Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION OCTOBER 2015

STATUS OF THE GRF

HIGHLIGHTS

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

The Federal Reserve decided not to raise interest rates at a meeting in September, explaining that "recent global economic and financial developments may restrain economic activity somewhat." The events referred to in this statement probably include a slowdown in economic growth in China and stock market declines in the U.S. and abroad. In Ohio, payroll employment has been growing but still at a rather moderate rate. Employers added 58,600 jobs over the year ending in August, of which 12,500 were added in the final three months of that year.

GRF tax sources ended the first quarter of FY 2016 very close to the Office of Budget and Management's estimate, but slightly below. Revenues were lower than expected in September, especially federal grants and income tax revenue; the latter was nearly $50 million below estimate.

Through September 2015, GRF sources totaled $8.47 billion:

- Revenue from the personal income tax was $52.9 million below estimate;
- Sales and use tax receipts were $70.1 million above estimate.

Through September 2015, GRF uses totaled $10.09 billion:

- Program expenditures were $208.4 million below estimate, due primarily to Medicaid ($155.9 million).

VOLUME 39, NUMBER 2

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

Legislative Service Commission
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Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of September 2015
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on October 1, 2015)

STATE SOURCES	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$125,638	$111,800	$13,838	12.4%
Nonauto Sales and Use	$694,961	$696,800	-$1,839	-0.3%
Total Sales and Use Taxes	**$820,599**	**$808,600**	**$11,999**	**1.5%**
Personal Income	$833,602	$883,500	-$49,898	-5.6%
Corporate Franchise	$1,044	$0	$1,044	---
Financial Institution	-$638	$500	-$1,138	-227.6%
Public Utility	-$65	-$200	$135	67.7%
Kilowatt-Hour Excise	$33,037	$31,500	$1,537	4.9%
Natural Gas Consumption (MCF)	-$41	$0	-$41	---
Commercial Activity Tax	$6,459	$7,100	-$641	-9.0%
Petroleum Activity Tax	$1,350	$1,500	-$150	-10.0%
Foreign Insurance	$5,560	$3,100	$2,460	79.3%
Domestic Insurance	$0	$2,100	-$2,100	-100.0%
Business and Property	$7	$0	$7	---
Cigarette	$89,359	$82,900	$6,459	7.8%
Alcoholic Beverage	$1,621	$5,000	-$3,379	-67.6%
Liquor Gallonage	$3,673	$3,800	-$127	-3.3%
Estate	$76	$0	$76	---
Total Tax Revenue	**$1,795,643**	**$1,829,400**	**-$33,757**	**-1.8%**
NONTAX REVENUE				
Earnings on Investments	$3	$0	$3	---
Licenses and Fees	$1,765	$2,271	-$506	-22.3%
Other Revenue	$1,417	$16,844	-$15,428	-91.6%
Total Nontax Revenue	**$3,184**	**$19,115**	**-$15,931**	**-83.3%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$1,991	$9,400	-$7,409	-78.8%
Total Transfers In	**$1,991**	**$9,400**	**-$7,409**	**-78.8%**
TOTAL STATE SOURCES	**$1,800,818**	**$1,857,915**	**-$57,097**	**-3.1%**
Federal Grants	$410,840	$1,068,328	-$657,488	-61.5%
TOTAL GRF SOURCES	**$2,211,659**	**$2,926,243**	**-$714,584**	**-24.4%**

*Estimates of the Office of Budget and Management as of September 2015.

Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Actual vs. Estimate
FY 2016 as of September 30, 2015
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on October 1, 2015)

STATE SOURCES	Actual	Estimate*	Variance	Percent	FY 2015	Percent Change
TAX REVENUE						
Auto Sales	$364,629	$347,300	$17,329	5.0%	$336,827	8.3%
Nonauto Sales and Use	$2,249,638	$2,196,900	$52,738	2.4%	$2,127,038	5.8%
Total Sales and Use Taxes	**$2,614,267**	**$2,544,200**	**$70,067**	**2.8%**	**$2,463,866**	**6.1%**
Personal Income	$2,081,152	$2,134,100	-$52,948	-2.5%	$2,054,879	1.3%
Corporate Franchise	$2,364	$0	$2,364	---	$7,058	-66.5%
Financial Institution	-$459	$300	-$759	-253.1%	$422	-208.8%
Public Utility	$28,194	$25,200	$2,994	11.9%	$12,536	124.9%
Kilowatt-Hour Excise	$94,779	$93,800	$979	1.0%	$78,652	20.5%
Natural Gas Consumption (MCF)	$12,060	$12,100	-$40	-0.3%	$13,221	-8.8%
Commercial Activity Tax	$283,565	$314,200	-$30,635	-9.8%	$209,496	35.4%
Petroleum Activity Tax	$1,350	$1,500	-$150	-10.0%	$0	---
Foreign Insurance	$5,522	$4,100	$1,422	34.7%	$2,906	90.0%
Domestic Insurance	$6	$4,900	-$4,894	-99.9%	$7,665	-99.9%
Business and Property	$28	$0	$28	---	$11	161.5%
Cigarette	$200,635	$206,300	-$5,665	-2.7%	$160,020	25.4%
Alcoholic Beverage	$12,041	$14,600	-$2,559	-17.5%	$15,364	-21.6%
Liquor Gallonage	$11,333	$11,200	$133	1.2%	$10,989	3.1%
Estate	$148	$0	$148	---	$1,168	-87.3%
Total Tax Revenue	**$5,346,984**	**$5,366,500**	**-$19,516**	**-0.4%**	**$5,038,255**	**6.1%**
NONTAX REVENUE						
Earnings on Investments	$8	$0	$8	---	$8	10.0%
Licenses and Fees	$7,911	$8,643	-$731	-8.5%	$7,549	4.8%
Other Revenue	$158,325	$19,180	$139,145	725.5%	$16,983	832.2%
Total Nontax Revenue	**$166,244**	**$27,823**	**$138,422**	**497.5%**	**$24,540**	**577.5%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$165,064	$14,300	$150,764	1054.3%	$10,503	1471.6%
Total Transfers In	**$165,064**	**$14,300**	**$150,764**	**1054.3%**	**$10,503**	**1471.6%**
TOTAL STATE SOURCES	**$5,678,292**	**$5,408,623**	**$269,670**	**5.0%**	**$5,073,298**	**11.9%**
Federal Grants	$2,796,622	$3,299,526	-$502,905	-15.2%	$2,471,100	13.2%
TOTAL GRF SOURCES	**$8,474,914**	**$8,708,149**	**-$233,236**	**-2.7%**	**$7,544,398**	**12.3%**

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

FY 2016 GRF sources were $233.2 million below estimate.

First-quarter GRF tax receipts were $19.5 million below estimate.

REVENUES

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

Overview

GRF sources[1] ended the first quarter of FY 2016 with a cumulative negative variance of $233.2 million, due to a shortfall of $502.9 million in federal grants, with that entire shortfall occurring in September. Generally speaking, negative variances for federal grants are closely associated with negative variances on the spending side of the state budget for the human services programs, mainly Medicaid, for which the reimbursements are received. The fiscal year-to-date shortage in federal grants was partially offset by a cumulative positive variance of $269.7 million in state sources, including positive variances of $138.4 million for nontax revenue and $150.8 million for transfers in. However, first-quarter GRF tax revenues were $19.5 million below estimate, due mainly to poor results from the income tax and the commercial activity tax (CAT). Tables 1 and 2 show GRF sources for the month of September and for FY 2016 through September, respectively.

GRF sources of $2.21 billion for the month of September came in $714.6 million below the estimate released by the Office of Budget and Management (OBM) in September 2015, due primarily to a shortfall of $657.5 million in federal grants likely resulting from a timing issue.[2] In addition, receipts from the other GRF categories were also below estimates: GRF tax sources experienced a monthly negative variance of $33.8 million, and the combined shortfall for nontax revenue and transfers in for the month of September totaled $23.3 million.

For the month, the personal income tax, the alcoholic beverage tax, and the domestic insurance tax were below estimates, respectively, by $49.9 million, $3.4 million, and $2.1 million. Also, the financial institution tax had a shortfall of $1.1 million. Those negative variances were partially offset by positive variances for the sales and use tax ($12.0 million), the cigarette tax ($6.5 million), the foreign insurance tax ($2.5 million), the kilowatt-hour tax ($1.5 million), and the corporate franchise tax ($1.0 million).

