Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION DECEMBER 2015

STATUS OF THE GRF

HIGHLIGHTS

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

November GRF revenue from the personal income tax was $23.1 million below the Office of Budget and Management's estimate; revenue from this tax was also below estimate in July, September, and October. Combined revenues from all other GRF taxes, however, were above estimates for the first five months of FY 2016, nearly offsetting the worrying trend. Through November, GRF tax revenue as a whole was below estimate by a relatively small amount ($3.9 million). The commercial activity tax (CAT) revenue has been the only other major source of weakness in tax revenue this year.

Ohio's unemployment rate fell to 4.4% in October, below the national rate of 5.0% that month; Ohio's rate has been below the national rate since December 2013. Ohio's nonagricultural payroll employment grew by 77,400 since October 2014, including 30,800 in the most recent month.

Through November 2015, GRF sources totaled $14.52 billion:

- Revenue from the personal income tax was $88.3 million below estimate;
- Sales and use tax receipts were $74.4 million above estimate.

Through November 2015, GRF uses totaled $16.36 billion:

- GRF Medicaid expenditures were $297.3 million below estimate, due partially to timing;
- Health and Human Services expenditures were $60.3 million below estimate.

VOLUME 39, NUMBER 4

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

Legislative Service Commission
77 South High Street, 9th Floor
Columbus, Ohio 43215

Telephone: 614-466-3615

Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of November 2015
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on December 7, 2015)

STATE SOURCES	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$95,304	$93,100	$2,204	2.4%
Nonauto Sales and Use	$744,852	$739,900	$4,952	0.7%
Total Sales and Use Taxes	**$840,156**	**$833,000**	**$7,156**	**0.9%**
Personal Income	$622,323	$645,400	-$23,077	-3.6%
Corporate Franchise	$4,205	$0	$4,205	---
Financial Institution	-$5,651	-$11,800	$6,149	52.1%
Public Utility	$20,651	$18,600	$2,051	11.0%
Kilowatt-Hour Excise	$24,690	$23,600	$1,090	4.6%
Natural Gas Consumption (MCF)	$4,594	$4,500	$94	2.1%
Commercial Activity Tax	$274,926	$264,200	$10,726	4.1%
Petroleum Activity Tax	$0	$0	$0	---
Foreign Insurance	$715	$600	$115	19.2%
Domestic Insurance	$0	$0	$0	---
Business and Property	$0	$0	$0	---
Cigarette	$79,592	$76,400	$3,192	4.2%
Alcoholic Beverage	$3,997	$4,300	-$303	-7.1%
Liquor Gallonage	$3,867	$3,700	$167	4.5%
Estate	$310	$0	$310	---
Total Tax Revenue	**$1,874,375**	**$1,862,500**	**$11,875**	**0.6%**
NONTAX REVENUE				
Earnings on Investments	$3	$0	$3	---
Licenses and Fees	$432	$2,128	-$1,697	-79.7%
Other Revenue	$2,389	$10,218	-$7,829	-76.6%
Total Nontax Revenue	**$2,823**	**$12,347**	**-$9,523**	**-77.1%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$500	$0	$500	---
Total Transfers In	**$500**	**$0**	**$500**	**---**
TOTAL STATE SOURCES	**$1,877,698**	**$1,874,847**	**$2,852**	**0.2%**
Federal Grants	$882,072	$1,058,463	-$176,391	-16.7%
TOTAL GRF SOURCES	**$2,759,770**	**$2,933,309**	**-$173,539**	**-5.9%**

*Estimates of the Office of Budget and Management as of September 2015.
Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Actual vs. Estimate
FY 2016 as of November 30, 2015
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on December 7, 2015)

STATE SOURCES	Actual	Estimate*	Variance	Percent	FY 2015	Percent Change
TAX REVENUE						
Auto Sales	$567,267	$548,300	$18,967	3.5%	$545,232	4.0%
Nonauto Sales and Use	$3,744,058	$3,688,600	$55,458	1.5%	$3,578,982	4.6%
Total Sales and Use Taxes	**$4,311,325**	**$4,236,900**	**$74,425**	**1.8%**	**$4,124,214**	**4.5%**
Personal Income	$3,352,811	$3,441,100	-$88,289	-2.6%	$3,325,376	0.8%
Corporate Franchise	$9,854	$0	$9,854	---	-$27,272	136.1%
Financial Institution	-$9,144	-$13,000	$3,856	29.7%	-$22,492	59.3%
Public Utility	$51,099	$50,200	$899	1.8%	$35,885	42.4%
Kilowatt-Hour Excise	$150,523	$147,400	$3,123	2.1%	$123,837	21.5%
Natural Gas Consumption (MCF)	$17,164	$17,100	$64	0.4%	$18,425	-6.8%
Commercial Activity Tax	$602,417	$623,800	-$21,383	-3.4%	$415,961	44.8%
Petroleum Activity Tax	$1,350	$1,500	-$150	-10.0%	$0	---
Foreign Insurance	$155,593	$156,400	-$807	-0.5%	$154,539	0.7%
Domestic Insurance	$344	$4,900	-$4,556	-93.0%	$7,638	-95.5%
Business and Property	$29	$0	$29	---	$20	48.4%
Cigarette	$376,873	$361,400	$15,473	4.3%	$287,602	31.0%
Alcoholic Beverage	$24,955	$22,700	$2,255	9.9%	$24,521	1.8%
Liquor Gallonage	$18,814	$18,300	$514	2.8%	$18,049	4.2%
Estate	$785	$0	$785	---	$2,091	-62.4%
Total Tax Revenue	**$9,064,794**	**$9,068,700**	**-$3,906**	**0.0%**	**$8,488,394**	**6.8%**
NONTAX REVENUE						
Earnings on Investments	$7,929	$5,450	$2,479	45.5%	$5,066	56.5%
Licenses and Fees	$9,185	$12,789	-$3,603	-28.2%	$8,748	5.0%
Other Revenue	$36,283	$31,866	$4,416	13.9%	$19,503	86.0%
Total Nontax Revenue	**$53,397**	**$50,105**	**$3,292**	**6.6%**	**$33,316**	**60.3%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$175,176	$177,300	-$2,124	-1.2%	$11,785	1386.4%
Total Transfers In	**$175,176**	**$177,300**	**-$2,124**	**-1.2%**	**$11,785**	**1386.4%**
TOTAL STATE SOURCES	**$9,293,367**	**$9,296,105**	**-$2,737**	**0.0%**	**$8,533,496**	**8.9%**
Federal Grants	$5,230,755	$5,367,304	-$136,549	-2.5%	$4,120,302	27.0%
TOTAL GRF SOURCES	**$14,524,123**	**$14,663,409**	**-$139,287**	**-0.9%**	**$12,653,798**	**14.8%**

*Estimates of the Office of Budget and Management as of September 2015.
Detail may not sum to total due to rounding.

FY 2016 GRF sources were $139.3 million below estimate.

FY 2016 GRF tax receipts were $3.9 million below estimate.

REVENUES

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

Overview

Through November, FY 2016 GRF sources[1] of $14.52 billion were $139.3 million below the estimate released by the Office of Budget and Management (OBM) in September 2015, mostly due to a negative variance of $136.5 million in federal grants. State-source receipts were $2.7 million below estimate, including a shortfall of $3.9 million for GRF tax sources, which was partially offset by a combined positive variance of $1.2 million from nontax revenue and transfers in. Tables 1 and 2 show GRF sources for the month of November and for FY 2016 through November, respectively.

For the month of November, GRF sources of $2.76 billion were $173.5 million below estimate, and, as with year-to-date receipts, primarily due to a shortfall of $176.4 million in federal grants. Additionally, nontax revenue was below estimate by $9.5 million. GRF tax sources, however, came in $11.9 million above estimate in November, thus reducing the category's cumulative shortfall of $15.8 million through October 2015 to $3.9 million.

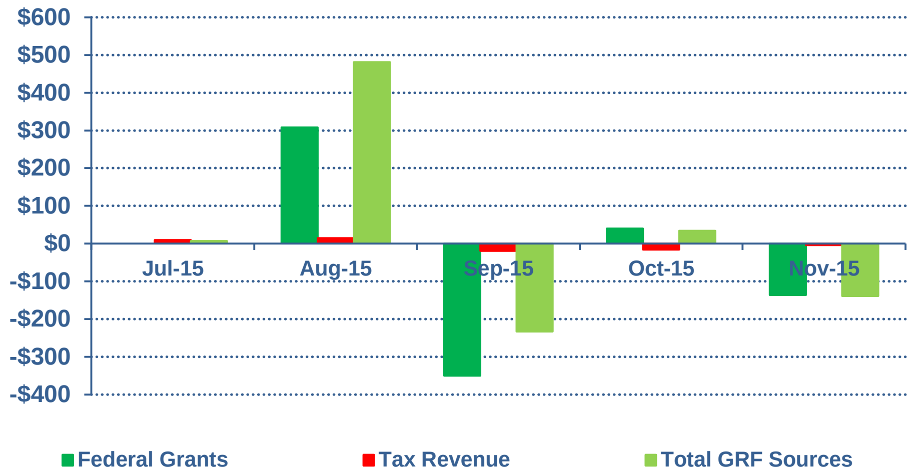
Regarding monthly GRF tax revenues, the personal income tax, continuing a string of poor monthly performances, was $23.1 million below estimate in November. In contrast, most other taxes were above estimates, including the commercial activity tax (CAT, $10.7 million), the sales and use tax ($7.2 million), the financial institutions tax (FIT, $6.1 million), the corporate franchise tax (CFT, $4.2 million), the cigarette tax ($3.2 million), the public utility tax ($2.1 million), and the kilowatt-hour tax ($1.1 million).

