Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION — JUNE 2016

STATUS OF THE GRF

HIGHLIGHTS

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

GRF tax receipts in May were $386 million below the estimate by the Office of Budget and Management (OBM). Most of that negative variance was due to timing-related shortfalls for the domestic insurance and cigarette taxes which should reverse in June, though GRF tax revenue as a whole still is likely to finish FY 2016 below estimate. However, heading into the final month, the spending side is providing some cushion to the state budget.

Ohio's unemployment rate rose from 5.1% in March to 5.2% in April, and nonfarm payroll employment declined by 13,600 (0.2%) from March to April, but was 71,900 (1.3%) higher than in April 2015.

Through May 2016, GRF sources totaled $31.27 billion:

- Revenue from the personal income tax was $231.0 million below estimate;
- Sales and use tax receipts were $14.5 million above estimate.

Through May 2016, GRF uses totaled $33.19 billion:

- Program expenditures were $327.1 million below estimate due primarily to Medicaid ($270.8 million) and Education ($116.1 million);
- Those negative variances were partially offset by a timing-related positive variance in property tax reimbursements ($186.6 million).

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Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of May 2016
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on June 3, 2016)

STATE SOURCES	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$112,981	$131,800	-$18,819	-14.3%
Nonauto Sales and Use	$779,357	$776,200	$3,157	0.4%
Total Sales and Use Taxes	**$892,338**	**$908,000**	**-$15,662**	**-1.7%**
Personal Income	$578,705	$608,400	-$29,695	-4.9%
Corporate Franchise	$517	$0	$517	---
Financial Institution	$27,235	$25,550	$1,685	6.6%
Public Utility	$26,106	$30,600	-$4,494	-14.7%
Kilowatt-Hour Excise	$24,329	$25,700	-$1,371	-5.3%
Natural Gas Consumption (MCF)	$26,651	$32,200	-$5,549	-17.2%
Commercial Activity Tax	$255,392	$265,100	-$9,708	-3.7%
Petroleum Activity Tax	$0	$0	$0	---
Foreign Insurance	-$23,618	-$13,300	-$10,318	-77.6%
Domestic Insurance	$4,716	$251,500	-$246,784	-98.1%
Business and Property	$6	$0	$6	---
Cigarette	$87,740	$153,500	-$65,760	-42.8%
Alcoholic Beverage	$4,685	$4,200	$485	11.6%
Liquor Gallonage	$3,738	$3,500	$238	6.8%
Estate	$244	$0	$244	---
Total Tax Revenue	**$1,908,784**	**$2,294,950**	**-$386,166**	**-16.8%**
NONTAX REVENUE				
Earnings on Investments	$3	$0	$3	---
Licenses and Fees	$605	$6,700	-$6,095	-91.0%
Other Revenue	$465	$217	$247	113.8%
Total Nontax Revenue	**$1,073**	**$6,917**	**-$5,845**	**-84.5%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$14,033	$0	$14,033	---
Total Transfers In	**$14,033**	**$0**	**$14,033**	**---**
TOTAL STATE SOURCES	**$1,923,890**	**$2,301,867**	**-$377,977**	**-16.4%**
Federal Grants	$900,421	$875,945	$24,476	2.8%
TOTAL GRF SOURCES	**$2,824,311**	**$3,177,812**	**-$353,501**	**-11.1%**

*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 May 31, 2016
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on June 3, 2016)

STATE SOURCES	Actual	Estimate*	Variance	Percent	FY 2015	Percent Change
TAX REVENUE						
Auto Sales	$1,222,599	$1,215,200	$7,399	0.6%	$1,191,658	2.6%
Nonauto Sales and Use	$8,266,653	$8,259,600	$7,053	0.1%	$7,953,324	3.9%
Total Sales and Use Taxes	**$9,489,252**	**$9,474,800**	**$14,452**	**0.2%**	**$9,144,982**	**3.8%**
Personal Income	$7,023,358	$7,254,400	-$231,042	-3.2%	$7,710,347	-8.9%
Corporate Franchise	$32,886	$0	$32,886	---	$1,370	2300.5%
Financial Institution	$187,215	$166,350	$20,865	12.5%	$153,378	22.1%
Public Utility	$101,513	$105,200	-$3,687	-3.5%	$96,914	4.7%
Kilowatt-Hour Excise	$316,795	$330,700	-$13,905	-4.2%	$275,939	14.8%
Natural Gas Consumption (MCF)	$60,712	$67,900	-$7,188	-10.6%	$74,653	-18.7%
Commercial Activity Tax	$1,252,264	$1,275,000	-$22,736	-1.8%	$850,061	47.3%
Petroleum Activity Tax	$5,598	$4,900	$698	14.3%	$4,436	26.2%
Foreign Insurance	$293,569	$302,100	-$8,531	-2.8%	$284,538	3.2%
Domestic Insurance	$5,281	$256,400	-$251,119	-97.9%	$179,668	-97.1%
Business and Property	$98	$0	$98	---	$42	132.4%
Cigarette	$855,761	$893,300	-$37,539	-4.2%	$730,349	17.2%
Alcoholic Beverage	$49,508	$49,200	$308	0.6%	$50,976	-2.9%
Liquor Gallonage	$41,239	$40,000	$1,239	3.1%	$39,510	4.4%
Estate	$1,857	$0	$1,857	---	$3,028	-38.7%
Total Tax Revenue	**$19,716,907**	**$20,220,250**	**-$503,343**	**-2.5%**	**$19,600,190**	**0.6%**
NONTAX REVENUE						
Earnings on Investments	$26,199	$16,650	$9,549	57.3%	$17,927	46.1%
Licenses and Fees	$56,095	$50,787	$5,308	10.5%	$57,015	-1.6%
Other Revenue	$46,202	$35,971	$10,230	28.4%	$35,699	29.4%
Total Nontax Revenue	**$128,496**	**$103,408**	**$25,087**	**24.3%**	**$110,641**	**16.1%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$209,508	$191,100	$18,408	9.6%	$24,272	763.2%
Total Transfers In	**$209,508**	**$191,100**	**$18,408**	**9.6%**	**$24,272**	**763.2%**
TOTAL STATE SOURCES	**$20,054,910**	**$20,514,758**	**-$459,848**	**-2.2%**	**$19,735,103**	**1.6%**
Federal Grants	$11,212,207	$11,410,659	-$198,452	-1.7%	$8,624,179	30.0%
TOTAL GRF SOURCES	**$31,267,117**	**$31,925,417**	**-$658,301**	**-2.1%**	**$28,359,282**	**10.3%**

*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.

May GRF tax revenue was $386.2 million below estimate.

REVENUES

– Thomas Kilbane, Economist, 614-728-3218

Overview

GRF tax revenue was far below estimates in May (-$386.2 million) but mostly due to timing-related shortfalls with the domestic insurance tax and the cigarette tax. However, even disregarding those, tax revenue still missed estimates (-$73.6 million) by nearly as much as in April, when the conclusion of income tax filing season left the personal income tax (PIT) with a large shortfall. The deficit in May was the result of continued shortfall from the PIT (-$29.7 million), a big miss from auto sales and use tax (-$18.8 million) for the second month in a row, commercial activity tax (CAT) revenue lower than expected from the final quarterly payment of the fiscal year (-$9.7 million), and underperformance from the public utility tax (-$4.5 million) and the natural gas tax (-$5.5 million) in their biggest collection month of the year.

Tables 1 and 2 above, show GRF sources[1] for May and for FY 2016 through May, respectively. GRF sources received in FY 2016 through May were $658.3 million (2.1%) below the estimate released by OBM.[2] Total cumulative GRF sources have been below estimates since November, largely as the result of smaller than expected federal grants,[3] but in recent months tax revenue has contributed an increasing share of the deficit.

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. In the discussion that follows, the entire negative variance for both the domestic insurance tax and the cigarette tax is treated as due to timing. We do not know for certain that the entire negative variance is actually due to timing, but we do know that nearly

[1] 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.

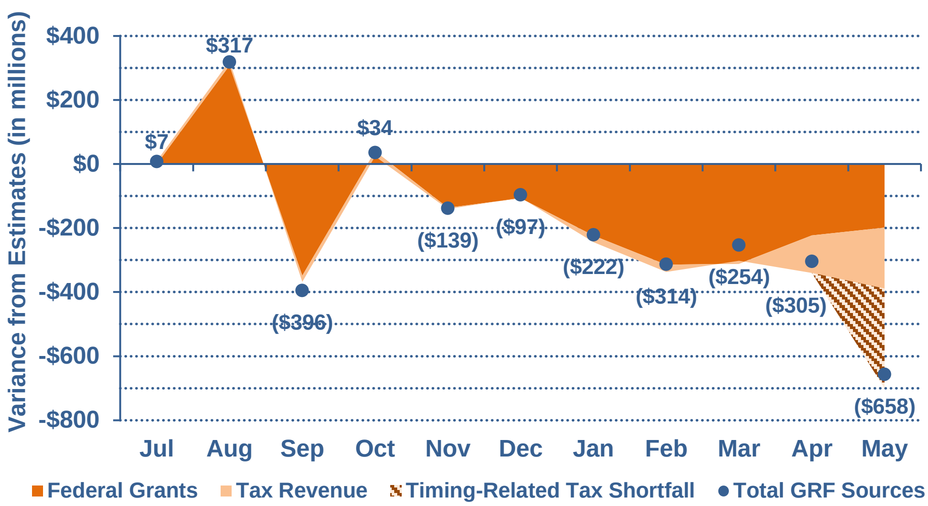
[2] OBM estimates were initially released in September 2015 and subsequently revised to accommodate the enactment of S.B. 208 and H.B. 340 of the 131st General Assembly.

