Budget Footnotes

A Newsletter of the Ohio Legislative Service Commission

December 2016

Status of the GRF

Highlights

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

November GRF tax revenue was $99.0 million (5.0%) below the Office of Budget and Management's (OBM) estimate. Tax revenues have been rather weak for most of calendar year 2016, but November follows a very weak October, when tax revenue was $88.1 million (4.7%) below estimate. For FY 2017 through November, tax revenue was $259.1 million below estimate. Ohio is not alone in this. The Nelson A. Rockefeller Institute of Government reported that state tax revenue across all 50 states in the second quarter of 2016 was 2.1% below revenue during the second quarter of 2015. It is unclear at this point to what degree Ohio's weak revenues are due to national economic conditions versus Ohio-specific factors.

Through November 2016, GRF sources totaled $14.00 billion:

- Revenue from the personal income tax was $153.4 million below estimate;
- Sales and use tax receipts were $108.7 million below estimate.

Through November 2016, GRF uses totaled $15.61 billion:

- Program expenditures as a whole were $484.7 million below estimate, due primarily to Medicaid ($484.8 million);
- Several other spending categories had smaller negative variances, that were roughly offset by a timing-related positive variance of $61.8 million in Primary and Secondary Education.

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

STATE SOURCES	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$106,332	$98,900	$7,432	7.5%
Nonauto Sales and Use	$741,660	$781,300	-$39,640	-5.1%
Total Sales and Use Taxes	**$847,992**	**$880,200**	**-$32,208**	**-3.7%**
Personal Income	$611,286	$682,100	-$70,814	-10.4%
Corporate Franchise	$24	$0	$24	---
Financial Institution	$1,117	-$6,600	$7,717	116.9%
Public Utility	$21,623	$19,200	$2,423	12.6%
Kilowatt-Hour Excise	$26,878	$23,900	$2,978	12.5%
Natural Gas Consumption (MCF)	$4,028	$4,400	-$372	-8.5%
Commercial Activity Tax	$274,225	$284,500	-$10,275	-3.6%
Petroleum Activity Tax	$0	$0	$0	---
Foreign Insurance	$82	$200	-$118	-58.8%
Domestic Insurance	$0	$0	$0	---
Business and Property	$0	$0	$0	---
Cigarette	$80,135	$78,700	$1,435	1.8%
Alcoholic Beverage	$4,336	$4,200	$136	3.2%
Liquor Gallonage	$3,782	$3,800	-$18	-0.5%
Estate	$86	$0	$86	---
Total Tax Revenue	**$1,875,592**	**$1,974,600**	**-$99,008**	**-5.0%**
NONTAX REVENUE				
Earnings on Investments	$3	$0	$3	---
Licenses and Fees	$546	$570	-$24	-4.2%
Other Revenue	$1,065	$1,645	-$580	-35.2%
Total Nontax Revenue	**$1,615**	**$2,215**	**-$600**	**-27.1%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$0	$0	$0	---
Total Transfers In	**$0**	**$0**	**$0**	**---**
TOTAL STATE SOURCES	**$1,877,207**	**$1,976,815**	**-$99,608**	**-5.0%**
Federal Grants	$828,767	$1,180,737	-$351,969	-29.8%
TOTAL GRF SOURCES	**$2,705,974**	**$3,157,552**	**-$451,578**	**-14.3%**

*Estimates of the Office of Budget and Management as of August 2016.
Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Actual vs. Estimate
FY 2017 as of November 30, 2016
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on December 1, 2016)