Chart 1 below shows FY 2016 cumulative variances against estimates for federal grants, tax revenue, and total GRF sources. As shown in Table 2, except for nontax revenue that was $3.3 million ahead of estimate, all other GRF categories were below anticipated receipts. GRF tax receipts were below projected revenues due to poor results from the personal income tax and the CAT which were short by $88.3 million and $21.4 million, respectively. However, the sales and use tax and the cigarette tax, the other two most important tax sources, were above

[1] GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants, which are federal reimbursements for Medicaid and certain other human services programs.

estimates by $74.4 million and $15.5 million, respectively. Also, the CFT,[2] the FIT, the kilowatt-hour tax, and the alcoholic beverage tax were ahead of projections by $9.9 million, $3.9 million, $3.1 million, and $2.3 million, respectively. On the other hand, a sizable negative variance of $4.6 million was recorded for the domestic insurance tax. Variances for the remaining tax sources were relatively small.

Chart 1: Cumulative Variances of GRF Sources in FY 2016
(Variance From Estimates, In Millions)



FY 2016 federal grants were $136.5 million below estimate.

Compared to FY 2015, FY 2016 GRF sources were higher for all categories, including federal grants ($1.11 billion), tax receipts ($576.4 million), transfers in ($163.4 million), and nontax revenues ($20.1 million), for a total increase of $1.87 billion through November. The increase in federal grants is due largely to an accounting change related to Medicaid expenditures: in this fiscal year, expenditures for individuals who became eligible for Medicaid through the Affordable Care Act are made from the GRF, though such expenditures were debited from the Health Care Federal Fund (Fund 3F00), a non-GRF fund, in FY 2015.

FY 2016 GRF sources were $1.87 billion higher than FY 2015 GRF sources.

Revenue from most GRF tax sources was higher in FY 2016. Receipts from the sales and use tax, the CAT, the cigarette tax, and the personal income tax increased $187.1 million, $186.5 million, $89.3 million, and $27.4 million, respectively. The increases in sales and use tax and income tax receipts reflect a generally improving economy over last year, though growth in income tax revenue is restrained due to a reduction in tax rates provided in H.B. 64 (the budget act for the current biennium).

[2] This tax was eliminated in 2013, and though GRF receipts are not anticipated from the CFT, adjustments to tax filings in previous years are likely to result in nonzero revenue in FY 2016.

Revenue growth for the CAT and the cigarette tax are due, similarly, to changes enacted in H.B. 64, which increased the share of CAT receipts credited to the GRF from 50% to 75%,[3] and raised the cigarette tax rate from $1.25 per pack of 20 cigarettes to $1.60 per pack. The budget act also credited all kilowatt-hour excise tax revenue to the GRF, instead of 88% of the receipts in prior law. This change boosted FY 2016 revenue from that tax, which grew by $26.7 million, when compared to the corresponding period in FY 2015. The public utility tax was another tax with strong growth, as FY 2016 revenue grew $15.2 million from the corresponding period last year (when a large tax refund was issued in September 2014). On the other hand, FY 2016 revenue from the domestic insurance tax decreased $7.3 million compared to receipts in FY 2015 through November. Finally, the CFT and the FIT added combined net revenue of $0.7 million to the GRF this fiscal year through November, whereas the combined net result from these two taxes in the corresponding period last year was refunds totaling $49.8 million to financial institutions.

Personal Income Tax

FY 2016 GRF income tax receipts were $88.3 million below estimate.

For the fourth time this fiscal year, and for the third consecutive month, the personal income tax experienced a revenue shortfall, underscoring a slowdown in payroll growth and employer withholding in recent months. A negative variance of $23.1 million (3.6%) in November 2015 followed those of $49.9 million in September and $12.3 million in October, for a combined negative variance of $85.3 million in the last three months. The latest monthly performance increased the fiscal year's negative variance for the tax to $88.3 million (2.6%), up from $65.2 million at the end of October. Personal income tax revenues this month were, however, $23.9 million (4.0%) above those of November 2014. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the Local Government Fund (LGF). Gross collections are the sum of employer withholding, quarterly estimated payments,[4] trust payments, payments associated with annual returns, and miscellaneous payments.

[3] Correspondingly, H.B. 64 reduced the share of CAT revenue credited to the School District Tangible Property Tax Replacement Fund (Fund 7047) from 35% to 20%, and the share credited to the Local Government Tangible Property Tax Replacement Fund (Fund 7081) from 15% to 5%. These changes were effective July 1, 2015.

[4] Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than $500. Payments are due on or before April 15,

The negative personal income tax variance in November was driven by $13.8 million higher than estimated refunds and a shortfall of $12.9 million in employer withholding. Those negative variances were partially offset by positive variances of $2.4 million and $1.5 million for quarterly estimated payments and payments accompanying annual returns, respectively.

For the fiscal year through November, GRF receipts from the personal income tax totaled $3.35 billion. Except for trust payments, which were above estimate by $4.5 million, most income tax collections were below estimates. Employer withholding and miscellaneous receipts had negative variances of $15.6 million and $8.8 million, respectively. In addition, annual return payments and quarterly estimated payments were short of projected revenue by $0.5 million and $0.3 million, respectively. Overall, though gross collections were below estimate by $20.8 million, the fiscal year-to-date negative variance was driven primarily by refunds, which were $69.4 million higher than anticipated. The table below summarizes year-to-date FY 2016 income tax revenue variances from estimates and annual changes by component.

FY 2016 employer withholding was $15.6 million below estimate.

FY 2016 Year-to-Date Income Tax Revenue Variances and Changes by Component

Category	Year-to-Date Variance From Estimate		Year-to-Date Changes From FY 2015	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	-$15.6	-0.5%	$56.6	1.8%
Quarterly Estimated Payments	-$0.3	-0.1%	$8.2	2.9%
Trust Payments	$4.5	40.2%	$4.2	36.7%
Annual Return Payments	-$0.5	-0.5%	$4.4	4.5%
Miscellaneous Payments	-$8.8	-24.6%	-$8.5	-23.9%
Gross Collections	-$20.8	-0.6%	$64.9	1.8%
Less Refunds	$69.4	46.2%	$29.7	15.6%
Less LGF Distribution	-$1.9	-1.2%	$7.8	5.3%
Income Tax Revenue	-$88.3	-2.6%	$27.4	0.8%

Through November, FY 2016 GRF receipts from the personal income tax were $27.4 million above receipts in the corresponding period in FY 2015. Miscellaneous receipts in FY 2016 were $8.5 million below receipts in that category last year, the only income tax component with

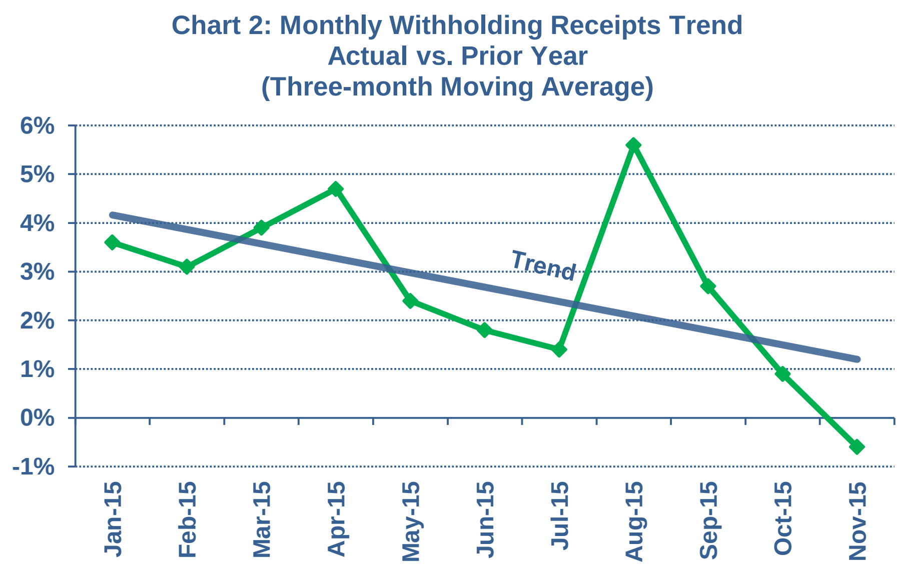
FY 2016 GRF income tax receipts were $27.4 million above FY 2015 revenue.

June 15, and September 15 of the tax year and January 15 of the following year. Most estimated payments are made by high-income taxpayers.

decreased revenue. In contrast, employer withholding grew $56.6 million this fiscal year when compared to last. Quarterly estimated payments, annual return payments, and trust payments increased by $8.2 million, $4.4 million, and $4.2 million, respectively; and both refunds and distributions to the LGF were also higher, by $29.7 million and $7.8 million, respectively than in the corresponding period last year.

The budget act reduced income tax rates for all brackets by 6.3%, for taxable years beginning in 2015. The Department of Taxation issued new withholding tables, reflecting a 3.1% reduction in withholding rates previously in effect for 2014, to be used for payrolls that end on or after August 1, 2015. These changes imply that percentage growth in withholding receipts will understate actual payroll growth in future months, and more generally they will restrain any growth in revenue from the tax.

Chart 2 illustrates the trend in employer withholding receipts in 2015. It shows receipts growth decreasing, and then becoming negative in the latest months, due to both the recent reduction of withholding rate and weak payroll growth. However, based on employer withholding revenue, actual payroll growth was about 2.5%, on average, in the last three months.



Sales and Use Tax

GRF receipts from the sales and use tax of $840.2 million in November 2015 were $7.2 million (0.9%) above estimate and $44.3 million (5.6%) above receipts in November 2014. For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[5] generally arise from the sale of motor vehicles, but auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax instead of the auto tax. Through November, FY 2016 GRF sales and use tax receipts totaled $4.31 billion, $74.4 million (1.8%) above estimate, with both the nonauto tax and the auto tax ahead of estimates. Total GRF sales and use tax receipts were also $187.1 million (4.5%) above receipts in the corresponding period in FY 2015.