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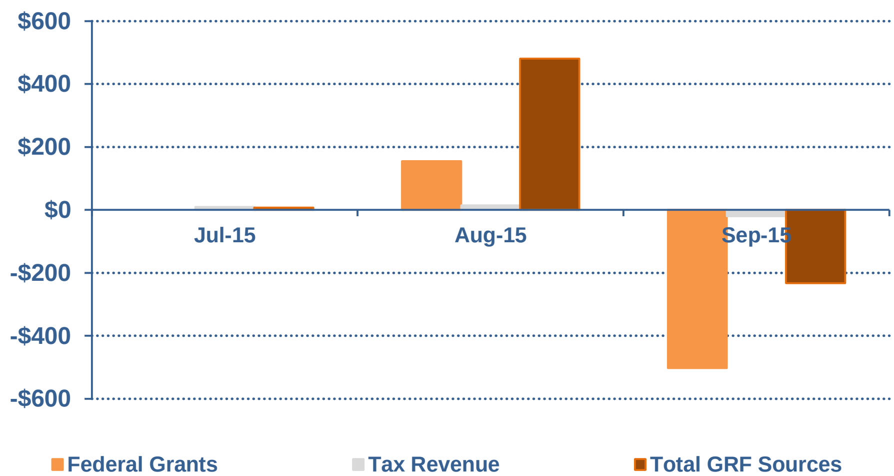
[1] GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants, which are federal reimbursements for Medicaid and certain other human services programs.

[2] OBM reported in its September monthly financial report that there were issues with computer system changes regarding the allocation of federal dollars to state funds.

Chart 1 below shows FY 2016 cumulative variances against estimates for federal grants, tax sources, and total GRF sources. As stated earlier, first-quarter total GRF sources of $8.47 billion were below estimate. As shown in Table 2, among the most important tax sources, only the sales and use tax was above estimate for the quarter. The personal income tax, the CAT, the cigarette tax, the domestic insurance tax, and the alcoholic beverage tax were below estimates by sizable amounts. On the other hand, the corporate franchise tax,[3] the foreign insurance tax, and the public utility tax were above anticipated receipts. Variances for the remaining tax sources were relatively small.

First-quarter federal grants were $502.9 million below estimate.

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



Compared to FY 2015, FY 2016 GRF sources were higher for all categories, including federal grants ($325.5 million), tax receipts ($308.7 million), transfers in ($154.6 million),[4] and nontax revenues ($141.7 million). Receipts from the sales and use tax, the CAT, the cigarette tax, and the personal income tax, increased $150.4 million, $74.1 million, $40.6 million, and $26.3 million, respectively. The increases in sales and use tax and income tax receipts reflect a generally improving economy over last year, though growth in income tax revenue is restrained due to a reduction in tax rates provided in H.B. 64 (the budget act for the current biennium). Revenue growth for the CAT and the cigarette tax are due,

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

[4] OBM transferred $158.0 million from the Medicaid Reserve Fund to the GRF in July 2015.

similarly, to changes enacted in H.B. 64, which increased the share of CAT receipts credited to the GRF from 50% to 75%,[5] and raised the cigarette tax rate from $1.25 per pack of 20 cigarettes to $1.60 per pack. The budget act also credited all kilowatt-hour excise tax revenue to the GRF, instead of 88% of the receipts in prior law. This change boosted FY 2016 revenue from that tax, which grew by $16.1 million, when compared to the corresponding period in FY 2015. The public utility tax was another tax with strong growth, as first-quarter revenue grew $15.7 million from the corresponding period last year (when a large tax refund was issued in September 2014).

Personal Income Tax

FY 2016 GRF income tax receipts were $52.9 million below estimate.

For the second time this fiscal year, the personal income tax experienced a revenue shortfall, after a positive variance of $16.1 million in August 2015 partially reversed a shortfall of $19.1 million the preceding month. GRF receipts from the personal income tax of $833.6 million in September fell $49.9 million (5.6%) below estimate, resulting in a negative variance of $52.9 million (2.5%) for the fiscal year through September. Somewhat surprisingly, personal income tax revenues were also $44.2 million (5.0%) below those of September 2014, with year-over-year monthly payroll growth about flat. Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the Local Government Fund (LGF). Gross collections are the sum of employer withholding, quarterly estimated payments,[6] trust payments, payments associated with annual returns, and miscellaneous payments.

In September, most income tax components were below estimates, including monthly employer withholding ($17.2 million), quarterly estimated payments ($11.9 million), and payments due with annual returns ($4.2 million). In addition, refunds to taxpayers were $12.0 million higher than anticipated.

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[5] 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.

[6] Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than $500. Payments are due on or before April 15, June 15, and September 15 of the tax year and January 15 of the following year. Most estimated payments are made by high-income taxpayers.

For the fiscal year through September, trust payments were above estimate by $2.7 million, but quarterly estimated payments and miscellaneous receipts were $18.7 million and $7.6 million, respectively, short of anticipated revenues. First-quarter employer withholding was slightly below estimate. Overall, gross collections were below estimate by $23.2 million, and refunds came up $30.9 million higher than anticipated in the first three months of FY 2016.[7] The table below summarizes year-to-date FY 2016 income tax revenue variances from estimates and annual changes by component.

FY 2016 withholding tax receipts were below estimate by $0.2 million.

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	-$0.2	0.0%	$45.1	2.4%
Quarterly Estimated Payments	-$18.7	-6.7%	-$10.6	-3.9%
Trust Payments	$2.7	27.4%	$1.9	17.8%
Annual Return Payments	$0.7	1.7%	$1.5	3.7%
Miscellaneous Payments	-$7.6	-40.4%	-$8.4	-42.6%
Gross Collections	-$23.2	-1.0%	$29.6	1.3%
Less Refunds	$30.9	36.5%	-$4.0	-3.3%
Less LGF Distribution	-$1.2	-1.3%	$7.3	8.7%
Income Tax Revenue	-$52.9	-2.5%	$26.3	1.3%

Through September, FY 2016 GRF receipts from the personal income tax were $26.3 million above receipts in the first quarter of FY 2015. Employer withholdings grew $45.1 million this fiscal year when compared to last. However, quarterly estimated payments and miscellaneous payments fell by $10.6 million and $8.4 million, respectively. Gross collections were $29.6 million higher in FY 2016, but taxpayer refunds were $4.0 million lower, and distributions to the LGF were $7.3 million higher, than in FY 2015.

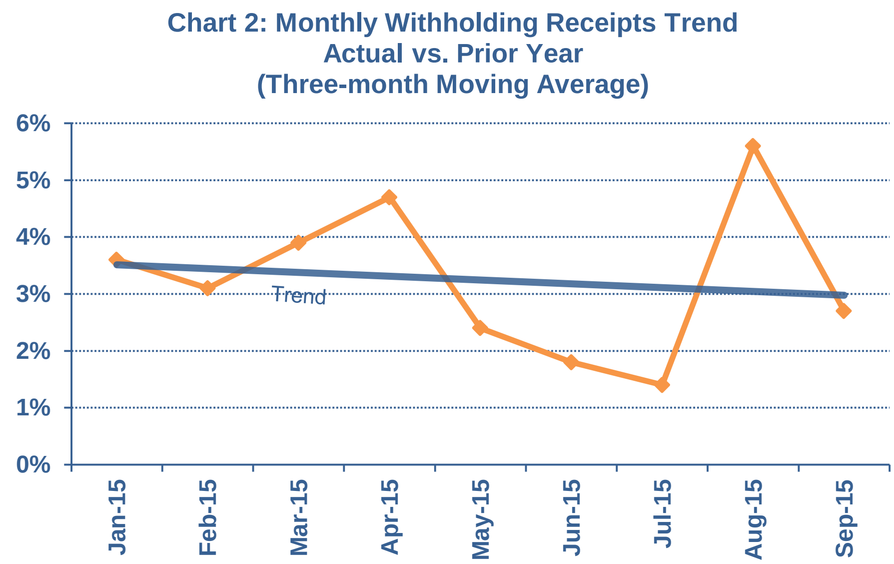
FY 2016 GRF income tax receipts were $26.3 million above FY 2015 revenue.

The budget act reduced income tax rates for all brackets by 6.3%, for taxable years beginning in 2015. The Department of Taxation issued new withholding tables, reflecting a 3.1% reduction in withholding rates

[7] Higher refunds and lower estimated payments may indicate changes to taxpayer behavior as more amended tax returns are filed to claim the recently enacted small business deductions, and as taxpayers adjust their tax payments to the newer, lower tax rates.

previously in effect for 2014, to be used for payrolls that end on or after August 1, 2015. These changes imply that percentage growth in withholding receipts will understate actual payroll growth in future months, and more generally they will restrain any growth in revenue from the tax.

Chart 2 illustrates the trend in employer withholding receipts in 2015. It shows receipts growth was affected in the latest months by the recent reduction of withholding rate and weaker payroll growth.



Sales and Use Tax

FY 2016 sales and use tax receipts were $70.1 million above estimate.

