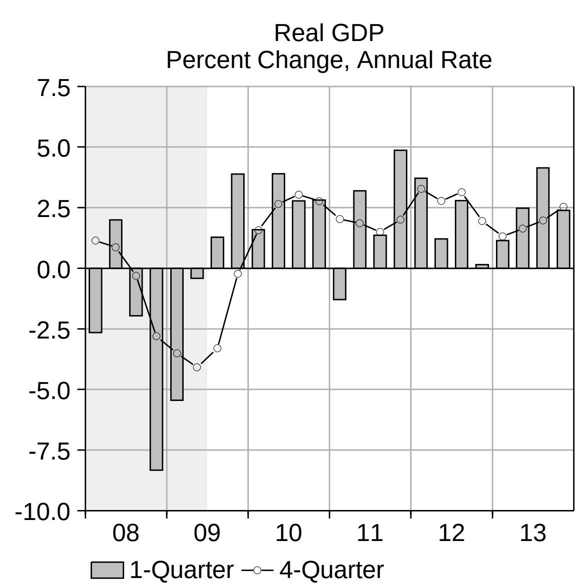
ECONOMIC SUMMARY

Economic Performance Overview

- Real GDP expanded at a revised annual rate of 2.4% in the fourth quarter, down from the initially-reported 3.2% and from the 4.1% rate in the third quarter. Year-over-year growth was 2.5%. The outlook continues to call for slower growth in the first quarter, followed by gradual recovery to near 3.0% or higher by the end of the year.
- U.S. employment increased by 175,000 jobs in February. The unemployment rate ticked up to 6.7% from the expansion-low of 6.6% reached in January primarily due to an increase in the number of job seekers.
- Ohio employment increased by 16,700 in January to the highest level since the recession. In addition, job gains for 2013 were revised upward substantially so that employment growth from December 2012 is now estimated to be 67,700 jobs. Job growth for 2012 was also revised upward. The Ohio unemployment rate decreased to 6.9% in January – the lowest level since July 2008 – based on revised data.
- Leading economic indicators remain consistent with uninterrupted growth at a modest pace across the country and in Ohio despite broad-based weakness across indicators attributed to the particularly harsh winter weather.

Economic Growth

Real GDP growth was revised down to 2.4% in the fourth quarter from the initially-reported 3.2%. For the year as a whole, real GDP growth slowed to 1.9% from 2.8% in 2012 even as activity accelerated in the second half of 2013. Real GDP increased at an annual rate of 3.3% from the second quarter to the fourth quarter, up from 1.8% during the previous two quarters. Compared with the same quarter a year earlier, real GDP increased 2.5% – the fastest 4-quarter growth rate since 3.1% in the third quarter of 2012.



Since the expansion officially began in the second quarter of 2009, real GDP has advanced at an annual rate of 2.3% – the slowest pace during the first eighteen 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 3.2% on average during the first eighteen quarters of the relatively moderate expansions following the 1990-91 and 2001 recessions. The performance of final sales, calculated by excluding the change in inventories from GDP, during the current expansion has been even weaker, with growth of only 1.9%, compared with approximately 3.0% during the previous two expansions.

Growth in the fourth quarter was driven by personal consumption expenditures, exports, nonresidential fixed investment, and private inventory investment. Federal government spending and investment in residential structures subtracted from overall GDP growth. Imports, which are subtracted from other components of GDP to arrive at the total, increased.

The **deceleration in fourth quarter** real GDP primarily resulted from the slowdown in private inventory investment, the larger decrease in federal government spending, and the downturns in investment in residential structures and state and local government spending. Faster growth in exports, personal consumption expenditures, and nonresidential fixed investment and the deceleration in imports partially offset the effects of slower growth in other categories.

Leading indicators remain consistent with uninterrupted growth into 2014. The 4-week moving average of **ECRI's Weekly Leading Index** decreased during each of the four weeks ending February 21st, trimming the 26-week smoothed rate of change to 1.7% from 4.2% only a month earlier. As with many indicators, it appears likely that the recent weakness is weather-related and temporary. As a result, the index remains consistent with continued economic growth.

At the same time, the composite **Leading Economic Index** from the Conference Board has remained solid. The index managed a moderate 0.3% increase in January, but increased at an annual rate of 6.3% during the most recent six months. Six out of the ten components made positive contributions during January. The strongest contributions again came from the leading credit index and the ISM new orders index. The recent gains in the index resulted in a 6-month smoothed rate of change of 5.2% in January – down from a spike up to 6.3% in November, but up from the trough of 1.3% in August 2012.

The economy in and around Ohio continued to expand at a moderate pace during the period that ended during mid to late-February, according to a survey by the Federal Reserve Bank of Cleveland. Severe weather resulted in a slowdown across industries, but it was viewed primarily as a temporary inconvenience.

According to the **Ohio Coincident Economic Index**, compiled by the Federal Reserve Bank of Philadelphia, the Ohio economy has slowed over the past half-year or so. The index edged higher by just 0.1% in December after no change in November and declines of 0.1% each in September and October. 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. Since the payroll employment data incorporated into the index at this point are prior to the upward revisions just released by the Ohio Department of Job and Family Services (ODJFS), the index estimates for the recent past will likely be revised upward when the new data is incorporated.

Across the 50 states, the Coincident Economic Index was higher than one month earlier in 41 states, up from 37 states in July. The index also was higher than three months earlier in 46 states – up from 40 states in July. 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 national economy, and thus in the Ohio economy as well.

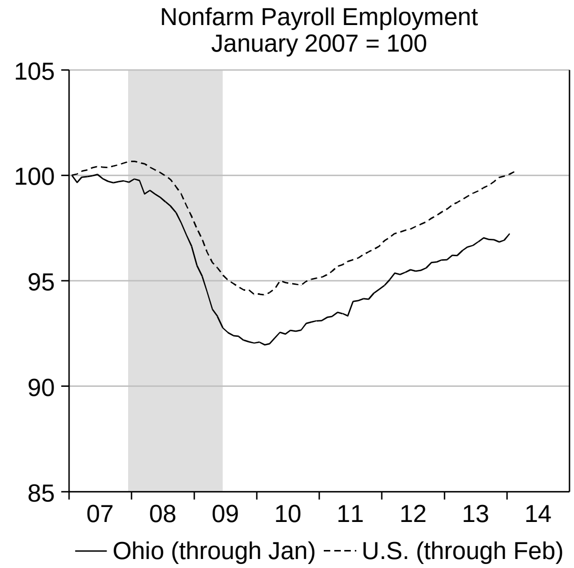
The companion **Ohio Leading Economic Index** stayed in the sub-1.5% range for the seventh month in a row in December. The index, which is compiled by the Federal Reserve Bank of Philadelphia, is designed to predict the rate of increase in the coincident index during the next six months. The index registered its first negative reading (-0.2%) since the recession in August, and then improved to +0.5% in September and +1.2% in October before settling to +1.0% in November and +0.8% in December. 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 winter but at the recent moderate pace.

The **Ohio Leading Indicator** from the Ohio Bureau of Labor Market Information tells a similar story for Ohio. The index was unchanged for the fourth out of the last five months in November. It was higher by only 0.6% from six months earlier, compared with a 1.7% increase during the previous six-month stretch. Compared with a year earlier, the indicator was higher by 1.2% in November.