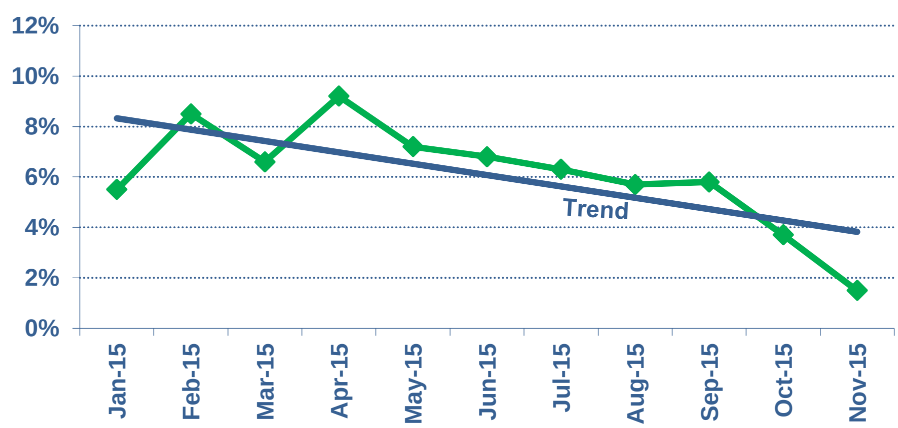
FY 2016 sales and use tax receipts were $74.4 million above estimate.

Nonauto Sales and Use Tax

GRF revenue from the nonauto sales and use tax of $744.9 million in November 2015 was $5.0 million (0.7%) above estimate, and $26.9 million (3.7%) above revenue in the same month in 2014. Through November, FY 2016 GRF receipts of $3.74 billion from the nonauto sales and use tax were $55.5 million (1.5%) above estimate, and $165.1 million (4.6%) above FY 2015 receipts through November. Chart 3 shows increases in nonauto sales and use tax monthly receipts against prior year receipts in the same month. However, the rate of growth has steadily declined.

FY 2016 nonauto sales and use tax receipts were $55.5 million above estimate.

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



Auto Sales and Use Tax

GRF receipts from the auto sales and use tax of $95.3 million in November were $2.2 million (2.4%) above estimate, and $17.5 million

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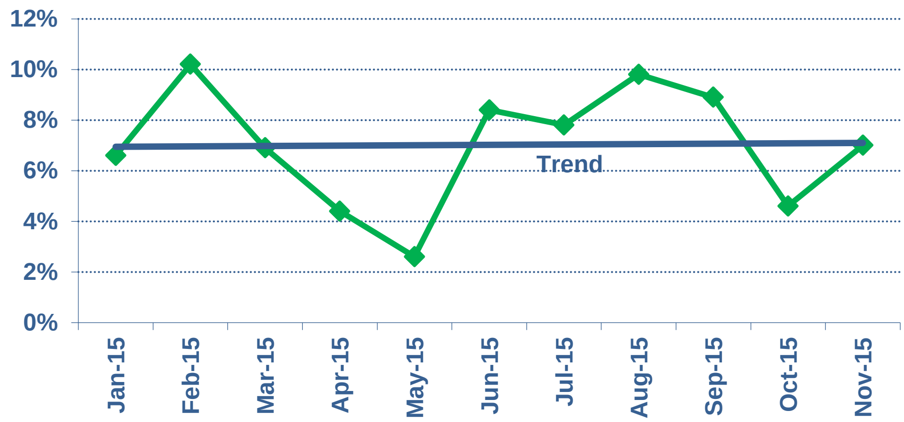
[5] The clerks of court generally make auto sales and use tax payments on Monday for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled. Therefore, auto sales and use tax receipts largely reflect vehicles sold and titled during the month.

FY 2016 auto sales and use tax receipts were $19.0 million above estimate.

(22.5%) above receipts in November 2014. Through November in FY 2016, the auto sales and use tax has performed well, with GRF receipts totaling $567.3 million, above estimate by $19.0 million (3.5%). Year-to-date revenue was also $22.0 million (4.0%) above receipts in FY 2015 through November. Chart 4 below compares FY 2016 monthly auto sales and use tax receipts with year-ago receipts in the same period.

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



Nationwide, light vehicle (auto and light truck) sales remained in the fast lane in November. At 18.1 million units (at a seasonally adjusted annual rate), the pace was powered by light trucks sales, which were 9.2% higher than a year earlier. In contrast, auto sales declined 8.6% compared to November 2014. Overall, monthly sales were approximately 1.3% higher than a year earlier. Low gas prices, improved credit access, and job growth have driven light vehicle sales all year, especially those of light trucks. Light vehicle sales averaged 17.3 million units through November in 2015, on an annualized basis, about 5.7% higher than in 2014. Barring an unexpected occurrence in December, with year-to-date volume not seen in more than ten years, nationwide light vehicle sales are now on a path to nearing the historical record of 17.4 million units achieved in 2000.

Commercial Activity and Petroleum Activity Taxes

FY 2016 GRF CAT receipts were $21.4 million below estimate.

The second CAT payment for calendar quarter taxpayers in FY 2016 provided GRF receipts of $274.9 million in November. This revenue was $10.7 million (4.1%) above estimate, and $98.8 million (56.1%) above revenue in November 2014. For the fiscal year through November, CAT revenues to the GRF totaled $602.4 million, $21.4 million (3.4%) below estimate. CAT revenue credited to the School

District Tangible Property Tax Replacement Fund (Fund 7047) was $160.6 million, and the Local Government Tangible Property Tax Replacement Fund (Fund 7081) received $40.2 million. The weakness in CAT revenue was due, in part, to increased credit claims against the CAT, but also may reflect an economic slowdown at the start of the fiscal year. Refunds totaled $66.3 million, about $32.2 million more than in FY 2015 through November, and GRF receipts from the CAT were $186.5 million (44.8%) above receipts in the corresponding period of FY 2015 because of the increase in the GRF share of CAT receipts enacted in H.B. 64.[6]

Beginning July 1, 2014, the CAT as applied to receipts from the sale or exchange of motor fuel was replaced by the petroleum activity tax (PAT). No receipts were expected or received from the PAT in November. Through November, FY 2016 revenue from the PAT of $1.3 million was $0.1 million (10.0%) below estimate. No GRF revenue was recorded for this tax in the first four months of FY 2015.

Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax of $79.6 million in November 2015 were $3.2 million (4.2%) above estimate, and $24.7 million (44.9%) above revenue in November 2014. Through November, total tax receipts of $376.9 million were $15.5 million (4.3%) above estimate. Revenue from the "floor tax"[7] was $15.8 million, receipts from cigarette sales were $335.4 million, and sales of other tobacco products (OTP) yielded $25.7 million. FY 2016 receipts increased $89.3 million (31.0%) from the corresponding period in FY 2015. Cigarette revenue increased by $74.6 million, while receipts from OTP decreased by $1.0 million; there were no receipts during FY 2015 from the floor tax. Generally, cigarette tax receipts experience a downward trend, while revenue from OTP is closely tied to price increases of those products. However, H.B. 64 increased the cigarette tax from $1.25 to $1.60 per pack of 20 cigarettes, a 28% increase, and thus monthly cigarette revenue is very likely to be higher in FY 2016 when compared to FY 2015.

FY 2016 cigarette tax receipts were $15.5 million above estimate.

[6] On an all-funds basis, FY 2016 CAT revenue was below FY 2015 revenue through November, due to nearly $28 million in revenue from motor fuel sales (for taxable gross receipts in the second quarter of 2014), prior to the imposition of the PAT. Excluding the effect of motor fuel sales and increased refunds this year, FY 2016 CAT receipts are about flat.

[7] The "floor tax" is the additional $0.35 tax paid by tobacco dealers for cigarettes in inventory (for which the old tax rate had been paid) when the new went into effect on July 1, 2015.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of November 2015
($ in thousands)
(Actual based on OAKS reports run December 7, 2015)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary and Secondary Education	$882,615	$654,000	$228,615	35.0%
Higher Education	$188,947	$189,573	-$626	-0.3%
Other Education	$3,234	$3,339	-$105	-3.1%
Total Education	$1,074,796	$846,912	$227,884	26.9%
Medicaid	$1,551,449	$1,669,820	-$118,371	-7.1%
Health and Human Services	$84,182	$94,455	-$10,274	-10.9%
Total Welfare and Human Services	$1,635,631	$1,764,275	-$128,644	-7.3%
Justice and Public Protection	$131,467	$132,133	-$666	-0.5%
General Government	$24,180	$28,416	-$4,236	-14.9%
Total Government Operations	$155,647	$160,549	-$4,902	-3.1%
Property Tax Reimbursements	$61,922	$138,553	-$76,631	-55.3%
Capital Outlay	$0	$0	$0	---
Debt Service	$24,238	$24,237	$1	0.0%
Total Other Expenditures	$86,160	$162,790	-$76,631	-47.1%
Total Program Expenditures	**$2,952,234**	**$2,934,527**	**$17,707**	**0.6%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$29,534	$0	$29,534	---
Total Transfers Out	$29,534	$0	$29,534	---
TOTAL GRF USES	**$2,981,768**	**$2,934,527**	**$47,241**	**1.6%**