STATE SOURCES	Actual	Estimate*	Variance	Percent	FY 2016	Percent Change
TAX REVENUE						
Auto Sales	$582,302	$588,900	-$6,598	-1.1%	$567,267	2.7%
Nonauto Sales and Use	$3,777,244	$3,879,300	-$102,056	-2.6%	$3,744,058	0.9%
Total Sales and Use Taxes	**$4,359,546**	**$4,468,200**	**-$108,654**	**-2.4%**	**$4,311,325**	**1.1%**
Personal Income	$3,207,096	$3,360,500	-$153,404	-4.6%	$3,352,811	-4.3%
Corporate Franchise	-$736	$0	-$736	---	$9,854	-107.5%
Financial Institution	-$9,902	-$8,200	-$1,702	-20.8%	-$9,144	-8.3%
Public Utility	$47,387	$50,700	-$3,313	-6.5%	$51,099	-7.3%
Kilowatt-Hour Excise	$160,438	$141,900	$18,538	13.1%	$150,523	6.6%
Natural Gas Consumption (MCF)	$16,439	$17,000	-$561	-3.3%	$17,164	-4.2%
Commercial Activity Tax	$610,656	$630,500	-$19,844	-3.1%	$602,417	1.4%
Petroleum Activity Tax	$1,542	$1,200	$342	28.5%	$1,350	14.2%
Foreign Insurance	$160,973	$156,700	$4,273	2.7%	$155,593	3.5%
Domestic Insurance	$53	$400	-$347	-86.7%	$344	-84.5%
Business and Property	-$678	$0	-$678	---	$29	-2408.6%
Cigarette	$359,411	$355,700	$3,711	1.0%	$376,873	-4.6%
Alcoholic Beverage	$25,542	$23,400	$2,142	9.2%	$24,955	2.4%
Liquor Gallonage	$19,400	$18,600	$800	4.3%	$18,814	3.1%
Estate	$334	$0	$334	---	$785	-57.5%
Total Tax Revenue	**$8,957,502**	**$9,216,600**	**-$259,098**	**-2.8%**	**$9,064,794**	**-1.2%**
NONTAX REVENUE						
Earnings on Investments	$14,194	$8,500	$5,694	67.0%	$7,929	79.0%
Licenses and Fees	$11,343	$9,975	$1,368	13.7%	$9,185	23.5%
Other Revenue	$51,047	$45,590	$5,457	12.0%	$36,283	40.7%
Total Nontax Revenue	**$76,583**	**$64,065**	**$12,518**	**19.5%**	**$53,397**	**43.4%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$15,309	$22,300	-$6,991	-31.4%	$175,176	-91.3%
Total Transfers In	**$15,309**	**$22,300**	**-$6,991**	**-31.4%**	**$175,176**	**-91.3%**
TOTAL STATE SOURCES	**$9,049,393**	**$9,302,965**	**-$253,572**	**-2.7%**	**$9,293,367**	**-2.6%**
Federal Grants	$4,952,292	$5,412,454	-$460,162	-8.5%	$5,230,755	-5.3%
TOTAL GRF SOURCES	**$14,001,685**	**$14,715,419**	**-$713,734**	**-4.9%**	**$14,524,123**	**-3.6%**

*Estimates of the Office of Budget and Management as of August 2016.
Detail may not sum to total due to rounding.

GRF tax revenue was $99.0 million below estimate in November.

Through November, GRF tax receipts had a shortfall of $259.1 million.

FY 2017 federal grants through November were $460.2 million below estimates.

REVENUES

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

Overview

The year-long weakness in GRF tax revenue continued in November 2016. GRF tax revenues this month were $99.0 million (5.0%) below OBM's estimate. Poor performance this month increased the negative variance for the fiscal year to date to $259.1 million (2.8%), up from $160.1 million through October 2016. Additionally, federal grants were $352.0 million below estimates in November, raising that category's yearly negative variance to $460.2 million (8.5%), up from $108.2 million through October. November GRF sources as a whole were $451.6 million below estimates, pushing up the fiscal year's shortfall to $713.7 million (4.9%), more than doubling the year-to-date deficit of $262.2 million at the end of October. Tables 1 and 2 above, show GRF sources[1] for November and for FY 2017 through November, respectively.

Underperformance of the GRF's two dominant sources of tax revenue also continued in November. For the month, the personal income tax (PIT) and the sales and use tax had shortfalls of $70.8 million and $32.2 million, respectively.

For the fiscal year through November, the shortfall in revenue from the sales and use tax totaled $108.7 million. Regarding the PIT, excluding results in April 2016, this tax had its worst performance relative to estimate in any month of this biennium, and its deficit was $153.4 million at the end of November. The PIT and the sales and use tax ended FY 2016 below estimates by a total of about $243.0 million, and year to date in FY 2017, their combined shortfall was about $262.0 million. This performance is concerning because FY 2017 revenue estimates for both tax sources were adjusted downward to take into account FY 2016's lackluster results, but they have failed to meet those lowered expectations.[2]

Although the PIT and the sales and use tax were the main culprits for the underperformance of tax revenue in November, the commercial activity tax (CAT), the third largest GRF tax source, was