[3] Federal grants are primarily related to the level of spending in the Medicaid program which has generally been lower than expected in FY 2016. GRF FY 2016 Medicaid expenditures were $270.8 million below estimate through May 2016.

all of it is. The portion of May's tax revenue shortfall which is thereby assumed to be attributable to timing is represented by the peach striped triangle. Any differences between the sum of federal grants and tax revenue (as represented by the shaded area) and total GRF sources (as represented by the blue dots and labeled in parentheses) can be attributed to other state sources (nontax revenue and transfers).

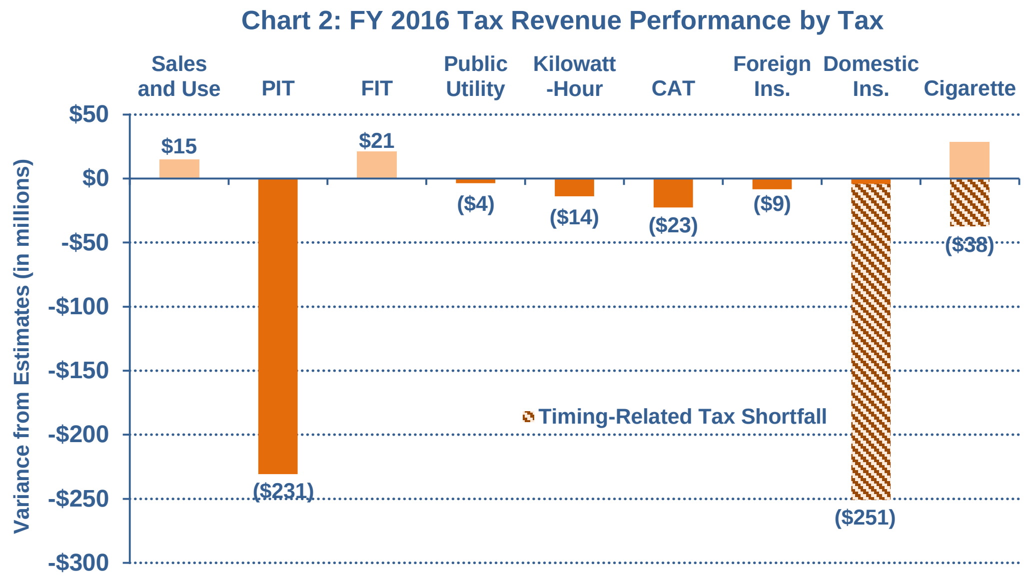
FY 2016 GRF sources were $658 million below estimate through May.

Chart 1: Composition of GRF Source Cumulative Performance in FY 2016



With 11 of the 12 months in the fiscal year complete, it appears very likely that tax revenue will finish FY 2016 with a deficit. While the chart above shows that total tax revenue has only fallen behind estimates in recent months, the PIT, which makes up 36% of year-to-date tax revenue, has been below estimates most of the fiscal year. Through January, sales and use taxes, which constitute 48% of year-to-date tax revenue, offset most of the shortfall from the PIT. Since February however, sales and use tax revenue has slowed significantly, in part due to a slowdown in auto purchases.

The chart below illustrates the year-to-date performance of each tax that had been expected to contribute over $100 million in revenue to the GRF through May. The portion of May's tax revenue shortfall which we have treated as attributable to timing is represented by the peach striped area of the bars. For the domestic insurance tax, almost all annual collections are expected in June, so the large timing-related deficit makes up nearly the entire tax performance thus far. On the other hand, the cigarette tax has a fairly consistent monthly collection schedule which has been running a surplus for the bulk of the fiscal year. Through April, cigarette tax revenue was $28 million over estimate, which is represented in the chart by the peach bar above the x-axis. In May, the big timing-related shortfall dragged year-to-date revenue from the tax $38 million below estimates for the year, as represented by the peach striped bar below the x-axis. June's collections are expected to offset the temporary negative variance in May and will likely allow the tax to finish the fiscal year with a surplus.



Total GRF receipts in FY 2016 through May were $31.3 billion, including $19.7 billion from tax receipts. Tax revenue is 2.5% lower than estimated, but would be only 0.9% below estimate if the timing-related shortfalls mentioned were excluded.

FY 2016 GRF sources are 10.3% higher than FY 2015 through May.

Compared to the same period in FY 2015, FY 2016 sources through May were $2.9 billion (10.3%) higher. Most of the increase is due to an accounting change related to Medicaid expenditures which pushed federal grants higher in FY 2016 by $2.6 billion (30.0%). In the current fiscal year, expenditures for individuals who became eligible for Medicaid through the Affordable Care Act are 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 $116.7 million (0.6%) from the corresponding period in FY 2015. The taxes that contributed the most to year-over-year revenue growth are the sales and use tax, the CAT, and the cigarette tax. Sales and use tax revenue growth is largely reflective of strong consumer spending during the first half of FY 2016, while the growth in the CAT and cigarette tax revenue are 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 healthy employment gains in the state during FY 2016, PIT revenue has fallen by $687.0 million from the same period in FY 2015, also due primarily to tax changes enacted in H.B. 64.

Personal Income Tax

The PIT continued its FY 2016 trend in May, coming in below estimate for the eighth time in the 11 months of the fiscal year to date. May GRF revenue from the PIT was $578.7 million, $29.7 million (4.9%) below the estimate of OBM.

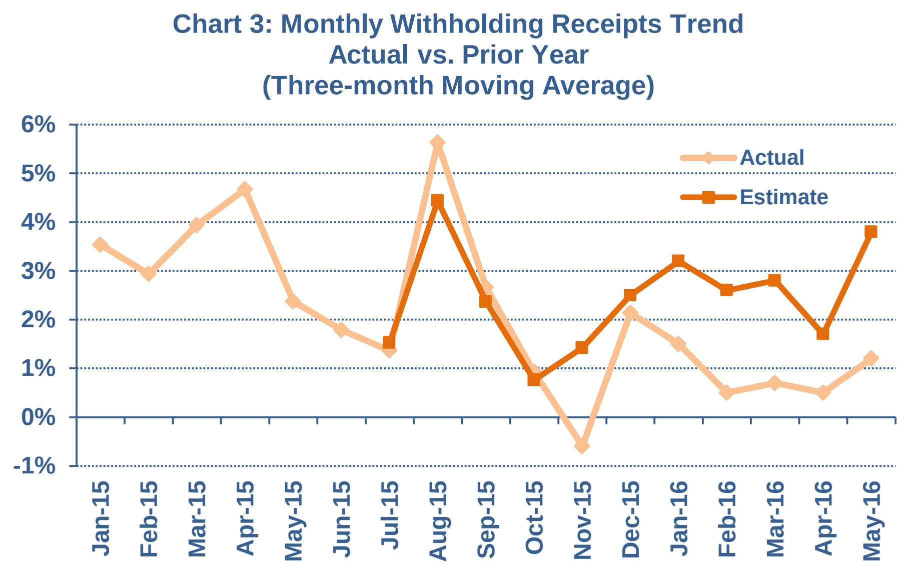
May revenue from the PIT was 5% below estimate.

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. The performance of the tax is typically driven by employer withholdings, which is the largest component of gross collections. In May, employer withholdings were $49.3 million (7.1%) below estimate, and refunds were $11.0 million (9.4%) higher than expected. Partially offsetting these contributions to the May PIT deficit, payments from annual returns were $18.3 million (49.3%) above OBM's 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 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 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).

[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.

[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.



Revenue from the PIT is $231 million below estimate through May.

For FY 2016 through May, PIT revenues totaled $7.0 billion, $231.0 million (3.2%) below estimate. All components of gross collections have contributed to the FY 2016 shortfall relative to OBM estimates. Employer withholding, quarterly estimated payments, trust payments, payments from annual returns, and other miscellaneous payments were all below estimate. FY 2016 revenues through May from each component of the PIT relative to estimates and to the corresponding period in FY 2015 are detailed in the table below.

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	-$72.7	-1.0%	$102.0	1.4%
Quarterly Estimated Payments	-$21.2	-2.5%	-$73.9	-8.3%
Trust Payments	-$1.8	-2.8%	-$2.7	-4.2%
Annual Return Payments	-$103.8	-13.4%	-$315.7	-32.0%
Miscellaneous Payments	-$9.2	-9.1%	-$7.8	-7.8%
Gross Collections	-$208.7	-2.2%	-$298.1	-3.1%
Less Refunds	$24.4	1.3%	$382.7	26.1%
Less LGF Distribution	-$2.0	-0.6%	$6.2	1.9%
Income Tax Revenue	-$231.0	-3.2%	-$687.0	-8.9%

Sales and Use Tax

May was the third out of the last four months that the sales and use tax was at least $15 million below estimate. Over the last two months, the main culprit has been slowing auto sales tax collections. Nonauto sales and use tax collections were above estimate in May for the first time in four months. Total combined GRF sales and use tax receipts for the month were $892.3 million, $15.7 million (1.7%) below estimate. For the fiscal year-to-date through May, sales and use tax revenues remained above estimate, though just barely ($14.5 million, 0.2%).

OBM's FY 2016 estimate of sales and use tax revenue was only 0.2% less than actual collections through May.