*October 2015 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

Table 4: General Revenue Fund Uses
Actual vs. Estimate
FY 2016 as of November 30, 2015
($ in thousands)
(Actual based on OAKS reports run December 7, 2015)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2015**	**Percent Change**
Primary and Secondary Education	$3,485,942	$3,510,411	-$24,469	-0.7%	$3,384,474	3.0%
Higher Education	$933,289	$940,470	-$7,181	-0.8%	$900,779	3.6%
Other Education	$33,936	$34,067	-$131	-0.4%	$28,858	17.6%
Total Education	$4,453,167	$4,484,948	-$31,781	-0.7%	$4,314,112	3.2%
Medicaid	$7,750,679	$8,047,986	-$297,307	-3.7%	$6,634,932	16.8%
Health and Human Services	$551,878	$612,190	-$60,311	-9.9%	$589,483	-6.4%
Total Welfare and Human Services	$8,302,558	$8,660,176	-$357,618	-4.1%	$7,224,415	14.9%
Justice and Public Protection	$865,958	$872,257	-$6,298	-0.7%	$801,498	8.0%
General Government	$161,697	$172,445	-$10,748	-6.2%	$152,966	5.7%
Total Government Operations	$1,027,656	$1,044,702	-$17,046	-1.6%	$954,464	7.7%
Property Tax Reimbursements	$897,931	$862,384	$35,548	4.1%	$906,908	-1.0%
Capital Outlay	$0	$0	$0	---	$0	---
Debt Service	$864,181	$865,901	-$1,720	-0.2%	$845,032	2.3%
Total Other Expenditures	$1,762,112	$1,728,285	$33,827	2.0%	$1,751,940	0.6%
Total Program Expenditures	**$15,545,492**	**$15,918,110**	**-$372,618**	**-2.3%**	**$14,244,930**	**9.1%**
TRANSFERS						
Budget Stabilization	$425,500	$425,500	$0	0.0%	$0	---
Other Transfers Out	$388,234	$362,031	$26,203	7.2%	$582,809	-33.4%
Total Transfers Out	$813,734	$787,531	$26,203	3.3%	$582,809	39.6%
TOTAL GRF USES	**$16,359,226**	**$16,705,641**	**-$346,415**	**-2.1%**	**$14,827,739**	**10.3%**

*October 2015 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

Table 5: Medicaid Expenditures by Department
Actual vs. Estimate
($ in thousands)
(Actuals based on OAKS report run on December 7, 2015)

	Month of November 2015				Year to Date Through November 2015			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid	**$1,827,872**	**$1,968,970**	**-$141,098**	**-7.2%**	**$9,289,429**	**$9,777,603**	**-$488,174**	**-5.0%**
GRF	$1,503,693	$1,624,066	-$120,373	-7.4%	$7,500,788	$7,799,930	-$299,142	-3.8%
Non-GRF	$324,179	$344,903	-$20,724	-6.0%	$1,788,641	$1,977,673	-$189,033	-9.6%
Developmental Disabilities	**$212,375**	**$222,259**	**-$9,884**	**-4.4%**	**$984,507**	**$1,023,224**	**-$38,717**	**-3.8%**
GRF	$41,831	$40,304	$1,527	3.8%	$210,204	$206,793	$3,412	1.6%
Non-GRF	$170,544	$181,955	-$11,411	-6.3%	$774,303	$816,432	-$42,129	-5.2%
Job and Family Services	**$21,503**	**$14,779**	**$6,724**	**45.5%**	**$92,634**	**$85,837**	**$6,797**	**7.9%**
GRF	$5,308	$4,867	$440	9.0%	$35,774	$37,201	-$1,427	-3.8%
Non-GRF	$16,195	$9,912	$6,284	63.4%	$56,860	$48,636	$8,224	16.9%
Health	**$486**	**$500**	**-$15**	**-2.9%**	**$2,700**	**$3,190**	**-$490**	**-15.4%**
GRF	$243	$263	-$20	-7.7%	$1,398	$1,417	-$18	-1.3%
Non-GRF	$243	$238	$5	2.3%	$1,302	$1,774	-$471	-26.6%
Aging	**$3,198**	**$2,123**	**$1,075**	**50.7%**	**$11,079**	**$10,704**	**$375**	**3.5%**
GRF	$293	$255	$38	14.7%	$1,657	$1,365	$292	21.4%
Non-GRF	$2,906	$1,868	$1,038	55.6%	$9,423	$9,340	$83	0.9%
Mental Health and Addiction	**$420**	**$252**	**$168**	**66.6%**	**$1,763**	**$2,806**	**-$1,043**	**-37.2%**
GRF	$83	$65	$18	27.7%	$858	$1,282	-$424	-33.1%
Non-GRF	$337	$187	$150	80.2%	$905	$1,524	-$619	-40.6%
Total GRF	**$1,551,449**	**$1,669,820**	**-$118,371**	**-7.1%**	**$7,750,679**	**$8,047,986**	**-$297,307**	**-3.7%**
Total Non-GRF	**$514,404**	**$539,063**	**-$24,659**	**-4.6%**	**$2,631,434**	**$2,855,378**	**-$223,945**	**-7.8%**
Total All Funds	**$2,065,853**	**$2,208,883**	**-$143,029**	**-6.5%**	**$10,382,113**	**$10,903,364**	**-$521,252**	**-4.8%**

*Estimates are from the Department of Medicaid.
Detail may not sum to total due to rounding.

Table 6: All-Funds Medicaid Expenditures by Payment Category
Actual vs. Estimate
($ in thousands)
(Actuals based on OAKS report run on December 7, 2015)

	November				Year to Date Through November			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	$829,983	$949,686	-$119,703	-12.6%	$4,189,861	$4,404,781	-$214,920	-4.9%
Nursing Facilities	$116,838	$120,333	-$3,495	-2.9%	$568,328	$593,946	-$25,618	-4.3%
DDD Services	$208,974	$210,062	-$1,089	-0.5%	$960,673	$984,953	-$24,280	-2.5%
Hospitals	$90,708	$129,891	-$39,182	-30.2%	$1,047,453	$1,193,721	-$146,268	-12.3%
Behavioral Health	$96,197	$108,334	-$12,137	-11.2%	$447,189	$483,183	-$35,993	-7.4%
Administration	$81,955	$137,843	-$55,888	-40.5%	$339,157	$528,599	-$189,441	-35.8%
Aging Waivers	$26,287	$30,134	-$3,846	-12.8%	$130,830	$139,034	-$8,205	-5.9%
Prescription Drugs	$41,952	$43,742	-$1,790	-4.1%	$198,980	$201,080	-$2,100	-1.0%
Medicare Buy-In	$36,915	$36,875	$40	0.1%	$183,115	$183,450	-$336	-0.2%
Physicians	$24,129	$23,561	$567	2.4%	$116,112	$136,311	-$20,199	-14.8%
Medicare Part D	$24,520	$24,500	$20	0.1%	$121,126	$121,767	-$641	-0.5%
Home Care Waivers	$11,755	$15,688	-$3,933	-25.1%	$54,368	$71,691	-$17,323	-24.2%
ACA Expansion	$325,072	$274,881	$50,191	18.3%	$1,559,081	$1,380,216	$178,865	13.0%
All Other	$150,569	$103,352	$47,217	45.7%	$465,840	$480,633	-$14,793	-3.1%
Total All Funds	**$2,065,853**	**$2,208,883**	**-$143,029**	**-6.5%**	**$10,382,113**	**$10,903,364**	**-$521,252**	**-4.8%**

* Estimates are from the Department of Medicaid.
Detail may not sum to total due to rounding.

EXPENDITURES

– Russ Keller, Economist, 614-644-1751

– Nicholas J. Blaine, Budget Analyst, 614-387-5418

Overview

Through November, FY 2016 GRF uses were $346.4 million below estimate due mainly to Medicaid, which was $297.3 million below estimate.

Tables 3 and 4 show GRF uses for the month of November and for FY 2016 through November, respectively. Through November, FY 2016 GRF program expenditures were $15.55 billion, $372.6 million below the estimate released by OBM in October 2015. The vast majority of this negative variance occurred in Medicaid ($297.3 million) and Health and Human Services ($60.3 million). The variances in these two program categories are discussed further in sections that follow this overview. Through November, transfers out from the GRF were $813.7 million, $26.2 million above estimate. Including both program expenditures and transfers out, year-to-date GRF uses totaled $16.36 billion, which was $346.4 million below estimate.

For the month of November, GRF program expenditures as a whole registered a relatively small positive variance of $17.7 million. However, expenditures from several program categories were significantly higher or lower than estimates. As reported in the last issue of *Budget Footnotes*, the first of two school foundation payments for November was posted to the state's accounting system in early November instead of on the last business day of October.[8] Due mainly to this timing issue, expenditures from the Primary and Secondary Education program category were $199.8 million below estimate in October and $228.6 million above estimate in November. Through November, this program category's year-to-date expenditures were $3.49 billion, $24.5 million (0.7%) below estimate.

GRF Medicaid expenditures were $1.55 billion in November. These expenditures were $118.4 million below estimate, which increased this program category's negative year-to-date variance from $178.9 million at the end of October to $297.3 million at the end of November. The other program category that had a significant variance in November is Property Tax Reimbursements. This program category's expenditures were $61.9 million in November, $76.6 million below estimate. This monthly negative variance reduced the category's positive

[8] Generally, school foundation payments are posted to the state's accounting system one week before the actual payment date. The first foundation payment for November was made on Friday, November 6, 2015. Normally, this payment would have been posted on Friday, October 31, 2015.

year-to-date variance from $112.2 million at the end of October to $35.5 million at the end of November. The reimbursement payments for schools and local governments based on the August 2015 property tax settlement will be made throughout the first half of FY 2016. Funds are disbursed when county auditors request the payments. The requests had come in sooner than assumed in the OBM estimate.