GRF receipts from the sales and use tax of $820.6 million in September 2015 were $12.0 million (1.5%) above estimate, and also $8.8 million (1.1%) above receipts in September 2014. For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[8] 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. In the first quarter of the fiscal year, GRF sales and use tax receipts totaled $2.61 billion, $70.1 million (2.8%) above estimate, with good performances from both the nonauto tax and the auto tax. Total

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

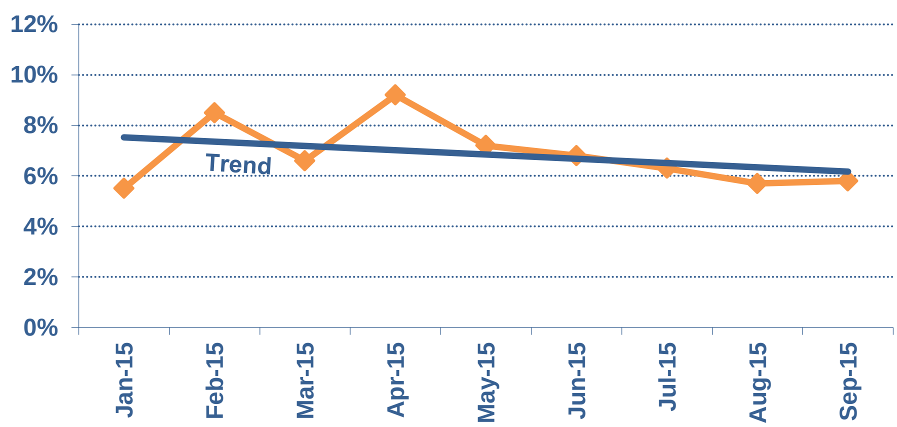
sales and use tax receipts were also $150.4 million (6.1%) above receipts in the corresponding period in FY 2015.

Nonauto Sales and Use Tax

September GRF receipts from the nonauto sales and use tax of $695.0 million were $1.8 million (0.3%) below estimate, and $9.0 million (1.3%) below revenue in September 2014. The underperformance of the tax this month may be due, in part, to the impact of the sales tax "holiday" in August.[9] However, the decline in monthly receipts compared to last year's level was due to oversized sales tax revenues from Medicaid health insurance corporations (MHICs) in September 2014. First-quarter GRF receipts of $2.25 billion from the nonauto sales and use tax were $52.7 million (2.4%) above estimate, and $122.6 million (5.8%) above FY 2015 receipts through September. Receipts from MHICs contributed roughly a fifth of the revenue increase over the first three months a fiscal year ago. Chart 3 shows increases in nonauto sales and use tax monthly receipts against prior year receipts in the same month.

FY 2016 nonauto sales and use tax receipts were $52.7 million above estimate.

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



Auto Sales and Use Tax

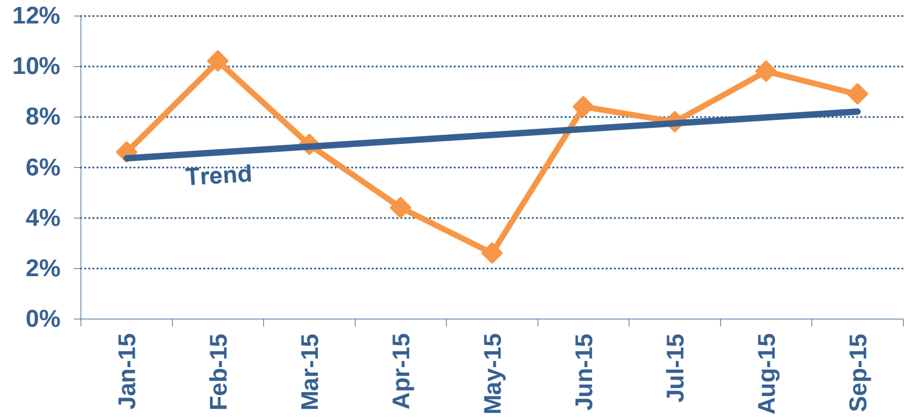
GRF receipts from the auto sales and use tax of $125.6 million in September were $13.8 million (12.4%) above estimate, and $17.8 million (16.5%) above receipts in September 2014. First-quarter receipts from this

FY 2016 auto sales and use tax receipts were $17.3 million above estimate.

[9] Am. Sub. S.B. 243 of the 130th General Assembly created a three-day sales tax "holiday" exempting from the tax sales of clothing (up to $75) and school supplies and instructional materials (up to $20 per item). The Tax Department estimated a revenue loss of $20 million for the temporary "holiday," some of which would have affected September revenue.

tax were strong. For the fiscal year through September, GRF auto sales tax revenue totaled $364.6 million, $17.3 million (5.0%) above estimate. Year-to-date revenue was also $27.8 million (8.3%) above receipts in the first quarter of FY 2015. Chart 4 below compares FY 2016 monthly auto sales and use tax receipts with year-ago receipts in the same period.

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



Following a strong August, light vehicle sales nationwide surged to 18.1 million units in September 2015 (at a seasonally adjusted annual rate), the best monthly pace since 2005. Monthly sales were approximately 10% higher than a year earlier. The overall third-quarter pace of 17.8 million units was also the strongest in ten years. Light trucks have led the charge: in September, light truck sales reached a 10.4 million unit sales rate, compared to 8.9 million units a year earlier, and made up about 56% of the sales total in the month. Low gas prices, improved construction activity, and job growth are driving light vehicle sales. So far in 2015, light vehicle sales are averaging 17.2 million units, about 5.2% higher than in 2014, with sales of light trucks growing about 11%, but auto sales declining almost 2%.

FY 2016 GRF CAT receipts were $30.6 million below estimate.

Commercial Activity and Petroleum Activity Taxes

GRF receipts from the CAT were $6.5 million in September 2015, $0.6 million (9.0%) below estimate, but $1.8 million (37.2%) above revenue in September 2014. For the fiscal year through September, CAT revenues to the GRF totaled $283.6 million, $30.6 million (9.8%) below estimate. This weakness in revenue was due, in part, to increased credit claims against the CAT. According to OAKS, first-quarter CAT refunds were $50.4 million, $35.0 million more than refunds in the corresponding quarter last year. GRF receipts from the CAT were $74.1 million (35.4%)

above receipts in the first quarter of FY 2015 because of the increase in the GRF share of CAT receipts enacted in H.B. 64. Excluding the change in allocation of receipts to the GRF and the two local replacement funds, growth of the tax base has been muted at the start of FY 2016.

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

Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax of $89.4 million in September 2015 were $6.5 million (7.8%) above estimate, partly reversing the negative variance of $24.1 million experienced in August. However, through September, FY 2016 receipts of $200.6 million were $5.7 million (2.7%) below the expected level, from lower than expected revenue from the "floor tax."[10] Receipts from cigarette sales were $184.8 million, and sales of other tobacco products (OTP) yielded $15.8 million. First-quarter receipts this year increased $40.6 million (25.4%) from the corresponding quarter in FY 2015, from an increase of $41.3 million in cigarette revenue, which was partially offset by a decrease of $0.7 million in receipts from OTP. Generally, cigarette tax receipts experience a downward trend, while revenue from OTP is closely tied to price increases of those products. However, H.B. 64 increased the cigarette tax from $1.25 to $1.60 per pack of 20 cigarettes, a 28% increase, and thus monthly cigarette revenue is very likely to be higher in FY 2016 when compared to FY 2015.

FY 2016 cigarette tax receipts were $5.7 million below estimate.

[10] The "floor" tax is the additional $0.35 tax paid by tobacco dealers for cigarettes in inventory (for which the old tax rate had been paid) when the new went into effect on July 1, 2015. Smokers may have purchased more cigarettes than anticipated ahead of the rate increase and thus depleted cigarette stocks.