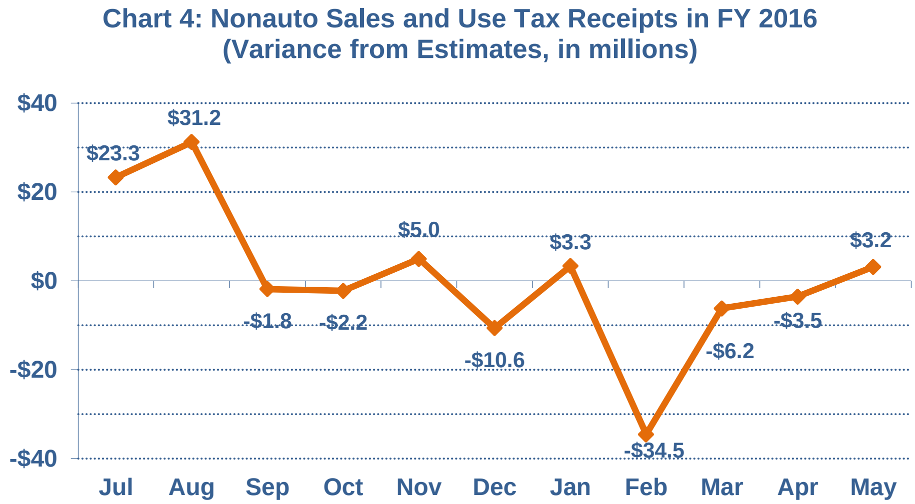
For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections generally arise from the sale of motor vehicles, but auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax instead of the auto tax.[6] In FY 2016 through May, the nonauto portion accounted for 87% of the total sales and use tax collected, while auto collections were only 13%.

Nonauto Sales and Use Tax

For the first half of FY 2016, sales and use tax collections had been the star performer of GRF tax revenue. That performance was supported by strong auto sales through the spring and very strong nonauto tax collections in the first two months of the fiscal year. Since August, nonauto sales and use tax collections have been slightly below estimate.

The chart below shows FY 2016 nonauto sales and use tax monthly revenues relative to OBM estimates. The chart illustrates weaker than expected revenues since December, though a bit of a rebound the last three months. Only part of the slowdown can be explained by Medicaid health insuring corporations, whose collections usually make up around 10% of nonauto sales and use tax collections. This portion is generally correlated to Medicaid spending which has been lower than expected in FY 2016.

[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.

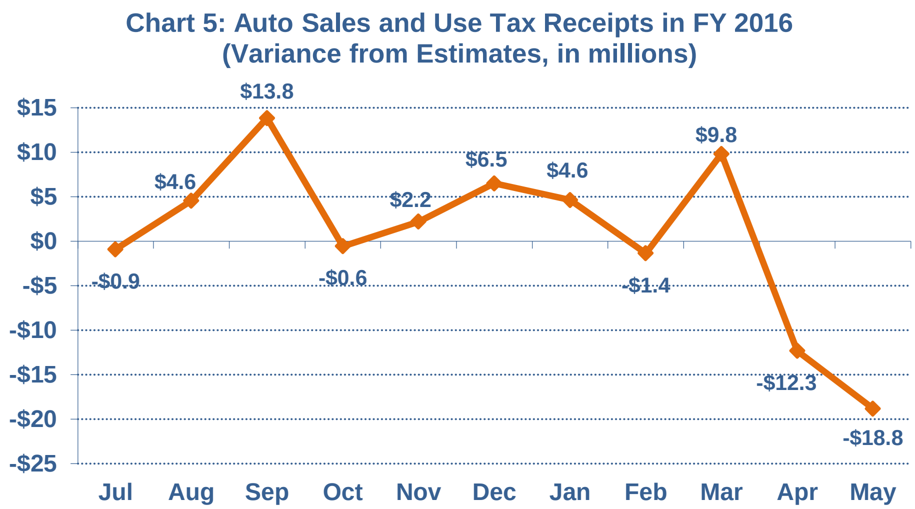


Over the nine months beginning in September, nonauto sales and use tax revenues were a combined $47.5 million (0.7%) below estimate. For the fiscal year to date, they were still tracking estimates remarkably closely, just $7.1 million (0.1%) above estimate, and 3.9% higher than the same period in FY 2015.

Auto sales and use tax revenue was more than $10 million below estimate for the second straight month.

Auto Sales and Use Tax

The GRF received $113.0 million in revenue from the auto portion of the sales and use tax in May, $18.8 million (14.3%) less than expected. It was the second straight month that the auto sales and use tax revenue was more than $10 million below estimate. For the fiscal year through May, revenue from this tax is still $7.4 million (0.6%) above estimate though, and 2.6% higher than during the same period in FY 2015. The chart below shows FY 2016 auto sales and use tax monthly revenues relative to OBM estimates. The chart illustrates stronger than expected revenues from the auto sales and use tax through March but a steep drop off in the last two months.



U.S. auto sales nationwide were very strong in 2015, setting an all-time record for total light vehicle sales during a calendar year. Sales have dropped a bit since the end of the calendar year, but overall have remained fairly strong through May. Given this, possible reasons for the recent shortfall in Ohio's auto sales and use tax include a disconnect between Ohio auto sales and the nationwide rate, a decrease in the average sale price of car purchases, or timing-related reasons due to tax collection dates, particularly around the Memorial Day holiday weekend.

Commercial Activity Tax

The fourth and final CAT payment of the fiscal year was due in May for quarterly return taxpayers. Collections paid to the GRF were $255.4 million for the month, $9.7 million (3.7%) below estimate. For FY 2016 through May, GRF revenue from the CAT was $22.7 million (1.8%) below estimates. With only small collections expected in June, CAT revenue is certain to finish the fiscal year in the red as well. After only the PIT, the CAT has contributed the second largest share of the FY 2016 GRF tax revenue deficit (excluding temporary timing-related deficits of the cigarette and domestic insurance taxes). Weakness in collections can be explained, at least in part, by economic softening at the end of calendar year 2015, particularly in the industrial production sector. In FY 2015, 26% of CAT revenue came from manufacturers.

CAT revenue is likely to finish the fiscal year with a deficit.

Insurance Taxes

The domestic insurance tax is paid annually, and due to legislative changes made in H.B. 64, is now primarily expected in June rather than

May. The change creates a large temporary deficit on the budget relative to estimates until the payments are made in June. So far in FY 2016, domestic insurance tax revenue to the GRF has been only $5.3 million, but the total was estimated to be $271 million by fiscal year end.

The foreign insurance tax however, has mostly already been collected for FY 2016. At this point in the year, only small adjustments are made to settle accounts between the state and foreign insurers. Revenue from the tax during May was below estimate ($10.3 million), mostly as the result of more refunds granted than had been estimated. For the fiscal year, revenue is $8.5 million (2.8%) below estimate.

Public Utility Excise and Natural Gas Distribution Taxes

May revenues from public utility and natural gas taxes were both close to 15% below estimate.

Both of these taxes are typically collected quarterly, with May being the final large collection month of the fiscal year. Both delivered May revenue below estimates. Revenue from the natural gas tax was $26.7 million in May, $5.5 million (17.2%) below estimate. The natural gas tax base is the amount of gas consumed by end users. The shortfall likely reflects less, or more efficient, heating during the cold months of winter. Due to a lag between gas usage and tax payment by distributors, the effects of the winter heating season are usually reflected in the May quarterly payment. For FY 2016, revenue from the tax is $7.2 million (10.6%) below estimate, and without much collection expected in June, almost certain to end the year with a deficit.

May revenue from the public utility excise tax was $26.1 million, $4.5 million (14.7%) below estimate. The public utility excise tax is based on gross receipts for each utility company. Most of the revenue also comes from natural gas companies. Therefore, the cause of the shortfall is likely similar to the deficit from the natural gas production tax, but also aided, at least in part, by cheap gas prices throughout FY 2016. For the fiscal year to date, revenue from the tax is $3.7 million (3.5%) below estimate. As with the natural gas tax, there are minimal public utility tax collections expected in June, so the tax is almost certain to end the year with a deficit.

Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax were $87.7 million in May, $65.8 million below estimate due to a timing issue related to legislative changes which took effect for the first time in FY 2016. In previous years, May was the largest collection date for the tax, but after changes made in H.B. 64, the extra revenue will be collected in June instead. Prior to May, revenue from the tax on cigarette and other tobacco products had been running at or above estimate consistently throughout the fiscal year. Through April, the tax was 3.8% above estimate, and after June collections, will likely regain its surplus for FY 2016.

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 has led to an increase in total revenues. Of the $87.7 million in May revenue, $81.6 million (93.0%) was from cigarette sales, $6.0 million (6.8%) was from sales of other tobacco products, and $0.2 million (0.2%) was from the "floor tax."[7] Floor tax collections have been $17.4 million during FY 2016 through May.

