Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION JULY 2016

STATUS OF THE GRF

HIGHLIGHTS

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

FY 2016 ended with GRF revenue falling short of the Office of Budget and Management (OBM) forecast by nearly $789 million, most of which was due to federal grants related to lower than expected spending in Medicaid; GRF tax revenue was $216 million (1.0%) below estimate. Expenditures for the year were over $1.1 billion below estimate, though, with Medicaid accounting for $926 million of the negative spending variance.

The GRF finished the fiscal year with an unobligated cash balance of $764.7 million. Up to $25 million of this total will be transferred to the Controlling Board Emergency Purposes/Contingencies Fund per H.B. 390 of the 131st General Assembly. The remainder will either be retained in the GRF to meet the required ending fund balance or transferred to the Budget Stabilization Fund.

Simplified GRF Cash Statement, as of June 30, 2016 ($ in millions)

Beginning Cash Balance	**$1,711.7**
Plus Actual Revenues, Transfers In, and Receivables	$33,930.5
Less Actual Expenditures and Transfers Out	$34,448.9
Ending Cash Balance	**$1,193.3**
Less Encumbrances	$428.6
Unobligated Ending Cash Balance	**$764.7**
Plus Budget Stabilization Fund (BSF) Balance	$2,004.6
Combined GRF and BSF Unobligated Ending Balance	**$2,769.3**

VOLUME 39, NUMBER 11

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

Next Issue:
September 2016

Have a great summer!

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Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of June 2016
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on July 5, 2016)

STATE SOURCES	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$123,715	$115,600	$8,115	7.0%
Nonauto Sales and Use	$735,031	$782,900	-$47,869	-6.1%
Total Sales and Use Taxes	**$858,747**	**$898,500**	**-$39,753**	**-4.4%**
Personal Income	$775,976	$762,600	$13,376	1.8%
Corporate Franchise	$348	$0	$348	---
Financial Institution	$26,235	$29,550	-$3,315	-11.2%
Public Utility	$1,740	$200	$1,540	770.1%
Kilowatt-Hour Excise	$21,212	$18,600	$2,612	14.0%
Natural Gas Consumption (MCF)	$13	$100	-$87	-86.9%
Commercial Activity Tax	$3,061	$5,900	-$2,839	-48.1%
Petroleum Activity Tax	$1,289	$1,000	$289	28.9%
Foreign Insurance	-$43	-$2,100	$2,057	98.0%
Domestic Insurance	$252,994	$14,600	$238,394	1632.8%
Business and Property	$3	$0	$3	---
Cigarette	$151,882	$76,500	$75,382	98.5%
Alcoholic Beverage	$4,938	$5,800	-$862	-14.9%
Liquor Gallonage	$3,891	$4,000	-$109	-2.7%
Estate	$297	$0	$297	---
Total Tax Revenue	**$2,102,585**	**$1,815,250**	**$287,335**	**15.8%**
NONTAX REVENUE				
Earnings on Investments	$8,970	$5,750	$3,220	56.0%
Licenses and Fees	$285	$6,213	-$5,928	-95.4%
Other Revenue	$6,325	$2,829	$3,496	123.6%
Total Nontax Revenue	**$15,580**	**$14,792**	**$789**	**5.3%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$112,735	$142,900	-$30,165	-21.1%
Total Transfers In	**$112,735**	**$142,900**	**-$30,165**	**-21.1%**
TOTAL STATE SOURCES	**$2,230,900**	**$1,972,942**	**$257,958**	**13.1%**
Federal Grants	$433,528	$821,826	-$388,299	-47.2%
TOTAL GRF SOURCES	**$2,664,428**	**$2,794,768**	**-$130,340**	**-4.7%**

*Estimates of the Office of Budget and Management as of September 2015, including revisions in February 2016.
Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Actual vs. Estimate
FY 2016 as of June 30, 2016
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on July 5, 2016)

STATE SOURCES	Actual	Estimate*	Variance	Percent	FY 2015	Percent Change
TAX REVENUE						
Auto Sales	$1,346,315	$1,330,800	$15,515	1.2%	$1,316,600	2.3%
Nonauto Sales and Use	$9,001,684	$9,042,500	-$40,816	-0.5%	$8,643,630	4.1%
Total Sales and Use Taxes	**$10,347,999**	**$10,373,300**	**-$25,301**	**-0.2%**	**$9,960,230**	**3.9%**
Personal Income	$7,799,334	$8,017,000	-$217,666	-2.7%	$8,506,665	-8.3%
Corporate Franchise	$33,234	$0	$33,234	---	$2,496	1231.6%
Financial Institution	$213,451	$195,900	$17,551	9.0%	$182,134	17.2%
Public Utility	$103,253	$105,400	-$2,147	-2.0%	$97,473	5.9%
Kilowatt-Hour Excise	$338,007	$349,300	-$11,293	-3.2%	$292,327	15.6%
Natural Gas Consumption (MCF)	$60,725	$68,000	-$7,275	-10.7%	$74,735	-18.7%
Commercial Activity Tax	$1,255,325	$1,280,900	-$25,575	-2.0%	$853,987	47.0%
Petroleum Activity Tax	$6,888	$5,900	$988	16.7%	$5,533	24.5%
Foreign Insurance	$293,526	$300,000	-$6,474	-2.2%	$266,627	10.1%
Domestic Insurance	$258,276	$271,000	-$12,724	-4.7%	$251,647	2.6%
Business and Property	$102	$0	$102	---	$55	83.7%
Cigarette	$1,007,643	$969,800	$37,843	3.9%	$808,164	24.7%
Alcoholic Beverage	$54,446	$55,000	-$554	-1.0%	$56,574	-3.8%
Liquor Gallonage	$45,130	$44,000	$1,130	2.6%	$43,365	4.1%
Estate	$2,154	$0	$2,154	---	$3,071	-29.9%
Total Tax Revenue	**$21,819,492**	**$22,035,500**	**-$216,008**	**-1.0%**	**$21,405,085**	**1.9%**
NONTAX REVENUE						
Earnings on Investments	$35,169	$22,400	$12,769	57.0%	$23,174	51.8%
Licenses and Fees	$56,380	$57,000	-$620	-1.1%	$57,659	-2.2%
Other Revenue	$52,526	$38,800	$13,726	35.4%	$44,841	17.1%
Total Nontax Revenue	**$144,076**	**$118,200**	**$25,876**	**21.9%**	**$125,674**	**14.6%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$322,243	$334,000	-$11,757	-3.5%	$641,628	-49.8%
Total Transfers In	**$322,243**	**$334,000**	**-$11,757**	**-3.5%**	**$641,628**	**-49.8%**
TOTAL STATE SOURCES	**$22,285,810**	**$22,487,700**	**-$201,890**	**-0.9%**	**$22,172,387**	**0.5%**
Federal Grants	$11,645,735	$12,232,485	-$586,751	-4.8%	$9,301,325	25.2%
TOTAL GRF SOURCES	**$33,931,545**	**$34,720,185**	**-$788,642**	**-2.3%**	**$31,473,712**	**7.8%**

*Estimates of the Office of Budget and Management as of September 2015, including revisions in February 2016.
Detail may not sum to total due to rounding.

FY 2016 GRF sources were $788.6 million below estimate.

FY 2016 GRF tax revenue was $216.0 million below estimate.

Revenues

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

Overview

In the final month of FY 2016, GRF tax revenue was $287.3 million above estimates[1] from OBM due to timing-related additional revenues from the domestic insurance tax and the cigarette tax, taxes which had large shortfalls the previous month.[2] However, a shortfall of $388.3 million in federal grants helped produce a negative variance of $130.3 million for total GRF sources in June. Tables 1 and 2 above, show GRF sources[3] for June and for FY 2016 through June, respectively.

Through June, FY 2016 GRF sources of $33.93 billion were $788.6 million below estimate, with deficits from both state sources and federal grants. GRF tax sources of $21.82 billion fell short of estimates by $216.0 million. Nontax revenue experienced a positive variance of $25.9 million and transfers in were $11.8 million below anticipated revenue. Federal grants, which have been generally below estimate throughout the fiscal year, finished FY 2016 with a negative variance of $586.8 million. Federal grants to the GRF are primarily related to the level of spending in the Medicaid program, and GRF FY 2016 Medicaid expenditures were $925.9 million below estimate.

For the month of June, the domestic insurance tax was $238.4 million above estimate, partially reversing the timing-related shortfall of $246.8 million in May. Also, the cigarette tax was $75.4 million above estimate, following a shortfall of $65.8 million last month. Also above anticipated levels were the personal income tax (PIT, $13.4 million), the kilowatt-hour tax ($2.6 million), the foreign insurance tax ($2.1 million), and the public utility tax ($1.5 million). Those positive variances were partially offset, however, by negative variances from the sales and use tax ($39.8 million), the financial institution tax (FIT, $3.3 million), the commercial activity tax (CAT, $2.8 million), and the

[1] OBM estimates were initially released in September 2015 and subsequently revised to accommodate enactment of S.B. 208 and H.B. 340 of the 131st General Assembly.

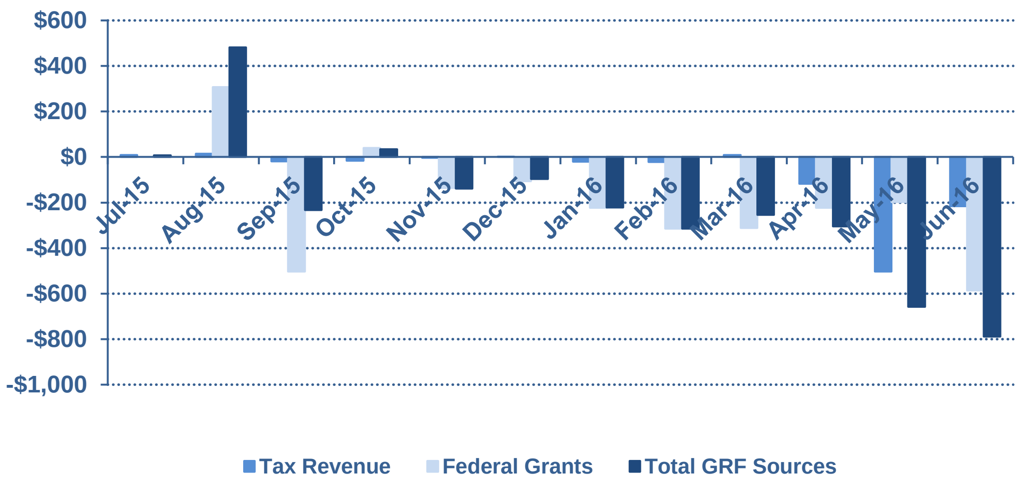
[2] Monthly estimates did not reflect legislative changes that pushed from May to June revenue for these taxes in FY 2016, resulting in large negative variances for the two tax sources in May which were reversed in June.

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

alcoholic beverage tax ($0.9 million). Regarding the remaining GRF state sources in June, transfers in were $30.2 million below projected revenue and nontax revenues were $0.8 million above estimate.

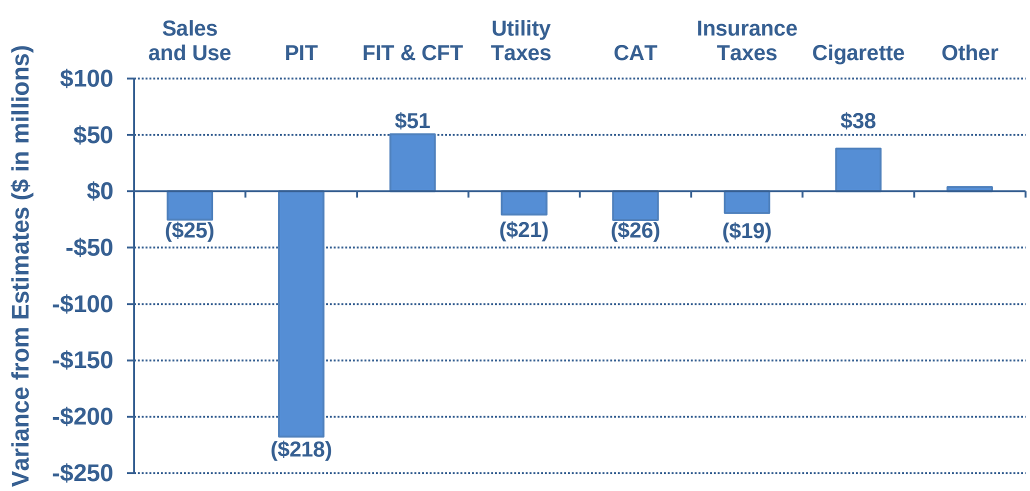
The chart below illustrates the cumulative performance of total GRF sources relative to estimates in each month of the fiscal year, broken down by its largest components. It shows federal grants has been below estimate most of the fiscal year, while the deficit for tax revenue emerged in the last fiscal quarter due to negative results from the PIT during the tax filing season.