The diffusion of positive readings in the individual leading indexes from the Philadelphia Federal Reserve Bank across states remained high. The leading index was negative for only three states in December (Alaska, Iowa and Montana), down from an expansion-high of nine states in May. The number of states with negative readings last increased to double-digits in May 2007 – seven months prior to the onset of the last recession – so, the breadth of increases across states strongly suggests continued expansion in the national economy at least in the near term. The consensus among forecasters is that real GDP will slow in the first half of this calendar year before picking up steam heading into late 2014 and early 2015.

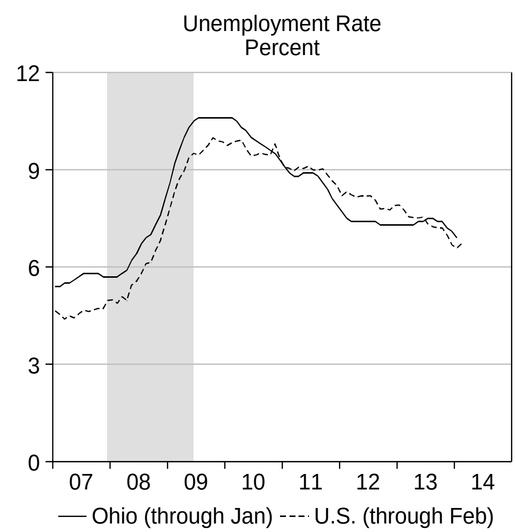
Employment

Labor markets continued to improve at a modest pace in February. **Total national nonfarm payroll employment** increased by 175,000 jobs in February, well above the consensus forecast. The combined December and January increase was revised higher by 25,000 workers. Despite the better job growth than in the two previous months, weather remained a factor in February, as 6.855 million workers reportedly worked part-time instead of full-time – the highest number since January 1996, and the highest level of any February since the federal government began tracking the statistic in 1977. The comparable number in January was 694,000 workers. Weather was cited as the reason that 601,000 workers did not work at all in February, compared with 262,000 workers in January. Total hours worked during February was 0.4% lower than in January.



The 175,000 increase in payrolls compared very favorably with the increase of 107,000 jobs on average in December and January. The average monthly job gain during the twelve months prior to last December was 205,000 jobs. During the last twelve months, total payrolls increased by 2.158 million jobs, or an average of 180,000 jobs per month.

The **unemployment rate** increased from 6.6% in January back to 6.7% in February. The January level was the lowest level for the unemployment rate since October 2008 – at the inception of the financial crisis. The broadest measure of unemployment – the so-called U-6 unemployment rate – edged down to 12.6% in February – the lowest level since October 2008.



Job gains were concentrated in professional and business services (+79,000), leisure and hospitality (+25,000), and education and health services (+33,000). Information employment decreased by 16,000 jobs, retail employment fell by 4,000 jobs. Public sector employment increased by 13,000 jobs, but remained just below the December level.

On March 7th, ODJFS released Ohio employment data for January, along with revisions to employment data for the last two years. These revisions are the March "benchmark" revisions done by the Bureau of Labor Statistics (BLS), wherein the monthly estimates from the payroll survey are benchmarked to employment counts from a census of the employer population. At this point, individual states know their own data, but the BLS will not put out a statement on all 50 states until March 17th, and the data will not be available on BLS Web databases until March 21st.

There were small upward revisions to Ohio employment in 2011, but the revisions were significant in 2012 and 2013. The 2012 gain in total employment (measured from December to December) was revised upward from 40,000 jobs to 76,000 jobs. Similarly, the 2013 gain in total employment was revised upward from 26,000 jobs to 51,000 jobs.

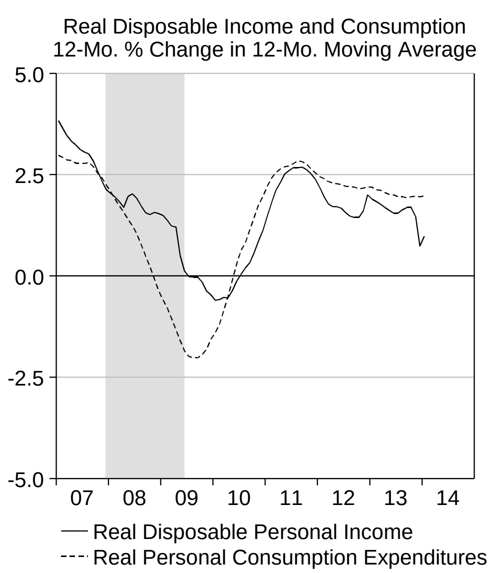
Total employment gains over the past three years, starting in January 2011, are now measured at 224,000 jobs (4.4%), and the private sector gain is slightly higher, at 238,000 jobs (5.6%).

Looking at the monthly picture for January, **Ohio employment** increased by 16,700 jobs to the highest level since the recession. The January change brought the increase since December 2012 to 67,700 jobs. During that period, employment growth was concentrated in professional and business services (+20,300), construction (+12,900), and leisure and hospitality (+11,700). Employment increased by 10,000 jobs each in manufacturing and educational and health services. Employment decreased in government (-2,600) and information (-1,800).

The **Ohio unemployment rate** decreased to 6.9% in January – the lowest level since July 2008 – based on revised data. Just as data revisions show stronger payroll employment growth than previously reported, revised unemployment figures show a different pattern than before. Rather than showing the Ohio unemployment rate hitting a low of 6.7 percent in December 2012 and then drifting upward, the revised data show the unemployment rate remaining in a narrow band of 7.3% to 7.5% for 21 months from February 2012 through October 2013, before falling by 0.5% in the last three months. The 0.6 percentage point reduction in the unemployment rate since August of last year resulted from a 38,000 person decrease in the number of unemployed that was closely matched by a 33,000 increase in total employment. The labor force was little changed, down by 5,000 people.

Consumer Income and Consumption

Personal income increased $43.9 billion, or 0.3%, in January after no change in December. Wage and salary disbursements, which account for approximately one-half of personal income, increased $15.4 billion, or 0.2%, after a 0.1% decline in the month before. Compared with a year ago, personal income was higher by 4.1% and wage and salary disbursements were higher by 3.6%.



Personal current transfer receipts accounted for $29.8 billion of the $43.9 billion increase in personal income, in part reflecting an estimate of increased Medicaid benefits due to expanded coverage under the Affordable Care Act (ACA) and increases in several refundable tax credits, including health insurance premium subsidies paid through ACA exchanges. Personal current transfer receipts were held back by the expiration of the Emergency Unemployment Compensation program.

Personal consumption expenditures increased $48.1 billion, or 0.4%, outstripping the increase in income for the fourth month in a row. Spending for durable goods and non-durable goods declined by 0.3% and 0.7%, respectively. The 1% decline in unit sales of light motor vehicles was a factor in the decline in spending on durable goods. Spending for services increased 0.9%, mostly due to spending on health care services and weather-related outlays for electricity and natural gas for residential heating. At 4.3%, the saving rate was the lowest since February 2013.

As shown in the nearby chart, the smoothed rates of change in real income and in consumption have diverged in recent months. Income growth has dropped off and spending growth has held steady. The pattern of consumption is typically smoother than that of income, as households look beyond temporary increases and decreases in income when planning spending.