GRF transfers out totaled $29.5 million in November while the OBM estimate anticipated none. As a result, this category's year-to-date variance changed from a negative $3.3 million at the end of October to a positive $26.2 million at the end of November. The majority of November transfers out were related to Medicaid programs. Specifically, a total of $13.1 million cash was transferred from the GRF to the Managed Care Performance Payment Fund (Fund 5KW0)[9] pursuant to Section 327.80 of H.B. 64, which requires the Ohio Department of Medicaid (ODM) to provide performance payments to Medicaid managed care organizations providing care and services to participants of MyCare Ohio, a program that is designed to improve access to and quality of care and services for individuals who are eligible for both Medicare and Medicaid. ODM is to withhold a percentage of each premium payment it pays to a managed care organization for a program participant. The withheld funds are then transferred from the GRF to Fund 5KW0 for performance payments. The appropriation for GRF appropriation item 615525, Medicaid/Health Care Services, is reduced by the transferred amount. In addition to the transfer to Fund 5KW0, $7.5 million cash was transferred from the GRF to the Health Care Services Administration Fund (Fund 5U30) to help fund the administration of Medicaid pursuant to Section 327.150 of H.B. 64. And another $8.9 million cash was transferred from the GRF to the OAKS Support Organization Fund (Fund 5EB0) to help maintain the Ohio Administrative Knowledge System (OAKS), a statewide enterprise resource planning application that is used, among other things, to record all financial transactions of the state. The transfer to Fund 5EB0 was also contemplated in the enactment of H.B. 64.

As indicated earlier, the variances in Medicaid and Health and Human Services will be briefly discussed below. Furthermore, a summary of the prior year encumbrance activities as of December 1, 2015 is provided in the last section of this report.

[9] Prior to the November transfers, another $13.5 million cash was transferred from the GRF to Fund 5KW0 in July, which brings the year-to-date GRF cash transfer to Fund 5KW0 to $26.6 million.

Through November, GRF Medicaid expenditures were $297.3 million below estimate; non-GRF Medicaid expenditures were $223.9 million below estimate.

Through November, all-funds Medicaid expenditures were $521.3 million below estimate.

Medicaid

Medicaid is primarily funded by the GRF although it also receives funding from various non-GRF funds. As a joint federal-state program, both GRF and non-GRF Medicaid expenditures contain federal and state moneys. Overall, the federal and state shares of Medicaid expenditures are about 64% and 36%, respectively.

For the month of November, GRF Medicaid expenditures of $1.55 billion were $118.4 million (7.1%) below the estimate provided by ODM while non-GRF Medicaid expenditures of $514.4 million were $24.7 million (4.6%) below estimate. Across all funds, Medicaid expenditures of $2.07 billion in November were $143.0 million (6.5%) below estimate, due mainly to the timing of a $119.7 million payment for Affordable Care Act (ACA) health insurer fees for managed care companies. This payment did not occur in November as originally anticipated.

For the first five months of FY 2016, GRF Medicaid expenditures were $7.75 billion, $297.3 million (3.7%) below estimate, while non-GRF Medicaid expenditures were $2.63 billion, $223.9 million (7.8%) below estimate. Across all funds, Medicaid expenditures totaled $10.38 billion, $521.3 million (4.8%) below their year-to-date estimate.

ODM is primarily responsible for administering Medicaid, with the assistance of five other state agencies – Developmental Disabilities, Job and Family Services, Health, Aging, and Mental Health and Addiction Services. Table 5 details the GRF and non-GRF portions of Medicaid expenditures from each of the six agencies that take part in administering Ohio Medicaid. As seen from the table, ODM, the largest agency within this program category, also had the largest year-to-date variance. For the first five months of FY 2016, ODM's GRF expenditures totaled $7.50 billion, which was $299.1 million (3.8%) below estimate, and its non-GRF expenditures totaled $1.79 billion, which was $189.0 million (9.6%) below estimate. Across all funds, ODM's expenditures were $488.2 million (5.0%) below their year-to-date estimate. GRF and non-GRF Medicaid expenditures from the Department of Developmental Disabilities (DDD), the second largest agency within this program category, totaled $984.5 million for the first five months of FY 2016, which was $38.7 million (3.8%) below estimate. Together, ODM and DDD account for about 99% of the Medicaid expenditure total.

Table 6 details all-funds Medicaid expenditures by payment category. As seen from the table, Managed Care had the largest negative year-to-date variance at $214.9 million (4.9%). As explained earlier, this negative variance was due in part to a later than anticipated payment process for the $119.7 million ACA health insurer fee payment that was originally scheduled for November. The other contributor to Managed Care's negative year-to-date variance was lower than expected Aged, Blind, and Disabled (ABD) caseloads.

Two other payment categories that had significant negative year-to-date variances were Administration ($189.4 million, 35.8%) and Hospitals ($146.3 million, 12.3%). The negative variance for Administration was partly the result of the contract for ODM's new eligibility determination system, Ohio Benefits, costing less than was budgeted. Additionally, expenditures from the prior year encumbrance for Administration were slower than expected. For Hospitals, ODM forecasted an increasing cost per claim but has not yet seen the projected increase to date, resulting in a negative variance.

Also worth noting, the All Other category, which has a negative variance of $14.8 million (3.1%) for the first five months of FY 2016, registered a positive variance of $47.2 million (45.7%) in November. ODM disbursed approximately $65 million of prior year claims under the Medicaid School Program, all of which came from federal funds.

The ACA Expansion category, on the other hand, had a significant positive year-to-date variance that partially reduced the negative year-to-date variances in several other categories. All funds expenditures from ACA Expansion totaled $1.56 billion for the first five months of FY 2016, which was $178.9 million (13.0%) above estimate. This positive variance was due to higher than anticipated caseloads. Some individuals currently enrolled into the ACA expansion category may later be determined to be eligible under another category of coverage instead. If those individuals are recategorized, their costs would shift in future months. All individuals who become eligible for Medicaid through ACA are served under managed care only.

Health and Human Services

GRF expenditures from the Health and Human Services program category were $84.2 million in November, $10.3 million below estimate. Through November, this program category's expenditures totaled $551.9 million, $60.3 million below estimate. The Ohio Department of Job and Family Services (ODJFS) accounted for over half ($36.9 million) of the category's total negative year-to-date variance. The majority of that $36.9 million occurred in four items: item 600410, TANF State/Maintenance of Effort ($12.9 million), item 600416, Information Technology Projects ($7.4 million), item 600521, Family Assistance – Local ($5.3 million), and item 600321, Program Support ($3.6 million). The negative variance in item 600410 was due partly to lower than estimated cash assistance caseloads and partly to a change in the state/federal funding split, according to OBM's November *Monthly Financial Report*. Lower than expected disbursements from prior year encumbrances contributed to the negative variance in item 600416. Item 600521 is used to advance to counties the state share of county administration expenditures for Food Assistance and Disability Financial Assistance. Actual advancements depend on the timing of requests. Item 600321 is the primary funding source of the ODJFS central administrative support services.

The Ohio Department of Mental Health and Addiction Services (ODMHAS) accounted for $11.3 million of the Health and Human Services program category's total negative year-to-date variance. Expenditures from the majority of ODMHAS's appropriation items were below their year-to-date estimates. Two items that were newly created in H.B. 64 had the largest negative year-to-date variances. These two items were 336423, Addiction Services Partnership with Corrections ($3.3 million) and 336504, Community Innovations ($2.9 million).

The Ohio Department of Health (ODH) contributed another $9.1 million to the category's total negative year-to-date variance. Year-to-date expenditures from all but two ODH appropriation items were below estimates. Three items that had the largest negative year-to-date variances were 440459, Help Me Grow ($1.4 million), 440416, Mothers and Children Safety Net Services ($1.2 million), and 440418, Immunizations ($1.2 million).

Prior Year Encumbrances

As reported in the July issue of *Budget Footnotes*, state agencies carried into FY 2016 a little over $425 million in encumbered GRF funds that were originally appropriated for fiscal years prior to FY 2016. An agency generally has five months to spend prior year encumbrances for operating expenses. Any unspent operating expense encumbrances will lapse at the end of the five-month period and will become part of the GRF cash balance once OBM cancels the encumbrances. Subject to the approval of the Director of Budget and Management, an agency may carry funds encumbered for purposes other than operating expenses beyond the five-month period. Encumbrances for some grant and aid payments may be carried for several months or even years.

Prior Year GRF Encumbrances by Agency ($ in millions)				
Agency	Prior Year Encumbrances as of July 1, 2015	Amount Expended	Outstanding Encumbrances as of December 1, 2015	Amount Lapsed
Education	$120.4	$66.9	$50.4	$3.1
Job and Family Services	$68.1	$37.8	$25.2	$5.1
Development Services	$27.8	$10.9	$15.3	$1.6
Higher Education	$16.1	$5.3	$10.7	$0.1
Medicaid	$73.8	$12.0	$4.7	$57.0
Rehabilitation and Correction	$48.8	$40.4	$0.6	$7.9
Administrative Services	$13.0	$11.5	$0.2	$1.3
All Other Agencies	$57.2	$38.2	$7.4	$11.5
Total	**$425.1**	**$223.2**	**$114.3**	**$87.6**

Detail may not sum to total due to rounding.

As shown in the table above, as of December 1, 2015, $223.2 million (52.5%) of the $425.1 million in total prior year encumbrances was expended, $114.3 million was still outstanding, and the remaining $87.6 million lapsed. The Ohio Department of Education (ODE) had the largest share (44.1%) of the total outstanding encumbrances as of December 1, followed by ODJFS at 22.0%, the Development Services Agency (DSA) at 13.3%, and the Department of Higher Education (DHE) at 9.4%. Together, these four agencies had $101.5 million (88.8%) of the $114.3 million in total outstanding prior year encumbrances.

As of December 1, 2015 outstanding prior year GRF encumbrances totaled $114.3 million.

Items 200550, Foundation Funding, 200540, Special Education Enhancements, and 200502, Pupil Transportation, accounted for $20.2 million (40.0%), $12.1 million (24.1%), and $5.9 million (11.7%), respectively, of ODE's total $50.4 million in outstanding prior year encumbrances as of December 1. These encumbrances will be used for making any necessary subsidy payment adjustments for schools and county boards of developmental disabilities.