Chart 1: Cumulative Performance of GRF Sources in FY 2016
(Variance from Estimates, $ in millions)



Regarding tax sources, except for taxes on financial institutions (FIT and corporate franchise tax) and the cigarette tax, most other tax sources were below estimates for the fiscal year as a whole, as shown in the chart below. Interestingly, the negative variance for the PIT nearly matched the total shortfall of $216.0 million for the entire category.

Chart 2: FY 2016 Tax Revenue Performance by Type



Compared to FY 2015, FY 2016 sources were $2.46 billion higher. Most of the increase was due to an accounting change related to Medicaid expenditures which pushed federal grants higher in FY 2016 by $2.34 billion. Expenditures for individuals who became eligible for Medicaid through the Affordable Care Act (ACA) were made from the GRF, but in the past, such expenditures were debited from the Health Care Federal Fund (Fund 3F00), a non-GRF fund.

Despite the shortfall from estimates illustrated above, GRF tax receipts were up $414.4 million from FY 2015. The taxes that contributed the most to year-over-year revenue growth were the sales and use tax, the CAT, and the cigarette tax. Sales and use tax revenue growth was largely reflective of increased consumer spending in FY 2016, while the growth in the CAT and cigarette tax revenue was more the result of policy changes. H.B. 64, the budget act, increased the share of CAT receipts credited to the GRF from 50% to 75% and raised the cigarette tax rate from $1.25 per pack of 20 cigarettes to $1.60 per pack. Despite employment gains in the state during FY 2016, PIT revenue fell by $707.3 million from FY 2015, also due primarily to tax changes enacted in H.B. 64.

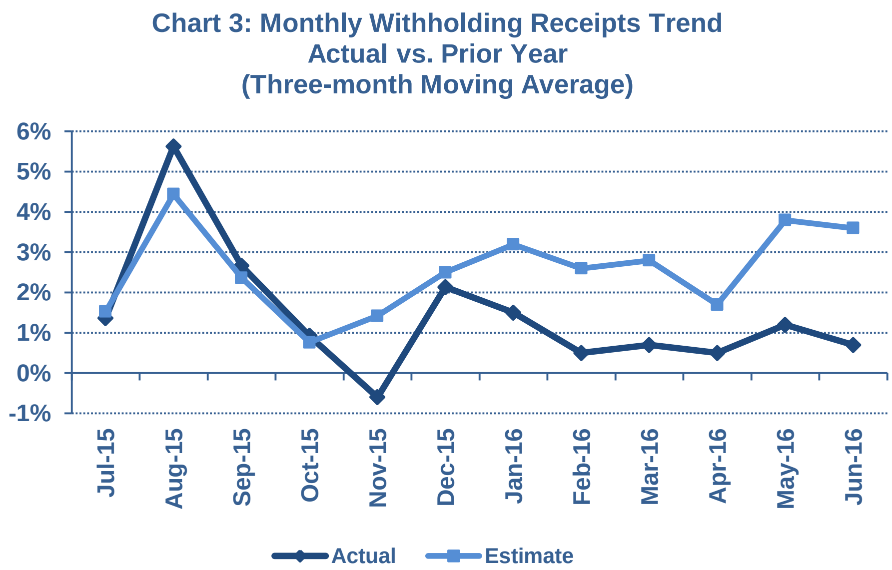
Personal Income Tax

GRF receipts of $776.0 million from the PIT in June were $13.4 million (1.8%) above estimate. PIT revenue is comprised of gross collections, minus refunds and distributions to the Local Government Fund (LGF). Gross collections consist of employer withholdings, quarterly estimated payments,[4] trust payments, payments associated with annual returns, and other miscellaneous payments. For the month, quarterly estimated payments were $30.5 million below estimate. That negative variance was partially offset by positive variances of $7.8 million for employer withholdings and $5.7 million in taxes due with annual returns; in addition, refunds were $22.6 million below estimate.

Monthly employer withholding growth remains at a slowed pace. H.B. 64 reduced income tax rates for all brackets by 6.3% for taxable years beginning in 2015. Due to this, the Department of Taxation announced a reduction in withholding rates of 3.1% for payroll ending

[4] Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than $500. Payments are due in April, June, and September of an individual's tax year and January of the following year. Most estimated payments are made by high-income taxpayers.

on or after August 1, 2015. The effects of the changes enacted in H.B. 64 and S.B. 208[5] have limited growth in withholding revenue from the tax; however, revenue growth for most of the year has also been lower than estimates which take into account the policy changes. The chart below illustrates the slowing growth of monthly employer withholdings as well as the deficit relative to estimates in recent months (actual figures in the chart are not adjusted for the August change in withholding rates).



For FY 2016, PIT revenues totaled $7.80 billion, $217.7 million (2.7%) below estimate, with all components contributing to the shortfall. FY 2016 revenues from each component of the PIT relative to estimates and to FY 2015 revenues are detailed in the table below.

FY 2016 revenue from the PIT was $217.7 million below estimate.

When compared to FY 2015 receipts, and as expected, the impact of changes in recently enacted legislation on FY 2016 PIT revenue was mostly felt on taxes due with annual returns (-$318.5 million), quarterly estimated payments (-$137.0 million), and refunds to taxpayers (+$369.5 million).

[5] S.B. 208 enhanced the small business income deduction under the income tax for tax year 2015, resulting in lower estimated PIT revenues in January through June of 2016.

FY 2016 revenue from the PIT was $707.3 million below last year's revenue.

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	-$64.9	-0.8%	$130.1	1.6%
Quarterly Estimated Payments	-$51.7	-5.1%	-$137.0	-12.5%
Trust Payments	-$2.0	-2.8%	-$2.5	-3.6%
Annual Return Payments	-$98.1	-12.6%	-$318.5	-31.8%
Miscellaneous Payments	-$8.0	-7.2%	-$5.8	-5.3%
Gross Collections	-$224.7	-2.2%	-$333.7	-3.2%
Less Refunds	$1.7	0.1%	$369.5	24.4%
Less LGF Distribution	-$8.7	-2.3%	$4.2	1.2%
Income Tax Revenue	-$217.7	-2.7%	-$707.3	-8.3%

Sales and Use Tax

Total GRF sales and use tax receipts of $10.35 billion in FY 2016 were $25.3 million (0.2%) below estimate but $387.8 million (3.9%) above FY 2015 receipts. A positive variance of $15.5 million for the auto portion of the tax partially offset a negative variance of $40.8 million for the nonauto sales and use tax. Though the sales and use tax tracked estimates remarkably closely, the final tally masks a significant slowdown in the latter part of the fiscal year, as this GRF source lost altitude in recent months, with poor performances by both the nonauto and the auto portions. Through December, the nonauto and the auto portions of the tax were ahead of projected receipts by $44.8 million (1.0%) and $25.5 million (3.9%). However, from January through June, the nonauto tax and the auto tax were $85.5 million (1.8%) and $9.9 million (1.5%) below estimates, respectively.

FY 2016 sales and use tax receipts were $25.3 million below estimate.

For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections generally arise from the sale of motor vehicles, 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.[6] In FY 2016, the nonauto portion accounted for 87% of the total sales and use tax collected, while auto collections were 13%.

[6] Taxes arising from leases are paid immediately upon the lease signing. The clerks of court generally make auto sales and use tax payments on Mondays for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled. Therefore, auto sales and use tax receipts mostly, but not perfectly, reflect vehicles sold and titled during the month.

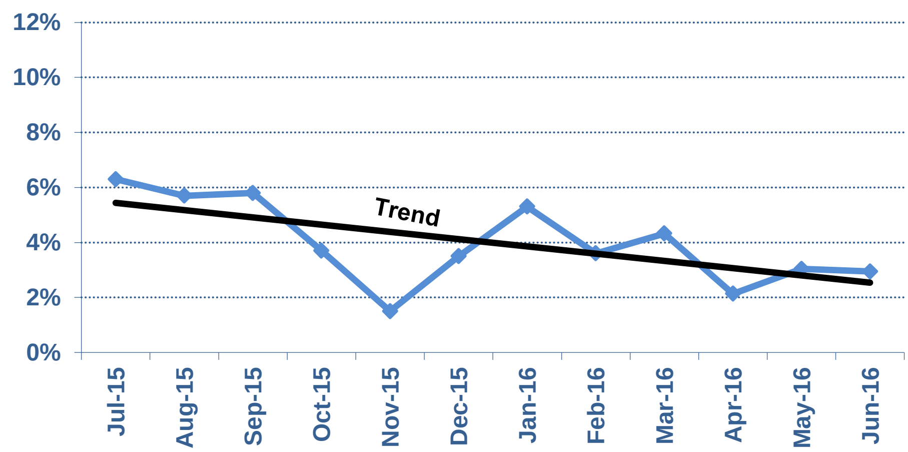
Nonauto Sales and Use Tax

June revenue of $735.0 million to the GRF from the nonauto sales and use tax was $47.9 million (6.1%) below estimate, thus concluding a dismal year for the nonauto sales and use tax. For the fiscal year, nonauto sales and use tax revenue of $9.0 billion was $40.8 million (0.5%) below estimate; though through May, the tax was still $7.1 million (0.1%) above estimate. FY 2016 revenue was $358.1 million (4.1%) above revenue from the tax in FY 2015. In the first half of FY 2016, nonauto sales and use tax revenue was $201.5 million (4.6%) above receipts for the first half of FY 2015, but growth slowed to 3.7% in the second half of the fiscal year.

FY 2016 nonauto sales and use tax receipts were $40.8 million below estimates.

The chart below shows year-over-year changes in nonauto sales and use tax monthly revenues on a three-month moving average. The chart illustrates nonauto sales and use tax revenues still growing but at a much slower pace than in prior months. Average growth over the most recent three months was 2.9%.

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



Part of the slowdown in nonauto sales and use tax revenue can be explained by revenue from Medicaid health insuring corporations, whose collections made up about 9% of nonauto sales and use tax collections this fiscal year. This portion of the nonauto sales and use tax is generally correlated to GRF Medicaid spending which has been lower than expected by $925.9 million in FY 2016, and this may be responsible for part or all of the fiscal year's shortfall relative to estimate for nonauto sales and use tax. After several years of double digit growth, revenue from Medicaid health insuring corporations grew about 1.5% in FY 2016.

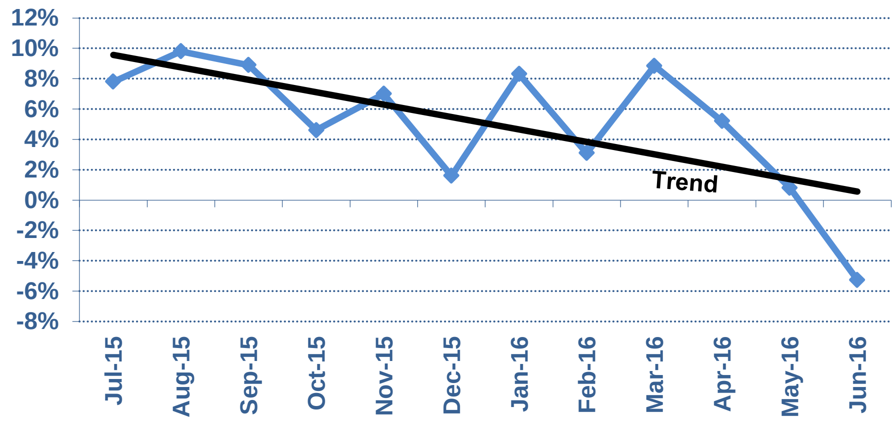
Auto Sales and Use Tax

The GRF received $123.7 million in revenue from the auto sales and use tax in June, an amount $8.1 million (7.0%) above estimate but $1.2 million (1.0%) below June 2015 revenue. For the fiscal year, revenue from this tax was $15.5 million (1.2%) above estimate, and $29.7 million (2.3%) higher than in FY 2015. The yearly positive variance was achieved in the July to December period when the auto tax was 3.9% above estimate. In the January to June period, the tax was 1.5% below estimate.