Retailers in and around Ohio expressed disappointment with January sales, according to the survey by the Federal Reserve for its March report on Current Economic Conditions (Beige Book). Revenues were reported lower in January than in December and lower than in January a year ago. Not surprisingly, cold-weather related items were in high demand. Most of the weakness in sales was attributed to poor weather. Retailers expect somewhat higher sales in the second quarter than in the first quarter.

Consumer confidence basically held its ground in February. The Conference Board measure was down slightly due to deterioration in expectations that more than offset an improved assessment of current conditions. The University of Michigan measure increased marginally, as a modest improvement in expectations just offset a small decline in the assessment of current conditions. Survey measures of consumer confidence may provide important insight into the state of the economy while other measures of economic activity are buffeted by weather. As such, the January and February readings from the consumer confidence measures are evidence that the economy has continued to improve despite the harsh winter weather.

Manufacturing

Industrial production decreased 0.3% in January, reversing the 0.3% rise in December. Excluding the 4.1% weather-induced spike in utility output, manufacturing production decreased 0.8%. Mining output fell 0.9%. Compared with a year earlier, industrial production was higher by 2.9% and manufacturing output was higher by only 1.3%. Capacity use decreased by 0.5 percentage points to 78.5%, but was higher than all other months – except November and December – since July 2008.

Of particular importance to the **Ohio economy**, motor vehicle assemblies decreased 9.1% to a seasonally adjusted annual rate of 10.3 million units in January – down sharply from December but only 438,000 units below the average during the previous twelve months. Production across other industries that are important to Ohio was mixed and little changed on the month. Production of **primary metal** decreased by 0.1% in January, production of **fabricated metal** decreased 0.4%, and production of **machinery** increased 0.6%. 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.

Factories in and around Ohio reported that demand remained at a moderate-to-strong level during late January and into February, according to the Cleveland Federal Reserve Bank survey. Production setbacks were attributed to the negative effects of the harsh weather or to the normal seasonal pattern. Disruptions to the supply chain were viewed as temporary setbacks that will not have a lasting impact on operations. Most respondents to the survey anticipated rising production in the months ahead, especially in the areas of aerospace, capital equipment, housing and oil and gas.

Purchasing managers at manufacturing firms reported more broad-based improvements in February than in January. The **purchasing managers index** increased to 53.2 in February from 51.3 in January. The index had averaged 56.3 during the six months ending in December – well above the neutral level of 50. The new orders index increased from 51.2 to 54.5, as the production index fell from 54.8 to 48.2, presumably due to the difficult weather, which was commented on by many of the respondents to the survey

<u>Construction</u>

Construction put-in-place increased by 0.1% in January, but the December change was revised up substantially from 0.1% to 1.5%. The weak month followed growth at a 13.2% annual pace during the four previous months. From the low point in February 2011, construction spending has increased 25.1%, or at an annual rate of 7.5% during the 35 months ending in January 2014. Despite this gain, the pace of construction remains 22.3% below the monthly peak reached in March 2006.

Compared with a year earlier, total construction put-in-place was higher by 9.3% in January. Private construction was up 12.3%, while public construction was up 2.5%. Propelled by both single-family and multi-family categories, private residential construction was higher by 14.6%. Nonresidential construction increased 9.7% from January 2013, fueled by lodging (+47.8%), communication (+41.0%), office (+17.0%) and commercial (+14.9%). Only religious (-12.2%) and healthcare (-3.9%) posted declines among nonresidential categories.

Housing starts slipped a bit across the country in January, as total starts declined 0.6% on a 3-month moving average basis. Both single-family and multi-family starts posted sharp weather-related declines across the Midwest in January, down 15.1% and 31.8%, respectively, on a 3-month moving average basis. Although builders in and around Ohio note that severe weather has slowed construction activity, projects have also been dropped due to financing issues or last minute decisions to not proceed, according to the Fed survey.

Housing permits were down across the country and in the Midwest. U.S. permits decreased 3.3% in January on a 3-month moving average basis to 5.5% above the year earlier level. The year-over-year rate of change was 31.8% in January 2013. Total permits fell 2.4% in the Midwest, with single family permits down 1.7%, following declines of 7.6% and 3.2%, respectively, in December, all on a 3-month moving average basis.

Existing home sales decreased across the country and in the Midwest for the fourth month in a row on a 3-month moving average basis. Nationally, sales fell 3.4% in December after a 2.6% decrease in December. In the Midwest, sales fell 4.9% in January after a 3.1% decrease in December. New home sales moved higher by 1.2% across the country in January on a 3-month moving average basis, but fell 10.1% in the Midwest – the third decline in a row.

Despite the weakness in sales, the **inventory of homes for sale** remained relatively stable in January. Available existing homes for sale increased marginally to a still-low level of only 4.9 months of supply at the current pace of sales. The **inventory of new homes for sale** was unchanged in absolute terms and fell to 4.7 months of supply at the current pace of sales.

Home prices increased for the twenty-third straight month in December, according to the S&P/Case-Shiller Index of prices in 20 major markets. The index was 13.5% above its year ago level and 21.7% above its recession trough, but remained 19.3% below the peak reached in April 2006. Home prices in Cleveland decreased by 0.2% in December – the first decline since July. Cleveland home prices are still 4.5% higher than a year earlier, but remain 13.9% below the peak reached in January 2006.

REVENUES

February **GRF receipts totaled $1,771.6 million** and were $68.9 million (3.7%) below the estimate. Monthly tax receipts totaled $1,118.6 million and were $31.2 million (2.9%) above the estimate, while non-tax receipts totaled $653.0 million and were $99.9 million (13.3%) below estimate. Variances for the fiscal year to date by category are provided in the following table ($ in millions).

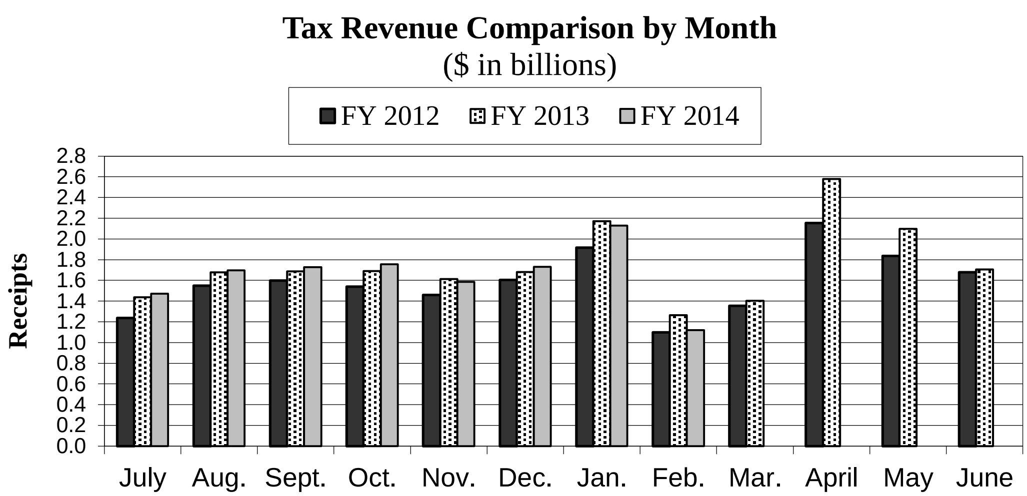
Category	Includes:	YTD Variance	% Variance
Tax receipts	Sales & use, personal income, corporate franchise, financial institutions, commercial activity, MCF, public utility, kilowatt hour, foreign & domestic insurance, other business & property taxes, cigarette, alcoholic beverage, liquor gallonage, & estate	$217.3 million	1.7%
Non-tax receipts	Federal grants, earnings on investments, licenses & fees, other income, intrastate transfers	$50.4 million	0.8%
Transfers	Budget stabilization, liquor transfers, capital reserve, other	$46.1 million	698.9%
TOTAL REVENUE VARIANCE:		$313.9 million	1.6%