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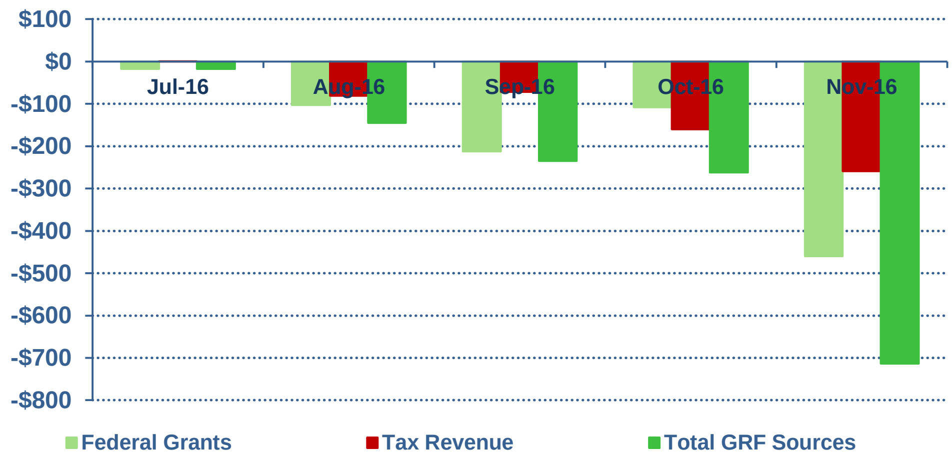
[1] GRF sources consist of state-source receipts (tax revenue, nontax revenue, and transfers in) and federal grants, which are typically federal reimbursements for Medicaid and other programs.

[2] Updated OBM revenue estimates for FY 2017 were released in August 2016.

also below anticipated receipts by $10.3 million. However, most of the remaining tax sources had better results, including positive variances of $7.7 million for the financial institutions tax (FIT), $3.0 million for the kilowatt-hour tax, $2.4 million for the public utility tax, and $1.4 million for the cigarette tax.

As stated above, GRF tax sources and federal grants were both below anticipated revenues for the first five months of FY 2017. For the remaining GRF categories, though transfers in were $7.0 million below expectations, nontax revenue experienced a positive variance of $12.5 million. The chart below illustrates the cumulative performance of total GRF sources relative to estimates each month in FY 2017. Total GRF sources have been below estimate every month this fiscal year, generally due to a combination of tax revenue shortfalls and smaller than expected federal grants, the latter primarily related to the level of spending in the Medicaid program, which has generally been lower than expected.[3]

Chart 1: Cumulative Variances of GRF Sources in FY 2017
(Variance from Estimates, in millions)



Compared to the corresponding period in FY 2016, GRF sources through November were $522.4 million lower. Federal grants, tax receipts, and transfers in were, respectively, $278.5 million, $107.3 million, and $159.9 million below their respective amounts in FY 2016. Regarding FY 2017 tax receipts, nearly all of the decrease can be attributed to the PIT which has collected $145.7 million less in FY 2017 than one year ago,

[3] GRF Medicaid expenditures were $484.8 million below estimate through November in FY 2017.

Through November, sales and use tax receipts were $108.7 million below estimates.

in part due to legislative policy changes.[4] In addition, year-over-year receipts fell for the cigarette tax ($17.5 million), the corporate franchise tax ($10.6 million),[5] and the public utility tax ($3.7 million). Partially offsetting those declines, sales and use tax revenue grew $48.2 million from one year ago. Revenue also grew noticeably for the kilowatt-hour tax ($9.9 million), the CAT ($8.2 million), and the foreign insurance tax[6] ($5.4 million).

Sales and Use Tax

The sales and use tax in November again missed estimates, as it had each prior month of FY 2017. A larger negative variance from the nonauto sales tax was partially offset by a smaller positive variance from the auto portion of the tax. Overall, monthly sales and use tax revenue was $32.2 million (3.7%) below estimate, continuing a trend of underperformance that began last fiscal year. November revenue was $7.8 million (0.9%) above revenue in the same month last year, however. For the fiscal year to date, sales and use tax receipts of $4.36 billion were $108.7 million (2.4%) below projections (with both sources below estimates), but $48.2 million (1.1%) above receipts in FY 2016 through November. November marked the eighth straight month, and ninth out of the 11 months in calendar year (CY) 2016, that sales and use tax receipts were below estimate. The sales and use tax is the largest state sourced revenue stream to the GRF.