The chart below shows year-over-year changes in auto sales and use tax monthly revenues on a three-month moving average. The chart illustrates revenues growing at an uneven pace for most of FY 2016 but decreasing drastically in the last quarter. Auto sales and use tax receipts in the final quarter of FY 2016 were 5.3% below receipts in the corresponding period of FY 2015.

Auto sales and use tax revenue was $15.5 million above estimate in FY 2016.

Chart 5: Auto Sales and Use Tax Receipts Trend
Actual vs. Prior Year
(Three-month Moving Average)



U.S. auto sales nationwide were very strong in 2015, setting an all-time record of 17.3 million for total light vehicle sales during a calendar year. However, first-half unit sales in 2016 have dropped slightly, falling off by about 1.3% compared to the January to June period in 2015. Recent data from the Ohio Bureau of Motor Vehicles indicate a stronger decline in Ohio: new motor vehicles titled fell by about 6% overall in the first half of 2016 compared to the corresponding period last year, with the drop-off accelerating to about 11% in the April to June quarter. For FY 2016, the number of new automobiles sold in Ohio declined 2.9% relative to FY 2015. However, 3.7% more used motor vehicles were sold and higher average prices contributed to increased auto sales and use tax receipts in FY 2016.

Commercial Activity Tax and Petroleum Activity Taxes

GRF receipts from the CAT in June were $3.1 million, $2.8 million (48.1%) less than anticipated and $0.9 million (22.0%) below revenue in June 2015. For the fiscal year, CAT revenues to the GRF totaled $1.26 billion, $25.6 million (2.0%) below estimate. This shortfall relative to estimates was due, in part, to more credit claims than anticipated against the tax. Refunds totaled $39.0 million more in FY 2016 than in FY 2015.

FY 2016 CAT revenue was $25.6 million below estimate.

FY 2016 CAT GRF revenue was $401.3 million (47.0%) above that of FY 2015. The rise was entirely due to the law change in H.B. 64 that increased the GRF share of total CAT receipts from 50% to 75%.[7] Generally, CAT receipts are expected to grow yearly, except during periods of prolonged economic contraction. Weakness in collections this year can be explained, in part, by some economic softening, particularly in the industrial production sector, and the elimination of revenue from motor fuel sales (which were $28.0 million in FY 2015). For the year as a whole, estimated all-funds CAT revenue was only 0.1% above FY 2015 actual collections of $1.72 billion; however, actual FY 2016 all-funds revenue came in at $1.69 billion, below the previous year's total.

Beginning July 1, 2014, the CAT as applied to receipts from the sale or exchange of motor fuel was replaced by the PAT, which has a rate of 0.65% on a motor fuel supplier's adjusted gross receipts. OBM estimated GRF revenue of $5.9 million for the PAT in FY 2016. GRF revenue from the tax was $6.9 million, thus resulting in a positive variance of $1.0 million (16.7%) for the fiscal year. FY 2016 GRF revenue was $1.4 million (24.5%) above revenue in FY 2015. The increase is presumably due to the increase in oil prices during this fiscal year. All-funds revenue from the PAT was $78.4 million. Of that total, $71.5 million was deposited in the Petroleum Activity Tax Public Highway Fund (Fund 5NZ0).

FY 2016 receipts from the cigarette tax were $37.8 million above estimate.

Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax were $151.9 million in June, $75.4 million (98.5%) above estimate. The result reversed a timing-related negative variance of $65.8 million in May. For the fiscal year, GRF revenue totaled $1.01 billion, $37.8 million (3.9%) above estimate. Revenue from the tax on cigarettes and other tobacco

[7] 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.

products had run above estimate consistently throughout the fiscal year. Of the total revenue, sales of cigarettes provided $944.0 million, of which $17.5 million was from the "floor tax."[8] Sales of other tobacco products were $63.4 million.

FY 2016 revenue was $199.5 million (24.7%) above FY 2015 receipts. Cigarette receipts increased $198.0 million. Revenue from the other tobacco products category grew $1.5 million. Generally, cigarette tax receipts have exhibited a long-term downward trend; however, H.B. 64 increased the cigarette tax from $1.25 to $1.60 per pack of 20 cigarettes, a 28% increase, which led to an increase in total revenues this year.

Foreign and Domestic Insurance Taxes

FY 2016 receipts from insurance taxes were $19.2 million below estimate.

GRF foreign insurance tax receipts (paid by insurance companies whose headquarters are located outside of Ohio) of $293.5 million in FY 2016 were $6.5 million (2.2%) below estimate but $26.9 million (10.1%) higher than receipts in FY 2015. That increase is primarily due to a significant decrease in tax credits claimed by foreign insurers this year compared to FY 2015.

GRF domestic insurance tax receipts (paid by insurance companies whose headquarters are in Ohio) were $258.3 million in FY 2016, $12.7 million (4.7%) below estimate but $6.6 million (2.6%) above receipts in FY 2015. The yearly negative variance resulted from both higher credit claims this year and lower than anticipated premiums paid to domestic health insuring corporations. However, those premiums were still higher in FY 2016 than in FY 2015.

Utility-Related Taxes

FY 2016 receipts from utility-related taxes were $20.7 million below estimate.

Receipts from the public utility excise tax totaled $103.3 million in FY 2016, $2.1 million (2.0%) less than the estimate but $5.8 million (5.9%) more than in FY 2015. Taxes paid by natural gas companies account for about 95% of total tax receipts from the public utility excise tax. MCF tax receipts of $60.7 million in FY 2016 were $7.3 million (10.7%) below estimate and $14.0 million (18.7%) below FY 2015 revenue. H.B. 153 (129th General Assembly) credited all receipts from this excise tax levied on natural gas distribution companies to the GRF starting in FY 2013.

[8] 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 tax rate went into effect on July 1, 2015.

GRF receipts from the kilowatt-hour tax in FY 2016 were $338.0 million, $11.3 million (3.2%) below estimate and $45.6 million (15.6%) greater than FY 2015 receipts. The kilowatt-hour excise tax was credited 100% to the GRF effective July 1, 2015, due to changes enacted in H.B. 64, instead of 88% to the GRF, 9% to the School District Property Tax Replacement Fund (Fund 7053), and 3% to the Local Government Property Tax Replacement Fund (Fund 7054) as in prior law. From the amount distributed to the GRF, a portion is subsequently transferred to the Public Library Fund (PLF, Fund 7065). The PLF received 1.70% of revenue from all GRF taxes in FY 2016, of which half is debited against the kilowatt-hour tax and half is debited against the nonauto sales and use tax.

FY 2016 receipts from taxes on financial institutions were $50.8 million above expectations.

Financial Institutions and Corporate Franchise Taxes

H.B. 510 of the 129th General Assembly eliminated the corporate franchise tax (CFT) and the dealers in intangibles tax at the end of 2013 and replaced both taxes with the FIT in TY 2014. The FIT specifies three tax rates: a rate of 0.8% which applies to the first $200 million of a taxpayer's total Ohio equity capital, a rate of 0.4% of equity capital between $200 million and $1.3 billion, and a rate of 0.25% which applies to the amount of total Ohio equity capital in excess of $1.3 billion.

Though GRF receipts were not anticipated from the CFT in FY 2016, adjustments to tax filings in previous years resulted in revenue of $33.2 million. GRF revenues from the FIT totaled $213.5 million, $17.6 million (9.0%) above estimates and $31.3 million (17.2%) above FY 2015 receipts. H.B. 510 specified revenue targets and prescribed a tax rate adjustment mechanism if yearly FIT revenue exceeded 110% or was less than 90% of certain target tax amounts. Receipts from the FIT were less than 110% of the $212 million target revenue specified in current law for FY 2016. Thus, the existing tax rates will remain.

FY 2016 receipts from alcoholic beverage taxes were $0.6 million above estimate.

Alcoholic Beverage and Liquor Gallonage Taxes

Combined revenue from alcoholic beverage and liquor gallonage taxes of $99.6 million in FY 2016 were $0.6 million (0.6%) above estimate but $0.4 million (0.4%) below FY 2015 revenue.

Receipts from the alcoholic beverage tax were $54.4 million in FY 2016, $0.6 million (1.0%) below estimate and $2.1 million (3.8%) below FY 2015 receipts. Beer and malt beverages generated about 78% of the total alcoholic beverage tax receipts in FY 2016. Compared to last year's results, receipts from both components of the alcoholic beverage tax declined: revenue from beer and malt beverages decreased $1.6 million (3.5%) and revenue from wine and mixed beverages declined $0.5 million (4.6%).

Liquor gallonage tax receipts of $45.1 million in FY 2016 were $1.1 million (2.6%) above estimate and $1.8 million (4.1%) higher than FY 2015 receipts. Liquor sales have increased steadily each year.

Estate Tax

H.B. 153 of the 129th General Assembly eliminated the estate tax starting with dates of death on or after January 1, 2013, thus no revenue was anticipated for this tax in FY 2016. However, due to the length of time required for settling certain estates, the state GRF received $2.2 million from the estate tax. This amount was $0.9 million (29.9%) below FY 2015 receipts. The total estate tax revenue is shared by the state GRF (20%) and the municipality or township in which the decedent resided (80%).

Earnings on Investments

In FY 2016, GRF earnings on investments of $35.2 million were $12.8 million (57.0%) above estimate and $12.0 million (51.8%) above FY 2015 earnings. Earnings on investments grew due to an increase in the amount of available state cash for investment and higher interest rates.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of June 2016
($ in thousands)
(Actual based on OAKS reports run July 1, 2016)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary and Secondary Education	$337,033	$314,971	$22,062	7.0%
Higher Education	$181,562	$173,612	$7,950	4.6%
Other Education	$3,470	$4,581	-$1,111	-24.3%
Total Education	$522,065	$493,165	$28,901	5.9%
Medicaid	$390,088	$1,045,032	-$654,944	-62.7%
Health and Human Services	$73,880	$54,226	$19,654	36.2%
Total Welfare and Human Services	$463,968	$1,099,258	-$635,290	-57.8%
Justice and Public Protection	$138,639	$139,280	-$640	-0.5%
General Government	$26,624	$25,898	$725	2.8%
Total Government Operations	$165,263	$165,178	$85	0.1%
Property Tax Reimbursements	$28,242	$274,609	-$246,367	-89.7%
Capital Outlay	$0	$0	$0	---
Debt Service	$57,055	$55,734	$1,321	2.4%
Total Other Expenditures	$85,297	$330,343	-$245,046	-74.2%
Total Program Expenditures	**$1,236,593**	**$2,087,944**	**-$851,350**	**-40.8%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$19,304	$3,000	$16,304	543.5%
Total Transfers Out	$19,304	$3,000	$16,304	543.5%
TOTAL GRF USES	**$1,255,898**	**$2,090,944**	**-$835,046**	**-39.9%**