ODJFS had $25.2 million in outstanding prior year encumbrances as of December 1. Item 600525, Health Care/Medicaid, accounted for $9.4 million (37.1%) of the total. All funds encumbered in item 600525 were originally appropriated in fiscal years prior to FY 2014. Beginning in FY 2014, item 600525 was replaced by item 651525 as a result of the establishment of ODM in that year. So, despite this outstanding encumbrance, no disbursement activities are likely to occur from item 600525. Two other ODJFS items with significant outstanding encumbrances are item 655522, Medicaid Program Support – Local

($6.5 million, 26.0%) and item 600534, Adult Protective Services ($4.9 million, 19.5%).

The vast majority of DSA's outstanding prior year encumbrances were for various economic development grants. Many of these grant programs are operated on a reimbursement basis, under which grantees have to carry out the programs and certify that certain requirements or objectives have been met before they are reimbursed by the state. Depending on the scope of a project, the grantee may not actually receive the award until several years after the award was originally made.

DHE had $10.7 million in outstanding prior year encumbrances as of December 1, of which $9.7 million occurred in item 235438, Choose Ohio First Scholarship. Item 235438 is used to pay the state's obligations to scholarship recipients.

ISSUE UPDATES

2015 Ohio State Fair Generated a Profit of Over $1.3 Million and Attracted a Record Number of Visitors

– Shannon Pleiman, Budget Analyst, 614-466-1154

The Ohio Expositions Commission reported a profit of over $1.3 million from the 2015 State Fair, a substantial increase over the 2014 State Fair profit of $480,000. The 2015 State Fair, which was held from July 29 through August 9, also set a new attendance record with over 982,000 visitors, an increase of more than 65,000 (7.2%) over the number of visitors who attended the 2014 State Fair.

Overall revenue from the 2015 State Fair was just over $9.7 million, of which nearly $7.6 million (77.9%) was derived from admission fees, ticket sales for entertainment and attractions, and exhibition space rental fees. The remaining amount of slightly more than $2.2 million (22.1%) came from event sponsorship, parking and camping fees, and other sources such as concessions and livestock auction revenues. Total expenses for the 2015 State Fair were just under $8.4 million, with payroll and personal service contracts, including entertainment contracts, accounting for approximately $5.2 million (62.7%) of that amount. The remaining amount of approximately $3.1 million (37.3%) was spent on advertising, fairground maintenance, supplies, utilities, and other items.

The Expositions Commission has a FY 2016 budget of $14.3 million, of which $13.6 million is funded by revenues generated by the State Fair and approximately 175 other events held on the state fairgrounds throughout the year. A GRF appropriation of $375,000 is used to support the Junior Fair held in conjunction with the State Fair. Under certain conditions, the Commission may tap the State Fair Reserve Fund (Fund 6400) if receipts from the annual event fall short of expenses. The last time the Commission exercised this authority was in 2002. As of December 8, 2015, Fund 6400 had a cash balance of just over $125,000.

Medicaid Buy-in for Workers with Disabilities Reaches 10,000 Enrollees

– Genevieve Davison, LSC Fellow, 614-387-1274

As of November 16, 2015, the number of enrollees in the Medicaid Buy-in for Workers with Disabilities Program (MBIWD) reached 10,000. The MBIWD Program provides Medicaid coverage to working people with disabilities who might not otherwise qualify for Medicaid due to income. Generally, the program allows workers with disabilities to maintain Medicaid coverage while retaining employment. To qualify for the program, a person must:

- Be 16 to 64 years old;
- Be disabled per Social Security Administration guidelines, or as determined by Ohio Medicaid, or eligible under the MBIWD "medically improved" category;
- Be employed in paid work (includes part-time and full-time work);
- Pay a premium if they have an annual gross income that is greater than 150% of the federal poverty level; and
- Meet certain basic requirements and financial criteria.

The federal Balanced Budget Act of 1997 gave states the option to provide Medicaid funds to working individuals with disabilities through these buy-in programs. Currently, 46 states operate such programs. In Ohio, the MBIWD Program was established in 2007 and began enrolling eligible individuals in April 2008.

Mental Health and Addiction Services Announces Grants to Connect Criminal Offenders with Treatment

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

On November 19, 2015, the Ohio Department of Mental Health and Addiction Services (OMHAS) announced $3 million in grant awards to connect criminal offenders with mental illness or substance abuse with treatment. The grants are part of the Department's Criminal Justice-Behavioral Health Linkages initiative for FY 2016, which aims to improve outcomes for individuals and to reduce recidivism and jail overcrowding. OMHAS announced awards, ranging from $68,254 to $150,000, to support 23 projects in 38 counties. These awards will help enhance services to incarcerated individuals with untreated mental illness or substance abuse. Grantees include collaborations between various entities, including county boards of alcohol, drug addiction, and mental health services; county courts; crisis intervention teams; and counseling and recovery centers, among others.

Services provided through the grants may include increased screening and assessments during incarceration, peer support, and linking individuals with recovery services post-release. In addition, some grantees will obtain free training and technical assistance from the national Stepping Up initiative. These grantees will receive expert guidance, a resource toolkit, and assistance with planning and implementation.

Recommendations and Plans to Make State Higher Education Institutions More Affordable and Efficient

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

In October, the Ohio Task Force on Affordability and Efficiency issued its recommendations to make state institutions of higher education more efficient and affordable for students and their families. Governor Kasich established the Task Force by Executive Order 2015-01K in February 2015. Overall, the Task Force recommended that (1) any savings or new revenue received by the state and higher education institutions realized by implementing the recommendations should be redirected to benefit the students, primarily by making college more affordable and that (2) each institution set a goal for efficiency savings and new revenue resources through FY 2021 and a framework to invest those dollars into student affordability while maintaining or improving academic quality. In total, the Task Force made 30 recommendations targeting various areas, including textbook affordability, time to degree, and administrative cost reforms.[10]

To further aid the effort in making higher education more affordable and efficient, H.B. 64 of the 131st General Assembly requires, by July 1, 2016, each state institution of higher education to report to the Department of Higher Education (DHE) how it will implement the Task Force's recommendations and any other cost savings measures. In a separate but related provision, H.B. 64 also requires each state institution of higher education to develop and implement a plan to provide all in-state, undergraduate students the opportunity to reduce the student cost of earning a degree by 5%. All institutions have recently issued their plans, which can be viewed on DHE's website.[11]

ODE Selects Three Additional Institutions for the Adult Diploma Pilot Program

– Jason Glover, Budget Analyst, 614-466-8742

On November 9, 2015, the Ohio Department of Education (ODE) announced that three additional institutions, Cincinnati State Technical and Community College, Columbus State Community College, and North Central State College (Richland County), have each been awarded a $250,000 planning grant under the Adult Diploma

[10] The full report can be read at: https://www.ohiohighered.org/affordability-efficiency/task-force - Select "Full Report: Action Steps to Reduce College Costs."

[11] https://www.ohiohighered.org/affordability-efficiency/five-percent-reduction-plans.

Pilot Program. These three colleges will join five other educational institutions[12] that were selected to participate in FY 2015, the program's inaugural year, to develop and implement study programs that will offer adults who have dropped out of high school a pathway to obtain both a high school diploma and an industry-recognized credential in an in-demand field such as manufacturing or medical technology.

The Adult Diploma Pilot Program provides grants to selected educational institutions in two phases: planning and implementation. The planning grants will be used to determine how to contact potential students, assess their current knowledge, and address potential challenges such as illiteracy during the development phase. The schools will also determine the most in-demand jobs in their regions and identify the types of certifications graduates need to qualify for those positions.[13] H.B. 64 earmarks $2.5 million in FY 2016 and $5 million in FY 2017 for implementation grants. In FY 2016, the implementation grants will only be available for the five institutions that received planning grants in FY 2015. Beginning in FY 2017, all eight selected institutions will be eligible for implementation grants.

Controlling Board Authorizes Public Safety to Fully Expend Federal Highway Safety Grants for FY 2016

– Robert Meeker, Budget Analyst, 614-466-3839

The National Highway Traffic Safety Administration (NHTSA) has recently awarded the Ohio State Highway Patrol (OSHP) of the Department of Public Safety five highway safety grants totaling $6.9 million (see table below). To fully expend these grants, on November 23, 2015, the Controlling Board approved additional expenditures of $6.3 million for FY 2016 from Public Safety's Fund 3GU0 appropriation item 764610, Highway Safety Programs Grant. Fund 3GUO is the operating account used by Public Safety into which the federal highway safety grant money is deposited and from which related expenditures are made. Item 764610 has around $600,000 in existing FY 2016 appropriation available for disbursing the grants.

The largest grant totaling $4.6 million is to be used for the Traffic Records Coordinating Committee (TRCC). TRCC secures and administers contracts to improve statewide traffic-related data collection systems including electronic crash records. These systems are used by various state and local agencies for data collection. TRCC has

[12] Stark State Community College, Pickway-Ross Joint Vocational School, Miami Valley Career Technical Center (Montgomery County), Cuyahoga Community College, and Penta Career Center (Wood County) were awarded planning grants of $500,000 each in January 2015.

[13] H.B. 64 appropriated a total of $1.25 million for planning grants in FY 2016, allowing up to five new institutions to participate. ODE selected only three institutions to receive planning grants this fiscal year in consideration of the funds available for implementation.

been chaired by OSHP since 2012. The remaining four grants totaling $2.3 million are to be used to help cover payroll expenses for various units of OSHP that are involved in highway safety enforcement and investigation efforts, including the OSHP crime lab and the Ohio Investigative Unit (OIU).