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

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of May 2016
($ in thousands)
(Actual based on OAKS reports run June 2, 2016)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary and Secondary Education	$552,456	$603,264	-$50,808	-8.4%
Higher Education	$185,157	$185,931	-$775	-0.4%
Other Education	$2,563	$3,336	-$773	-23.2%
Total Education	$740,176	$792,531	-$52,355	-6.6%
Medicaid	$1,502,269	$1,368,432	$133,837	9.8%
Health and Human Services	$73,074	$64,536	$8,538	13.2%
Total Welfare and Human Services	$1,575,343	$1,432,968	$142,375	9.9%
Justice and Public Protection	$135,699	$138,389	-$2,691	-1.9%
General Government	$31,411	$26,102	$5,309	20.3%
Total Government Operations	$167,109	$164,491	$2,618	1.6%
Property Tax Reimbursements	$310,496	$443,963	-$133,467	-30.1%
Capital Outlay	$0	$0	$0	---
Debt Service	$11,319	$11,319	$0	0.0%
Total Other Expenditures	$321,815	$455,282	-$133,467	-29.3%
Total Program Expenditures	**$2,804,444**	**$2,845,273**	**-$40,829**	**-1.4%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$5,000	$0	$5,000	---
Total Transfers Out	$5,000	$0	$5,000	---
TOTAL GRF USES	**$2,809,444**	**$2,845,273**	**-$35,829**	**-1.3%**

*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 May 31, 2016
($ in thousands)
(Actual based on OAKS reports run June 2, 2016)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2015**	**Percent Change**
Primary and Secondary Education	$7,218,916	$7,315,518	-$96,603	-1.3%	$6,921,648	4.3%
Higher Education	$2,041,212	$2,061,627	-$20,416	-1.0%	$1,968,908	3.7%
Other Education	$64,683	$63,757	$926	1.5%	$50,720	27.5%
Total Education	$9,324,810	$9,440,903	-$116,093	-1.2%	$8,941,277	4.3%
Medicaid	$16,605,855	$16,876,692	-$270,838	-1.6%	$13,996,525	18.6%
Health and Human Services	$1,209,679	$1,289,143	-$79,464	-6.2%	$1,199,377	0.9%
Total Welfare and Human Services	$17,815,534	$18,165,836	-$350,302	-1.9%	$15,195,902	17.2%
Justice and Public Protection	$1,845,125	$1,843,194	$1,932	0.1%	$1,721,963	7.2%
General Government	$335,729	$359,288	-$23,559	-6.6%	$319,688	5.0%
Total Government Operations	$2,180,855	$2,202,482	-$21,627	-1.0%	$2,041,652	6.8%
Property Tax Reimbursements	$1,758,462	$1,571,891	$186,571	11.9%	$1,586,289	10.9%
Capital Outlay	$0	$0	$0	---	$0	---
Debt Service	$1,276,811	$1,302,427	-$25,616	-2.0%	$1,238,783	3.1%
Total Other Expenditures	$3,035,273	$2,874,318	$160,955	5.6%	$2,825,072	7.4%
Total Program Expenditures	**$32,356,471**	**$32,683,538**	**-$327,067**	**-1.0%**	**$29,003,903**	**11.6%**
TRANSFERS						
Budget Stabilization	$425,500	$425,500	$0	0.0%	$0	---
Other Transfers Out	$411,027	$382,431	$28,596	7.5%	$625,262	-34.3%
Total Transfers Out	$836,527	$807,931	$28,596	3.5%	$625,262	33.8%
TOTAL GRF USES	**$33,192,998**	**$33,491,469**	**-$298,471**	**-0.9%**	**$29,629,165**	**12.0%**

*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 June 6, 2016)

	Month of May 2016				Year to Date Through May 2016			
Department	Actual	Estimate*	Variance	Percent	Actual	Estimate*	Variance	Percent
Medicaid	**$1,944,110**	**$2,200,924**	**-$256,814**	**-11.7%**	**$19,871,371**	**$21,967,044**	**-$2,095,674**	**-9.5%**
GRF	$1,452,072	$1,320,270	$131,803	10.0%	$16,061,576	$16,344,037	-$282,462	-1.7%
Non-GRF	$492,038	$880,655	-$388,617	-44.1%	$3,809,795	$5,623,007	-$1,813,212	-32.2%
Developmental Disabilities	**$214,088**	**$235,968**	**-$21,880**	**-9.3%**	**$2,198,892**	**$2,344,962**	**-$146,070**	**-6.2%**
GRF	$43,043	$41,057	$1,985	4.8%	$466,294	$454,659	$11,635	2.6%
Non-GRF	$171,045	$194,911	-$23,866	-12.2%	$1,732,597	$1,890,303	-$157,705	-8.3%
Job and Family Services	**$17,915**	**$18,420**	**-$504**	**-2.7%**	**$190,932**	**$189,617**	**$1,316**	**0.7%**
GRF	$6,378	$6,522	-$144	-2.2%	$69,528	$70,191	-$663	-0.9%
Non-GRF	$11,537	$11,897	-$360	-3.0%	$121,404	$119,426	$1,978	1.7%
Health	**$464**	**$500**	**-$36**	**-7.2%**	**$5,698**	**$6,622**	**-$924**	**-14.0%**
GRF	$323	$263	$60	23.0%	$3,228	$3,123	$106	3.4%
Non-GRF	$141	$238	-$97	-40.6%	$2,469	$3,500	-$1,030	-29.4%
Aging	**$3,084**	**$2,123**	**$961**	**45.3%**	**$23,203**	**$23,919**	**-$716**	**-3.0%**
GRF	$323	$255	$68	26.7%	$3,562	$3,011	$551	18.3%
Non-GRF	$2,761	$1,868	$893	47.8%	$19,641	$20,908	-$1,267	-6.1%
Mental Health and Addiction	**$1,023**	**$915**	**$108**	**11.8%**	**$4,762**	**$5,796**	**-$1,034**	**-17.8%**
GRF	$129	$65	$64	99.2%	$1,666	$1,672	-$6	-0.4%
Non-GRF	$893	$850	$43	5.1%	$3,096	$4,124	-$1,028	-24.9%
Total GRF	**$1,502,269**	**$1,368,432**	**$133,837**	**9.8%**	**$16,605,855**	**$16,876,692**	**-$270,838**	**-1.6%**
Total Non-GRF	**$678,415**	**$1,090,418**	**-$412,003**	**-37.8%**	**$5,689,003**	**$7,661,268**	**-$1,972,265**	**-25.7%**
Total All Funds	**$2,180,684**	**$2,458,850**	**-$278,166**	**-11.3%**	**$22,294,858**	**$24,537,960**	**-$2,243,102**	**-9.1%**

*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 June 6, 2016)

	May				Year to Date Through May 2016			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	$814,470	$893,747	-$79,277	-8.9%	$9,129,106	$9,683,917	-$554,810	-5.7%
Nursing Facilities	$117,181	$115,740	$1,441	1.2%	$1,279,269	$1,297,748	-$18,480	-1.4%
DDD Services	$211,615	$224,284	-$12,668	-5.6%	$2,141,200	$2,266,020	-$124,820	-5.5%
Hospitals	$255,967	$428,694	-$172,727	-40.3%	$1,717,207	$3,067,160	-$1,349,953	-44.0%
Behavioral Health	$110,169	$113,194	-$3,025	-2.7%	$992,910	$1,049,323	-$56,413	-5.4%
Administration	$69,923	$76,372	-$6,449	-8.4%	$745,184	$1,019,609	-$274,425	-26.9%
Aging Waivers	$28,462	$32,672	-$4,210	-12.9%	$294,983	$303,198	-$8,215	-2.7%
Prescription Drugs	$42,893	$43,877	-$984	-2.2%	$428,139	$430,882	-$2,743	-0.6%
Medicare Buy-In	$42,564	$38,008	$4,556	12.0%	$430,190	$409,526	$20,665	5.0%
Physicians	$20,129	$20,398	-$269	-1.3%	$241,922	$250,116	-$8,193	-3.3%
Medicare Part D	$27,154	$27,536	-$382	-1.4%	$278,354	$280,705	-$2,351	-0.8%
Home Care Waivers	$11,879	$16,099	-$4,220	-26.2%	$116,489	$154,478	-$37,989	-24.6%
ACA Expansion	$330,956	$321,093	$9,864	3.1%	$3,495,317	$3,301,465	$193,852	5.9%
All Other	$97,322	$107,136	-$9,814	-9.2%	$1,004,587	$1,023,814	-$19,227	-1.9%
Total All Funds	**$2,180,684**	**$2,458,850**	**-$278,166**	**-11.3%**	**$22,294,858**	**$24,537,960**	**-$2,243,102**	**-9.1%**

* Estimates are from the Department of Medicaid.

Detail may not sum to total due to rounding.

For the first 11 months of FY 2016, GRF uses totaled $33.19 billion, $298.5 million below estimate.

Medicaid accounted for almost 91% of the total negative year-to-date variance in GRF uses.

EXPENDITURES

– *Russ Keller, Senior Economist, 614-644-1751*

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

Overview

Through May, FY 2016 GRF program expenditures were $32.36 billion, $327.1 million below the estimate released by OBM in October 2015. GRF transfers out were $836.5 million, $28.6 million above estimate.[8] Including both program expenditures and transfers out, GRF uses were $33.19 billion, $298.5 million below estimate. Tables 3 and 4 show GRF uses for the month of May and for FY 2016 through May, respectively.

Medicaid continued to be the program category that had the largest negative year-to-date variance. Through May, GRF Medicaid was $270.8 million below estimate. Primary and Secondary Education had the second largest negative year-to-date variance at $96.6 million, followed by Health and Human Service ($79.5 million), Debt Service ($25.6 million), General Government ($23.6 million), and Higher Education ($20.4 million). These negative variances were partially offset by a timing-related positive variance of $186.6 million in Property Tax Reimbursements.

As reported in prior issues of *Budget Footnotes*, property tax reimbursement funds were requested and disbursed sooner than was anticipated in the OBM estimate. As a result, expenditures from the Property Tax Reimbursements program category were $252.9 million above estimate in April and $133.5 million below estimate in May. As of the end of May, Hamilton County is the only county that had not yet received its full reimbursement. The June reimbursement payment is expected to be much lower than the $274.6 million estimate for the month, which should completely resolve the timing-driven positive

[8] The positive variance in the Transfers Out category was primarily due to cash transfers made from the GRF to the Managed Care Performance Payment Fund (Fund 5KW0) pursuant to section 327.80 of H.B. 64. The Ohio Department of Medicaid is to withhold a percentage of each premium payment it pays to a managed care organization for a MyCare Ohio program participant for performance payments in order to improve access to and quality of care and services for individuals who are eligible for both Medicare and Medicaid. The withheld funds are transferred from the GRF to Fund 5KW0 for performance payments. The appropriation for GRF appropriation item 651525, Medicaid/Health Care Services, is reduced by the transferred amount.

variance in this program category. The Property Tax Reimbursements program category is expected to finish the fiscal year with a modest negative variance.