On a year-over-year basis, monthly receipts were $715.6 million (28.8%) lower than they were in February of the previous year, primarily due to the combination of $119.2 million (44.6%) and $494.4 million (99.8%) decreases in the personal income tax and other income receipts, respectively. The combination of income tax changes as well as a large refund in the non-auto sales tax resulted in total tax receipts that were $146.0 million (11.5%) below last year's collections for February. The decrease in the income tax is largely the impact of the 9% cut in withholding rates implemented in September 2013, and the first impacts of the 2013 tax rate cuts (8.5%) and the small business deduction (50%). The drop in other income was the result of the state receiving the payment from JobsOhio for leasing the state's liquor franchise in February of last year. As planned, there were no liquor profits transfers this month, since the liquor enterprise and its profits have been leased to JobsOhio.

GRF Revenue Sources Relative to Monthly Estimates – February 2014
($ in millions)

Individual Sources Above Estimate		Individual Sources Below Estimate	
Commercial Activity Tax	$23.0	Auto Sales & Use Tax	($5.5)
Financial Institutions Tax	$38.3	Cigarette Tax	($4.3)
Natural Gas Distribution Tax (MCF)	$5.9	Corporate Franchise Tax	($4.9)
Personal Income Tax	$46.5	Federal Grants	($98.0)
		Foreign Insurance Tax	($13.5)
		ISTV's	($1.2)
		Kilowatt-Hour Tax	($2.3)
		Non-Auto Sales & Use Tax	($53.5)
		Other Income	($1.2)
Other Sources Above Estimate	$1.8	Other Sources Below Estimate	($0.2)
Total above	**$115.6**	**Total below**	**($184.5)**

(Note: Due to rounding of individual sources, the combined sum of sources above and below estimate may differ slightly from the total variance.)



Non-Auto Sales and Use Tax

February non-auto sales and use tax receipts totaled $532.7 million and were $53.5 million (9.1%) below the estimate. This monthly variance was in large part due to a $32.0 million refund against prior years' activity that was not anticipated at the time estimates were generated. These refunds were mostly unrelated to sales to households, but were instead refunds previously reported on business-to-business sales that were later determined to not be taxable. As such, they essentially are unconnected to any current-year activity and do not have implications for performance the rest of this year. Due to February's shortfall, the year-to-date variance has now increased to -$63.7 million (-1.2%).

The $21.5 million of shortfall that is not due to prior-year activity refunds may have been connected with harsh winter weather. There is anecdotal evidence that a number of states saw weaker sales tax results in February than they had been seeing for the fiscal year. In addition, the Ohio region (Fourth District) section of the Federal Reserve "Beige Book" reported that retailers saw weather as a factor in weak retail sales: "Revenues were below those seen in December, and they were down compared to a year earlier... Most of the decline was attributed to persistently poor weather conditions."

On a year-over-year basis, February 2014 receipts were $14.6 million (2.7%) below the $547.3 million collected in the previous fiscal year. As described above, this month's decrease was due to the large refund which had the effect of temporarily offsetting the impact of growth in the tax base and of the rate change enacted in H.B. 59. (The state tax rate increased from 5.5% to 5.75% in September, which has since boosted collections by approximately 4.5% relative to last year.)

Auto Sales Tax

February auto sales tax revenues fell short of the estimate for the third time this fiscal year, as receipts totaled $71.3 million and were $5.5 million (7.2%) below the estimate. Year-to-date collections remained above estimates by $16.4 million (2.2%), despite the slowdown in recent months, which could be attributed to extreme winter conditions. On a year-over-year basis, monthly receipts were virtually unchanged from February of the previous year, while year-to-date receipts remained $61.8 million (9.0%) above collections for the same period in the prior fiscal year. As mentioned in the non-auto sales tax section, this year-over-year increase was partly due to the rate changes enacted in H.B. 59.

Personal Income Tax

February personal income tax receipts totaled $147.9 million and were $46.5 million (45.9%) above the estimate. Similar to January, the majority of this overage was due to lower-than-estimated refunds. February refunds totaled $479.9 million and were $32.9 million (6.4%) short of the estimate of $512.9 million. Refunds are currently expected to fall more in line with estimates as the tax filing season progresses in the coming months, but there is substantial uncertainty about the course of the filing season, for reasons that we expand upon below.

H.B. 59, the current operating budget, contained significant personal income tax cuts for tax year 2013. Tax rates were reduced by 8.5% for all brackets (withholding rates were actually cut by 9%, as discussed below) and small businesses were allowed to deduct 50% of their business income, up to a cap of $250,000 per investor. There was also a new earned income tax credit (EITC) created equal to 5% of the federal credit (nonrefundable). Because these changes were enacted halfway through the tax year, estimating the revenue impact by type of payment and month was particularly difficult. History seems to suggest that changes made partway through the year have smaller impacts on quarterly estimated payments than changes that are fully known before a year begins, and so there are larger impacts on refunds and annual tax due payments. However, the exact magnitude of these impacts is still quite uncertain. Furthermore, even when one concludes that most of the impact will be on refunds or tax due payments, there is still the question of what point in the filing season these impacts will appear. Higher refunds due to the new EITC can be expected to happen earlier in the filing season, since these filers tend to file earlier to get their refunds. Higher refunds or lower tax due payments due to the new small business deduction will tend to have an impact later in the filing season, since these taxpayers have somewhat more complex returns that take longer to prepare.

The impact of this uncertainty is that it is very hard to interpret the year to date results at this point. The fact that refunds through February are so far below the estimate leads OBM to hypothesize that some portion of that refund shortfall may persist and not be lost as the filing season progresses, but the probability assigned to that outcome – or any other particular outcome – at this point is necessarily fairly low.

The withholding component reversed its past three-month-trend of shortfall. February receipts for this component totaled $630.9 million and were $13.9 million (2.3%) above the estimate of $616.9 million. The year-to-date variance also moved into positive territory by $13.2 million (0.3%). Two other components, the quarterly estimated payments and payments associated with annual returns also contributed to the overage with revenues $3.6 million each over their respective estimates. The only component with a shortfall in February was the miscellaneous component, which was $4.9 million (26.3%) below estimate. This category, which consists mostly of attorney general collections of income tax due, is volatile from month to month and thus difficult to estimate.

On a year-over-year basis, February personal income tax receipts were $119.2 million (44.6%) below the February 2013 level. The refunds were the main source of this decrease, being $100.4 million (26.5%) higher than the level recorded in the same month of the previous fiscal year. The withholding component also pulled back by $13.2 million (2.1%) compared to the same month of the prior fiscal year, primarily due to the 9% tax rate cut.