*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 June 30, 2016
($ in thousands)
(Actual based on OAKS reports run July 1, 2016)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2015**	**Percent Change**
Primary and Secondary Education	$7,555,949	$7,630,489	-$74,541	-1.0%	$7,246,517	4.3%
Higher Education	$2,222,774	$2,235,239	-$12,466	-0.6%	$2,139,555	3.9%
Other Education	$68,153	$68,339	-$186	-0.3%	$52,934	28.8%
Total Education	$9,846,875	$9,934,067	-$87,192	-0.9%	$9,439,006	4.3%
Medicaid	$16,995,860	$17,921,724	-$925,864	-5.2%	$14,863,212	14.3%
Health and Human Services	$1,283,641	$1,343,369	-$59,728	-4.4%	$1,249,822	2.7%
Total Welfare and Human Services	$18,279,501	$19,265,093	-$985,592	-5.1%	$16,113,034	13.4%
Justice and Public Protection	$1,983,765	$1,982,473	$1,291	0.1%	$1,850,280	7.2%
General Government	$362,353	$385,186	-$22,833	-5.9%	$340,119	6.5%
Total Government Operations	$2,346,118	$2,367,660	-$21,542	-0.9%	$2,190,399	7.1%
Property Tax Reimbursements	$1,786,704	$1,846,500	-$59,796	-3.2%	$1,801,479	-0.8%
Capital Outlay	$0	$0	$0	---	$0	---
Debt Service	$1,333,866	$1,358,161	-$24,295	-1.8%	$1,287,681	3.6%
Total Other Expenditures	$3,120,570	$3,204,661	-$84,091	-2.6%	$3,089,160	1.0%
Total Program Expenditures	**$33,593,065**	**$34,771,481**	**-$1,178,417**	**-3.4%**	**$30,831,598**	**9.0%**
TRANSFERS						
Budget Stabilization	$425,500	$425,500	$0	0.0%	$0	---
Other Transfers Out	$430,331	$385,431	$44,900	11.6%	$629,876	-31.7%
Total Transfers Out	$855,831	$810,931	$44,900	5.5%	$629,876	35.9%
TOTAL GRF USES	**$34,448,896**	**$35,582,413**	**-$1,133,517**	**-3.2%**	**$31,461,475**	**9.5%**

*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 July 5, 2016)

	Month of June 2016				Year to Date Through June 2016			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid	**$2,778,942**	**$1,817,889**	**$961,053**	**52.9%**	**$22,653,734**	**$23,784,934**	**-$1,131,199**	**-4.8%**
GRF	$360,622	$1,005,962	-$645,341	-64.2%	$16,422,115	$17,350,000	-$927,885	-5.3%
Non-GRF	$2,418,320	$811,927	$1,606,394	197.8%	$6,231,619	$6,434,934	-$203,315	-3.2%
Developmental Disabilities	**$189,903**	**$166,981**	**$22,921**	**13.7%**	**$2,388,795**	**$2,511,943**	**-$123,149**	**-4.9%**
GRF	$24,335	$33,665	-$9,330	-27.7%	$490,630	$488,324	$2,306	0.5%
Non-GRF	$165,568	$133,317	$32,251	24.2%	$1,898,165	$2,023,619	-$125,454	-6.2%
Job and Family Services	**$23,597**	**$33,071**	**-$9,474**	**-28.6%**	**$214,529**	**$222,688**	**-$8,158**	**-3.7%**
GRF	$4,313	$4,768	-$455	-9.5%	$73,841	$74,959	-$1,118	-1.5%
Non-GRF	$19,284	$28,303	-$9,019	-31.9%	$140,688	$147,729	-$7,040	-4.8%
Health	**$2,445**	**$2,344**	**$101**	**4.3%**	**$25,648**	**$26,263**	**-$615**	**-2.3%**
GRF	$416	$308	$107	34.7%	$3,978	$3,320	$658	19.8%
Non-GRF	$2,029	$2,035	-$6	-0.3%	$21,670	$22,943	-$1,273	-5.5%
Aging	**$408**	**$508**	**-$99**	**-19.6%**	**$6,106**	**$7,130**	**-$1,024**	**-14.4%**
GRF	$321	$263	$58	22.2%	$3,549	$3,385	$164	4.8%
Non-GRF	$88	$245	-$158	-64.2%	$2,557	$3,745	-$1,188	-31.7%
Mental Health and Addiction	**$276**	**$865**	**-$589**	**-68.1%**	**$5,038**	**$6,661**	**-$1,623**	**-24.4%**
GRF	$82	$65	$17	25.8%	$1,748	$1,737	$11	0.6%
Non-GRF	$194	$800	-$606	-75.7%	$3,290	$4,924	-$1,634	-33.2%
Total GRF	**$390,088**	**$1,045,032**	**-$654,944**	**-62.7%**	**$16,995,860**	**$17,921,724**	**-$925,864**	**-5.2%**
Total Non-GRF	**$2,605,483**	**$976,626**	**$1,628,856**	**166.8%**	**$8,297,990**	**$8,637,894**	**-$339,905**	**-3.9%**
Total All Funds	**$2,995,571**	**$2,021,658**	**$973,913**	**48.2%**	**$25,293,850**	**$26,559,618**	**-$1,265,768**	**-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 July 5, 2016)

	June				Year to Date Through June 2016			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	$782,146	$868,319	-$86,173	-9.9%	$9,911,253	$10,552,236	-$640,984	-6.1%
Nursing Facilities	$118,535	$120,045	-$1,510	-1.3%	$1,397,804	$1,417,794	-$19,990	-1.4%
DDD Services	$178,446	$162,579	$15,867	9.8%	$2,319,676	$2,428,599	-$108,923	-4.5%
Hospitals	$1,141,151	$94,133	$1,047,018	1112.3%	$2,858,358	$3,161,293	-$302,935	-9.6%
Behavioral Health	$81,252	$89,596	-$8,344	-9.3%	$1,078,279	$1,138,919	-$60,640	-5.3%
Administration	$92,216	$100,064	-$7,848	-7.8%	$837,318	$1,119,673	-$282,355	-25.2%
Aging Waivers	$24,413	$25,832	-$1,419	-5.5%	$319,315	$329,029	-$9,714	-3.0%
Prescription Drugs	$40,106	$34,765	$5,341	15.4%	$468,245	$465,647	$2,598	0.6%
Medicare Buy-In	$42,687	$38,101	$4,586	12.0%	$472,877	$447,627	$25,250	5.6%
Physicians	$14,240	$15,920	-$1,680	-10.6%	$259,666	$266,035	-$6,370	-2.4%
Medicare Part D	$27,280	$27,573	-$293	-1.1%	$305,634	$308,278	-$2,644	-0.9%
Home Care Waivers	$9,504	$12,926	-$3,422	-26.5%	$126,074	$167,404	-$41,330	-24.7%
ACA Expansion	$337,118	$348,266	-$11,148	-3.2%	$3,832,435	$3,649,731	$182,704	5.0%
All Other	$106,476	$83,539	$22,937	27.5%	$1,106,915	$1,107,353	-$437	0.0%
Total All Funds	**$2,995,571**	**$2,021,658**	**$973,913**	**48.2%**	**$25,293,850**	**$26,559,618**	**-$1,265,768**	**-4.8%**

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

EXPENDITURES

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Overview

GRF program expenditures totaled $33.59 billion for FY 2016. These expenditures were $1.18 billion below the estimate released by OBM in October 2015. GRF transfers out totaled $855.8 million, $44.9 million above estimate. The largest GRF transfer out occurred at the beginning of the fiscal year when $425.5 million of the surplus from FY 2015 was transferred into the Budget Stabilization Fund. GRF uses as a whole totaled $34.45 billion in FY 2016, $1.13 billion below estimate. Tables 3 and 4 show GRF uses for the month of June and for FY 2016, respectively.

GRF uses ended the year under estimate by $1.13 billion, largely because of a negative variance of $925.9 million in Medicaid.

For reporting purposes, GRF program expenditures are grouped into ten categories. Medicaid, which comprises slightly more than half of all GRF program expenditures, was $925.9 million below its fiscal year estimate but 14.3% above FY 2015 expenditures. The combined expenditures from the other program categories were $252.6 million below OBM's fiscal year estimate and 3.9% above FY 2015 combined expenditures. Overall, GRF program expenditures in FY 2016 were $2.76 billion (9.0%) higher than expenditures in FY 2015 due primarily to the inclusion in the GRF of Medicaid funding for those who qualify for Medicaid through the federal Affordable Care Act (ACA). Prior to FY 2016, Medicaid funding for those individuals was accounted for in non-GRF funds.

Aside from Medicaid, three other program categories had negative variances over $50.0 million: Primary and Secondary Education ($74.5 million), Property Tax Reimbursements ($59.8 million), and Health and Human Services ($59.7 million). These negative variances as well as the positive variance in Transfers Out will be discussed briefly below.

In addition to program expenditures and transfers out, 45 state agencies encumbered a total of $428.6 million in GRF funding, as of June 30, 2016, for expenditure in FY 2017. These encumbrances were $90.6 million above OBM's October 2015 estimate. The **Encumbrances** section of this report provides additional information on FY 2016 year-end encumbrances.

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.

Non-GRF Medicaid expenditures were under estimate by $339.9 million in FY 2016, resulting in a negative all-funds variance of $1.27 billion for the fiscal year.

Table 5 provides GRF and non-GRF Medicaid expenditures by agency. In June, a larger share of Medicaid payments came from non-GRF funds versus the GRF than was originally estimated by the Department of Medicaid (ODM). GRF Medicaid expenditures in June were $654.9 million below estimate, which increased the GRF Medicaid's year-to-date negative variance from $270.8 million at the end of May to $925.9 million (5.2%) at the end of June. Non-GRF Medicaid expenditures were $1.63 billion above the estimate for the month of June, which changed the non-GRF Medicaid's year-to-date variance from a negative $1.97 billion at the end of May to a negative $339.9 million (3.9%) at the end of June. The majority of this monthly variance was related to Upper Payment Limit (UPL) and Hospital Care Assurance Program (HCAP) payment timing; both payments are funded by non-GRF sources. A total of $1.06 billion ($451.9 million for UPL and $610.7 million for HCAP) was scheduled to be paid in May but was delayed until June. UPL allows the state to direct supplemental payments – up to the difference between the Medicare and Medicaid amounts – to service providers. Under HCAP, Ohio makes subsidy payments to hospitals that provide uncompensated care to low-income and uninsured individuals at or below 100% of the federal poverty level.

For the full fiscal year, GRF and non-GRF Medicaid expenditures were $17.00 billion and $8.30 billion, respectively, for a total of $25.29 billion across all funds. FY 2016 all-funds Medicaid expenditures were $1.27 billion (4.8%) below 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. As seen from Table 5, ODM, the largest agency within this program category, also had the largest year-to-date variance. Through the end of FY 2016, ODM's GRF expenditures totaled $16.42 billion, which was $927.9 million (5.3%) below estimate, and its non-GRF expenditures totaled $6.23 billion, which was $203.3 million (3.2%) below estimate. Across all funds, ODM's expenditures were $1.13 billion (4.8%) 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 $2.39 billion through the end of FY 2016, which was $123.1 million (4.9%) 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 variance of the year at $641.0 million (6.1%). This negative variance is mainly due to new Managed Care rates, effective January 1. These rates were lower than projected, particularly those for the MyCare program. MyCare provides managed care services for Ohioans who receive both Medicaid and Medicare benefits. As previously predicted, the negative variance in the Managed Care category grew through the end of the fiscal year. In addition to the new rates, aged, blind, and disabled (ABD) caseloads in managed care were below estimate for the year. Per-member per-month cost for an ABD recipient is much higher than that of a non-ABD Medicaid recipient. While ABDs make up about 15% of all Medicaid recipients, they account for about half of all Medicaid expenditures.

Two other payment categories that had significant negative year end variances were Hospitals ($302.9 million, 9.6%) and Administration ($282.4 million, 25.2%). The negative variance for hospitals is primarily driven by lower than forecasted ABD caseload in fee-for-service, along with lower than anticipated per-member per-month costs. The negative variance for Administration continued through the end of the fiscal year in part due to a lower than expected demand for federal pass-through grants for electronic medical records. Additionally, a number of ODM information technology contracts were delayed.

Both the ACA Expansion and Medicare Buy-In categories had noteworthy positive variances at the end of the fiscal year. All-funds expenditures from ACA Expansion totaled $3.83 billion for FY 2016, which was $182.7 million (5.0%) above estimate. This positive variance is driven by caseloads that were approximately 26,000 (4.0%) higher than anticipated. However, this caseload driven positive variance was offset to some extent by the lower Managed Care rates described above that are also applicable to individuals enrolled in the ACA expansion. All-funds expenditures in the Medicare Buy-In category through the end of FY 2016 totaled $472.9 million, which was $25.3 million (5.6%) above estimate. This positive variance was driven by a larger than anticipated increase in Medicare Part B premiums for 2016. The Medicare Buy-in Program pays Medicare premiums, deductibles, and coinsurance for certain low-income Ohioans.

ODE ended the fiscal year with a negative variance of $74.5 million, largely due to timing.