The remainder of this report will provide more details on Medicaid and the above mentioned program categories that had significant negative year-to-date variances.

Medicaid

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

For the first 11 months of FY 2016, GRF Medicaid expenditures were $270.8 million below estimate; non-GRF Medicaid expenditures were $1.97 billion below estimate.

Table 5 shows the GRF and non-GRF portions of Medicaid expenditures made by the Ohio Department of Medicaid (ODM) and five other state agencies that assist ODM in administering Medicaid.[9] As indicated earlier, year-to-date GRF Medicaid expenditures were below estimate by $270.8 million (1.6%). This negative variance is expected to increase significantly in June, the last month of FY 2016. Due to a delay in obtaining federal approval of the state's hospital assessment plan, certain Medicaid expenditures that were originally planned to be paid with hospital assessment fees, which are deposited into non-GRF funds, were paid from the GRF in April and May. As a result, GRF Medicaid was above estimate in April ($146.3 million) and, again, in May ($133.8 million), which reduced GRF Medicaid's negative year-to-date variance from $550.9 million at the end of March to $270.8 million at the end of May. This temporary GRF "substitution" effect will be reversed in June, the last month of FY 2016.

Non-GRF Medicaid expenditures were $1.97 billion below their year-to-date estimate. Approximately $1.06 billion of this total was due to a delay in making certain payments for hospitals (see below for more details on the variance in the Hospitals payment category). Across all funds, year-to-date Medicaid expenditures were $2.24 billion below estimate. ODM, the largest agency within the Medicaid category, accounted for 93.4% of the total negative year-to-date variance. ODM's GRF and non-GRF Medicaid expenditures were below estimates by $282.5 million and $1.81 billion, respectively. The Department of Developmental Disabilities (DDD), the second largest agency within the

[9] These five agencies are: Developmental Disabilities, Job and Family Services, Health, Aging, and Mental Health and Addiction Services.

Through May, all-funds Medicaid expenditures were $2.24 billion below estimate, of which $1.06 billion was due to timing of UPL and HCAP payments for hospitals.

Medicaid program category, registered a positive year-to-date variance of $11.6 million in GRF Medicaid but a negative year-to-date variance of $157.7 million in non-GRF Medicaid. Together, ODM and DDD account for about 99% of total Medicaid expenditures.

Table 6 details all-funds Medicaid expenditures by payment category. As seen from the table, Hospitals had the largest negative year-to-date variance at $1.35 billion (44.0%), of which $172.7 million occurred in the month of May. As reported in prior issues of *Budget Footnotes*, there was a delay in obtaining federal approval of the state's Upper Payment Limit (UPL) payment plan for hospitals. UPL allows the state to direct supplemental payments – up to the difference between the Medicare and Medicaid amounts – to service providers. The spending estimate assumed UPL payments of $154.9 million each for the month of March and April and another $309.8 million for the month of May. Through the end of May, only $167.7 million was disbursed. In other words, the timing of UPL payments accounted for $451.9 million of the total negative year-to-date variance in the Hospitals payment category. Similarly, federal approval is required for making payments to hospitals through the Hospital Care Assurance Program (HCAP). This approval was also processed later than expected. Under HCAP, the state makes subsidy payments to hospitals that provide uncompensated care to low-income and uninsured individuals at or below 100% of the federal poverty level. As of the end of May, the originally planned HCAP payments totaling $610.7 million for February and March had not yet occurred. The remaining UPL and HCAP payments, which are made with non-GRF funds, will be made in June. Finally, another contributing factor behind the negative variance in Hospitals was lower than forecasted per-member per-month cost for an Aged, Blind, and Disabled (ABD) recipient in fee-for-service. A forecasted increase in the per-member per-month cost was included in the estimate for the Hospitals payment category. This forecasted increase has not materialized.

Managed Care had the second largest negative year-to-date variance at $554.8 million (5.7%). The main contributing factor was lower than expected new managed care rates. Managed care rates are adjusted at the beginning of each calendar year. The new rates, effective January 1, 2016, are lower than the ones assumed in the estimate, particularly those for the MyCare Ohio program. MyCare Ohio is designed to provide for a better integration and coordination of benefits and services for Ohioans who are eligible for both Medicare and Medicaid. Another major contributor was lower than expected ABD caseloads in managed care.

The Administration payment category had the third largest negative year-to-date variance at $274.4 million (26.9%). The estimate for this payment category includes the contract for ODM's new eligibility determination system, Ohio Benefits, and pass-through federal grants for electronic medical records. The cost for Ohio Benefits and the demand for the federal grants have both been lower than expected. Furthermore, a number of ODM information technology contracts are being completed more slowly than originally anticipated.

ACA Expansion and Medicare Buy-in were the only two payment categories with positive year-to-date variances. Through May, ACA Expansion expenditures of $3.50 billion were $193.9 million (5.9%) above estimate. This positive variance was due largely to higher than expected caseloads. ACA Expansion caseloads have been about 4% higher than anticipated. However, the caseload driven positive variance has been offset to some extent due to the lower Managed Care rates described above that are also applicable to individuals enrolled in the ACA Expansion. As a result, this category's positive variance may shrink somewhat in the last month of the fiscal year.

Through May, all-funds ACA Expansion was $193.9 million above estimate.

Year-to-date expenditures of $430.2 million from the Medicare Buy-in payment category were $20.7 million (5.0%) above estimate, of which $4.6 million occurred in the month of May. The category's positive variance was due to a larger than anticipated increase in Medicare Part B premiums, effective January 1, 2016. The Medicare Buy-in program pays Medicare premiums, deductibles, and coinsurance for certain low-income Ohioans.

Primary and Secondary Education

GRF expenditures from the Primary and Secondary Education program category were $50.8 million (8.4%) below estimate in May, which increased the category's negative year-to-date variance to $96.6 million (1.3%). The Ohio Department of Education (ODE) is the only agency that is included in this program category. GRF appropriation item 200550, Foundation Funding, had the largest negative year-to-date variance at $48.8 million. Item 200550 is the main funding source of school foundation payments. For FY 2016, this item also includes an earmarked funding of $40 million for additional state aid for special education students exceeding certain specified catastrophic cost thresholds. This funding has not yet been disbursed due to a delay in processing relevant data. Payments will be made either in June or funds will be encumbered for disbursement in FY 2017.

Item 200437, Student Assessment, had the second largest negative year-to-date variance at $19.7 million, followed by item 200540, Special Education Enhancements, at $10.1 million and 200408, Early Childhood Education, at $8.2 million. These negative year-to-date variances were also largely due to timing issues and are expected to narrow somewhat in the last month of FY 2016.

Health and Human Services

GRF expenditures from the Health and Human Services program category were $73.1 million in May, $8.5 million (13.2%) above estimate. However, the category's year-to-date expenditures of $1.21 billion were $79.5 million (6.2%) below estimate. Of this total, $30.1 million occurred in the Ohio Department of Job and Family Services (ODJFS). The Ohio Department of Mental Health and Addiction Services (ODMHAS) and the Ohio Department of Health (ODH) contributed another $27.6 million and $14.2 million, respectively, to the total. Expenditures from the majority of GRF appropriation items within these three agencies were below their year-to-date estimates. Prior issues of OBM's *Monthly Financial Report* indicated various timing issues that accounted for significant portions of the negative variances in these agencies.

Within the ODJFS budget, items that had the largest negative year-to-date variances were item 600445, Unemployment Insurance Administration ($6.7 million), item 600416, Information Technology Projects ($6.1 million), item 600321, Program Support ($4.5 million), and item 600528, Adoption Services ($4.3 million). Lower than expected disbursements from prior year encumbrances also contributed to the negative variance in items 600416 and 600321.

Item 336423, Addiction Services Partnership with Corrections, accounted for $14.8 million of the total negative year-to-date variance in the ODMHAS budget. Item 336504, Community Innovations, accounted for another $4.7 million. Items 336423 and 336504 were newly created in H.B. 64, the current biennium's budget act. The implementation of these two new initiatives was slower than originally anticipated. Item 336423 was appropriated a total of $27.4 million for FY 2016 while item 336504 was appropriated a little under $9.3 million for FY 2016.

The two items that had the largest negative year-to-date variances within the ODH budget were item 440459, Help Me Grow ($3.4 million), and item 440444, AIDS Prevention and Treatment ($2.7 million).

Debt Service, General Government, and Higher Education

GRF debt service payments for the month of May totaled $11.3 million, on par with the OBM estimate. For the year to date, GRF debt service payments were $1.28 billion, $25.6 million (2.0%) below estimate. This variance was primarily due to continued low interest rates.

GRF expenditures from the General Government program category were $31.4 million in May, $5.3 million (20.3%) above estimate. This category's year-to-date expenditures of $335.7 million, however, were $23.6 million (6.6%) below estimate. This program category includes executive agencies that are not included in other program categories, four out of the five statewide elected offices,[10] and all legislative agencies. Year-to-date expenditures were below estimates for the majority of these agencies. The two agencies that had the largest negative year-to-date variances are the Development Services Agency ($6.6 million) and the Environmental Protection Agency ($3.2 million).

GRF expenditures from the Higher Education program category were $185.2 million in May, $775,000 (0.4%) below estimate. The Department of Higher Education is the only agency that is included in this program category. The category's year-to-date expenditures were $2.04 billion, $20.4 million (1.0%) below estimate. The majority of this variance occurred in student scholarship and financial aid appropriation items as the demand for and disbursement timing of these scholarships and financial aid grants may vary from estimates. Item 235599, National Guard Scholarship Program, had the largest negative year-to-date variance at $6.6 million, followed by item 235563, Ohio College Opportunity Grant, at $4.8 million and item 235591, Co-op Internship Program, at $2.1 million.