Year-to-date, personal income tax receipts for the first eight months in fiscal year 2014 exceeded the estimate by $280.9 million (5.4%), but were $297.8 million (5.1%) lower than in the corresponding period of fiscal year 2013. Collections were lower than the prior year primarily due to tax rate cuts and the new small business deduction enacted for tax year 2013 in H.B. 59. Year over year income growth may have also been subdued by an acceleration of income into tax year 2012 to avoid federal tax increases, thus boosting fiscal year 2013 income tax revenues.

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

	ESTIMATE FEB	ACTUAL FEB	$ VAR FEB	ESTIMATE Y-T-D	ACTUAL Y-T-D	$ VAR Y-T-D
Withholding	$616.9	$630.9	$14.0	$5,294.7	$5,307.9	$13.2
Quarterly Est.	$5.5	$9.1	$3.6	$787.1	$845.5	$58.4
Trust Payments	$1.1	$1.5	$0.4	$29.9	$25.5	($4.4)
Annual Returns & 40 P	$5.4	$9.0	$3.6	$164.9	$199.5	$34.6
Other	$18.6	$13.7	($4.9)	$86.7	$69.4	($17.3)
Less: Refunds	($512.9)	($479.9)	$33.0	($925.8)	($725.4)	$200.4
Local Distr.	($33.2)	($36.3)	($3.1)	($233.9)	($237.9)	($4.0)
Net to GRF	**$101.4**	**$147.9**	**$46.5**	**$5,203.6**	**$5,484.5**	**$280.9**

Corporate Franchise Tax

As noted in previous months' reports, although the corporate franchise tax has been eliminated, prior year settlement activity continues and resulted in a refund of $4.9 million in February. Thus, there continues to be some small amount of monthly activity for this tax, whether settlement payments or refunds, which by definition create variances, since the estimates for this tax are now zero. On a year-over-year basis, February 2014 receipts for this tax source were $77.2 million (106.7%) below those of February 2013.

Financial Institutions Tax

February receipts totaled $42.2 million and were $38.3 million above the estimate for this recently introduced tax. As mentioned in last month's report, this overage should be viewed along with the shortfall of last month, since the due date was January 31st, which resulted in spill-over effects into February. Combining the two months' performances provides a clearer picture – the combined receipt for these first two months totaled $83.4 million and was $5.5 million above the combined estimate.

Commercial Activity Tax

February GRF receipts from the commercial activity tax (CAT) totaled $174.2 million and were $23.0 million (15.2%) above estimate. Year-to-date GRF CAT receipts totaled $592.4 million and were $12.8 million (2.1%) below estimate.

All-funds CAT receipts for February (net of refunds) totaled $375.7 million and were $23.7 million above the $352.0 million estimate. All-funds receipts for the year-to-date totaled $1,255.9 million and were $58.9 million (4.5%) below the estimate.

Year-to-date, GRF CAT receipts have decreased from fiscal year 2013 by $11.8 million (2.1%), while all-funds CAT receipts have increased by $36.0 million (2.9%) from the previous fiscal year. The explanation for the decline in GRF receipts, while all-funds revenues have grown, is that starting with November, some CAT receipts are being deposited in the new motor fuel fund. Thus, the 50% share of CAT revenues going to the GRF is now being calculated against a smaller base that excludes motor fuel related collections ($52.3 million year-to-date).

Kilowatt-Hour Tax

February kilowatt hour tax receipts totaled $28.1 million and were $2.3 million (7.5%) below estimate for the month, after being over the estimate for the last three months. Year-to-date collections therefore worsened slightly and were below the estimate by $9.9 million (4.7%). On a year-over-year basis, this tax source was $5.0 million (15.2%) below the February 2013 level.

Natural Gas Distribution Tax

The natural gas distribution tax produced $9.1 million (132.8%) more than the same month last year. This growth was likely fueled by the frigid temperatures experienced this winter. The natural gas distribution tax was also above the monthly estimate of $10.1 million by $5.9 million (58.5%).

Foreign Insurance Tax

February receipts for the foreign insurance tax totaled $29.2 million and were $13.5 million (31.6%) below the estimate of $42.7 million. This variance was likely attributable to the timing issue where payments due for February were recorded on March 3rd, the first working day of March. OBM expects the combined collections of February and March to at least meet the combined two month estimates for this tax.

Cigarette Tax

Cigarette tax receipts for the month of February totaled $52.4 million and were $4.3 million (7.6%) below the estimate of $56.7 million. On a year-over-year basis, February 2014 cigarette tax receipts were $4.4 million (7.8%) below the level for the same month of the previous fiscal year. Year-to-date, the collection for the first eight months of fiscal year 2014 was slightly below the estimate by $0.8 million (0.2%), and was lower by $4.4 million (0.9%) than the level in the corresponding period of fiscal year 2013.

GRF non-tax receipts totaled $653.0 million in February and were $99.9 million (13.3%) below estimate. This shortage was almost entirely due to Medicaid revenue received under the federal grants line. On a year-over-year basis, February non-tax receipts were $569.6 million (46.6%) lower than February 2013 due largely to the drop in other income tied to the JobsOhio payment received in February of last year. There were no **GRF transfers** for February. Year-to-date, transfers remained unchanged at $52.7 million and were $46.1 million (698.9%) above estimates, mostly due to November's transfer back of $34.6 million in CAT revenue into the GRF, following the determination that the original fiscal year 2013 transfer of revenue from the GRF to the motor fuel fund had been too high. This reconciliation, required by statute, was made once actual tax return data became available.