Primary and Secondary Education

For FY 2016, Primary and Secondary Education expenditures totaled $7.56 billion, $74.5 million (1.0%) below estimate. The Ohio Department of Education (ODE) is the only agency that is included in this program category. Most of the negative variance for ODE is due to timing. ODE encumbered $153.9 million for expenditure in FY 2017, which is $70.2 million above the level of encumbrances estimated by OBM. Foundation funding for schools is the largest program within the ODE budget. School foundation payments are mainly supported by GRF appropriation item 200550, Foundation Funding, which has the largest negative variance in ODE's budget in FY 2016 ($27.2 million). Encumbrances in item 200550 exceeded estimate by $24.8 million. Item 200437, Student Assessment, had the second largest negative variance at $18.7 million, followed by item 200540, Special Education Enhancements, at $13.2 million and 200408, Early Childhood Education, at $7.1 million. Encumbrances exceeded estimates for these items also, by $16.7 million, $14.0 million, and $8.8 million, respectively.

Property Tax Reimbursements

GRF expenditures for property tax reimbursements were $246.4 million (89.7%) below the OBM estimate for the month of June. This negative variance reversed the positive year-to-date variance in this category at the end of May. The property tax reimbursement category ended FY 2016 with a negative variance of $59.8 million (3.2%). Expenditures in the program category were $1.79 billion for FY 2016, which was $14.8 million (0.8%) below FY 2015 amounts. This decline partially reflects property tax relief changes authorized by H.B. 59 of the 130th General Assembly. H.B. 59 limited the application of the 2.5% and 10% real property tax rollbacks approved at elections held on or after September 29, 2013. The act permitted the rollbacks to continue for existing and renewal levies, but they are no longer applied to new or replacement levies approved on or after the November 2013 election. Separately, H.B. 59 specified that homeowners turning 65 beginning in 2014 are subject to an income-based test to determine whether they can receive the homestead exemption.

Health and Human Services

GRF expenditures from the Health and Human Services program category for the year were $1.28 billion, $59.7 million (4.4%) below estimate. The Ohio Department of Job and Family Services (ODJFS) accounted for the largest share ($24.8 million) of the category's negative year-to-date variance, followed by the Ohio Department of

Mental Health and Addiction Services (ODMHAS) at $20.1 million and the Ohio Department of Health (ODH) at $9.3 million.

Within the ODJFS budget, item 600528, Adoption Services, had the largest negative year-to-date variance. Expenditures from this item were $4.2 million below estimate. According to ODJFS, the number of children who are eligible for federal adoption services has increased due to a change in federal regulations, which reduced the number of children who are paid for with state funding. Furthermore, the total number of children in adoption programs has decreased throughout the year. The second highest negative variance for FY 2016 was $4.1 million in item 600511, Disability Financial Assistance. This item is used to provide cash assistance to certain disabled people who are ineligible for other public assistance programs. Expenditures from item 600416, Information Technology Projects, and item 600321, Program Support, were also below their year-to-date estimate by $3.5 million and $2.9 million, respectively. Both line items were affected by invoice timing issues. Expenditures from item 600445, Unemployment Insurance Administration, were $3.4 million below their fiscal year estimate for similar reasons.

Expenditures from 21 of the 23 ODMHAS GRF line items were below their estimates for FY 2016. The largest negative variance ($10.7 million) occurred in item 336423, Addiction Services Partnership with Corrections. Item 336423 was a new line item established in FY 2016 to fund programming and treatment services provided by ODMHAS inside of state correctional facilities. Timing issues and other factors related to program implementation affected expenditures from this item. The agency encumbered $2.7 million from this item for expenditure in FY 2017. The second largest ODMHAS negative variance was for item 336504, Community Innovations ($4.8 million). Beginning in FY 2016, item 336504 replaced an analogous item used by ODMHAS in prior years, and the new item included an appropriation increase to accompany multiple earmarks for targeted spending in programs, projects, or systems operated by governments and nonprofits. Timing issues affected the implementation of these new initiatives, and ODMHAS encumbered $3.2 million for use in the next fiscal year.

Although ODH's expenditures were above estimate by $4.9 million in the month of June, FY 2016 expenditures were $9.3 million below estimate. All but four of ODH's 22 line items were below their anticipated spending levels. The largest negative variance ($4.0 million) occurred in item 440459, Help Me Grow. This was largely due to timing, as ODH encumbered $3.9 million more than estimated in this item.

Transfers Out

GRF transfers out totaled $855.8 million during FY 2016, which was $44.9 million (5.5%) above the OBM year-to-date estimate. The positive variance was related to Medicaid. Specifically, $54.2 million in cash was transferred from the GRF to the Managed Care Performance Payment Fund (Fund 5KW0) pursuant to Section 327.80 of H.B. 64, which requires ODM to provide performance payments to Medicaid managed care organizations providing care and services to participants of MyCare, 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.

Encumbrances

Outstanding GRF encumbrances totaled $428.6 million at the end of FY 2016.

As of June 30, 2016, state agencies encumbered a total of $428.6 million in GRF appropriations for expenditure in FY 2017. An agency generally has five months to spend prior-year encumbrances for operating expenses, after which time they will lapse. An agency may encumber funds for purposes other than operating expenses beyond the five-month period, if approval is obtained from the Director of Budget and Management. Encumbrances for some grant and aid payments are encumbered for several months or sometimes years.

The table below summarizes the encumbrances by the fiscal year of the original appropriation. As seen from the table, the majority of the encumbrances were originally appropriated in FY 2016. However, small encumbrances remain from as early as FY 2007.

FY 2016 Year-End Encumbrances by Fiscal Year for Which Appropriations Were Originally Made

Fiscal Year	Amount ($ in thousands)	Percentage of Total
2007-2010	$532	0.1%
2011	$1,029	0.2%
2012	$1,336	0.3%
2013	$765	0.2%
2014	$14,182	3.3%
2015	$27,285	6.4%
2016	$383,473	89.5%
TOTAL	**$428,603**	**100.0%**

The encumbrance amounts vary greatly from agency to agency. As shown in the following table, ODE has the largest encumbrance amount at $153.9 million, 35.9% of the total. The next five agencies with the largest encumbrances are ODJFS at $65.0 million (15.2% of the total), ODM at $50.4 million (11.8%), the Department of Rehabilitation and Correction (DRC) at $31.1 million (7.3%), the Development Services Agency (DSA) at $25.3 million (5.9%), and the Department of Higher Education (DHE) at $20.3 million (4.7%). Thirty-nine other agencies encumbered the remaining $82.5 million (19.2%).

Education accounted for 35.9% of the total year-end GRF encumbrances.

FY 2016 Year-End Encumbrances by Agency		
Agency	**Amount ($ in thousands)**	**Percentage of Total**
Education	$153,938	35.9%
Job and Family Services	$65,013	15.2%
Medicaid	$50,387	11.8%
Rehabilitation and Correction	$31,100	7.3%
Development Services	$25,346	5.9%
Higher Education	$20,349	4.7%
All Other Agencies	$82,470	19.2%
TOTAL	**$428,603**	**100.0%**

Ohio Department of Education

ODE encumbered $153.9 million for expenditure in FY 2017. Four appropriation items with significant encumbrances are: (1) item 200550, Foundation Funding, at $64.8 million, (2) item 200437, Student Assessment, at $30.0 million, (3) item 200408, Early Childhood Education, at $22.4 million, and (4) item 200540, Special Education Enhancements, at $14.0 million. These four items' encumbrances account for $131.2 million (85.2%) of the total. The remaining $22.7 million was encumbered in various other items.

Funds encumbered in item 200550 will be used mainly to meet year-end school foundation payment adjustments. Foundation payments are allocated to districts based on a variety of data. Some of these data are not finalized until the following fiscal year. Funds are generally encumbered each year in order to make adjusted payments based on these updated data.

Funds encumbered in item 200437 will be used to pay contractors for scoring the state's standardized tests and other bills not yet received from vendors. Funds encumbered in item 200408 will mainly be used to pay providers who provide early childhood education services to children from lower-income families. Funds encumbered in item 200540 will mainly be used for outstanding subsidy payments to providers of preschool special education services.

Ohio Department of Job and Family Services

ODJFS encumbered a total of $65.0 million for expenditure in FY 2017. The encumbrances in six appropriation items account for $53.6 million (82.4%) of the total. These six items are: (1) item 655523, Medicaid Program Support – Local Transportation ($13.1 million), (2) item 655522, Medicaid Program Support - Local ($12.5 million), (3) item 600416, Information Technology Projects ($9.8 million), (4) item 600533, Child, Family, and Community Protective Services ($6.8 million), (5) item 600523, Family and Children Services ($5.7 million), and (6) item 600321, Program Support ($5.6 million).

Funds encumbered in items 655523 and 655522 will mainly be used for the remaining state share of Medicaid subsidies to county departments of job and family services. Item 655523 pays the state's share of Medicaid costs for local transportation services and item 655522 pays the state's share of Medicaid costs for local administrative services. Funds encumbered in item 600416 will be used mainly for the development, implementation, and maintenance of information technology systems used by ODJFS. Funds encumbered in items 600533 and 600523 will be used primarily to provide funding to county agencies for child protective services. Finally, the encumbrances in 600321 are mainly for contracts with vendors to provide administrative support for the Food Assistance Program.

Job and Family Services and Medicaid accounted for 27.0% of the total year-end GRF encumbrances.

Ohio Department of Medicaid

ODM encumbered a total of $50.4 million for expenditure in FY 2017, including $38.0 million in item 651425, Medicaid Program Support – State, and $12.4 million in item 651525, Medicaid/Health Care Services. Funds encumbered in item 651425 will be used mainly to pay ODM's outstanding personal services and contract expenses for administering the Medicaid program in Ohio. Over half of these outstanding expenses are related to the agency's information technology systems. Item 651525 is the primary funding source for Ohio Medicaid. Funds encumbered in this item will be used for subsidy payments to Medicaid providers as well as the Targeted Case Management (TCM) services provided by DDD through an interagency agreement. TCM services assist Medicaid recipients in gaining access to needed medical, social, educational, and certain other services.

Department of Rehabilitation and Correction

DRC encumbered $31.1 million for expenditure in FY 2017, of which $15.9 million occurred in item 505321, Institution Medical Services, and another $14.2 million in item 501321, Institutional Operations. Funds encumbered in item 505321 will be used to pay various outstanding bills for providing medical services to inmates. Funds were encumbered in item 501321 for a mix of purchased personal services, supplies, maintenance, repairs, equipment, materials, and other minor expenditures at DRC and institutions.

Development Services Agency

DSA encumbered $25.3 million for expenditure in FY 2017. These encumbrances are largely attributable to various economic development incentive grants that have been awarded but not yet disbursed. Many of DSA's grant programs are operated on a reimbursement basis, whereby grant recipients do not receive money from the state until a project has been completed or certain conditions have been met. For example, a grantee may be awarded grants in FY 2016 but not receive them until FY 2017 or later.

Appropriation items 195453, Technology Programs and Grants, and 195532, Technology Programs and Grants, had the two largest encumbrances at $8.7 million and $4.7 million, respectively. These funds will be used mainly to fund awards made under the Thomas Edison and Manufacturing Extension Partnership programs. Item 195532 has been discontinued; all encumbrances from that item are for funds appropriated before FY 2016. Item 195535, Appalachia Assistance, has the next largest encumbrance of $4.3 million. These encumbered funds will be used to provide financial assistance to projects in Ohio's Appalachian counties. In addition to these items, several other items within the DSA budget had smaller encumbrances.

Department of Higher Education

DHE encumbered $20.3 million for expenditure in FY 2017. The majority ($15.4 million) of the total was encumbered in item 235438, Choose Ohio First Scholarship, to pay the state's obligations to scholarship recipients. Another $2.2 million was encumbered in item 235563, Ohio College Opportunity Grant; these funds will be used for need-based financial aid for public school students. The final significant encumbrance for DHE ($1.7 million) is in item 235591, Co-op Internship Program. These funds will be provided to institutions to support cooperative education and internship programs.

ISSUE UPDATES

FY 2016 Operating and Capital Expenditures Total $67.45 billion

– Melaney Carter, Assistant Deputy Director, 614-466-6274

In FY 2016, the state of Ohio incurred a total of $67.45 billion in operating and capital expenditures. As seen from Table A, $62.01 billion (91.9%) of the total expenditures were authorized in the main operating budget. The transportation and capital budgets accounted for $4.02 billion (6.0%) and $1.12 billion (1.7%), respectively, of the total. The remaining $310.7 million (0.5%) was authorized in the Bureau of Workers' Compensation and Industrial Commission budgets.