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

[4] H.B. 64 reduced income tax rates by 6.3%, leading to a 3.1% reduction in the PIT withholding rate, which did not take effect until August 2015. Based on this, July 2016's PIT withholdings would be expected to be 3.1% lower than in July 2015, though growth in wages would typically offset at least part of that decrease.

[5] The corporate franchise tax was eliminated at the end of FY 2013; however, adjustments to previous year's tax filings resulted in additional receipts in subsequent years, including $33.2 million in FY 2016.

[6] Ohio insurance taxes apply to premiums received for policies covering Ohio risks; if the company receiving the premium is organized under Ohio law, they pay the domestic insurance tax; otherwise, they pay the foreign insurance tax.

are paid at the lease signing and are mostly recorded under the nonauto tax instead of the auto tax.[7]

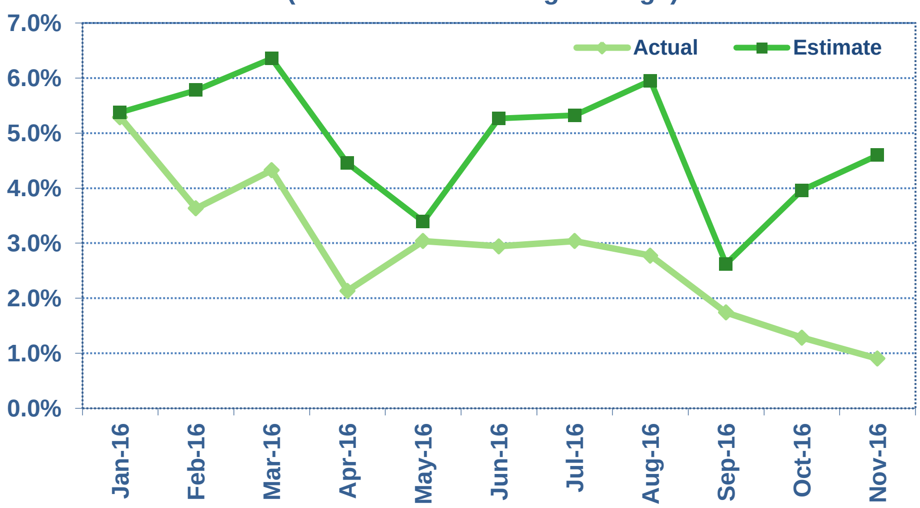
Nonauto Sales and Use Tax

Nonauto sales and use tax collections were $741.7 million in November, which was $39.6 million (5.1%) less than projected, intensifying the string of monthly shortfalls. Collections from this segment of the tax have been below estimate each month this fiscal year. Comparing revenue, month by month, to revenue from the same month a year ago has revealed growth, but growth that was steadily declining. That growth turned negative in November, when tax receipts were $3.2 million (0.4%) below revenue in the same month in 2015. For FY 2017 through November, nonauto sales and use tax revenue of $3.78 billion was $102.1 million (2.6%) below expectations, though receipts were $33.2 million (0.9%) above receipts in FY 2016 through November. The chart below illustrates the slowing year-over-year growth of nonauto sales and use tax collections and its failure to meet estimates throughout CY 2016.

Nonauto sales and use tax revenue has been below estimate in each month in FY 2017.

Nonauto sales and use tax revenue was $102.1 below estimate through November in FY 2017.

Chart 2: Nonauto Sales and Use Tax Receipts Trend
Actual vs. Prior Year
(Three-month Moving Average)



[7] 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.