Table 1

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

REVENUE SOURCE	MONTH ACTUAL FEBRUARY	MONTH ESTIMATE FEBRUARY	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	532,746	586,200	(53,454)	-9.1%	5,243,850	5,307,500	(63,650)	-1.2%
Auto Sales & Use	71,303	76,800	(5,497)	-7.2%	750,588	734,200	16,388	2.2%
Subtotal Sales & Use	604,049	663,000	(58,951)	-8.9%	5,994,439	6,041,700	(47,261)	-0.8%
Personal Income	147,915	101,400	46,515	45.9%	5,484,450	5,203,600	280,850	5.4%
Corporate Franchise	(4,864)	0	(4,864)	N/A	(10,099)	0	(10,099)	N/A
Financial Institutions Tax	42,220	3,900	38,320	982.6%	83,513	77,900	5,613	7.2%
Commercial Activity Tax	174,237	151,200	23,037	15.2%	592,359	605,139	(12,780)	-2.1%
Public Utility	22,072	21,800	272	1.2%	70,168	67,900	2,268	3.3%
Kilowatt Hour	28,112	30,400	(2,288)	-7.5%	202,054	211,950	(9,896)	-4.7%
MCF Tax	16,004	10,100	5,904	58.5%	36,680	28,000	8,680	31.0%
Foreign Insurance	29,194	42,700	(13,506)	-31.6%	175,835	185,400	(9,565)	-5.2%
Domestic Insurance	51	0	51	N/A	149	1,000	(851)	-85.1%
Other Business & Property	21	0	21	N/A	476	0	476	N/A
Cigarette	52,418	56,700	(4,282)	-7.6%	490,891	491,700	(809)	-0.2%
Alcoholic Beverage	4,052	3,300	752	22.8%	36,721	35,400	1,321	3.7%
Liquor Gallonage	3,055	2,900	155	5.3%	28,242	27,600	642	2.3%
Estate	85	0	85	N/A	30,129	21,400	8,729	40.8%
Total Tax Receipts	1,118,622	1,087,400	31,222	2.9%	13,216,006	12,998,689	217,317	1.7%
NON-TAX RECEIPTS								
Federal Grants	645,258	743,275	(98,017)	-13.2%	6,200,391	6,117,211	83,181	1.4%
Earnings on Investments	0	0	0	N/A	8,420	5,500	2,920	53.1%
License & Fees	6,490	6,000	490	8.2%	20,542	48,000	(27,458)	-57.2%
Other Income	1,208	2,375	(1,167)	-49.1%	13,031	19,000	(5,969)	-31.4%
ISTV'S	0	1,250	(1,250)	-100.0%	7,741	10,000	(2,259)	-22.6%
Total Non-Tax Receipts	652,956	752,900	(99,944)	-13.3%	6,250,125	6,199,711	50,415	0.8%
TOTAL REVENUES	1,771,578	1,840,300	(68,722)	-3.7%	19,466,131	19,198,400	267,732	1.4%
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	0	200	(200)	N/A	47,215	6,600	40,615	615.4%
Temporary Transfers In	0	0	0	N/A	5,516	0	5,516	N/A
Total Transfers	0	200	(200)	N/A	52,730	6,600	46,130	698.9%
TOTAL SOURCES	1,771,578	1,840,500	(68,922)	-3.7%	19,518,862	19,205,000	313,862	1.6%

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

	MONTH				YEAR-TO-DATE			
REVENUE SOURCE	FEBRUARY FY 2014	FEBRUARY FY 2013	$ VAR	% VAR	ACTUAL FY 2014	ACTUAL FY 2013	$ VAR	% VAR
TAX RECEIPTS								
Non-Auto Sales & Use	532,746	547,313	(14,567)	-2.7%	5,243,850	4,907,438	336,412	6.9%
Auto Sales & Use	71,303	71,226	78	0.1%	750,588	688,799	61,790	9.0%
Subtotal Sales & Use	604,049	618,539	(14,489)	-2.3%	5,994,439	5,596,237	398,202	7.1%
Personal Income	147,915	267,162	(119,247)	-44.6%	5,484,450	5,782,225	(297,776)	-5.1%
Corporate Franchise	(4,864)	72,363	(77,227)	-106.7%	(10,099)	152,139	(162,239)	-106.6%
Financial Institutions Tax	42,220	0	42,220	N/A	83,513	0	83,513	N/A
Commercial Activity Tax	174,237	173,940	297	0.2%	592,359	604,191	(11,832)	-2.0%
Public Utility	22,072	23,000	(928)	-4.0%	70,168	68,005	2,164	3.2%
Kilowatt Hour	28,112	33,160	(5,048)	-15.2%	202,054	215,279	(13,226)	-6.1%
MCF Tax	16,004	6,875	9,129	132.8%	36,680	23,834	12,846	53.9%
Foreign Insurance	29,194	7,534	21,659	287.5%	175,835	150,416	25,419	16.9%
Domestic Insurance	51	0	51	N/A	149	4,625	(4,476)	-96.8%
Other Business & Property	21	65	(44)	-68.0%	476	436	40	9.1%
Cigarette	52,418	56,865	(4,447)	-7.8%	490,891	495,317	(4,426)	-0.9%
Alcoholic Beverage	4,052	2,034	2,018	99.2%	36,721	34,093	2,628	7.7%
Liquor Gallonage	3,055	2,948	107	3.6%	28,242	27,364	878	3.2%
Estate	85	117	(32)	-27.5%	30,129	73,696	(43,567)	-59.1%
Total Tax Receipts	1,118,622	1,264,602	(145,980)	-11.5%	13,216,006	13,227,858	(11,852)	-0.1%
NON-TAX RECEIPTS								
Federal Grants	645,258	710,539	(65,281)	-9.2%	6,200,391	5,526,128	674,263	12.2%
Earnings on Investments	0	0	0	N/A	8,420	4,448	3,972	89.3%
License & Fee	6,490	7,414	(925)	-12.5%	20,542	24,508	(3,966)	-16.2%
Other Income	1,208	495,653	(494,445)	-99.8%	13,031	502,971	(489,940)	-97.4%
ISTV'S	0	8,999	(8,998)	-100.0%	7,741	21,314	(13,573)	-63.7%
Total Non-Tax Receipts	652,956	1,222,605	(569,649)	-46.6%	6,250,125	6,079,369	170,757	2.8%
TOTAL REVENUES	1,771,578	2,487,207	(715,629)	-28.8%	19,466,131	19,307,227	158,904	0.8%
TRANSFERS								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Liquor Transfers	0	0	0	N/A	0	88,000	(88,000)	N/A
Transfers In - Other	0	0	0	N/A	47,215	9,251	37,964	410.4%
Temporary Transfers In	0	0	0	N/A	5,516	0	5,516	N/A
Total Transfers	0	0	0	N/A	52,730	97,251	(44,521)	-45.8%
TOTAL SOURCES	1,771,578	2,487,207	(715,629)	-28.8%	19,518,862	19,404,478	114,384	0.6%

DISBURSEMENTS

February GRF disbursements, across all uses, totaled $2,334.1 million and were $46.1 million (2.0%) above estimate. This was primarily attributable to higher than estimated disbursements in both the Health and Human Services and Debt Service categories. On a year-over-year basis, February total uses were $129.0 million (5.9%) higher than those of the same month in the previous fiscal year, with the Medicaid, Health and Human Services, and Debt Services categories largely responsible for the increase, offset partially by the decrease in Primary and Secondary Education. Year-to-date variances by category are provided in the table below.

Category	Description	YTD Variance	% Variance
Expenditures and transfers between agencies (ISTVs)	State agency operations, subsidies, tax relief, debt service payments, and pending payroll (if applicable)	($12.6 million)	-0.1%
Transfers	Temporary or permanent transfers out of the GRF that are not agency expenditures	($18.1 million)	-1.5%
TOTAL DISBURSEMENTS VARIANCE:		($30.8 million)	-0.1%

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 GRF spending for the Ohio Department of Education, minus property tax reimbursements. February disbursements for this category totaled $576.6 million and were $29.6 million (4.9%) below the estimate. Expenditures for the school foundation program totaled $470.8 million and were $30.0 million (6.0%) below the estimate. This moderate negative variance in the foundation program disbursements is expected to continue throughout the remainder of the fiscal year, compensating for several consecutive months where actual disbursements have exceeded estimates.