Table A. FY 2016 Operating and Capital Expenditures by Budget

Budget	Amount	% of Total
Main Operating	$62,006,627,087	91.9%
Transportation	$4,017,099,451	6.0%
Capital	$1,115,302,761	1.7%
Workers' Compensation System	$310,733,517	0.5%
TOTAL	**$67,449,762,816**	**100.0%**

Table B shows FY 2016 expenditures by account category used in the state's accounting system. As seen from Table B, Subsidies and Shared Revenue is the largest spending area. In FY 2016, 87.7% ($29.45 billion) of the total GRF expenditures were distributed as subsidies to Medicaid service providers, schools, colleges and universities, local governments, and various other entities. Across all funds, this category's expenditures totaled $45.46 billion (67.4%). The vast majority of the expenditures incurred under the Capital Item category – $3.66 billion (5.4%) across all funds – supported the construction and maintenance of roads and bridges in the state as well as the construction and renovation of public K-12 schools and colleges and universities. Capital Item expenditures are mainly funded by bond proceeds. FY 2016 debt service payments totaled $333.4 million (1.0%) for the GRF and $1.66 billion (2.5%) across all funds.

For FY 2016, state payroll costs (including both salaries and fringe benefits) amounted to $4.35 billion across all funds, of which $1.89 billion was supported by the GRF. In addition to Payroll, what commonly is referred to as the state government's operating expenses also include expenditures incurred under the Purchased Personal Services and Other, Supplies and Maintenance, and Equipment categories. For FY 2016, the state government's operating expenses totaled $7.70 billion across all funds, of which $2.77 billion came from the GRF. In percentage terms, these amounts represent 11.3% and 8.3% of the respective totals.

Table B. FY 2016 Operating and Capital Expenditures by Account Category				
Account Category	**GRF Only**	**% of Total**	**All Funds**	**% of Total**
500 - Payroll	$1,887,612,022	5.6%	$4,350,385,415	6.4%
510 - Purchased Personal Services & Other	$419,954,746	1.3%	$1,506,113,342	2.2%
520 - Supplies and Maintenance	$438,215,915	1.3%	$1,630,028,824	2.4%
530 - Equipment	$26,836,223	0.1%	$210,280,937	0.3%
550 - Subsidies and Shared Revenue	$29,448,540,209	87.7%	$45,458,653,962	67.4%
560 - Goods and Services for Resale	$0	0.0%	$94,031,931	0.1%
570 - Capital Items	$109,095	0.0%	$3,655,953,968	5.4%
590 - Judgments, Settlements, & Bonds	$12,607,149	0.0%	$37,550,893	0.1%
591 - Debt Service	$333,364,598	1.0%	$1,657,605,127	2.5%
595 - Transfers & Non-expense	$1,025,824,745	3.1%	$8,849,158,418	13.1%
TOTAL	**$33,593,064,700**	**100.0%**	**$67,449,762,816**	**100.0%**

Office of Criminal Justice Services Awards More than $400,000 in Ohio Community-Police Relations Grants

– Maggie Wolniewicz, Budget Analyst, 614-995-9992

On May 16, 2016, the Office of Criminal Justice Services announced the award of more than $400,000 in Ohio Community-Police Relations grants. Twenty law enforcement agencies and community-based organizations in 15 counties were awarded grants to improve and enhance relationships between communities and law enforcement agencies. The grants will be disbursed from non-GRF line item 768621, Community Police Relations, in the Department of Public Safety's budget. H.B. 64 created this line item and funded it with a one-time $4.0 million cash transfer from the FY 2015 GRF ending balance for the purpose of implementing key recommendations of the Ohio Task Force on Community-Police Relations.[9]

Under the Ohio Community-Police Relations Grant Program, a law enforcement agency or community-based organization may apply for a grant award of up to $30,000. The grantee is required to provide a cash or in-kind match of at least 25% of the total project cost. The table below shows the 15 counties with agencies or organizations receiving awards for the grant period beginning July 1, 2016, and the total award amount. Three counties were awarded funding for more than one project: Hamilton (2), Medina (3), and Montgomery (3). Four projects (Cuyahoga, Erie, Mahoning, and Montgomery) were awarded the maximum grant of $30,000.

[9] The task force was created by Executive Order 2014-06K signed by Governor Kasich on December 12, 2014.

Ohio Community-Police Relations Grant Awards by County (Total: $416,916)					
County	Award	County	Award	County	Award
Athens	$16,404	Franklin	$5,540	Miami	$28,096
Carroll	$29,999	Hamilton	$29,058	Montgomery	$73,633
Clermont	$12,143	Lucas	$18,758	Putnam	$14,395
Cuyahoga	$30,000	Mahoning	$30,000	Shelby	$29,940
Erie	$30,000	Medina	$46,449	Summit	$22,500

Note: Numbers may not add to total due to rounding.

Medicaid Funds Infant Mortality Projects in Nine Counties

– Wendy Risner, Fiscal Supervisor, 614-644-9098

On June 7, 2016, the Ohio Department of Medicaid (ODM) announced that 42 projects in eight counties have received funding to help reduce infant mortality. These projects represent the second round of infant mortality projects funded by ODM. The first round, which occurred in March 2016, provided funds to four projects in Summit County. In total, ODM has provided approximately $22.5 million in nine counties. These counties have neighborhoods or communities within their jurisdiction with infant mortality rates that are amongst the highest in the state. The table below shows the amount each county received. For a complete list of projects funded, please refer to ODM's website (http://medicaid.ohio.gov/NEWS/PressReleases.aspx).

Infant Mortality Project Funding	
County	Amount
Lucas	$3,230,000
Stark	$2,968,154
Cuyahoga	$2,960,000
Hamilton	$2,837,000
Butler	$2,480,344
Mahoning	$2,441,748
Franklin	$2,300,000
Montgomery	$1,715,138
Summit	$1,555,177
TOTAL	**$22,487,561**

Ohio's infant mortality rate for all races was 6.8 (number of infant deaths per 1,000 live births) in 2014 compared to the national rate of 6.0 in 2013.[10] The white infant mortality rate in 2014 was 5.3 and the Hispanic rate was 6.2 in Ohio compared to the national rate of 5.1 and 5.3 in 2013, respectively. During this same time period, the black infant mortality rate in Ohio was 14.3 compared to the national rate of 11.2. Ohio's goal is to obtain a rate of 6.0 or lower for every race or ethnic group.

Naloxone Public Awareness Campaign Launched in 15 Counties

– Wendy Risner, Fiscal Supervisor, 614-644-9098

On May 12, 2016, the Ohio departments of Health and Mental Health and Addiction Services launched a campaign to promote awareness of drug overdose symptoms and naloxone administration in Butler, Clark, Clermont, Cuyahoga, Franklin, Hamilton, Lorain, Lucas, Marion, Montgomery, Ross, Scioto, Stark, Summit, and Warren counties. Approximately 80% of fentanyl-related overdose deaths in Ohio occurred in these 15 counties. The campaign includes the use of billboards, as well as radio, mobile, and digital advertisements. Through these media, individuals will be directed to a website (stopoverdoses.ohio.gov) that provides information on community treatment programs and pharmacies that dispense naloxone kits without a prescription.

According to the Centers for Disease Control and Prevention (CDC), fentanyl is a synthetic opioid that is 50 times more powerful than heroin. In Ohio, fentanyl-related deaths increased from 84 in 2013 to 502 in 2014. Additionally, in 2014, Ohio had the most fentanyl drug confiscations by law enforcement of any state – 1,245 confiscations followed by 630 confiscations in Massachusetts.

Naloxone is a medication that reverses opioid overdoses by blocking the opioid's effect on the brain and restoring normal breathing patterns. It may be administered as a nasal spray or as an injection into a muscle. Ohio has taken several steps to increase the availability of naloxone throughout the state, including providing funding for Project DAWN sites (community-based sites that provide education and naloxone distribution kits), allowing pharmacists to dispense naloxone without a prescription (H.B. 4 of the 131st General Assembly), and providing $500,000 per year in H.B. 64 for naloxone distribution to law enforcement and first responders.

[10] 2013 was the last available year for national data.

Criminal Justice Services Awards $5.5 million in Ohio Drug Law Enforcement Fund Grants

– Maggie Wolniewicz, Budget Analyst, 614-995-9992

On May 9, 2016, the Office of Criminal Justice Services awarded $5.5 million in Ohio Drug Law Enforcement Fund grants to 40 drug task forces in 36 counties. The Drug Law Enforcement Fund (Fund 5ET0) receives its revenue from $3.40 of the $10 court fee imposed on an offender convicted of a moving traffic violation. The grants are used to defray expenses that a drug task force incurs enforcing the state's drug laws and other state laws related to illegal drug activity.

Under the Drug Law Enforcement Fund Program, a drug task force may apply for a grant award of up to $250,000. The task force is required to provide a local funding match of 25% of the projected operating costs in the time period covered by the grant. The table below shows those counties with one or more drug task forces receiving awards for the grant period beginning July 1, 2016, the number of project awards per county, and the total amount of funding received. Individual project awards ranged from $10,051 (Monroe County) to $250,000 (Franklin, Richland, and Summit counties).

Ohio Drug Law Enforcement Fund Grant Awards by County (Total: $5,543,291)*

County	Award	County	Award	County	Award
Allen	$170,738	Hamilton (3)	$490,497	Montgomery	$67,772
Auglaize	$57,661	Hardin	$11,517	Ottawa	$105,162
Brown	$12,593	Jefferson	$14,685	Portage	$22,404
Butler	$41,578	Lake	$105,603	Richland	$250,000
Clermont	$195,445	Lawrence	$117,334	Ross	$217,288
Columbiana	$143,614	Licking	$239,369	Sandusky	$13,948
Cuyahoga (3)	$556,694	Logan	$12,678	Stark	$187,227
Defiance	$186,603	Lorain	$249,990	Summit	$250,000
Delaware	$146,255	Lucas	$46,001	Trumbull	$207,571
Fairfield	$202,534	Mahoning	$225,221	Tuscarawas	$23,938
Franklin	$250,000	Medina	$171,037	Warren	$208,162
Greene	$174,724	Monroe	$10,051	Wayne	$157,398

*All counties, unless otherwise noted in parentheses, received funding for one drug task force.
Note: Numbers may not add to total due to rounding.

Department of Youth Services Awards $1.8 million for Detention Alternatives and Enhancements Initiative

– Maggie Wolniewicz, Budget Analyst, 614-995-9992

In May 2016, the Ohio Department of Youth Services announced the award of $1.8 million in grants to fund 27 projects in 22 counties (see table below) as part of the Department's new Detention Alternatives and Enhancements Initiative, which is funded under GRF line item 470401, RECLAIM Ohio. Montgomery County was awarded funding for four projects. Trumbull and Warren counties were awarded funding for two projects each. The other 19 counties were each awarded funding for one project.

The Department estimates that more than 5,000 youth will benefit from these grant awards, which will be used to:

1. Expand alternatives to secure detention, such as evening assessment and reporting centers, crisis shelters, respite services, and electronic monitoring (ten projects totaling $1.1 million);
2. Improve programs and support services provided to juveniles housed in detention facilities (six projects totaling $0.3 million);
3. Make physical plant improvements, including safety and security upgrades, at ten of Ohio's 38 county-operated juvenile detention centers[11] (11 projects totaling $0.4 million).

Detention Alternatives and Enhancements Initiative Grant Awards by County					
County	Award	County	Award	County	Award
Allen	$21,386	Jefferson	$26,485	Summit	$120,508
Ashtabula	$14,500	Lorain	$57,282	Trumbull	$44,858
Clermont	$56,051	Lucas	$162,738	Union	$25,000
Cuyahoga	$92,480	Madison	$51,071	Warren	$58,240
Delaware	$88,231	Mahoning	$25,043	Wayne	$33,714
Fairfield	$288,058	Marion	$230,443	Williams	$47,535
Franklin	$17,954	Montgomery	$283,968	**TOTAL**	**$1,827,993**
Hamilton	$28,100	Muskingum	$54,348		

[11] Juvenile detention centers are secure facilities used for short-term care and custody of alleged and adjudicated juvenile offenders.