[10] The offices of the Governor, Secretary of State, Treasurer, and Auditor of State are included in the program category while the Office of the Attorney General is included in the Justice and Public Protection program category.

Issue Updates

State Board of Education Awards 78 High School Diplomas in First Year of Adult Diploma Pilot Program

– Adam Wefler, Budget Analyst, 614-466-0632

In April, the State Board of Education awarded 78 high school diplomas to adults who participated in the first year of the Adult Diploma Pilot Program. The program is designed to provide adults, ages 22 and older, education to earn a high school diploma and skills training needed for a job in one of 20 in-demand career fields. Each participant worked with an advisor to create a customized plan that aligned with the student's career goals. The plans were competency-based, allowing the student to work at their own pace to master the necessary skills for the career they sought. Upon completion of the program, the participants also earned an industry-recognized credential or certificate. Five institutions across the state participated in the first year of the pilot program: Stark State Community College, Pickaway-Ross Joint Vocational School, Miami Valley Career Technical Center, Cuyahoga Community College, and Penta Career Center. These institutions partnered with other regional providers to deliver programming.

H.B. 64 appropriates $3.8 million in FY 2016, a portion of which provides planning funds to participating institutions, and $5.0 million in FY 2017 for the program in GRF line item 200572, Adult Diploma, in the Ohio Department of Education's budget. Payments to participating institutions for each student enrolled in an approved program of study are calculated according to a formula providing certain tiers of funding based on the number of hours of technical training required in the student's career pathway training program and the student's grade level upon initial enrollment into the program.

State Board of Education Recognizes Public Schools and Districts for High Academic Achievement and Student Growth

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

On May 16, 2016, the State Board of Education acknowledged public schools and districts that demonstrated high academic achievement and student growth on local report cards through two new recognition programs. The All A Award is given to districts and schools that received A's on each of the district or school's applicable report card measures. For the 2014-2015 school year, two districts and 46 schools qualified. Beginning with the report cards for the 2017-2018 school year, this award will go to any school or district that earns an A on its overall report card grade.[11]

Districts and schools that earn straight A's on each applicable value-added measure on the report cards qualify for the Momentum Award. For the 2014-2015 school year, 53 districts and 165 schools met the criteria for this award. The value-added measure is designed to help educators determine the impact schools and teachers have on students' academic growth and progress in reading and math from year to year. The measure is calculated on an overall basis and for three student subgroups: (1) gifted students, (2) students in the lowest 20% in achievement, and (3) students with disabilities. Districts and schools must have a grade for at least two of the three value-added subgroups of students to qualify for the award. A list of the districts and schools qualifying under both recognition programs is available on the Ohio Department of Education's website.[12]

Controlling Board Approves $2.3 Million for Summer Meal Programs

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

On May 2, 2016, the Controlling Board approved a request by the Ohio Department of Job and Family Services, on behalf of the Governor's Office of Faith-Based and Community Initiatives, to contract with the Ohio Association of Foodbanks in the amount of $2.33 million ($1.88 million in FY 2016 and $449,700 in FY 2017) for the Summer Meals Program Services. The contract will run from approximately June 1, 2016 to August 30, 2016 and be funded with the federal Temporary Assistance for Needy Families (TANF) Block Grant. The program provides supplemental food to TANF-eligible children who reside in rural school districts where 40% or more of the population is at or below 200% of the federal poverty level.

The Summer Meals Program Services consists of three separate programs: the Summer Rural Delivery Meals Program, the Summer Weekend Meals Program, and the Mobile Farmers' Market Program. The Summer Rural Delivery Meals Program is anticipated to serve about 2,000 children with 11 meals each week, composed of two breakfasts, seven lunches, and two dinners. The Summer Weekend Meals Program is expected to serve about 10,000 children with six meals each weekend. In addition to the shelf-stable items distributed in the above programs, the Mobile Farmers' Market Program will provide at least one fresh protein item and four fresh fruit or vegetable options each week. Last summer, these programs provided over 900,000 meals and over 1.1 million pounds of fresh protein and produce.

[11] Due to "safe harbor" provisions in current law, the report cards for the 2017-2018 school year will be the first to include overall letter grades for districts and schools.

[12] http://education.ohio.gov/Topics/School-Improvement/Awards-and-Recognition.

Medicaid Awards $1.6 Million to Reduce Infant Mortality

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

On March 15, 2016, the Ohio Department of Medicaid (ODM) awarded $1.6 million to four projects to reduce infant mortality in the Akron area (Summit County). The table below lists each project, the amount received, and provides a brief description of project activities.

Akron Infant Mortality Projects		
Project	**Activities**	**Amount**
Mount Calvary Baptist Church/ Minority Behavioral Health Group	Educational opportunities to churches through nursing outreach	$299,800
Fame Fathers/ Charisma Community Connection	Ensure that fathers play an active role in the fight against infant mortality	$250,000
Akron Summit Community Action, Inc.	Improve access to primary care and social services for women and families	$566,983
Project Ujima/ Summa Center for Health Equity	Weekly wellness circles for expectant and new parents; support for pregnancy centering circles	$438,394
	TOTAL	**$1,555,177**

In total, ODM plans to distribute $26.8 million over the FY 2016-FY 2017 biennium to combat infant mortality in the following nine high priority areas: Butler, Cuyahoga, Franklin, Hamilton, Lucas, Mahoning, Montgomery, Stark, and Summit counties. ODM, along with other interested parties, have met with local leaders to determine the projects or strategies that best address the specific needs of each community. Funding will vary according to these discussions.

Ohio's infant mortality rate for all races decreased slightly from a rate of 7.4 (number of infant deaths per 1,000 live births) in 2013 to 6.8 in 2014. However, the black infant mortality rate increased from a rate of 13.8 in 2013 to 14.3 in 2014. During this same time period, the white infant mortality rate decreased from 6.0 to 5.3, while the Hispanic rate decreased from 8.8 to 6.2. Ohio's goal is to obtain a rate of 6.0 or lower for every race or ethnic group. The three leading causes of infant mortality are prematurity/pre-term births, sleep-related deaths (i.e., Sudden Infant Death Syndrome or asphyxia), and birth defects.

Department of Commerce Awards $75,000 in Financial Literacy Education Grants to Six Recipients Serving Eight Counties

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

On April 29, 2016, the Ohio Department of Commerce announced funding of $75,000 to six groups under the Financial Literacy Grant Program. The purpose of the grant program is to support innovative education programs that strengthen adult financial literacy. Grants are awarded to applicants that demonstrate the need for financial education in their community. The grant recipients will use the funding for courses that cover topics including personal budgeting, student loan borrowing, money management, and financial services. The table below displays the award recipients, their location by county, and the total amount awarded.

FY 2016 Financial Literacy Grant Recipients		
Grant Recipient	**County**	**Award Amount**
Project Learn	Summit	$19,112
Community Action Organization	Highland	$15,683
Miami University Regional Campus	Butler and Warren	$13,688
Catholic Charities	Ashtabula	$12,500
Pickaway-Ross Career and Technology Center	Pickaway and Ross	$7,517
Boys & Girls Club of Columbus	Franklin	$6,500
	TOTAL	**$75,000**

The grant is financed through quarterly transfers of 5% of all charges, penalties, and forfeitures levied by the Consumer Finance Section within the Division of Financial Institutions. This revenue is deposited into the Financial Literacy Education Fund (Fund 5FW0). Grant guidelines require that at least half of the financial literacy education programs be conducted by or offered at public community colleges or state institutions of higher education.

Ohio Awarded Just Over $1 Million in Federal Grants for Innovative Transportation Projects

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

On April 29, 2016, the U.S. Department of Transportation announced that Ohio will receive two grants totaling slightly over $1.0 million in the latest round of awards under the Accelerated Innovation Deployment (AID) Demonstration Program.[13] Created in 2014, the goal of the AID Demonstration Program is to promote the deployment of innovative highway planning and construction projects by offsetting the risk of trying the innovation.

[13] Projects in five other states also received funding under this round of awards totaling almost $4.9 million. In FY 2014, the Northeast Ohio Areawide Coordinating Agency (NOACA) was awarded $600,000 for its Transportation Asset Management Program development project under the AID Demonstration Program.

Under the first grant, the Ohio Department of Transportation (ODOT) will receive approximately $512,000 to improve document management and workflow needs through "e-Construction" on two projects. According to the Federal Highway Administration, e-Construction is a construction administration delivery process that electronically documents and manages the project, taking paperwork out of the process and improving workflow among contractors and project owners.

The second grant of $557,600 will be jointly awarded to ODOT and Muskingum County to replace a bridge on County Road 7 within Muskingum County. The bridge design will incorporate steel tub girders that are more durable, have a greater span range, and are easier to maintain than conventional girders. The bridge deck will be constructed using lighter-weight prefabricated metal and composite plates, referred to as a Sandwich-Plate System (SPS) design. Used together, these construction techniques will reduce construction time and limit road closures. The new design will also lower the dead load, or the combined weight of the paved surface, structural components and utilities borne by the bridge superstructure.

Ohio EPA Awards $2.2 Million in Local Recycling and Litter Prevention and Management Grants

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

On April 25, 2016, the Ohio Environmental Protection Agency (EPA) announced the award of 76 competitive grants totaling $2.2 million to support various recycling and litter prevention and management projects.[14] Of this total, approximately $1.7 million was awarded through the Community Development Grant Program to fund 35 projects for the collection and processing of recyclable materials and litter prevention efforts. The grants range from $750 to $250,000. The Community Development Grant Program provides financial assistance to local governments that propose to establish projects related to the collection and processing of recyclable materials or litter prevention initiatives. Local governments must commit to provide funding for 50% of the project through matching funds.