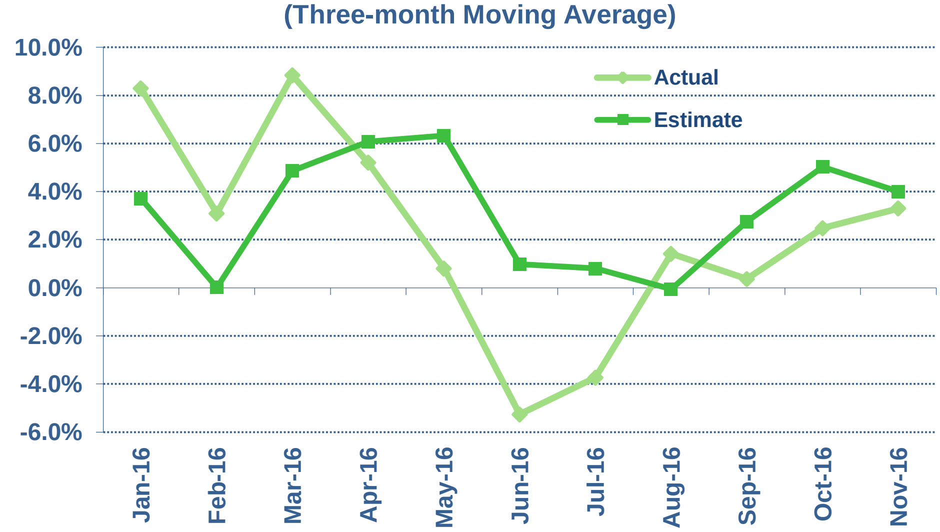
A small portion of the FY 2017 shortfall can be attributed to Medicaid health insuring corporations (MHICs). Sales tax receipts from these corporations have been flat to below their levels in FY 2016 in recent months. This portion of sales tax collections is generally correlated to Medicaid spending, not necessarily broader consumer spending trends. Collections from these corporations have made up less than 9% of nonauto sales and use tax revenue in FY 2017. In previous years, revenue from the sales tax on MHICs grew by double digits each year until FY 2016 when growth slowed to 1.5%; and, through November in FY 2017, revenue from these corporations has declined 0.7% compared to receipts in the corresponding period in FY 2016.

Auto Sales and Use Tax

Auto sales and use tax revenue was $6.6 million below estimate through November in FY 2017.

The GRF received $106.3 million in revenue from the auto portion of the sales and use tax in November, $7.4 million (7.5%) above expectations, and $11.0 million (11.6%) above receipts in November 2015. However, for the fiscal year through November, GRF revenue of $582.3 million from the tax was $6.6 million (1.1%) below estimates, but $15.0 million (2.7%) above revenue in the corresponding period in FY 2016. As the chart below illustrates, the pace of collections growth fell off sharply in the spring of 2016, and year-over-year growth in FY 2017 has slowly picked up in recent months.

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



Motivated by promotional activity and strong demand for light trucks, the pace of nationwide light vehicle (auto and light truck) sales remained at a healthy level in November. Sales of light trucks have continued at the record-setting pace begun in the fall of 2015. Those sales in November were 10.87 million units (seasonally adjusted at annual rate), buoyed by low fuel prices, low interest rates, and high discounting. On the other hand, sales of cars were 6.88 million units (seasonally adjusted at annual rate). For CY 2016 through November, though the total number of light vehicles sold was roughly the same as in the corresponding period in 2015, car sales declined by about 9%, while sales of light trucks grew about 7%. With one month remaining this year, light vehicle sales may match or surpass 2015 levels. The mix of sales has driven average sales tax collected per purchase higher, helping to maintain revenue as the number of new vehicles sold and titled in Ohio slows.

Personal Income Tax

Similarly to the sales and use tax, the second largest state sourced revenue stream to the GRF has underperformed in FY 2017. PIT GRF revenue was $70.8 million (10.4%) below estimate in November, the fourth straight month the tax has missed projections. Receipts were also $11.0 million (1.8%) below revenue in November 2015. Through November, GRF revenue from the PIT of $3.21 billion was $153.4 million (4.6%) below OBM's estimate, and $145.7 million (4.3%) below PIT revenue in the corresponding period in FY 2016.