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

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary and Secondary Education	$205,985	$233,940	-$27,955	-11.9%
Higher Education	$194,326	$201,408	-$7,082	-3.5%
Other Education	$8,075	$8,019	$56	0.7%
Total Education	$408,386	$443,367	-$34,980	-7.9%
Medicaid	$1,444,511	$1,490,161	-$45,650	-3.1%
Health and Human Services	$77,486	$80,802	-$3,317	-4.1%
Total Welfare and Human Services	$1,521,997	$1,570,964	-$48,967	-3.1%
Justice and Public Protection	$132,983	$139,749	-$6,767	-4.8%
General Government	$21,015	$27,776	-$6,761	-24.3%
Total Government Operations	$153,998	$167,525	-$13,527	-8.1%
Property Tax Reimbursements	$371,086	$320,567	$50,520	15.8%
Capital Outlay	$0	$0	$0	---
Debt Service	$174,678	$407,441	-$232,763	-57.1%
Total Other Expenditures	$545,764	$728,008	-$182,244	-25.0%
Total Program Expenditures	**$2,630,145**	**$2,909,864**	**-$279,718**	**-9.6%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$475	$3,000	-$2,525	-84.2%
Total Transfers Out	$475	$3,000	-$2,525	-84.2%
TOTAL GRF USES	**$2,630,620**	**$2,912,864**	**-$282,243**	**-9.7%**

*September 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 September 30, 2015
($ in thousands)
(Actual based on OAKS reports run October 7, 2015)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2015**	**Percent Change**
Primary and Secondary Education	$1,790,404	$1,843,745	-$53,341	-2.9%	$1,872,801	-4.4%
Higher Education	$546,609	$553,770	-$7,161	-1.3%	$530,312	3.1%
Other Education	$24,540	$22,729	$1,811	8.0%	$21,086	16.4%
Total Education	$2,361,553	$2,420,244	-$58,691	-2.4%	$2,424,199	-2.6%
Medicaid	$4,746,425	$4,902,343	-$155,918	-3.2%	$4,143,018	14.6%
Health and Human Services	$327,501	$350,283	-$22,782	-6.5%	$348,516	-6.0%
Total Welfare and Human Services	$5,073,926	$5,252,626	-$178,700	-3.4%	$4,491,534	13.0%
Justice and Public Protection	$550,137	$559,521	-$9,384	-1.7%	$497,670	10.5%
General Government	$106,950	$105,325	$1,625	1.5%	$90,080	18.7%
Total Government Operations	$657,087	$664,846	-$7,759	-1.2%	$587,750	11.8%
Property Tax Reimbursements	$463,572	$417,351	$46,221	11.1%	$431,652	7.4%
Capital Outlay	$0	$0	$0	---	$0	---
Debt Service	$760,206	$769,721	-$9,515	-1.2%	$733,919	3.6%
Total Other Expenditures	$1,223,778	$1,187,073	$36,706	3.1%	$1,165,571	5.0%
Total Program Expenditures	**$9,316,344**	**$9,524,788**	**-$208,444**	**-2.2%**	**$8,669,054**	**7.5%**
TRANSFERS						
Budget Stabilization	$425,500	$425,500	$0	0.0%	$0	---
Other Transfers Out	$346,475	$347,331	-$856	-0.2%	$563,007	-38.5%
Total Transfers Out	$771,975	$772,831	-$856	-0.1%	$563,007	37.1%
TOTAL GRF USES	**$10,088,320**	**$10,297,619**	**-$209,300**	**-2.0%**	**$9,232,060**	**9.3%**

*September 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 October 6, 2015)

	Month of September 2015				Year to Date Through September 2015			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid	**$1,686,806**	**$1,793,041**	**-$106,235**	**-5.9%**	**$5,748,154**	**$5,986,872**	**-$238,718**	**-4.0%**
GRF	$1,393,908	$1,438,404	-$44,497	-3.1%	$4,589,857	$4,746,068	-$156,210	-3.3%
Non-GRF	$292,898	$354,637	-$61,739	-17.4%	$1,158,297	$1,240,805	-$82,508	-6.6%
Developmental Disabilities	**$183,261**	**$186,501**	**-$3,240**	**-1.7%**	**$592,549**	**$613,364**	**-$20,815**	**-3.4%**
GRF	$41,564	$40,024	$1,540	3.8%	$127,192	$125,488	$1,704	1.4%
Non-GRF	$141,697	$146,478	-$4,781	-3.3%	$465,358	$487,877	-$22,519	-4.6%
Job and Family Services	**$17,971**	**$23,561**	**-$5,590**	**-23.7%**	**$60,401**	**$56,861**	**$3,540**	**6.2%**
GRF	$8,184	$10,579	-$2,395	-22.6%	$26,847	$27,923	-$1,075	-3.9%
Non-GRF	$9,787	$12,982	-$3,196	-24.6%	$33,554	$28,939	$4,615	15.9%
Health	**$450**	**$500**	**-$51**	**-10.2%**	**$1,759**	**$2,011**	**-$252**	**-12.5%**
GRF	$286	$263	$23	8.8%	$907	$891	$16	1.8%
Non-GRF	$164	$238	-$74	-31.0%	$851	$1,120	-$268	-24.0%
Aging	**$1,811**	**$2,481**	**-$669**	**-27.0%**	**$4,487**	**$6,097**	**-$1,611**	**-26.4%**
GRF	$406	$292	$114	39.1%	$971	$845	$127	15.0%
Non-GRF	$1,406	$2,189	-$784	-35.8%	$3,515	$5,253	-$1,737	-33.1%
Mental Health and Addiction	**$168**	**$919**	**-$751**	**-81.7%**	**$1,218**	**$2,280**	**-$1,061**	**-46.6%**
GRF	$164	$600	-$436	-72.7%	$650	$1,129	-$479	-42.4%
Non-GRF	$5	$319	-$314	-98.5%	$568	$1,150	-$582	-50.6%
Total GRF	**$1,444,511**	**$1,490,161**	**-$45,650**	**-3.1%**	**$4,746,425**	**$4,902,343**	**-$155,918**	**-3.2%**
Total Non-GRF	**$445,956**	**$516,843**	**-$70,887**	**-13.7%**	**$1,662,143**	**$1,765,142**	**-$102,999**	**-5.8%**
Total All Funds	**$1,890,467**	**$2,007,004**	**-$116,537**	**-5.8%**	**$6,408,568**	**$6,667,485**	**-$258,917**	**-3.9%**

*August 2015 estimates of the Ohio 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 October 6, 2015)

	September				Year to Date Through September			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	$849,893	$851,004	-$1,111	-0.1%	$2,510,222	$2,580,601	-$70,379	-2.7%
Nursing Facilities	$112,745	$120,585	-$7,840	-6.5%	$339,412	$357,689	-$18,277	-5.1%
DDD Services	$173,175	$181,307	-$8,133	-4.5%	$575,166	$591,553	-$16,387	-2.8%
Hospitals	$79,277	$129,119	-$49,843	-38.6%	$880,195	$984,067	-$103,872	-10.6%
Behavioral Health	$78,216	$83,257	-$5,041	-6.1%	$269,588	$289,988	-$20,400	-7.0%
Administration	$60,374	$102,515	-$42,142	-41.1%	$194,755	$253,990	-$59,235	-23.3%
Aging Waivers	$25,047	$24,622	$425	1.7%	$74,961	$84,076	-$9,115	-10.8%
Prescription Drugs	$34,197	$35,058	-$861	-2.5%	$122,645	$122,680	-$35	0.0%
Medicare Buy-In	$36,423	$36,690	-$267	-0.7%	$109,591	$109,792	-$201	-0.2%
Physicians	$19,619	$19,081	$538	2.8%	$71,531	$66,832	$4,699	7.0%
Medicare Part D	$24,125	$24,327	-$201	-0.8%	$72,498	$72,907	-$409	-0.6%
Home Care Waivers	$9,657	$12,476	-$2,819	-22.6%	$32,994	$43,492	-$10,498	-24.1%
ACA Expansion	$317,315	$285,457	$31,858	11.2%	$911,937	$813,716	$98,221	12.1%
All Other	$70,405	$101,505	-$31,100	-30.6%	$243,074	$296,102	-$53,028	-17.9%
Total All Funds	**$1,890,468**	**$2,007,004**	**-$116,536**	**-5.8%**	**$6,408,569**	**$6,667,485**	**-$258,916**	**-3.9%**

* August 2015 estimates of the Ohio Department of Medicaid
Detail may not sum to total due to rounding.

For the first quarter of FY 2016, GRF uses were $209.3 million below estimate.

EXPENDITURES

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

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

Overview

For the month of September, GRF uses were $282.2 million below the estimate released by OBM in September 2015,[11] due largely to a timing-related negative variance of $232.8 million in debt service payments. GRF uses mainly consist of program expenditures but also include transfers out. For the first quarter of FY 2016, GRF program expenditures were $9.32 billion, $208.4 million below estimate. GRF transfers out were $772.0 million, $0.9 million below estimate. GRF uses as a whole totaled $10.09 billion, $209.3 million below estimate. Tables 3 and 4 show GRF uses for the month of September and for FY 2016 through September, respectively.

GRF Medicaid expenditures were $155.9 million below the estimate for the first quarter of FY 2016, accounting for 74.5% of the total negative year-to-date variance in GRF uses. While Medicaid is mainly funded by the GRF, it is also supplemented by various non-GRF funds. The variances in both GRF and non-GRF Medicaid expenditures are discussed in detail in the section that immediately follows this overview.