The remaining $560,000 was awarded through the Litter Management Grant Program to fund 41 projects to support community-based litter collection or tire amnesty activities.[15] The grants range from $2,250 to $50,450. The Litter Management Grant Program requires a minimum of 10% local matching funds and eligible entities include municipal corporations, counties, townships, villages, state colleges or

[14] The complete listings of grant recipients are available on the Ohio EPA's website: http://epa.ohio.gov/News/OnlineNewsRoom/NewsReleases/tabid/6596/ArticlePage/1/Default.aspx.

[15] Tire amnesty refers to opportunities for residents to dispose of scrap tires with a political subdivision at no charge to the resident.

universities, solid waste management districts or authorities, health districts, Keep America Beautiful (KAB) affiliates, boards of education, and certain other nonprofit organizations.

Ohio EPA Awards $1.8 Million in Market Development Grants

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

In April 2016, the Ohio EPA announced the award of ten competitive grants totaling $1.8 million to support a variety of recycling and scrap tire market development projects. Of this total, approximately $1.4 million was awarded as Recycling Market Development grants for eight projects involving the partnership of a political subdivision with a business or nonprofit organization to develop the infrastructure for strengthening end-product markets involving targeted materials (see table below).[16]

Recycling Market Development Grants		
Political Subdivision	**Partner**	**Grant Amount**
Darke County Solid Waste District	Kitchen Aid	$44,433
Lorain County Solid Waste District	Barnes Nursery	$66,538
Medina County Solid Waste Management District	I.D. Images	$108,027
Ottawa, Sandusky, and Seneca Solid Waste District	G.I.B.	$138,195
Delaware, Knox, Morrow, and Marion County Solid Waste District	Price Farm Organics	$250,000
Franklin County	Econopia	$250,000
Summit and Akron Solid Waste Management Authority	Waste Management	$250,000
The Ohio State University	Zanesville Energy	$250,000
	TOTAL	**$1,357,193**

The remaining $400,000 was awarded as Scrap Tire Processing grants to fund two Ohio business scrap tire market infrastructure projects. Jackson Township in Franklin County, which partners with Liberty Tire Recycling, was awarded $350,000 to purchase a scrap tire processing equipment unit. Cuyahoga County Soil and Water Conservation District, which partners with St. Clair Superior Development Corporation, was awarded $50,000 to purchase equipment that can create geo cells comprised of scrap tire material for soil stabilization engineering designs.

[16] Targeted materials include aluminum, carpet, carpet padding, construction and demolition debris, electronics/CRT glass, glass, mattresses, metals, organic (food waste) material, corrugated cardboard, paint, paper, plastic, shingles, and wood waste.

TRACKING THE ECONOMY

– Phil Cummins, Senior Economist, 614-387-1687
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Overview

The economy continues to expand but at only a slow pace and weak employment growth in May raises questions about the strength of the expansion. Inflation-adjusted gross domestic product (real GDP) for the 2016 first quarter was revised upward, in the latest estimate from the U.S. Bureau of Economic Analysis (BEA), but only to a 0.8% annual rate of growth. An increase in U.S. nonfarm payroll employment in May was the smallest for any month since 2010. However, earlier employment gains and anecdotal reports point to tightening labor markets. Factory output has been about flat, on balance, since 2014, depressed in part by the strong dollar and by cutbacks related to sharp declines in mining activity. Consumer spending and housing market activity continue to advance, supported by pay increases in excess of the low inflation rate. Light vehicle sales remain at a high level but are down from the pace in last year's second half. In Ohio, employment fell in April and the statewide unemployment rate rose.

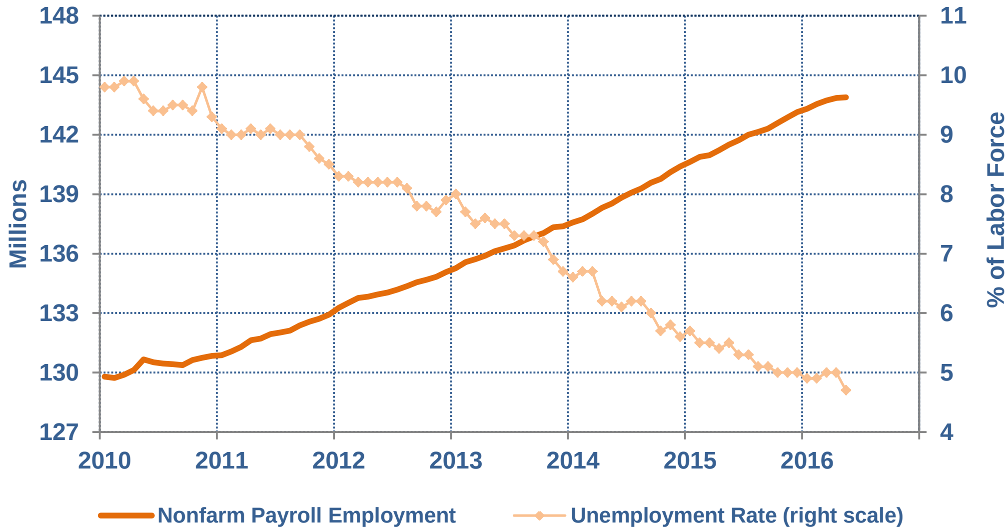
Uncertainties raised by the latest employment report as well as the still low pace of inflation may lead the Federal Reserve, the nation's central bank, to again delay tightening monetary policy when the bank's main policy-setting group meets June 14 and 15. The bank's Federal Open Market Committee decided at its meeting last December to raise its short-term interest rate target by 0.25 percentage point to a range of 0.25% to 0.5%, and has held the target rate at that level since then. The rate had previously been held at zero to 0.25% since December 2008.

The National Economy

Employment and Unemployment

Total nonfarm payroll employment nationwide rose only 38,000 (0.03%) in May, and increases in March and April were revised lower by a total of 59,000. The U.S. unemployment rate fell to 4.7% in May, lowest since 2007. Trends in employment and unemployment are shown in Chart 6.

Chart 6: U.S. Employment and Unemployment



Nonfarm payroll employment increased in May in health care but fell again in mining. Health care employment continues to grow year after year and increased 487,000 (3.2%) during the past year. Mining employment has fallen 207,000 (24%) from the recent peak in September 2014. Manufacturing employment fell slightly (-0.1%) in May, all in durable goods. From a recent peak in March 2015 to May 2016, durable goods manufacturing employment fell 82,000 (1.1%).

Employment increases averaged 150,000 per month in 2016, down from 229,000 per month in 2015.

Employment increases in the first five months of 2016 averaged 150,000 per month, down from 229,000 per month in 2015 and 251,000 in 2014. In May 2016, a strike by telecommunications workers reduced employment by 35,000, according to the U.S. Bureau of Labor Statistics (BLS). The increase in employment in May was one of the smallest monthly changes of the past five years, even with an upward adjustment for the workers temporarily out on strike.

The unemployment rate decline in May resulted from a fall of 484,000 in the number of persons unemployed, to 7.4 million, the fewest persons counted as unemployed since 2007. Little of the monthly decline in unemployment was attributable to increased employment, with most reflecting a drop in the number of persons in the labor force. The labor force participation rate fell 0.2 percentage point in May to 62.6%.[17] This

[17] The labor force participation rate is the number of persons in the labor force as a share of the working age population. The labor force includes those who are either employed or are unemployed and actively looking for work.

was just above the low point of 62.4% in September 2015, lowest since 1977. From last September to March, labor force participation had begun to recover, climbing to 63.0%.

Production, Shipments, and Inventories

Real GDP rose 0.8% in the first quarter of 2016.

Real GDP rose at a 0.8% annual rate in this year's first quarter, revised upward from 0.5% estimated initially. Growth of the national economy averaged 2.4% per year in each of 2014 and 2015, but has been below that pace in the latest three quarters. The slowdown has been particularly sharp in nonresidential fixed investment, due in part to large cutbacks in mining exploration, shafts, and wells but also to declines or slower growth in investment in industrial, transportation, and other types of equipment, in software, and in research and development. Inventory accumulation and exports have slowed. Consumer spending continues to expand but not as rapidly as earlier. In contrast, residential fixed investment has grown more rapidly.

Industrial production rose 0.7% in April after declines in February and March and in most months since a peak in late 2014. The total index consists of components for manufacturing, mining, and utilities, and the latest monthly increase mainly reflects a jump in the index for utility output, held down by unusually warm weather in March. Factory output rose in April while mining output continued to fall.

From the recession low point in June 2009 to the end of 2014, the index for total manufacturing production recovered 19% but was essentially flat thereafter through April. The index for all types of mining fell 18% from a peak in December 2014 through April 2016, with sharp declines in drilling of oil and gas wells, in coal production, and in iron ore mining. Production of crude oil fell by much less than drilling of new wells, and production of natural gas continued to rise. Trends in the indexes for factory production and for mining are shown in Chart 7. Manufacturing accounts for about 78% of total industrial production, with mining and utilities each accounting for about 11%.