FY 2017 PIT revenue was $153.4 million below estimate through November

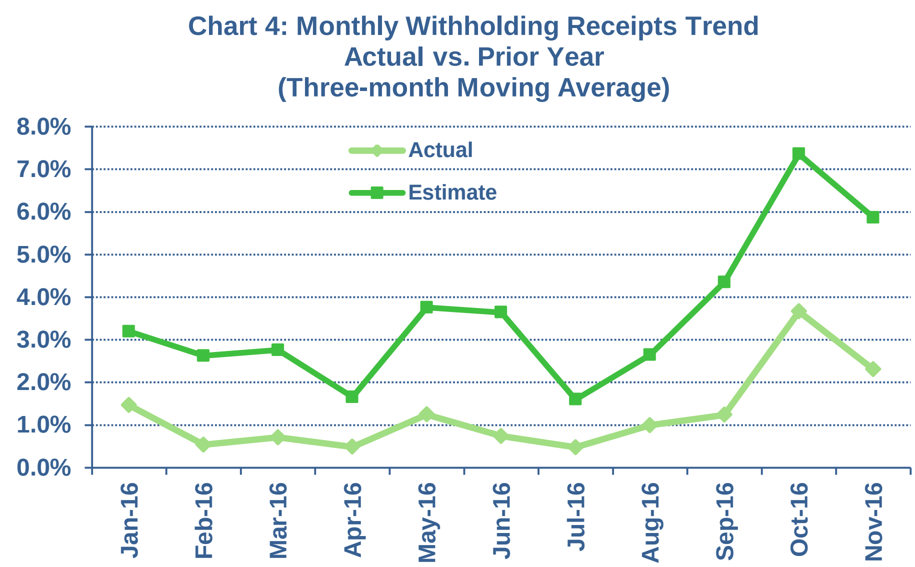
PIT revenue is comprised of gross collections, minus refunds and distributions to the Local Government Fund (LGF). Gross collections consist of employer withholdings, quarterly estimated payments,[8] trust payments, payments associated with annual returns, and other miscellaneous payments. The performance of the tax is typically driven by employer withholdings, the largest component of gross collections. This component missed projections in November by a substantial amount, $58.1 million (8.0%), and growth in employer withholdings was just 1.4% compared to November 2015. Refunds had been another PIT component responsible for poor revenue this year, and for the month, refunds were $10.7 million (29.5%) higher than anticipated. Through November, the PIT revenue shortfall was also led by monthly employer withholdings, which were $109.8 million (3.2%) below estimate, and refunds, which were $49.0 million (22.2%) higher than expected. In addition to the shortfall in employer withholding, collections from miscellaneous payments and

[8] 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.

Revenue from employer withholding was $109.8 million below estimate in FY 2017 through November.

trusts were also below anticipated revenue, by $10.9 million and $2.6 million, respectively. On the other hand, revenue was higher than expected for quarterly estimated payments ($9.1 million) and annual returns ($6.5 million).

Payrolls continue to grow year over year. Policy changes, which led to reduced withholding rates, took effect in August 2015 and limited year-over-year growth of employer withholdings throughout FY 2016. The chart below illustrates the growth of monthly employer withholdings relative to one year ago. The pace of growth increased early in FY 2017 as the effects of policy changes were phased out of the year-over-year calculations. However, growth remains sluggish and below OBM's FY 2017 estimates. Through November, FY 2017 withholding growth was just 1.1%, less than a third of the estimated withholding growth of 4.4%.



FY 2017 revenues through November from each component of the PIT relative to estimates and to revenue received in the corresponding period of FY 2016 are detailed in the table below.

FY 2017 Year-to-Date Personal Income Tax Revenue Estimate Variances and Year-over-Year Changes by Component				
Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2016	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	-$109.8	-3.2%	$36.1	1.1%
Quarterly Estimated Payments	$9.1	4.8%	-$93.3	-31.9%
Trust Payments	-$2.6	-19.5%	-$4.9	-31.7%
Annual Return Payments	$6.5	9.0%	-$24.1	-23.5%
Miscellaneous Payments	-$10.9	-34.4%	-$6.2	-22.9%
Gross Collections	-$107.7	-2.9%	-$92.4	-2.5%
Less Refunds	$49.0	22.2%	$50.0	22.8%
Less LGF Distribution	-$3.2	-2.0%	$3.3	2.2%
GRF PIT Revenue	-$153.4	-4.6%	-$145.7	-4.3%

Compared to the first five months in FY 2016, gross collections in FY 2017 fell $92.4 million, mostly due to decreases of $93.3 million in quarterly estimated payments and $24.1 million in payments due with annual returns. Refunds, $50.0 million higher than in FY 2016, helped increase the year-over-year decline in PIT net collections. On the other hand, employer withholding grew $36.1 million (1.1%).