Primary and Secondary Education had the second largest negative year-to-date variance at $53.3 million, of which $28.0 million occurred in the month of September. The Ohio Department of Education (ODE) is the only agency that is included in this program category. The majority of GRF dollars appropriated to ODE will be distributed to schools based on the statutory formulas that include a variety of individual school district data, such as student enrollment and property value. Some preliminary data elements are often used in payment calculations in early months of a fiscal year. Therefore, it is not unusual to see variances in ODE spending from month to month.

Year-to-date expenditures from Health and Human Services, the program category with the third largest negative variance, were $22.8 million below estimate. The Ohio Department of Job and Family Services (ODJFS) contributed $8.6 million to the program category's total negative year-to-date variance. The Ohio Department of Health (ODH) and the Ohio Department of Mental Health and Addiction

[11] See the last section of this report for a summary of the OBM estimate for GRF uses for FY 2016.

Services (ODMHAS) contributed another $6.8 million and $5.4 million, respectively, to the total.

As indicated earlier, due mainly to timing, GRF debt service payments were $232.8 million below estimate in September. For the first quarter of FY 2016, GRF debt service payments totaled $760.2 million, $9.5 million below estimate.

Property tax reimbursement payments, on the other hand, were $50.5 million above the estimate for the month of September. Due entirely to this positive monthly variance, property tax reimbursements were $46.2 million above their year-to-date estimate. GRF dollars provided under this program category are used to make semiannual payments to school districts and other local governments. The payments based on the August 2015 property tax settlement will be made through the end of December. As funds are disbursed when county auditors request the payments, it is not unusual to see variances from month to month, especially in early months of a payment cycle.

Medicaid

As mentioned in the Overview, Medicaid is mainly funded by the GRF although it also receives funding from various non-GRF funds. Furthermore, as a joint federal-state program, both GRF and non-GRF Medicaid expenditures contain federal and state moneys. Generally speaking, the federal and state shares of Medicaid expenditures are about 64% and 36%, respectively.

For the month of September, GRF Medicaid expenditures of $1.44 billion were $45.7 million (3.1%) below estimate while non-GRF Medicaid expenditures of $446.0 million were $70.9 million (13.7%) below estimate. Across all funds, Medicaid expenditures of $1.89 billion in September were $116.5 million (5.8%) below estimate. For the first quarter of FY 2016, GRF Medicaid expenditures totaled $4.75 billion, which was $155.9 million (3.2%) below estimate, while non-GRF Medicaid expenditures totaled $1.66 billion, which was $103.0 million (5.8%) below estimate. Across all funds, Medicaid expenditures totaled $6.41 billion for the first three months of FY 2016, which was $258.9 million (3.9%) below estimate.

Table 5 details the GRF and non-GRF portions of Medicaid expenditures from the Ohio Department of Medicaid (ODM) and from each of the five agencies (Developmental Disabilities, ODJFS, ODH, Aging, and ODMHAS) that assist ODM in administering Ohio Medicaid. As seen from Table 5, ODM's GRF expenditures of $4.59 billion for the first quarter of FY 2016 were $156.2 million (3.3%) below estimate while its

For the first quarter of FY 2016, GRF Medicaid expenditures were $155.9 million below estimate; all-funds Medicaid expenditures were $258.9 million below estimate.

non-GRF expenditures of $1.16 billion were $82.5 million (6.6%) below estimate. ODM's all-funds expenditures of $5.75 billion were $238.7 million (4.0%) below their year-to-date estimate. All-funds Medicaid expenditures from the Department of Developmental Disabilities (DDD), the second largest agency within this program category, totaled $592.5 million during the first quarter of FY 2016, which was $20.8 million (3.4%) below estimate. Together, ODM and DDD account for about 99% of the Medicaid expenditure total.

Table 6 shows all-funds Medicaid expenditures by payment category. As seen from the table, Hospitals had the largest negative year-to-date variance at $103.9 million (10.6%), followed by Managed Care ($70.4 million, 2.7%), Administration ($59.2 million, 23.3%), All Other ($53.0 million, 17.9%), Behavioral Health ($20.4 million, 7.0%), Nursing Facilities ($18.3 million, 5.1%), and DDD Services ($16.4 million, 2.8%). The negative variance in Hospitals was partially due to lower than anticipated per member per month costs. No payment being made for Pay for Performance in September and lower than anticipated caseload for the Aged, Blind, and Disabled category accounted for the negative variance in Managed Care. The negative variance for Administration was partly the result of the contract for ODM's new eligibility determination system, Ohio Benefits, costing less than what was originally anticipated.

For the first quarter of FY 2016, all-funds expenditures for ACA Expansion were $98.2 million above estimate.

The ACA Expansion category, on the other hand, had a significant positive year-to-date variance that partially reduced the negative year-to-date variances in several other categories. All-funds expenditures from ACA Expansion totaled $911.9 million for the first quarter of FY 2016, which was $98.2 million (12.1%) above estimate. This positive variance was due to higher than anticipated caseload. Some individuals currently enrolled into the ACA Expansion category may later be determined to be eligible under another category of coverage instead. If these individuals are recategorized, their costs would shift in future months. All individuals who are enrolled in Medicaid through the federal Affordable Care Act (ACA) are served under managed care only.

As with in FY 2015, expenditures for individuals who become eligible for Medicaid through ACA are fully funded by the federal government in FY 2016. However, these expenditures are made from the GRF in FY 2016. In contrast, such expenditures were made from the non-GRF, Health Care Federal Fund (Fund 3F00) in FY 2015. This accounting change is the primary reason behind the large annual percentage increase (14.6%) in GRF Medicaid expenditures as shown in Table 4.

Summary of OBM Estimate for GRF Uses for FY 2016

The table below shows the estimate released by OBM in September 2015 for GRF uses for FY 2016. For reporting purposes, agencies' GRF expenditures are grouped into ten program categories. As seen from the table, including the $40 million in GRF payroll costs that have not yet been allocated to specific agencies/categories,[12] GRF program expenditures are estimated to total $34.81 billion in FY 2016. Of this amount, over $17.92 billion will go to Medicaid and over $7.63 billion will go to Primary and Secondary Education. Together, these two program categories will account for more than 73% of the total program expenditures in FY 2016.

OBM also anticipates $810.9 million in GRF transfers out. One-time transfers out from the FY 2015 GRF ending balance that were specified in Section 512.30 of H.B. 64 total $727.0 million; these transfers out were made during the months of July and August. Furthermore, OBM estimated $339.1 million in year-end encumbrances from the GRF. After accounting for program expenditures, transfers out, and year-end encumbrances, OBM expects GRF uses to total $35.96 billion for FY 2016.

GRF uses are expected to total $35.96 billion for FY 2016.

OBM Estimate for GRF Uses for FY 2016 by Program Category
($ in thousands)

Program Categories	Expenditures	As a % of Total Program Expenditures
1 - Medicaid	$17,921,724	51.5%
2 - Primary and Secondary Education	$7,630,568	21.9%
3 - Higher Education	$2,235,309	6.4%
4 - Justice and Public Protection	$1,982,374	5.7%
5 - Property Tax Reimbursements	$1,846,500	5.3%
6 - Debt Service	$1,358,161	3.9%
7 - Health and Human Services	$1,343,358	3.9%
8 - General Government	$385,186	1.1%
9 - Other Education	$68,339	0.2%
10 - Capital	$20	0.0%
Unallocated Payroll Costs	$40,000	0.1%
Total Program Expenditures	**$34,811,540**	100.0%
Transfers Out	$810,931	--
Year-end Encumbrances	$339,059	--
Total GRF Uses	**$35,961,530**	**--**

Medicaid is expected to account for over half of the total GRF program spending for FY 2016.

[12] Section 503.120 of H.B. 64 authorizes the Director of Budget and Management to increase agency GRF and non-GRF appropriations, when necessary, to cover the costs of employee compensation changes pursuant to collective bargaining agreements and exempt parity provisions.

ISSUE UPDATES

ODMHAS Announces Problem Gambling Addiction Awareness Campaign

– Justin Pinsker, Budget Analyst, 614-466-5709

In August 2015, the Ohio Department of Mental Health and Addiction Services (ODMHAS) announced a new statewide problem gambling addiction awareness campaign "Be the 95%." The 95% refers to the percentage of people who are responsible gamblers. As part of the campaign, a newly designed website provides tips on how to be a responsible gambler and a screening quiz that helps individuals identify a potential gambling problem. If a problem is identified, individuals are directed to a variety of resources. These resources include gambling addiction prevention and treatment training, financial education resources, and links to gambling addiction recovery communities such as Gamblers Anonymous. The website also provides a free community toolkit, which contains resources and templates to run a countywide campaign. The website can be accessed at www.the95percent.org.

The Be the 95% campaign is a collaboration between ODMHAS, the Ohio Casino Control Commission (OCCC), and the Ohio Racing Commission (ORC). To fund the campaign, ODMHAS has contributed $1.1 million and OCCC has contributed $100,000. This funding was provided through taxes on gambling.