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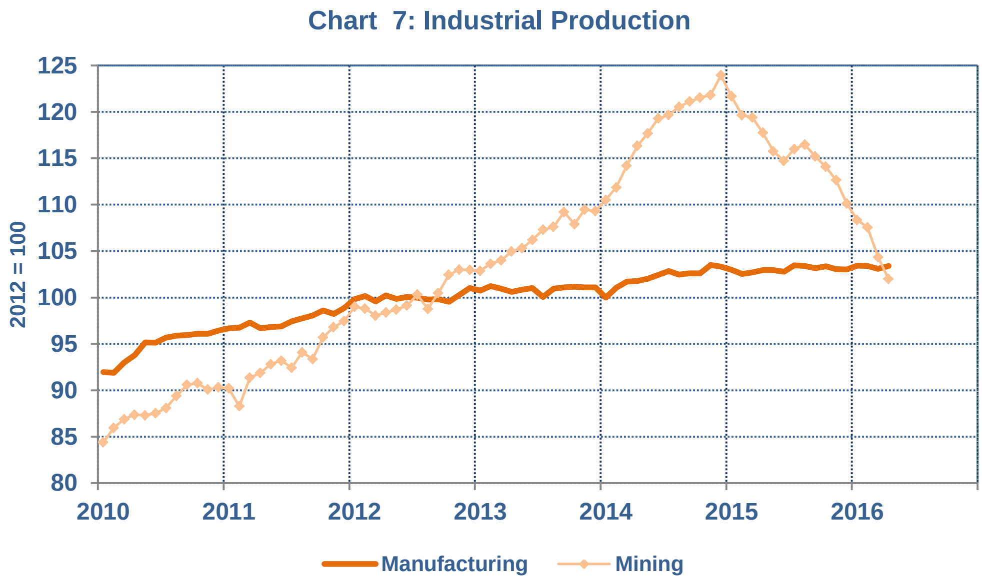


Manufacturing production continued to rise in May, based on a survey of purchasing managers by the Institute for Supply Management. More survey respondents said production increased than reported decreases for the month. New orders also increased while inventories and the backlog of unfilled orders contracted, according to the survey. Higher prices for manufacturers' inputs were reported to be more widespread than lower prices for the third consecutive month. A comparable survey of purchasing managers with nonmanufacturing organizations also showed continued growth.

Consumer Spending

Real consumer spending rose a robust 0.6% in April, as consumer outlays for durable goods jumped 2.2%. Consequently, consumer spending growth started the second quarter stronger than the 1.9% annual rate of increase in the first quarter.[18] Growth of consumer spending is being supported by increases in the dollar value of incomes that are substantially outpacing price increases. Real disposable (after tax) personal income was 3.3% higher in January through April than a year earlier, following growth of 3.5% in 2015.

Real consumer spending rose 0.6% in April.

In May, U.S. light vehicle sales were at a 17.4 million unit seasonally adjusted annual rate, little changed from April's sales pace. The sales pace in April and May was up from the first quarter rate. Year-to-date sales through May averaged a 17.2 million unit pace, down from the 17.8 million unit rate in last year's second half.

[18] Growth of 0.6% for one month would compound to 7.4% growth for a full year.

Construction and Real Estate

Housing starts nationwide rose 7% in April and were 10% higher in the first four months of the year than a year earlier. Single-family home starts in January through April were 17% higher than the year-ago pace, while starts on units in apartment buildings (five or more units) were 2% lower. Earlier in the recovery from the low point in 2009, growth of multifamily housing starts outpaced starts on single-family homes. The average annualized rate of housing starts in this year's first four months, 1.15 million units, if continued through year-end would be the strongest year for housing construction since 2007. But the pace of building remains well short of the peak in 2005, 2.07 million units, and below the long-term average for housing starts, 1.55 million per year in 1959 through 2007.

Construction spending in the U.S. fell 2% from March to April. The value of construction put in place on a year-to-date basis was 9% higher than in January through April 2015, with private residential construction 9% higher than a year ago, private nonresidential construction 10% higher, and public construction up 6%.

New home sales nationwide in April were 17% higher than a month earlier, and year-to-date home sales were 9% above a year earlier. The average rate of sales in January through April, 0.55 million annualized, would, if maintained all year, be the highest rate since 2007 but well below the 2005 peak, 1.28 million units sold, and below the long-term average, 0.70 million units in 1963 through 2007. The new home sales statistics represent contract signings.

Home sales reported by the National Association of Realtors (NAR), which are generally closings on previously occupied units, rose 2% in April. Year-to-date sales in January through April were 6% above a year earlier, following a 6% increase in all of 2015. Realtors' listings of homes offered for sale remain tight, according to NAR. A separate series, pending home sales, which are contract signings for the purchase and sale of previously occupied homes, rose in April to the highest level in more than ten years, according to NAR.

An index of U.S. house prices from the Federal Housing Finance Agency rose in this year's first quarter to 6% above a year earlier. The nationwide index of housing prices has been rising for nearly five years, from a low point in 2011, and in the 2016 first quarter was 2% above the prerecession peak in 2007.

Inflation

The consumer price index increased 0.4% in April, to 1.1% higher than a year earlier. Of this total, prices for services were up 2.7% from a year earlier while prices for goods were down 1.4%. Reversing earlier declines, consumer energy prices rose in April and also in March. Gasoline prices rose 8.1% in April but remained 13.8% lower than in April 2015. Food prices rose 0.2% in April after declining in March. Excluding food and energy, consumer prices were 2.1% higher in April than a year earlier.

The producer price index for final demand rose 0.2% in April, after declines in March and February, and was unchanged in April from its year-earlier level. Final demand goods prices were 1.9% lower than a year earlier, and final demand services prices were 1.0% higher. At an earlier stage in production, prices for unprocessed goods for intermediate demand rose 2.6% in April and 2.5% in March, after declining in earlier months since the first half of 2015.

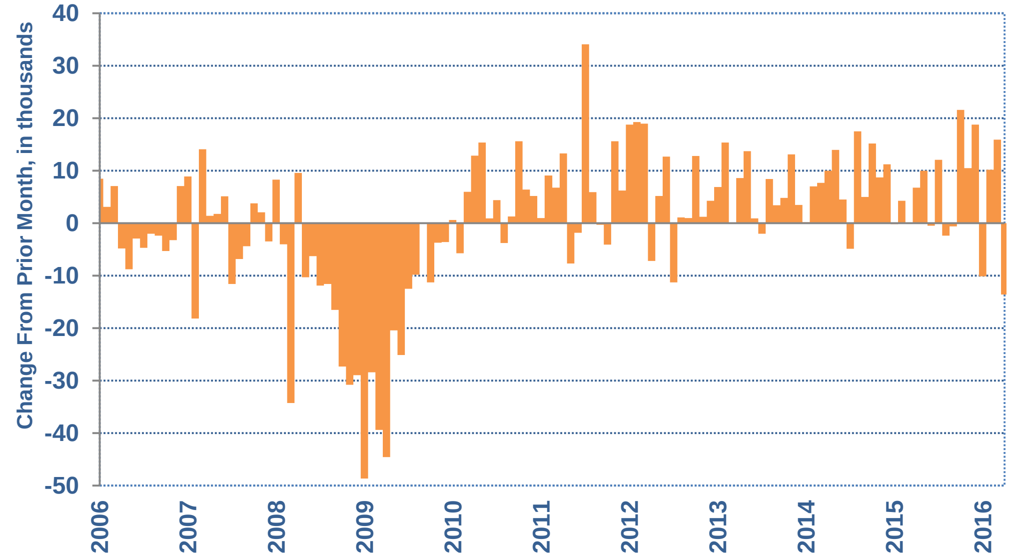
The Ohio Economy

Employment and Unemployment

Ohio's total nonfarm payroll employment declined by 13,600, or about 0.2%, from March to April but was 71,900, or 1.3%, higher than in April 2015. The decrease is the largest since June 2009. Chart 8 presents the monthly change in the number of nonfarm payroll jobs in Ohio over the last ten years. Government employment accounted for more than half of the jobs lost in April, mostly local government jobs. Employment in goods-producing industries fell by 2,000, due to manufacturing and mining and logging; employment in construction rose. Employment in private service-producing industries fell by 4,600, with the largest decline in professional and business services. Employment gains in the past year were primarily in construction; trade, transportation, and utilities; educational and health services; and leisure and hospitality.

Ohio's total nonfarm payroll employment declined 13,600 in April, the largest since June 2009.

Chart 8: Ohio Total Nonfarm Payroll Employment, Seasonally Adjusted



The state's unemployment rate rose slightly from 5.1% in March to 5.2% in April, the highest level since November 2014. The state's unemployment rate has been higher than the U.S. unemployment rate since February. The number of unemployed Ohioans increased by 8,000 from 294,000 in March to 302,000 in April.

The average price of existing homes sold in the first four months of 2016 was 5.8% higher than the corresponding period a year earlier.

Ohio Home Sales

The number of existing homes sold in Ohio increased by 9.4% in April, compared to the preceding April, according to the Ohio Association of Realtors. For the first four months of 2016, existing home sales also rose by 9.4% compared with the corresponding months in the year earlier. The average price of homes sold in the first four months of 2016 was 5.8% higher than the corresponding period a year earlier.

Regional Economy

Business activity in the region continued to grow at a modest pace, according to the latest report published by the Federal Reserve Bank of Cleveland.[19] Manufacturers reported a modest increase in production and capital spending. New and existing single-family home sales continued to grow strongly. Retailers, except for restaurants, noted

[19] Based on the Summary of Commentary on Current Economic Conditions, a report commonly known as the Beige Book, using information collected before May 23, 2016. The Federal Reserve Bank of Cleveland serves the Fourth Federal Reserve District, which includes Ohio and parts of Kentucky, Pennsylvania, and West Virginia.

disappointing sales, attributed to the ongoing shift from brick-and-mortar stores to online. Sales of light trucks and SUVs remained strong, but sales of luxury brand vehicles softened. Natural gas production continued at a high level despite the sharp drop in drilling activity.