Commercial Activity Tax

The second CAT payment of this fiscal year was due in November for quarterly return taxpayers. For the month, GRF receipts from the CAT were $274.2 million, $10.3 million (3.6%) below estimate, and $0.7 million (0.3%) below revenue in November 2015. For the fiscal year, GRF receipts of $610.7 million were $19.8 million (3.1%) below estimate. FY 2017 revenue was $8.2 million (1.4%) above FY 2016 receipts through November, but only because refunds claims were $21.7 million less this fiscal year.

FY 2017 revenue from the CAT was $19.8 million below estimate.

The performance of the CAT has been lackluster in recent fiscal quarters, and due to poor performance in FY 2016, OBM reduced its estimate of yearly revenue growth for FY 2017 for this tax. The CAT was $25.6 million (2.0%) below estimates in FY 2016, including a negative variance of $14.2 million in the last fiscal quarter, and actual all-funds revenue was slightly below FY 2015's total. Weakness in collections has continued this fiscal year. GRF CAT revenue was below estimates through November, and, according to OAKS, gross collections were about 1.0% below those in the corresponding period in FY 2016. The CAT is the third largest GRF source.

FY 2017 revenue from the cigarette tax was $3.7 million above estimate.

Cigarette and Other Tobacco Products Tax

November GRF revenue from the cigarette and other tobacco products tax of $80.1 million was $1.4 million (1.8%) above estimate, and $0.5 million (0.7%) above revenue in November 2015. For FY 2017 through November, receipts from the tax were $359.4 million, $3.7 million (1.0%) above estimate. Of the total revenue, $333.1 million was from cigarettes and $26.3 million was from sales of other tobacco products. Compared to FY 2016 through November, receipts in FY 2017 were $17.5 million (4.6%) lower. Generally, cigarette tax receipts are trending downward long-term; however, legislative changes[9] led to increased receipts in the early months of FY 2016. Thus, the year-over-year decline in FY 2017 revenue is larger in percentage terms than the trend rate of decline.

[9] H.B. 64 increased the cigarette tax from $1.25 to $1.60 per pack of 20 cigarettes, effective July 1, 2015. This led to the payment of a "floor tax" for cigarettes in inventory at the time the new tax rate went into effect. Excluding the effect of the floor tax, the year-over-year decline in tax revenue was about 0.6%.

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

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary and Secondary Education	$370,096	$376,949	-$6,853	-1.8%
Higher Education	$197,034	$198,600	-$1,566	-0.8%
Other Education	$3,251	$3,347	-$95	-2.8%
Total Education	$570,381	$578,895	-$8,514	-1.5%
Medicaid	$1,331,768	$1,721,514	-$389,747	-22.6%
Health and Human Services	$110,146	$100,314	$9,832	9.8%
Total Welfare and Human Services	$1,441,914	$1,821,829	-$379,915	-20.9%
Justice and Public Protection	$148,263	$139,116	$9,147	6.6%
General Government	$32,301	$32,400	-$98	-0.3%
Total Government Operations	$180,564	$171,516	$9,048	5.3%
Property Tax Reimbursements	$144,625	$120,966	$23,659	19.6%
Debt Service	$19,493	$19,607	-$114	-0.6%
Total Other Expenditures	$164,118	$140,573	$23,545	16.7%
Total Program Expenditures	**$2,356,977**	**$2,712,813**	**-$355,836**	**-13.1%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$14,718	$0	$14,718	---
Total Transfers Out	$14,718	$0	$14,718	---
TOTAL GRF USES	**$2,371,695**	**$2,712,813**	**-$341,118**	**-12.6%**