ODMHAS Reopens Regional Psychiatric Hospital Following Renovations

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

On September 14, 2015, ODMHAS announced the reopening of Northcoast Behavioral Healthcare (NBH), a state operated regional psychiatric hospital, to serve patients from Ashtabula, Cuyahoga, Geauga, Lake, Lorain, Portage, and Summit counties. The reopening followed a two-year, $59 million renovation and construction project, including the renovation of two residential wings and the construction of eight new wings, which increased capacity from 50 to 258 beds. Other construction included a new admissions area, three secured courtyards, a gymnasium, and dietary area. While NBH has officially reopened, additional construction is scheduled to continue through the summer of 2016 to add two more residential wings, a meditation room, art room, hair salon, and courtroom areas at a cost of up to $12 million, including a $5.5 million contingency. Including NBH, ODMHAS operates a total of six regional psychiatric hospitals that provide inpatient and outpatient services, including comprehensive care to patients committed by criminal courts.

Public Safety Awards $266,339 in Federal Residential Substance Abuse Treatment Grants

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

On August 27, 2015, subsequent to federal approval, the Department of Public Safety's Office of Criminal Justice Services officially awarded federal Residential Substance Abuse Treatment (RSAT) Program grants totaling $266,339 to four local service provider projects. The purpose of the RSAT Program, which is administered by the U.S. Department of Justice, is to assist state and local governments in providing residential substance abuse treatment to incarcerated offenders, preparing them for re-entry into their communities, and providing aftercare services.

Each project receiving RSAT funds is required to provide a 25% cash or in-kind match. The grant provides 12 months of funding, starting October 1, 2015. The table below summarizes the four RSAT grants, all of which are continuations of previously funded projects. The treatment site for the delivery of these services generally is either a secure local correctional or detention facility, for example, jail, or a residential unit in the local community.

Residential Substance Abuse Treatment Program Grants

Local Service Provider	County	Treatment Site	Award Amount
MonDay Community Correctional Institution	Montgomery	Community-based correctional facility	$95,834
Alvis House	Franklin	Community residential housing	$85,784
Talbert House	Hamilton	Community residential housing	$50,346
County Mental Health & Recovery Services Board	Ashtabula	County jail	$34,375
Total			**$266,339**

Attorney General Awarded $2 Million in Sexual Assault Kit Backlog Elimination Grant

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

On September 10, 2015, the Ohio Attorney General's office announced it had been awarded a $1,998,300 grant from the New York County District Attorney's (DANY) Sexual Assault Kit Backlog Elimination Program. The grant will be used by the Ohio Attorney General to support the continued testing of sexual assault kits containing DNA samples collected as evidence from rapes and other sexually oriented offenses.

Under the DANY program, $38 million in grants, ranging from $97,000 to $2 million, are being distributed to 32 jurisdictions in 20 states across the U.S. to help eliminate backlogs of untested sexual assault evidence kits. There is no match requirement, and all of the awardees are required to initially fund the testing of their kits after which they will be reimbursed on a quarterly basis if prescribed performance measures are met. The $38 million grant program is funded from $440 million received by the city of New York as its share of an $8.8 billion settlement with French Bank BNP Paribas S.A., which pled guilty to several criminal charges involving violations of U.S. sanctions.[13]

As of September 1, 2015, a total of 198 law enforcement agencies in Ohio have submitted 10,764 kits as part of the Attorney General's Sexual Assault Kit Testing Initiative, which began in 2011 to address the backlog of untested kits. Forensic scientists with the Bureau of Criminal Identification (BCI) have tested 8,416 of these kits, resulting in 3,121 matches or hits in the Combined DNA Index System (CODIS).[14] Of the 10,764 kits submitted for testing, 1,430 were submitted after the enactment of S.B. 316 of the 130th General Assembly, which became effective March 2015. That act requires Ohio law enforcement agencies to submit any remaining previously untested sexual assault kits associated with a past crime to a crime laboratory within one year for testing. The act also requires that all newly collected sexual assault kits be submitted to a crime laboratory within 30 days after law enforcement determines a crime has been committed.

ODE Announces Shorter Testing Times for the 2015-2016 School Year

– Alexandra Vitale, Budget Analyst, 614-466-6582

In September 2015, the Ohio Department of Education (ODE) announced shorter testing times for English language arts (ELA) and mathematics state assessments for the 2015-2016 school year. Testing times are reduced between 39% and 50% compared to the previous year, depending on grade level and subject. According to ODE, schools may administer an entire test on one day or in two equal parts over two days. To see the full list of testing times by grade, go to education.ohio.gov and search for "testing times."

H.B. 64 of the 131st General Assembly required assessment length to be reduced compared to assessments administered in the 2014-2015 school year to allow students more time for classroom instruction. The vendor for the assessments during the

[13] BNP Paribus S.A. facilitated and concealed large transactions through U.S. financial markets for the primary benefit of Sudanese, Iranian, and Cuban clients, all of whom were subject to U.S. economic sanctions.

[14] CODIS is a national computer database system designed by the FBI to store DNA profiles from convicted offenders, arrestees, and crime scene evidence. DNA profiles from a criminal case are entered into the database and searched against offenders and other evidence profiles for a DNA hit.

2014-2015 school year was the Partnership for Assessment of Readiness for College and Careers (PARCC). Under a separate provision of H.B. 64, the state will no longer use the PARCC assessments and instead has selected the American Institutes for Research (AIR) as the vendor for the state's ELA and mathematics assessments. AIR also provides the state's achievement assessments in science and social studies and, prior to the 2014-2015 school year, provided the state's assessments in ELA and mathematics as well.

DHE Announces Ohio G.R.E.A.T. Initiative to Attract and Retain International Higher Education Students

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

In August, the Department of Higher Education (DHE) announced the creation of the Ohio Global Reach to Engage Academic Talent (Ohio G.R.E.A.T.) initiative to attract international students seeking to earn a post-secondary degree in Ohio and to encourage those students to remain in the state after graduation. The initiative will be implemented by a consortium of public and private higher education institutions; business, community, and workforce development organizations; consumers; and state agencies. DHE will coordinate and manage the consortium's activities. One specified goal of the initiative is to increase the share of international students on temporary visas attending higher education institutions from 4.1%, the share as of fall 2013, to 6.0% by December 31, 2018. Another is to increase international students' rate of securing practical training with Ohio businesses by 3% in each state region during the same timeframe. DHE will provide the General Assembly and the Governor a biennial report on the status of the Ohio G.R.E.A.T. initiative.

The Ohio G.R.E.A.T. initiative is an outgrowth of a requirement of H.B. 484 of the 130th General Assembly. That act required DHE to submit recommendations on future efforts to promote post-secondary globalization. Some recommendations require further legislative action, such as amending state law to eliminate limitations on driving privileges of international post-secondary students and creating a state fund, consisting of contributions from both the public and private sectors, to support the consortium's work. The full report with complete recommendations is available at: http://www.ohio-great.us/#/about-ohio under the heading *Ohio's G.R.E.A.T. History*.

Department of Taxation Submits Inaugural Tobacco Taxes Enforcement Report

– Thomas Kilbane, Economist, 614-728-3218

On September 1, 2015, the Ohio Department of Taxation (ODT) submitted a report covering tobacco enforcement activity during the two months of July and August 2015. Overall, the Department reported 508 tobacco investigations initiated by its Criminal Investigations Division (CID) during the two months, of which 48 remained open when the report was submitted. Inspections during the period resulted in 2,397 confiscations and 30 criminal charges. Over half of the confiscations were untaxed cigars, and nearly half of the criminal charges brought were for not having a cigarette license. During the months of July and August, there were ten convictions obtained from past citations issued, some of which may have been related to charges filed previous to July and August. The report also stated that four CID agents have been appointed to the Tobacco Team and are dedicated to conducting tobacco inspections and investigations full time.

H.B. 64 of the 131st General Assembly mandated a regular enforcement report, which must include the number of tobacco inspections and investigations conducted, the number and types of violations of tobacco laws, the number of prosecutions of tobacco laws, and the number of agents assigned to enforcing tobacco laws. H.B. 64 also increased the tax on cigarettes in Ohio from $1.25 to $1.60 per pack, and appropriated $250,000 to ODT to hire criminal investigation agents with the sole responsibility of enforcing tobacco laws. While the inaugural report was due September 1, 2015, it will be submitted quarterly in the future, coinciding with the state fiscal year. The full report is available at: http://www.tax.ohio.gov/research/informative_papers_documents.aspx.