FY 2016 OSHP Federal Highway Safety Program Grants	
Grant Name	**Grant Amount**
Traffic Records Coordinating Committee	$4,566,107
OVI Enforcement – Program 11	$1,121,045
Enforcement	$1,015,139
OVI Toxicology	$136,875
OIU Trace Back Investigations	$80,110
TOTAL	**$6,919,276**

ODOT Announces $7.3 Million in Grants to Increase Efficiencies at Rural Transit Agencies and Improve Broadband Access in Rural Areas

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

On November 6, 2015, the Ohio Department of Transportation (ODOT) announced that $7.3 million in grant funding will be awarded under the Transit Tech Ohio Project to assist 34 rural transit systems across the state in increasing operational efficiencies and to expand broadband access in rural areas. The funding sources for the project consist of (1) a $6.8 million federal grant that ODOT received under the U.S. Department of Transportation's Transportation Investment Generating Economic Recovery (TIGER) Grant Program, (2) a $466,000 state match made by ODOT using appropriated GRF dollars, and (3) a total of $34,000 in local matching funds provided by the 34 rural transit systems ($1,000 per transit system).

Of the $7.3 million in total project funding, $2.4 million will be used to pay for broadband access improvements in certain rural parts of the state. The remaining $4.9 million will be used to help 34 rural transit agencies increase efficiencies in scheduling and dispatching transit vehicles. Specifically, seven rural transit agencies will each be allocated $85,000 to install a new information system and the other 27 agencies will each receive $40,000 to upgrade their existing information systems. All 34 rural transit agencies will be allocated additional dollars to purchase hardware, such as computers, printers, and tablets, as well as software, including shared licenses. The complete project list is available on ODOT's website: www.dot.state.oh.us/news/Pages/Federal-grant-to-aid-rural-transit-and-expand-broadband-access.aspx.

Attorney General Awards $51.2 Million in Federal Crime Victim Services Grants

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

On October 7, 2015, the Office of the Attorney General announced the award of $51.2 million in federal grant funding to 307 service providers as part of an initiative to enhance crime victim services statewide. The table below summarizes the award by program type. As seen from the table, the largest share of the award, $15.1 million, or 29.5%, will be distributed to domestic violence programs, followed by $9.9 million, or 19.4%, for programs operated by local prosecutors, and $9.4 million, or 18.4%, for sexual assault victims. The total amount of grant funds distributed to eligible organizations in each county ranged from just over $14,000 in Monroe County to $4.8 million and $4.0 million in Franklin and Cuyahoga counties, respectively.

The funding source of the award comes from a population-based formula grant that is supported by the federal Crime Victims Fund[14] and administered by the U.S. Department of Justice. There is no state match requirement for the grant. The Ohio Attorney General's Crime Victim Services Section administers this federal grant at the state level. Historically, Ohio's award ranges from $13 million to $16 million annually. For federal fiscal year (FFY) 2015, however, Ohio's award totals $69.9 million, reflecting a congressional decision that established a FFY 2015 distribution cap from the federal Crime Victims Fund that is 217% higher than the FFY 2014 cap amount. According to staff of the Ohio Attorney General, $18.7 million of the total FFY 2015 award is being retained at the state level for unexpected needs or emergencies and for funding additional crime victim services and programs in the future.

Federal Crime Victim Services Grants by Program Type		
Program Type	**Award Total**	**% of Total**
Domestic violence	$15,097,623	29.5%
Prosecutor-based programs	$9,915,557	19.4%
Sexual assault	$9,426,405	18.4%
General	$6,126,382	12.0%
Child advocacy center	$3,867,177	7.5%
At-risk youth	$2,889,850	5.6%
Court-appointed special advocate	$2,706,261	5.3%
Human trafficking	$1,213,361	2.4%
TOTAL	**$51,242,616**	**100.0%**

[14] The federal fund was established in 1984 to help victims and victim service providers and largely consists of criminal fines, forfeitures, and court costs collected by various federal entities.

DNR Awards More Than $11.7 Million Under Outdoor Recreation Facility Grant Programs

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

On November 2, 2015, the Department of Natural Resources (DNR) announced the recipients of more than $11.7 million in funding under three grant programs. Of this total, nearly $6.2 million will go to 19 communities in 14 counties under Clean Ohio Trails Fund grants for community projects to connect regional trail systems and provide access to outdoor recreation areas from urban areas. Another $4.0 million under the NatureWorks Grant Program is being awarded to 98 recipients in 71 counties to create and renovate parks and outdoor recreation areas including the acquisition of green space and improvements and construction of playgrounds, restroom facilities, shelters, and ballfields. The remaining $1.5 million will go to 14 communities and organizations in 16 counties under the Recreational Trails Grant Program for local trails projects. A complete list of grant recipients can be found on DNR's website at http://realestate.ohiodnr.gov/outdoor-recreation-facility-grants.

Funding for Clean Ohio Trails Fund and NatureWorks grants is supported by bond proceeds that are deposited into the Clean Ohio Fund (Fund 7061) and the Ohio Parks and Natural Resources Fund (Fund 7031), respectively. Recipients of Clean Ohio Trails Fund grants must provide a 25% local match for their projects. NatureWorks grants provide up to 75% of eligible project costs. Recreational Trails grants provide up to 80% of eligible project costs and are made available through funding from the Federal Highway Administration.

TRACKING THE ECONOMY

– *Thomas Kilbane, Economist, 614-728-3218*

Overview

Nationwide job growth in November was healthy and inflation levels picked up slightly in October. Public statements by Chair Janet Yellen and other members of the Federal Reserve's monetary policy-making committee indicate that may be enough for the committee to raise its target short-term interest rate for the first time in over nine years at its meeting on December 15-16. Auto sales and demand continue to be strong amid mixed reports on manufacturing. Ohio added 30,800 jobs in October, the most in a single month since 1999. The report reestablished an environment of employment growth in the state after big losses in two of the four previous months.

The National Economy

Employment and Unemployment

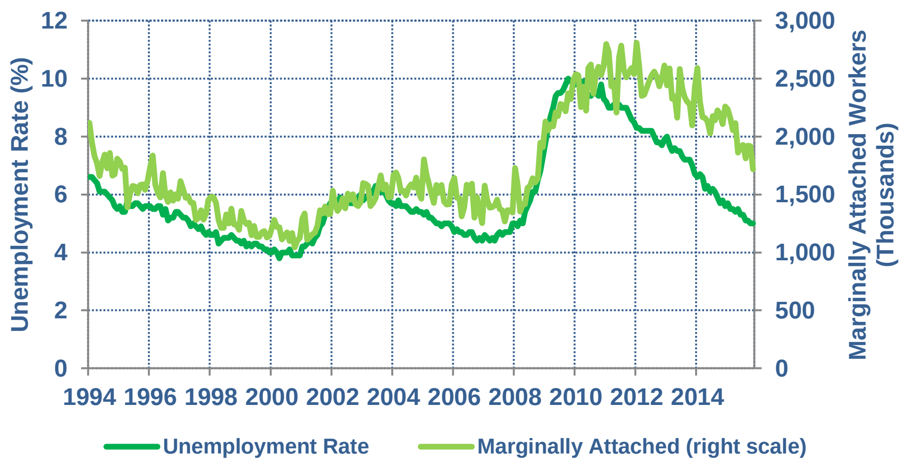
During the last 12 months, average hourly earnings have risen by 2.3%.

In November, nonfarm payroll employment nationwide increased 211,000 according to initial estimates from the U.S. Bureau of Labor Statistics (BLS). BLS also revised job growth estimates from September and October upward by a total of 35,000. Altogether, the report provides more evidence that the slip in employment growth during August and September was temporary. During the last 12 months, employment has increased by an average of 220,000 per month, and average hourly earnings have risen by 2.3%.

The national unemployment rate remained at 5.0% in November, the same as October. The rate stayed steady as the labor force participation rate picked up from its historic low (since 1977) at 62.4% in October to 62.5% in November. U.S. civilians age 16 and over are counted in the labor force when either currently employed, or unemployed but looked for work in the last four weeks. The widely reported unemployment rate calculates the percent of workers in the labor force who are unemployed. Therefore, there are two ways an unemployed worker can cease to be counted in the unemployment rate; become employed or stop actively looking for work.

The U.S. labor force participation rate (the rate of U.S. civilians age 16 and over who are counted as part of the labor force) has been declining since 2000 but at an accelerated pace since 2008. While the decline is in part due to the baby boomer generation retiring, it is also due to many who would like to work but have stopped looking. Persons who would like to work and have searched for work in the past 12 months but have not looked in the last four weeks are classified as marginally attached to the labor force. The chart below shows the unemployment rate along with the number of marginally attached workers. The unemployment rate has declined since 2009, but the number of marginally attached workers has remained high relative to the unemployment rate.

Chart 5: U.S. Unemployment Rate and Marginally Attached Workers



Inflation and Monetary Policy

Most measures of inflation moved closer to the Federal Reserve's target during October compared to their rates of decline in September. The price index for personal consumption expenditures (PCE), the Federal Reserve's preferred measure, increased 0.1% during the month after falling in September. Overall, inflation levels remain very low and energy prices are well below one year ago, with crude oil prices around seven-year lows.

Despite inflation remaining below the Federal Open Market Committee's (FOMC) long-run target (2.0% annually), many expect the committee to raise the federal funds target rate at its next meeting on December 15-16. The committee and its chair, Janet Yellen, have expressed belief that currently low inflation levels are primarily due to the sharp fall in crude oil prices over the past 18 months and the recent appreciation of the U.S. dollar, the effects of which they view as temporary. A target rate increase would be the first in over nine years.

Production, Shipments, and Inventories

The widely reported ISM Manufacturing Index hit its lowest level in November since 2009, and it was the first time since 2012 that it signaled a contraction of activity. The ISM Manufacturing Index is created by the Institute for Supply Management based on surveys of manufacturing firms and includes measures of employment, production inventories, new orders, and supplier deliveries. Inventories, new orders, and production were particularly down in November. Inventories of raw materials contracted for the fifth consecutive month.