ODE Awards $9.4 million in Grants for Community Connectors Program

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

On June 10, 2016, the Ohio Department of Education (ODE) awarded $9.4 million in matching grants to 108 community partnerships as part of the most recent round of funding for the Community Connectors school mentorship program. Created by H.B. 483 of the 130th General Assembly, Community Connectors supports programming in career advising and mentoring for students in low-performing, high-poverty schools. Eligible districts must partner with members of the business community, civic organizations, or the faith-based community to provide sustainable career services to students in grades 5-12. Under this round of funding, the state is providing $3 for every $1 in local funding with a maximum award of $100,000. Most of the awards ranged from $85,000 to $100,000 though one award was as small as $13,000. In all, 46 of the 108 partnerships received the full $100,000 in funding. Geographically, 27 of the partnerships are located in Franklin County, 14 are located in Cuyahoga County, ten are located in Hamilton County, six are located in Montgomery County, and five are located in Lucas County. The full list of recipients is available online at communityconnectors.ohio.gov. H.B. 64 provides funding for the program using lottery profits appropriated in Fund 7017 appropriation item 200629, Community Connectors.

Straight A Fund Governing Board Recommends over $14.8 million in Straight A Fund Grants

– Anthony Kremer, Budget Analyst, 614-466-5654

On June 20, 2016, the Straight A Fund Governing Board recommended over $14.8 million in funding for 23 grant proposals in the fourth round of Straight A Fund grant awards. The grants will support projects that aim to increase student achievement, reduce spending, utilize a greater share of resources in the classroom, or use a shared services delivery model. City, local, exempted village, and joint vocational school districts, educational service centers, community schools, STEM schools, institutions of higher education, and education consortia representing partnerships among these groups were eligible to apply for the grants. Of the 23 grants awarded, 12 were provided to education consortia of varying sizes and the remaining 11 were provided to individual applicants. Overall, 90 schools are represented among the applicants selected for funding. Grant amounts range from $54,000 to about $996,000. The Governing Board's recommendations are slated to go to the Controlling Board for final approval on August 8, 2016. A list of grant awards and project descriptions is available on ODE's website.[12] H.B. 64 funds the program through a transfer from FY 2015 GRF surplus revenues and appropriates the transfer to Fund 5RB0 line item 200644, Straight A Fund, in ODE's budget.

Department of Agriculture Awards $7.6 million to Preserve Farmland in 31 Counties under the Local Agricultural Easement Purchase Program

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

On June 9, 2016, the Ohio Department of Agriculture (AGR) announced approval for local sponsors to purchase agricultural easements on 65 farms, encompassing more than 8,000 acres in 31 counties through the Local Agricultural Easement Purchase Program (LAEPP). Approximately $7.6 million in funding will be awarded to support the purchase of these approved easements from AGR's allocation of the Clean Ohio Conservation Fund. The table below summarizes the approved easement purchases by county.

The LAEPP allows landowners to voluntarily sell easements on their farms to the state. Under the easement, the land remains privately owned and managed but its use is restricted to agricultural production permanently. The process is overseen by local sponsor organizations that score applications and forward their funding recommendations to AGR. Sponsor organizations can be counties, cities, townships, soil and water conservation districts, or land trusts. Eligible farms must be at least 40 acres, in active use, enrolled in the Current Agricultural Use Valuation Program, and not in the direct path of development. In addition, farm owners must show proper stewardship of the land and have support from local government for their farmland to qualify. Payments from the Clean Ohio Fund are capped at $2,000 per acre with a maximum of $500,000 per farm. Statewide, as of December 31, 2015, LAEPP easements had been purchased on 294 farms in 55 counties totaling 52,419 acres.

[12] http://education.ohio.gov/getattachment/Media/Media-Releases/90-Ohio-Schools-Recommended-to-Receive-Straight-A/Straight-A-Fund-FY17-Summary-Page.pdf.aspx.

Agricultural Easement Awards			
County	**Number of Farms**	**Total Acres**	**Award Amount**
Ashland	1	80	$45,385
Brown	1	129	$83,748
Champaign	2	237	$198,213
Clark	6	1,299	$385,515
Clinton	1	78	$45,914
Delaware	2	260	$330,605
Fairfield	3	270	$513,574
Fayette	1	220	$332,571
Fulton	2	395	$152,569
Greene	4	520	$134,624
Hamilton	1	94	$172,578
Highland	1	98	$87,084
Holmes	3	218	$117,812
Huron	1	87	$162,935
Knox	3	223	$200,640
Licking	3	249	$418,916
Logan	1	240	$217,211
Madison	3	522	$827,999
Marion	2	232	$163,335
Medina	1	47	$69,530
Mercer	2	244	$475,024
Miami	4	527	$625,532
Montgomery	5	376	$350,681
Pickaway	1	233	$215,993
Portage	1	28	$29,046
Preble	1	127	$173,700
Sandusky	4	613	$625,238
Seneca	1	86	$46,822
Stark	1	15	$15,134
Trumbull	1	84	$79,320
Warren	2	193	$258,512
TOTAL	**65**	**8,024**	**$7,555,760**

Development Services Agency Awards Nearly $1.1 million in First Round of Grants under the Abandoned Gas Station Cleanup Grant Program

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

The Development Services Agency (DSA) recently awarded nearly $1.1 million in the first round of grants under the Abandoned Gas Station Cleanup Grant Program. The Controlling Board approved the release of the grant funding on June 6, 2016. This new grant program aims to cover cleanup and remediation costs associated with underground storage tanks. The abandoned gas stations must be classified as Class C release sites where the person responsible can no longer be located or is financially unable to undertake the required remediation of the site. Grants may be up to $100,000 for a property assessment or up to $500,000 for actual cleanup and remediation. Altogether, there were seven grants approved under this initial round of funding, as summarized in the table below.

Abandoned Gas Station Cleanup Grants, Round 1			
Recipient	**County**	**Grant Amount**	**Use of Grant**
City of Bexley	Franklin	$500,000	Cleanup and remediation
Ashtabula County Port Authority	Ashtabula	$100,000	Cleanup
City of Mansfield	Richland	$100,000	Cleanup
City of Sandusky	Erie	$100,000	Cleanup
City of Toledo	Lucas	$100,000	Cleanup
Adams County	Adams	$95,628	Property assessment
Village of Syracuse	Meigs	$80,000	Cleanup
TOTAL		**$1,075,628**	

The Abandoned Gas Station Cleanup Grant Program was created in H.B. 64. This act appropriated $20 million for these grants under capital line item C19507, Service Station Cleanup. The source of funding is unobligated cash remaining in the Clean Ohio Revitalization Fund (Fund 7003)[13] transferred to the Service Station Cleanup Fund (Fund 7100). DSA estimates that approximately $30 million in unobligated grant funding under the Clean Ohio Revitalization Program will be available for the Abandoned Gas Station Cleanup Grant Program. It anticipates that a second round of awards will be announced in July 2016. As of November 2015, there were 486 Class C release sites in the state. These sites are designated by the Bureau of Underground Storage Tank Regulations, an entity within the Ohio Department of Commerce.

[13] Between 2002 and 2013, DSA awarded around $400 million in grant funding under the Clean Ohio Revitalization Program.

TRACKING THE ECONOMY

– Thomas Kilbane, Economist, 614-728-3218

Overview

June employment gains offered support to the domestic economy as "Brexit" presents new international risks to the U.S. economic outlook (see **Monetary Policy and Financial Markets**). Nationwide consumer spending and the residential real estate market were strong in late spring, while industrial production and business investment remained weak. Given the uncertainties, at its June meeting the Federal Reserve chose to hold its short-term interest rate target steady, waiting for confirmation from future data that the economy is strong enough that a rate rise would be appropriate.

Ohio's economy continues to grow. Amid varying measures of employment growth, Ohio's labor force is reported to be increasing at a record pace. The statewide housing market is booming as well. Total year-to-date 2016 home sales activity and the average sales price were both substantially higher through May than one year ago. A new U.S. Bureau of Economic Analysis (BEA) release on state-level production ranked Ohio second in the nation for inflation-adjusted gross domestic product (real GDP) growth rate in the fourth quarter of 2015.

The National Economy

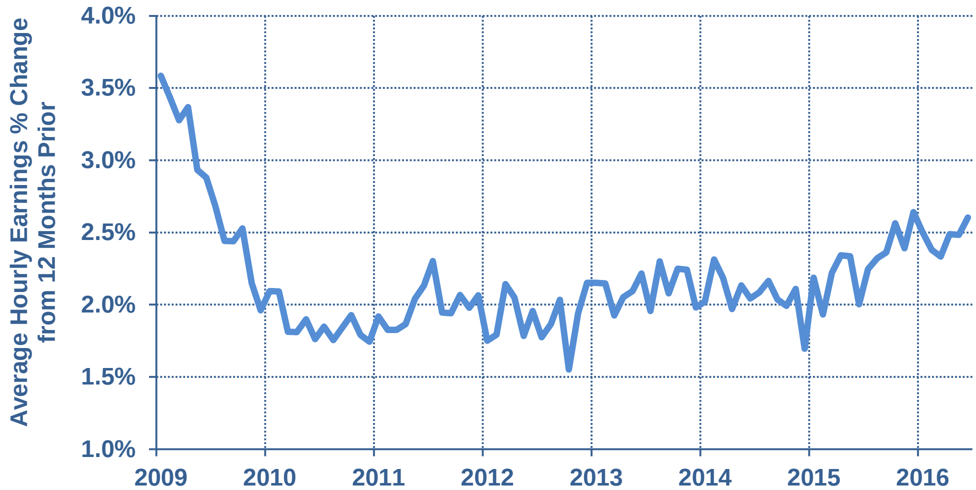
Employment and Unemployment

Employment grew in June by more than any previous month in 2016.

Nonfarm payroll employment grew by 287,000 in June, more than in any earlier month in 2016. The gains come after employment was nearly unchanged in May (+11,000). Over the last six months, employment growth was still at a slowed pace compared to 2015 (172,000 average monthly gain in 2016, 229,000 in 2015), but the big growth in June calms fears, at least momentarily, that the labor market had been heading for something worse. Continuing recent trends, June employment gains came almost entirely in the service sector, especially the industries of leisure and hospitality, health care and social assistance, and professional and business services.

Pay growth also continued at a rate higher than levels from 2010 to mid-2015. Average hourly earnings were up 2.6% from one year ago. The chart below shows year-over-year employee earnings growth in the private sector since 2009. Although increases are still below those prior to the 2007-2009 recession, pay began to rise more substantially in the fourth quarter of 2015. Low inflation rates, particularly since the drop in energy prices in the second half of 2015, have contributed to an even sharper increase in real income growth relative to prior periods.

Chart 6: U.S. Private Nonfarm Employee Earnings Growth



In June, the national labor force[14] and unemployment rate both increased after declining in May. The unemployment rate in June was 4.9%, up from 4.7% in May, which was the lowest mark since 2007.

Monetary Policy and Financial Markets

At the conclusion of its June 14-15 meeting, the Federal Open Market Committee (FOMC)[15] decided to maintain the target range for the federal funds rate at 0.25% to 0.5%.[16] The committee last made a change in December when it moved the target range from near zero to its current status. Since then, plans for the pace of future rate rises have continually been softened. At the June meeting, 15 of 17 FOMC participants anticipated that 1.0% or below will be an appropriate target by the end of 2016, a lower level than when the committee reported projections in March.

At their June meeting, Federal Reserve officials chose not to raise their interest rate target.

[14] The labor force is the U.S. civilian noninstitutional population age 16 and over who are either currently employed or unemployed but looked for work in the last four weeks.

[15] The FOMC is the committee within the Federal Reserve that decides U.S. monetary policy.

[16] The federal funds rate is the short-term interest rate at which depository institutions lend reserve balances to other depository institutions overnight. The FOMC sets a target rate and the Federal Reserve uses monetary tools with the goal of moving the actual rate to the target.

The U.K. voted to leave the EU, prompting uncertainty regarding its economic effects.