BWC Releases Annual Report Summarizing FY 2015 Results for the Special Investigations Department

– Terry Steele, Senior Budget Analyst, 614-387-3319

In late August, the Bureau of Workers' Compensation (BWC) released the FY 2015 annual report covering the operating results of the Bureau's Special Investigations Department (SID). The SID is responsible for conducting all investigations into workers' compensation fraud. During FY 2015, SID received 2,872 new fraud allegations and closed 1,514 cases. Of the 1,514 closed cases, 665 (43.9%) were closed-founded; meaning the original allegation of the case was proven. Total savings identified from the 665 closed-founded cases was nearly $60.5 million with an average savings of about $90,900 per case. Of the 665 close-founded cases, 229 (34.4%) were referred for prosecution, resulting in 130 indictments and 151 convictions. BWC spent $11.6 million on fraud investigations and prevention activities performed by the SID in FY 2015.

The SID is made up of 126 staff members divided into four teams, each dealing with a specialized area of fraud investigation. The Intelligence Unit (IU) provides technical support for field agents and detects incidents of fraud through cross matching of external data. The Employer Fraud Team is responsible for investigating allegations of fraud committed by employers and third-party administrators. The Health Care Provider Team (HCPT) is responsible for investigating allegations of fraud committed by providers, pharmacies, and managed care organizations (MCOs). Finally, there are Regional Claimant Special Investigation Units located in BWC's customer service offices. These units are responsible for investigating allegations of fraud committed by claimants. The table below summarizes the FY 2015 fraud investigation performance results by each of the team types listed above.

FY 2015 Fraud Investigation Performance Results by Special Investigations Department				
SID Team	Prosecution Referrals	Indictments	Convictions	Identified Savings
Intelligence Unit	NA	NA	NA	$690,489
Employer Fraud Team	65	36	42	$3,286,721
Health Care Provider Team	11	2	3	$19,382,499
Regional Claimant SIUs	153	92	106	$37,090,867
Total	**229**	**130**	**151**	**$60,450,576**

Division of Unclaimed Funds Paid $76.0 Million to Found Owners in FY 2015

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

In FY 2015, the Department of Commerce's Division of Unclaimed Funds paid a total of $76.0 million to the found owners of unclaimed funds, an increase of $1.6 million (2.2%) compared to the $74.4 million paid in FY 2014. About 45,500 claims were paid, with an average claim of $1,672. Additionally, the Division collected $290.2 million in unclaimed funds, an increase of $9.9 million (3.4%) compared to the $280.3 million collected in FY 2014.

Funds come to the state from sources such as dormant bank accounts, rent or utility deposits, uncashed checks, undelivered stock, or uncashed insurance policies. The Division holds these funds in the state's Unclaimed Funds Trust Fund (Fund 5430) until the rightful owner can be found. The Division has partnerships with newspapers, radio and television stations, and online media to encourage Ohioans to claim their funds and operates an "Online Treasure Hunt" that allows residents to search for their unclaimed funds.

Other than paying unclaimed funds to owners, the cash in Fund 5430 is used to support various programs, including economic development grants and low- and moderate-income housing programs. For example, H.B. 64 allows the Development Services Agency to use up to $10.0 million in unclaimed funds during the FY 2016-FY 2017 biennium for a loss reserve for its Minority Business Bonding Program.

TRACKING THE ECONOMY

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

Year-to-date monthly U.S. job growth dropped below 200,000 on average.

Overview

Nationwide job growth slowed in August and September, but the unemployment rate stayed the same (5.1%). The U.S. labor force participation rate dropped to its lowest level since 1977 (62.4%). The Federal Reserve chose to keep interest rates near zero at its mid-September committee meeting, citing weak global growth and financial market instability. Consumer spending continued to drive the U.S. economy, remaining strong through August, especially in auto sales and residential real estate. Ohio's unemployment rate dropped to 4.7% in August, its lowest level since 2001. Most of the recent drop in the unemployment rate can be explained by workers leaving the labor force. Over 49,000 workers dropped out of the Ohio labor force over the three months ending in August.

The National Economy

Monetary Policy and Financial Markets

At the conclusion of its September 16-17 meeting, the Federal Open Market Committee (FOMC) reaffirmed its view that the current federal funds rate,[15] near zero, remains appropriate. The FOMC is the monetary policy-setting body of the Federal Reserve, the country's central bank. Previous FOMC meetings had indicated an expectation to raise the federal funds rate by the end of 2015 and many had speculated this meeting would signal the first such increase. Instead, the FOMC expressed concern that a recent downturn in the global economy and renewed financial market volatility will put downward pressure on the U.S. economy, and in particular, keep the inflation rate below its stated target of 2% in the short-term. Despite the decision, 13 of 17 FOMC participants still judged that the first increase in the federal funds rate should occur by the end of 2015.

U.S. financial markets continued to struggle in September following a tumultuous August. For the quarter ending September 30,

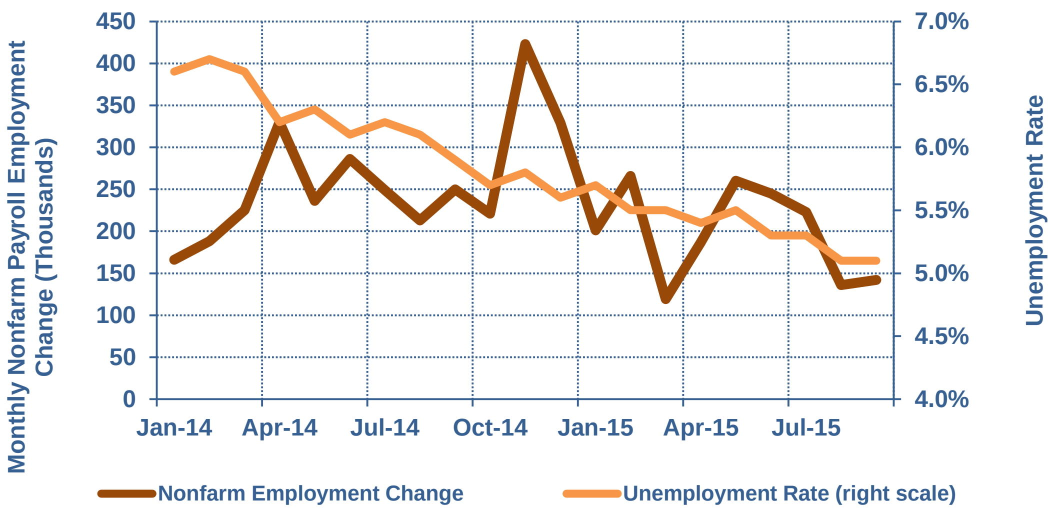
[15] The federal funds rate is the short-term interest rate at which depository institutions lend reserve balances to other depository institutions overnight. The FOMC sets a target rate and conducts open market operations to nudge the actual rate toward the target, with the goal of achieving desired employment and inflation rates nationwide.

the S&P 500 stock index was down 6.9%, and the Dow Jones Industrial Average was down 7.6%. This was the worst performing quarter for the U.S. markets since the third quarter of 2011. Many investors blamed the losses on the global effects of an economic slowdown in China.

Employment and Unemployment

In September, nonfarm payroll employment nationwide increased 142,000 according to initial estimates from the U.S. Bureau of Labor Statistics (BLS). BLS also revised downward its estimate of employment gains in July, from 245,000 to 223,000, and August, from 173,000 to 136,000. For the months of July and August combined, employment gains were 59,000 less than previously reported. Altogether, it is apparent that the long-term trend of positive monthly job growth has continued, but at a decreased rate as shown in the chart below. Year-to-date monthly job growth nationwide has averaged 198,000, as compared to 260,000 per month in 2014.

Chart 5: U.S. Employment Change and Unemployment Rate



The national unemployment rate stayed steady at 5.1% in September, which is down 0.8 percentage point from one year ago. In the last 12 months, the U.S. economy has added a net total of 2.75 million jobs and 870,000 people to the labor force. The U.S. labor force participation rate dropped to 62.4% in September, its lowest rate since October 1977. Average hourly earnings of all employees on private, nonagricultural payrolls saw virtually no change (-0.04%) in September.

Production

Spurred by growth in personal consumption expenditures, private domestic investments, and state and local government spending, growth in inflation-adjusted gross domestic product (i.e., real GDP) in the second quarter was revised upward to a 3.9% annual rate from 3.7% in the second estimate, according to the U.S. Bureau of Economic Analysis (BEA). Real GDP has increased 2.7% from the same period one year ago.

Industrial production decreased 0.4% in August, dropping after July's revised increase of 0.9%. Decreases in two of the three major industry groups, manufacturing and mining, contributed to the downturn. The increase in motor vehicle assemblies from July was reversed in August, contributing to a 0.5% drop in manufacturing output; manufacturing production of durable goods other than motor vehicles and parts actually rose slightly for the month.