Year-to-date expenditures for this category totaled $4,966.8 million and were $417.5 million (9.2%) above the estimate. This was largely driven by the school foundation program, which had year-to-date expenditures of $4,149.1 million and was $441.2 million (10.6%) above the estimate. Two major factors contributed to the positive variance in the foundation program. Due to timing in the payment schedule, three foundation payments were disbursed to schools in January, rather than two as planned. While two payments were made in February as planned, the Department of Education will only disburse one foundation payment in March, rather than two as planned. In addition to the timing of payments, the year-to-date variance in the foundation funding line items was due to the implementation of the new school funding system enacted in H.B. 59 during the months of October and November, as well as the use of current year, rather than prior year, student count data. Most districts received increases in funding under the new formula and/or with additional students reported for the current year. Additionally, when the Department calculates a funding increase on an annual basis, increases include retroactive payments for the already completed portion of the fiscal year. Similar to February, disbursements should be less than planned each month for the remainder of the fiscal year.

Higher Education

February disbursements for Higher Education totaled $193.4 million and were $2.0 million (1.0%) below the estimate for the month. Year-to-date disbursements were $1,403.9 million, which was $11.8 million (0.8%) below the estimate.

On a year-over-year basis, disbursements in this category were $3.8 million (1.9%) lower than for the same month in the previous fiscal year while year-to-date expenditures were $20.7 million (1.5%) higher 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. February disbursements in this category totaled $2.0 million and were $0.1 (4.3%) below estimate.

Medicaid

As discussed in previous reports, 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 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.

<u>Expenditures</u>
Year-to-date GRF disbursements for the Medicaid Program totaled $9,675.8 million, which was $323.8 million (3.2%) below the estimate and $483.3 million (5.3%) above the same point in the previous fiscal year. GRF Disbursements in February totaled $1,193.0 million and were $15.4 million (1.3%) below the estimate and $56.5 million (5.0%) above disbursements in the same month of the previous fiscal year.

February all-funds disbursements totaled $1,922.1 million and were $11.3 million (0.6%) below the estimate and $153.1 million (8.7%) above disbursements at this point in the previous fiscal year.

The chart below shows the current month's disbursement variance by funding source. Please note that estimates are based on appropriations as passed in H.B. 59.

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

	February Projection	February Actual	Variance	Variance %
GRF	$ 1,208.4	$ 1,193.0	$ (15.4)	-1.3%
Non-GRF	$ 725.0	$ 729.0	$ 4.1	0.6%
All Funds	$ 1,933.4	$ 1,922.1	$ (11.3)	-0.6%

<u>Categorical Variances</u>

Health Homes for Individuals with Severe and Persistent Mental Illness – February spending within this category was $27.9 million below estimate primarily due to an adjustment in the program rollout timeline to work with stakeholders.

Managed Care – Managed care expenditures were $34.7 million below the estimate. The majority of this variance can be attributed to lower than budgeted caseload.

ACA Physician Fee Increase – Spending for this federally-mandated and 100%federally-funded increase was $93.7 million over the estimate primarily due to the disbursement of certain provider-related costs not known at the time when estimates were finalized.

Medicaid Extension – Medicaid benefits were extended to certain Ohioans who were previously ineligible effective January 1, 2014. In February, expenditures in this 100% federally-funded, non-GRF category totaled $17.2 million. Year-to-date expenditures totaled $18.2 million and represent 3.2% of the $561.7 million appropriated for this fiscal year.

<u>Enrollment</u>

Total February enrollment across all categories was 2.41 million. The most significant components are the Covered Families and Children (CFC) category, which increased by 5,026 persons to a February total of 1.71 million persons, and the Aged, Blind and Disabled (ABD) category, which decreased by 1,176 people to a February total of 436,992 covered lives. Individuals covered under Medicaid extension (eligibility group VIII) totaled 54,031, and are included as part of the larger CFC category.

Total enrollment across all categories for the same period last year was 2.36 million covered persons, including 1.69 million persons in the CFC category and 414,232 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.

February disbursements in this category totaled $116.6 million and were $45.4 million (63.8%) above projected spending for the month.

<u>Department of Aging:</u>
February disbursements for the Department of Aging totaled $1.1 million and were $0.1 million (7.7%) under estimate for the month primarily due to the timing of payments within the Senior Community Services line item. Year-to-date expenditures were $7.4 million, which was $0.03 million (0.4%) above estimate.

<u>Department of Job and Family Services</u>
The Ohio Department of Job and Family Services GRF disbursements for the month of February totaled $60.0 million, which was $21.6 million (56.5%) above estimate. Selected major variances were attributable to the following:

- TANF State/Maintenance of Effort disbursements were $1.4 million (8.9%) below estimate due to Ohio Works First caseloads being lower than anticipated.
- Early Care and Education disbursements were $24.0 million (434.5%) above estimate in order to reduce the year-to-date variance and bring total GRF disbursements back in alignment with the original plan, which was previously modified as a result of the federal shutdown.
- Child, Family, and Adult Community & Protective Services disbursements were $1.5 million (614.0%) above estimate due to a payment associated with Cuyahoga County's allocation for Community and Protective Services being made sooner than originally anticipated.

<u>Department of Health</u>
February 2014 estimates totaled $8.5 million, which was $2.2 million (35.4%) above estimated expenditures for the month. This was primarily attributable to the following major variances:

- Immunizations program disbursements were $2.8 million (622.0%) above estimate, as disbursements planned for earlier in the fiscal year were made in February instead.
- Federally Qualified Health Center disbursements were $0.7 million (99.9%) below estimate. This variance was primarily attributable to a delayed agreement with a Federally Qualified Health Center organization, postponing this disbursement planned for February to be made in later months instead.
- Infant Vitality disbursements were $0.3 million (96.4%) below estimate. As this line item was created in House Bill 59 and the associated programs are still in their early stages,

spending is occurring at a slower rate than originally predicted. This variance is predicted to be offset future months.

Department of Mental Health and Addiction Services

February disbursements for the Department of Mental Health and Addiction Services totaled $42.5 million and were $21.9 million (105.8%) above the estimate. This variance was due primarily to payments in the Community Behavioral Health ($11.3 million) and Continuum of Care Services ($14.4 million) lines expected to be paid in January being in paid in February instead. This was partially offset by lower than expected spending ($4.8 million below estimate) in the Hospital Services line, which offset higher than expected payments in January in that line.

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. February disbursements in this category totaled $122.7 million and were $10.9 million (8.2%) below the projected totals.

Department of Rehabilitation and Correction

Department of Rehabilitation and Correction disbursements totaled $88.9 million in February, and were $11.9 million (11.8%) below the estimate. Department disbursements year-to-date were $938.0 million, which was $22.9 million (2.4%) below estimate. February's variance was primarily attributable to two large contract payments not posting in February as assumed in the calculation of the estimates.

Department of Youth Services

Department of Youth Services disbursements totaled $12.6 million in February, and were $1.7 million (15.3%) above estimate. Department disbursements year-to-date were $143.4 million, which was $5.5 million (3.7%) below estimate. February's variance was driven by community correctional facility payments posting in February rather than in January as planned.

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, non-judicial statewide elected officials, legislative agencies, and others. February disbursements in this category totaled $24.9 million and were $1.4 million (6.0%) above the estimate.

Department of Administrative Services

Department of Administrative Services (DAS) disbursements totaled $2.5 million during the month of February and were $1.9 million (304.0%) above the estimate. This occurred chiefly because DAS paid $1.8 million in rent bills from its GRF appropriation that pays rent for GRF-supported state agencies and vacant space in state buildings managed by DAS. (This payment went to a DAS non-GRF fund dedicated to state building operations so the transaction was internal to DAS's budget.) DAS is changing its method for calculating building rental rates, per federal requirements. As a result, the fiscal year 2014 rates for these buildings are not yet finalized, and the non-GRF building operations fund had run low on cash. Consequently, DAS processed a partial payment from its GRF rent line item for cash flow purposes. Once rates are finalized, DAS will make any needed adjustments to remaining payments billed to the GRF line item this fiscal year.