Among the factors influencing the FOMC's decision was uncertainty regarding the U.K. referendum on European Union (EU) membership.[17] The vote (June 23, after the FOMC meeting) revealed 52% of U.K. voters preferred to leave the EU, sparking financial market volatility worldwide. Across the next two business days, broad U.S. equity market indices fell approximately 5-6%, only to nearly recoup all losses by the end of the month. Underpinning the volatility was ambiguity regarding Brexit's effect on the international and U.S. economies. On June 30, the S&P 500 stock index closed 2.7% higher than it opened the year, while the Dow Jones Industrial Average was 2.9% higher. Despite the month-end rally in equities, U.S. government bond yields remained near historic lows in the aftermath of the U.K. vote.

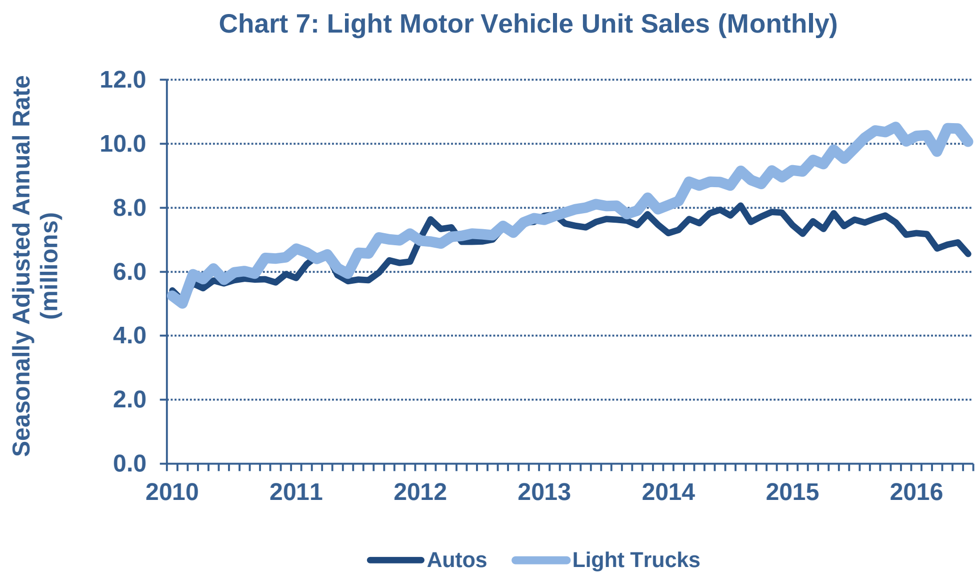
Consumer Spending

After slowing during the first quarter of 2016, consumer spending popped in April and May, rising faster than in any two-month period since early 2014. During April and May of this year, real consumer spending (adjusted for price changes) rose at an average pace of 0.5% per month. During the first quarter of 2016, that rate was just 0.1%. Consumer sentiment surveys remained at high levels through June,[18] though responses were collected prior to financial market disturbances related to the results of the U.K. referendum on EU membership.

Sales of motor vehicles slowed overall in June. Through the first six months of 2016, cars and light trucks sold at an average seasonally adjusted annual rate of 17.1 million units, compared to the last six months of 2015 when the rate was 17.8 million units. Despite the drop, 2016 sales have remained strong relative to historical rates, especially for light trucks. While June sales of cars were down 16.2% from their peak sales month in 2015, light truck sales persisted at a near record pace (see chart below), falling only 4.4% from its peak month in 2015.

[17] Minutes of the FOMC, June 14-15, 2016, and comments by Chair Janet Yellen.

[18] The June edition of the University of Michigan's Index of Consumer Sentiment, Current Conditions Index, and Index of Consumer Expectations was published June 24.



Real Estate

Demand has pushed home sales high and has combined with limited supply to push home prices even higher. According to the National Association of Realtors, the nationwide median sales price of existing homes (the bulk of residential unit sales) reached an all-time high in May, while the pace of sales was the highest in over nine years (measured at a seasonally adjusted annual rate). Through May, year-to-date sales of existing homes in 2016 were 5.8% higher than the same period in 2015. May's nationwide median sales price was up 4.7% from one year ago.

Nationwide existing home median sales price reached an all-time high in May.

Sales of new homes jumped in April and May as well, reaching a pace not seen since early 2008. While a much smaller share of total residential sales, new homes typically lead existing homes as a market indicator by a month or two (approximately the time it takes to close a mortgage). The pace of starts on new home construction has varied within a narrow range since last summer after approximately doubling in the previous four years.

Mortgage rates continued to fall, hitting lows not seen since May 2013. The average 30-year fixed rate mortgage was down to 3.41% the week of July 7, 2016, according to the Freddie Mac Primary Mortgage Market Survey.

Production

Real GDP rose at a 1.1% annual rate in this year's first quarter, revised higher again upon a third estimate from the BEA. Real GDP grew by 2.4% in each of 2014 and 2015 but beneath that pace in five of the last six quarters through the first quarter of this year. The slowdown was due in part to the energy sector, but business investment outside of energy has slowed as well. BEA will report second quarter 2016 growth near the end of July.

More current monthly production reports paint a mixed picture of production in the second quarter. Indices based on surveys of purchasing managers[19] indicated that economic activity in the manufacturing and nonmanufacturing sectors both expanded in each month of the second quarter, but the Federal Reserve's measure of total industrial production decreased in May and was down 0.4% since the beginning of 2016. Industrial production has been weighed down by falling mining activity (which includes the energy sector) for nearly two years. Manufacturing, which constitutes about 78% of industrial production, has been fairly stagnant as well. In May, the index for total manufacturing production was at approximately the same level as July 2014 and down 0.2% since January 1.

Weekly combined U.S. rig counts (oil and natural gas) rose throughout June.

U.S. mining production has fallen sharply since around the beginning of 2015, but according to Baker Hughes rig count data, it is possible that could finally be changing. After dropping consistently each week through mid-May, total U.S. rig count (including both oil and natural gas) has risen each week since the end of May through July 1. On July 1, the oil rig count was up 8% during the brief rally from its low point in May, and the gas rig count was up 9% from its low point.

Inflation

Consumer prices rose in each of March, April, and May. This is nothing new for core prices (excluding food and energy); the price index for personal consumption expenditures less food and energy (core PCE) has increased each month since December 2008. But volatile energy prices have swung topline inflation measures positive and negative for over two years. With energy prices rising in each of the last three months through May, overall consumer prices (as measured by the price index for PCE) rose at a seasonally adjusted annual rate of 2.2% over the same period. Prior to that three-month period, overall price levels in February were virtually unchanged from July 2015. It remains to be seen if inflation can hold at the recent three-month pace for any length of time. PCE prices have not increased by at least 1.0% year over year in three straight months since 2014. In May 2016, the year-over-year increase (from May 2015) was just 0.9%.

[19] Institute for Supply Management manufacturing index and nonmanufacturing index.

The Ohio Economy

Employment and Unemployment

Ohio added 9,200 jobs[20] in May, continuing the trend of job growth in the state, though the pace of growth has slowed this year. In 2016 through May, Ohio has added 2,300 jobs per month as compared to 6,700 per month in all of 2015. During May, healthcare and social assistance, and accommodation and food services were the largest sources of added jobs, as has been the case over the past few years. During the last 12 months, the healthcare and social assistance industry added 23,000 jobs in Ohio, while accommodation and food services added 16,400.

Data on the state's labor force show record increases this year through May. Since the end of 2015, Ohio has added 132,000 people (seasonally adjusted) to its labor force, by far the largest five-month gain in the U.S. Bureau of Labor Statistics (BLS) records for Ohio since at least 1976.[21] The labor force includes people who are employed or actively looking for work. During and since the most recent recession, the percent of Ohioans who are part of its labor force has declined substantially due to many factors including economic cyclical effects and long-term demographic changes. Prior to the recession, Ohio's rate of labor force participation[22] was higher than the national rate for much of the 2000s, as seen in the chart below. The recent surge has raised Ohio's rate back above the nation's rate.

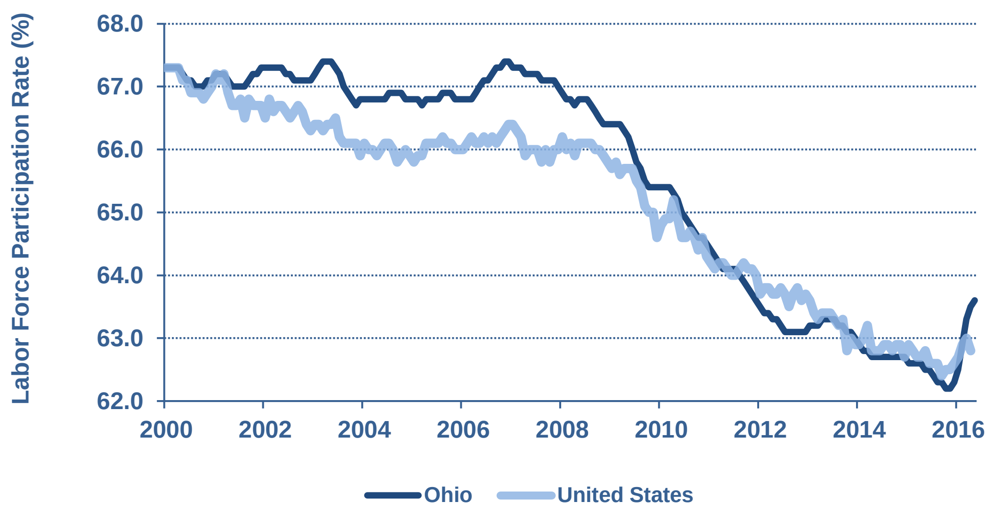
Since the end of 2015, 132,000 people have been added to Ohio's labor force.

[20] Nonfarm payroll employment, seasonally adjusted.

[21] There is some reason to question the time frame in which the large labor force increase has taken place. BLS routinely adjusts raw survey results for a number of reasons, including to stabilize the data series over time. It is possible the magnitude of the labor force increase, which jumped in January and subsequent months, partially reflects the effects of these adjustments. Of note, a nationwide labor force increase has been observed during the same time, including similar large jumps in several other states including Michigan, Indiana, and Illinois.

[22] The labor force participation rate is the percentage of the civilian, noninstitutional population, age 16 and over, which is in the labor force.

Chart 8: Ohio and U.S. Labor Force Participation Rate



The unemployment rate, measured as a percentage of the labor force, fell in May in Ohio for the first time since last August. In May 2016, 5.1% of Ohio's labor force were unemployed, down from 5.2% in April. The rate had previously risen from 4.6% in September 2015 in part due to the steep increase in labor force participation. In total, over the last 12 months, over 100,000 more Ohioans are working, and about 18,000 more Ohioans are counted as unemployed (but actively looking for work), signaling that many newcomers to the labor force have likely had success finding jobs.

Personal Income and Production

Ohio's personal income grew by 0.9% in the first quarter of 2016. Wages and salaries grew faster than dividends, interest, and rent for the second straight quarter. State earnings grew fastest during the quarter in the real estate and construction industries. Ohio's personal income also grew faster in late 2015 than previously thought. Over the last four quarters, Ohio's personal income grew 4.7%, faster than the U.S. as a whole (4.4%).

Ohio ranked second highest among states in fourth quarter 2015 real GDP growth rate.

Production in Ohio ended 2015 well, ranking second highest among states for real GDP growth during the fourth quarter (2.9% annual rate, seasonally adjusted). Production in Ohio's real estate and manufacturing industries contributed the most to growth during the quarter. For all of 2015 however, Ohio ranked much closer to average for state real GDP growth rates, coming in 21st with 1.8% growth during the calendar year. However, that was enough to beat the growth rate in each of its neighboring states. Of its five neighbors, Pennsylvania and Indiana came the closest to Ohio, growing at 1.7% during 2015. Eight of the top ten states with the fastest growing production during the year are west of the Mississippi River.

Housing

A strong winter real estate market in Ohio has translated into a strong spring and early summer season as well. Ohio home sales in May were the highest May on record since the Ohio Association of Realtors began tracking the figure in 1998, a period which included high activity fueled by the real estate bubble of the mid-2000s. Through May, 2016 Ohio home sales were up 8.8% over the same period in 2015. Home values are up from 2015 as well. The statewide average sales price in 2016 through May was $156,106, 5.0% higher than in the first five months of 2015. Columbus area average sales price topped the list of local markets at $197,992.