According to the latest report from the Institute for Supply Management based on feedback from manufacturing sector purchasing managers, activity in the manufacturing sector expanded for the 33rd consecutive month in September, although at the lowest rate in the previous 12 months. Although some managers reported growth in business, the negative impact of the drop in crude oil and gas prices were also prevalent in reports, as was a decrease in new export orders. A strong U.S. dollar has contributed to weakening exports.

Consumer Spending

Personal income, in current dollars (not adjusted for inflation) increased by 0.3% in August, a slight slowdown from July's increase of 0.5%. Real consumer spending increased by 0.4% (seasonally adjusted) in August and was 3.2% higher than one year ago. The monthly change in consumer spending has been positive since January 2014.

Sales of light vehicles continue to climb, reaching a seasonally adjusted annual rate of 18.1 million units in September. That is the highest monthly sales rate since July 2005, and is up approximately 1.7 million units (10.0%) from 12 months ago. Light trucks and SUVs continue to see the largest gains in market share.

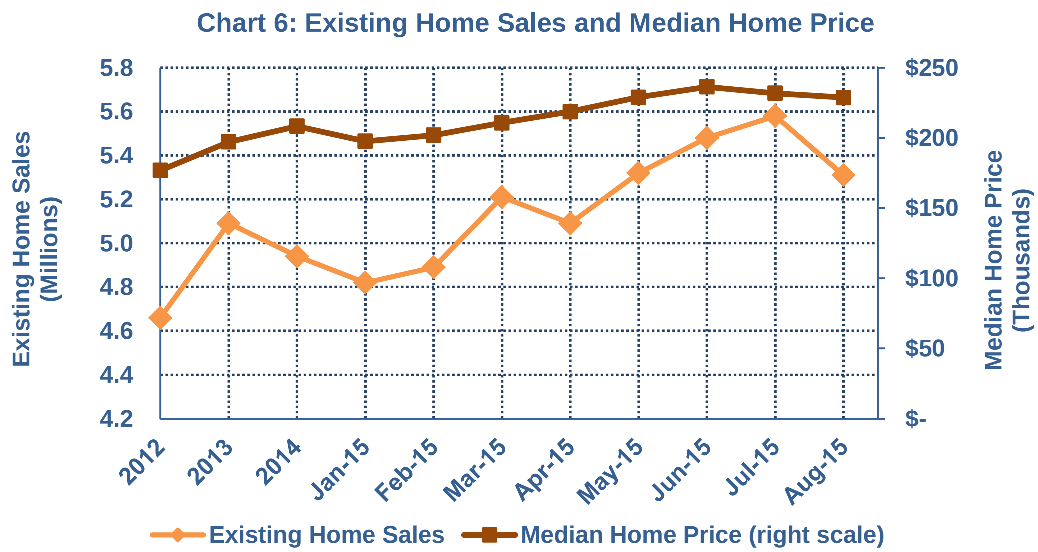
The share of new homes presold during August reached the highest level in the last ten years.

Construction and Real Estate

Housing starts, at a seasonally adjusted annual rate, were just over 1.1 million units in August, 3.0% below July's revised rate but still 16.6% above year ago levels. Single family housing unit and multiple housing unit starts in August, at a seasonally adjusted annual rate, were 14.9% and 24.5% above year ago levels, respectively.

New residential home sales, at a seasonally adjusted annual rate, increased 5.7% in August above July's revised rate, and were 21.6% above year ago levels. The share of new homes presold during the month (i.e., in a "not started" phase of construction), reached the highest level in the past ten years, rising above the previous ten-year high set last month. New home sales account for roughly 10% of the home purchase market.

Existing home sales in August decreased 4.8% to a seasonally adjusted annual rate of 5.31 million homes, according to the National Association of Realtors. Despite the drop, unit sales were still 6.2% higher than a year earlier. The median home price also dropped 1.3% to $228,700 in August. Median home prices have been above $220,000 since May and are 4.7% higher than year ago levels. The monthly average commitment rate for 30-year fixed-rate mortgages remains below 4.0% in September, according to data released from Freddie Mac's weekly survey of lenders.



Inflation

Consumer Prices

The consumer price index for all urban consumers (CPI-U) decreased 0.1% in August, its first month of negative change since January. The main cause for the decline was the significant drop in the gasoline index. Gasoline prices dropped in 13 of the last 15 weeks since being on the rise during the first half of the year. Core CPI-U (all items less food and energy) has risen 1.8% over the past 12 months, a rate it has reached in five of the last six months.

Producer Prices

The producer price index (PPI) for final demand was unchanged in August, as an increase in the index for final demand services (0.4%) offset the decrease in the index for final demand goods (-0.6%). The 12-month percent change in PPI for final demand has been below zero since February, reflecting the decrease in year-over-year monthly prices for final demand goods during the same period. Sagging prices for final demand energy, particularly gasoline prices, have contributed to this decline.

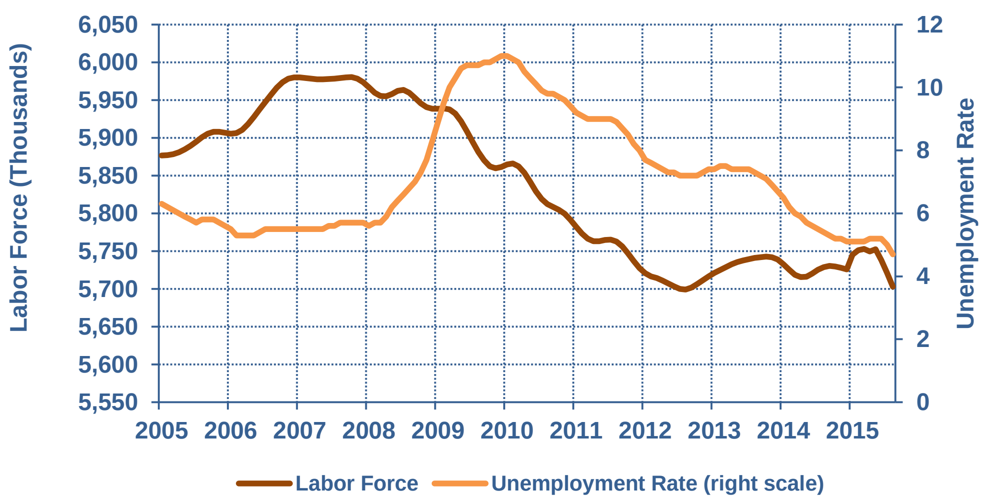
The Ohio Economy

Employment and Unemployment

Preliminary reports of Ohio's labor market in August paint a mixed picture of the state economy. Total nonfarm payroll employment in August increased by 14,600 (0.3%) from July, outpacing estimated working age population growth of 5,000. The unemployment rate in Ohio dropped to 4.7% (from 5.0%), the lowest it has been since September 2001. The unemployment rate decrease is explained in part by increased employment, but a larger contributor to the decrease was a decrease in Ohio's labor force. Even though working age population increased during the month, the labor force lost an estimated 18,000 civilians in August, dropping the labor force participation rate to 62.4% (from 62.6% in July). During the three months ending in August, Ohio lost over 49,000 civilians from its labor force, the largest three-month loss since BLS began keeping monthly data in 1976 (chart below).

Ohio's unemployment rate dropped to 4.7% in August, the lowest it has been since 2001.

Chart 7: Ohio Labor Force and Unemployment Rate



Nearly all of Ohio's August job gains occurred in service-providing industries, led by the trade, transportation and utilities (5,300), and professional and business services (5,700) sectors. Manufacturing lost 2,300 (0.3%) jobs in August, while construction gained 2,700 (1.5%). Public sector jobs declined slightly, losing 2,200 in the month, most in local governments.

Personal Income and Production

BEA revised data revealed a poor first quarter in 2015 for Ohio personal income (-0.1% change from the 2014 fourth quarter), but estimates of second quarter personal income growth bounced back to 0.9%. This placed Ohio 22nd among the 50 states for personal income growth in the second quarter of 2015. About 55% of the growth was estimated to come from net earnings (earnings by place of work), while the remainder came from other sources such as dividends, interest, rent, and transfer receipts.

Home Sales

The Ohio real estate market may have hit its peak in July, however home sales in August still continued a strong year to date. The number of homes sold in Ohio in August was 14,056, 10.9% higher than the 12,669 sold a year earlier, while year-to-date sales of 94,822 were also 10.9% higher than the 85,470 sold in the comparable period in 2014. The year-to-date average sales price in the state was $157,259, 4.3% higher than the $150,821 figure from a year earlier, according to the Ohio Association of Realtors (OAR). OAR's Realtor Price Index dropped in September to its lowest level in 2015, expressing the feeling among realtors that the short-term peak for prices may be behind us. The Realtor Price Index is based on the expectations of OAR participants for home prices over the next year relative to current prices.