Department of Natural Resources
February disbursements for the Department of Natural Resources totaled $3.8 million and were $0.4 million above estimate (10.1%). Year-to-date disbursements were $39.0 million which was $2.6 million (7.1%) above the estimate. Major monthly variances were attributable to the Wildlife Central Support line, which was below estimate by $0.5 million due to a payment being made in January that was originally planned for February. The Parks and Recreation line was above estimate by $0.8 million due to spending GRF funds more quickly than planned.

Department of Taxation
February disbursements for Operating Expenses at the Department of Taxation totaled $5.7 million and were $0.4 million (8.0%) above the estimate for the month. Year-to-date disbursements were $43.0 million, which was $4.6 million (9.6%) below the estimate. The monthly variance was a result of timing, as large payments for postage and rent originally planned for January were instead disbursed in February. The year-to-date under spending reflects payroll savings resulting from attrition and planned efficiencies.

On a year-over-year basis, disbursements for operations were $1.3 million (22.2%) above the $4.5 million disbursed in February 2013, while year-to-date expenditures were $5.7 million (13.3%) lower than at the same point in fiscal year 2013.

Property Tax Reimbursements

Payments from the property tax subsidy 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. February disbursements of property tax subsidies totaled a miniscule -$2,128 and were $5,200 below the estimate for the month. The negative amounts disbursed in February were the result of corrections to payments from prior months. Through February, tax reimbursements totaled $893.1 million and were $10.1 million (1.1%) below the estimate of $903.2 million. Reimbursements have so far grown by 2.5% from the prior year, whereas the forecast was for 3.7% growth.

OBM's forecasts for property tax reimbursements are based on forecasts of both valuation and statewide average effective tax rates. Our working hypothesis to explain the variance is that effective tax rates have not increased as much as expected because the number of new levies has declined in recent years. OBM now expects reimbursements to fall short of the forecast for fiscal year 14. Prior experience suggests that – unlike for many revenue and disbursement categories – a variance in property tax relief can be roughly expected to double for the year as whole, and therefore disbursements in this category are expected to end the year roughly $20 million below estimate.

Debt Service

This category contains all debt service expenditures made from the GRF. February disbursements in this category totaled $104.8 million and were $57.3 million (120.4%) above the estimate due to transfers for debt service on common schools bonds occurring in late February instead of early March.

Transfers Out

February transfers out of the GRF totaled $0, which is consistent with the $0 estimate for the month.

Table 3

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

Functional Reporting Categories Description	MONTH ACTUAL FEBRUARY	MONTH ESTIMATED FEBRUARY	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	576,574	606,177	(29,603)	-4.9%	4,966,846	4,549,363	417,483	9.2%
Higher Education	193,437	195,477	(2,040)	-1.0%	1,403,943	1,415,724	(11,781)	-0.8%
Other Education	2,047	2,139	(92)	-4.3%	34,745	39,785	(5,040)	-12.7%
Medicaid	1,193,017	1,208,402	(15,385)	-1.3%	9,675,802	9,999,621	(323,819)	-3.2%
Health and Human Services	116,558	71,150	45,408	63.8%	871,223	944,796	(73,573)	-7.8%
Justice and Public Protection	122,723	133,613	(10,891)	-8.2%	1,231,058	1,267,646	(36,588)	-2.9%
General Government	24,949	23,547	1,403	6.0%	240,537	254,327	(13,790)	-5.4%
Property Tax Reimbursements	(2)	3	(5)	-168.8%	893,054	903,198	(10,144)	-1.1%
Capital Outlay	0	0	0	N/A	0	0	0	N/A
Debt Service	104,810	47,556	57,255	120.4%	994,374	949,755	44,619	4.7%
Total Expenditures & ISTV's	2,334,114	2,288,064	46,050	2.0%	20,311,583	20,324,215	(12,633)	-0.1%
Transfers Out:								
BSF Transfer Out	0	0	0	N/A	995,930	995,930	0	0.0%
Operating Transfer Out	0	0	0	N/A	210,513	234,148	(23,635)	-10.1%
Temporary Transfer Out	0	0	0	N/A	5,516	0	5,516	N/A
Total Transfers Out	0	0	0	N/A	1,211,959	1,230,079	(18,119)	-1.5%
Total Fund Uses	2,334,114	2,288,064	46,050	2.0%	21,523,542	21,554,294	(30,752)	-0.1%

Table 4

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

	MONTH				YEAR-TO-DATE			
Functional Reporting Categories Description	FEBRUARY FY 2014	FEBRUARY FY 2013	$ VAR	% VAR	ACTUAL FY 2014	ACTUAL FY 2013	$ VAR	% VAR
Primary and Secondary Education	576,574	629,215	(52,641)	-8.4%	4,966,846	4,488,222	478,624	10.7%
Higher Education	193,437	197,202	(3,765)	-1.9%	1,403,943	1,383,286	20,658	1.5%
Other Education	2,047	2,363	(315)	-13.3%	34,745	35,315	(570)	-1.6%
Medicaid	1,193,017	1,136,502	56,516	5.0%	9,675,802	9,192,542	483,260	5.3%
Health and Human Services	116,558	64,608	51,950	80.4%	871,223	771,294	99,929	13.0%
Justice and Public Protection	122,723	117,961	4,762	4.0%	1,231,058	1,224,052	7,006	0.6%
General Government	24,949	21,877	3,072	14.0%	240,537	226,970	13,567	6.0%
Property Tax Reimbursements	(2)	(45)	42	95.2%	893,054	871,155	21,899	2.5%
Capital Outlay	0	0	0	N/A	0	137	(137)	N/A
Debt Service	104,810	35,390	69,421	196.2%	994,374	844,539	149,835	17.7%
Total Expenditures & ISTV's	2,334,114	2,205,072	129,041	5.9%	20,311,583	19,037,512	1,274,070	6.7%
Transfers Out:								
BSF Transfer	0	0	0	N/A	995,930	235,096	760,834	323.6%
Operating Transfer Out	0	4	(4)	N/A	210,513	97,167	113,346	116.7%
Temporary Transfer Out	0	0	0	N/A	5,516	0	5,516	N/A
Total Transfers Out	0	4	(4)	N/A	1,211,959	332,263	879,696	264.8%
Total Fund Uses	2,334,114	2,205,076	129,037	5.9%	21,523,542	19,369,775	2,153,766	11.1%

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 $287.0 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)

July 1, 2013 Beginning Cash Balance	**$ 2,639,250**
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
Total Sources Available for Expenditure & Transfer	**31,966,951**
Less FY 2014 Actual Disbursements	29,983,524
Less FY 2014 Actual Total Encumbrances as of June 30, 2014	439,068
Less FY 2014 Actual Transfers Out	1,257,369
Total Actual Uses	**31,679,960**
FY 2014 UNENCUMBERED ENDING FUND BALANCE	**286,991**

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