Imports at the three busiest seaports fell in September and October for the first time in at least a decade, according to data from Zepol Corporation and analysis from the Wall Street Journal. Imports fell by just over 10% combined from August to October at the ports of Los Angeles, California; Long Beach, California; and the New York Harbor. Declines during normal peak months for imports sparked early concerns of a letdown for the economy heading into the holiday season.[15]

The Bureau of Economic Analysis (BEA) revised its estimate of third quarter inflation-adjusted gross domestic product (real GDP) upward from an annual rate of 1.5% to 2.1%. The increase comes primarily due to an upward revision to private inventory investment. The revision to third quarter real GDP estimates brings the pace of growth in 2015 above 2% overall.

Consumer Spending

It was the first time on record the annual pace of light vehicle sales reached 18.1 million units in three straight months.

Overall, inflation-adjusted personal consumption spending increased just 0.1% in each of September and October. This is a slowdown from the spring and summer months of April through August, which saw an average monthly increase of 0.3%. Inflation-adjusted personal income growth outpaced spending in October, growing at 0.4%.

Auto sales continued to be a bright spot for the economy in November. Sales of light vehicles reached 18.1 million units at a seasonally adjusted annual rate for the third straight month. This is the first time on record (available back to 1976) that the pace of sales reached that level in three straight months. The strong sales may be, at least in part, due to a rise in the number of auto loans going to borrowers with poor credit, according to a recent report by the Federal Reserve Bank of New York. For now though, delinquency rates on auto loans remain low, the report states.[16]

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[15] http://www.wsj.com/articles/quiet-u-s-ports-spark-slowdown-fears-1447583406, accessed November 16, 2015.

[16] http://libertystreeteconomics.newyorkfed.org/2015/11/just-released-new-charts-new-data-on-auto-loans.html#.VmXZa3arTRY, accessed November 20, 2015.

Real Estate

Existing home sales remained healthy in October, up 2.1% over the year-to-date seasonally adjusted monthly average, and 3.9% over October 2014, according to the National Association of Realtors. However, sales of new homes and housing starts in October both dipped below their respective year-to-date seasonally adjusted monthly averages. Overall, it has still been a strong year to date for real estate, with housing starts, new home sales, and existing home sales all up at least 7% from the same period in 2014.

House prices rose 5.7% from the third quarter of 2014 to the third quarter of 2015, according to a nationwide index from the Federal Housing Finance Agency, outpacing personal income growth and any measure of inflation. There has been considerable geographical variance in rising prices, with some regional markets in particular struggling with high housing costs. Average U.S. 30-year fixed rate mortgages rose quickly from late October through mid-November, but have declined slightly since then to settle at 3.93% during the week of December 3 according to Freddie Mac's Primary Mortgage Market Survey.

The Ohio Economy

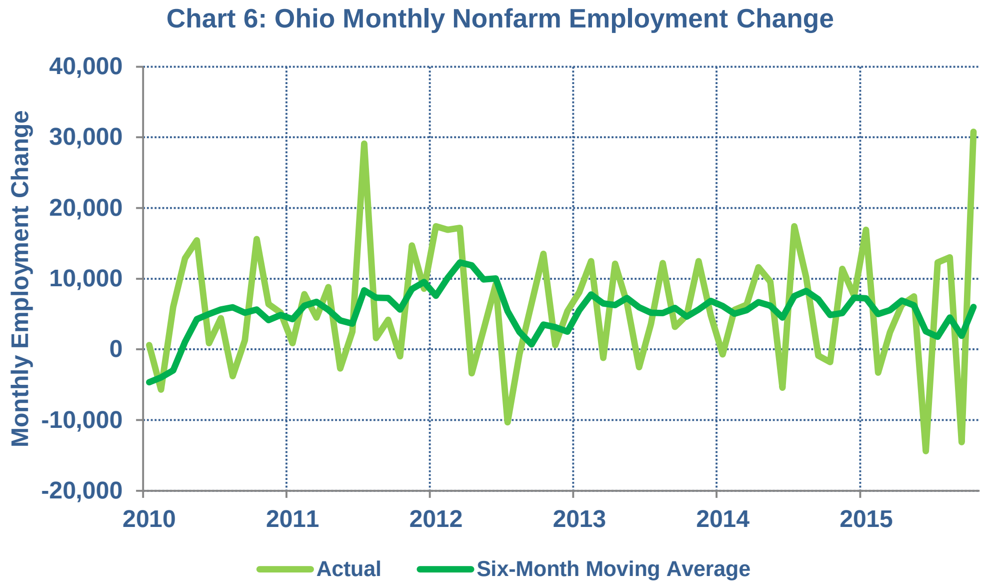
Employment and Unemployment

The national employment report was strong for October, but Ohio's may have been better. During the month, Ohio added 30,800 jobs,[17] the most in a single month since 1999. It was also the first month since May in which Ohio's labor force increased, adding approximately 6,600 workers, stemming the flow of large net losses that occurred throughout the summer months. All of this added up to an unemployment rate that again dipped to its lowest point since 2001, at 4.4% (4.5% in September).

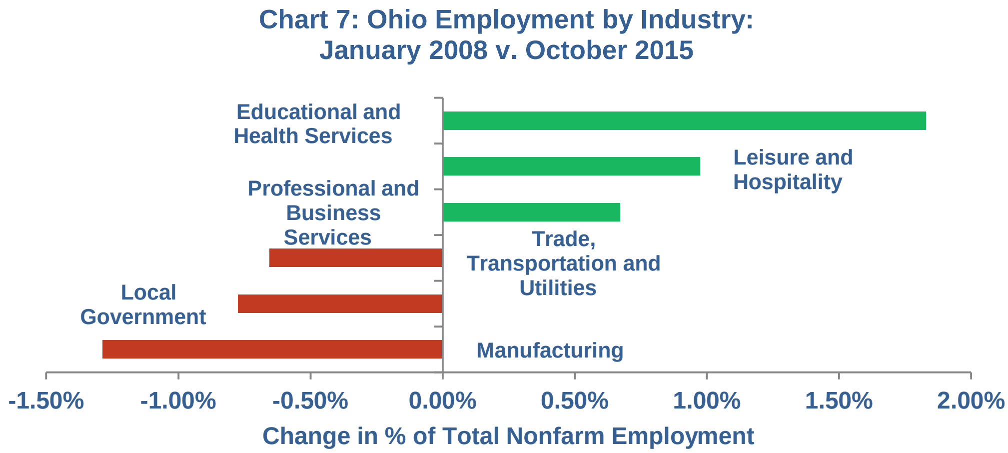
Ohio added 30,800 jobs in October, the most in a single month since 1999.

The good news in October follows September, which saw Ohio lose more jobs (13,100) than in any other month since the Great Recession (December 2007-June 2009) except one (14,400 in June 2015). Monthly employment gains and losses in Ohio are historically volatile (see chart below). Monthly job reports have been extra volatile over the last five months; however the longer term trend of job growth in the state has dipped only slightly. Average monthly job growth in 2015 has been 5,840 as compared to 5,908 in 2014.

[17] Nonfarm payroll employment.



Leisure and hospitality (7,000 jobs, 1.3%), as well as the educational and health services (8,300, 0.9%) sectors continued to drive job growth in the state during October. In the last 12 months, the health care and social assistance sector added 15,700 (2.0%) jobs while accommodation and food services added 14,000 (3.0%). Total nonfarm employment in October nearly reached the total from January 2008, the last month before employment started to drop during the Great Recession. While the total number of jobs in Ohio has returned to prerecession levels, the industry makeup of those jobs is different today. The chart below shows which sectors have gained and lost the most since January 2008 as a percentage of total employment in Ohio. For example, in January 2008 local government made up 10.20% of total statewide nonfarm employment, but in October 2015 it was only 9.42%, a decrease of 0.77 percentage point (with rounding).



Educational and health services job gains were almost all in health care and social assistance, while the majority of leisure and hospitality gains came in the accommodation and food services subsector. Manufacturing lost the most jobs in durable goods, while trade, transportation, and utilities losses came largely from the retail trade.

Home Sales

Ohio home sales in October continued to solidify a strong year. The number of units sold and average home price in October were both higher than one year ago. The year-to-date number of homes sold through October is 10.1% higher than in 2014, and the average sale price was $156,506 compared to $150,549 during the same period in 2014. While the October data remained higher than 2014 performance, the gap has narrowed since the strong summer market. The winter months ahead, when sales and prices traditionally dip, will be a test of the market's enduring strength in what has been a very good year.

Regional Economy

The Federal Reserve Bank of Cleveland's most recent report on regional economic activity described economic expansion at a modest pace during the six weeks since their last report,[18] which was similar to most regional reports in other areas of the country over the same period. The report noted that:

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[18] The Federal Reserve Bank of Cleveland releases the Fourth District Beige Book eight times each year prior to the FOMC meetings. The Federal Reserve Bank of Cleveland's District includes all of Ohio and parts of Kentucky, Pennsylvania, and West Virginia. Information in the latest report was collected prior to November 20, 2015.

- **Demand for manufactured products** was split. Certain industries such as steel are slow due to a strong dollar, a slowdown in the energy sector, and weak demand in international markets. However, demand in the motor vehicle, construction, and aerospace and defense industries is strong.
- **Year-to-date sales of motor vehicles have been strong**, led by light trucks and SUVs. Low gasoline prices and easy access to financing have driven this trend.
- **A healthy housing market continued**, with increases in both unit sales and prices over a year ago. New home sales in the move-up price point remained the strongest.
- The economy experienced **wage pressures across a number of industries**, especially in higher-skilled jobs. The construction industry has a labor shortage, the retail industry has experienced higher turnover, and there is some expectation that the recent United Auto Workers contract negotiations will raise wages across the motor vehicle industry.
- Rig counts have fallen by more than 50% from last year, but **natural gas output remains at historic highs**. Expectation changes in the industry have led to employment reductions.