*August 2016 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 2017 as of November 30, 2016
($ in thousands)
(Actual based on OAKS reports run December 2, 2016)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2016**	**Percent Change**
Primary and Secondary Education	$3,463,940	$3,402,136	$61,804	1.8%	$3,485,942	-0.6%
Higher Education	$960,421	$970,442	-$10,021	-1.0%	$933,289	2.9%
Other Education	$38,331	$40,353	-$2,022	-5.0%	$33,936	12.9%
Total Education	$4,462,692	$4,412,931	$49,761	1.1%	$4,453,167	0.2%
Medicaid	$7,464,106	$7,948,945	-$484,839	-6.1%	$7,750,679	-3.7%
Health and Human Services	$568,381	$606,434	-$38,053	-6.3%	$551,878	3.0%
Total Welfare and Human Services	$8,032,486	$8,555,378	-$522,892	-6.1%	$8,302,558	-3.3%
Justice and Public Protection	$895,149	$910,857	-$15,709	-1.7%	$865,958	3.4%
General Government	$166,538	$177,078	-$10,540	-6.0%	$161,697	3.0%
Total Government Operations	$1,061,687	$1,087,936	-$26,249	-2.4%	$1,027,656	3.3%
Property Tax Reimbursements	$898,887	$883,566	$15,321	1.7%	$897,931	0.1%
Debt Service	$890,393	$891,050	-$656	-0.1%	$864,181	3.0%
Total Other Expenditures	$1,789,280	$1,774,615	$14,665	0.8%	$1,762,112	1.5%
Total Program Expenditures	**$15,346,144**	**$15,830,860**	**-$484,715**	**-3.1%**	**$15,545,492**	**-1.3%**
TRANSFERS						
Budget Stabilization	$29,483	$29,483	$0	0.0%	$425,500	-93.1%
Other Transfers Out	$238,587	$250,623	-$12,036	-4.8%	$388,234	-38.5%
Total Transfers Out	$268,070	$280,106	-$12,036	-4.3%	$813,734	-67.1%
TOTAL GRF USES	**$15,614,214**	**$16,110,965**	**-$496,751**	**-3.1%**	**$16,359,226**	**-4.6%**

*August 2016 estimates of the Office of Budget and Management.

Detail may not sum to total due to rounding.

Table 5: Medicaid Expenditures by Department
Actual vs. Estimate
($ in thousands)
(Actuals based on OAKS report run on December 5, 2016)

Department	Month of November 2016 Actual	Estimate*	Variance	Percent	Year to Date Through November 2016 Actual	Estimate*	Variance	Percent
Medicaid	**$1,948,686**	**$1,950,203**	**-$1,517**	**-0.1%**	**$8,880,539**	**$9,537,177**	**-$656,638**	**-6.9%**
GRF	$1,276,053	$1,665,138	-$389,085	-23.4%	$7,187,396	$7,654,772	-$467,376	-6.1%
Non-GRF	$672,633	$285,065	$387,568	136.0%	$1,693,142	$1,882,405	-$189,263	-10.1%
Developmental Disabilities	**$203,340**	**$196,894**	**$6,446**	**3.3%**	**$1,053,798**	**$1,104,412**	**-$50,614**	**-4.6%**
GRF	$48,125	$47,362	$763	1.6%	$237,905	$239,958	-$2,053	-0.9%
Non-GRF	$155,215	$149,532	$5,683	3.8%	$815,893	$864,454	-$48,561	-5.6%
Job and Family Services	**$28,071**	**$30,746**	**-$2,674**	**-8.7%**	**$94,061**	**$130,442**	**-$36,382**	**-27.9%**
GRF	$6,811	$8,339	-$1,527	-18.3%	$34,134	$49,882	-$15,748	-31.6%
Non-GRF	$21,260	$22,407	-$1,147	-5.1%	$59,927	$80,561	-$20,634	-25.6%
Health	**$2,998**	**$1,385**	**$1,613**	**116.4%**	**$11,582**	**$10,660**	**$921**	**8.6%**
GRF	$293	$254	$39	15.4%	$1,524	$1,364	$160	11.7%
Non-GRF	$2,705	$1,131	$1,574	139.1%	$10,058	$9,296	$761	8.2%
Aging	**$515**	**$514**	**$2**	**0.3%**	**$3,201**	**$3,503**	**-$303**	**-8.6%**
GRF	$309	$282	$28	9.8%	$1,598	$1,549	$50	3.2%
Non-GRF	$206	$232	-$26	-11.1%	$1,602	$1,954	-$352	-18.0%
Mental Health and Addiction	**$467**	**$397**	**$69**	**17.4%**	**$2,409**	**$1,977**	**$431**	**21.8%**
GRF	$176	$140	$36	25.5%	$1,548	$1,420	$128	9.0%
Non-GRF	$291	$257	$34	13.0%	$861	$557	$303	54.4%
Total GRF	**$1,331,768**	**$1,721,514**	**-$389,747**	**-22.6%**	**$7,464,106**	**$7,948,945**	**-$484,839**	**-6.1%**
Total Non-GRF	**$852,310**	**$458,624**	**$393,685**	**85.8%**	**$2,581,483**	**$2,839,228**	**-$257,745**	**-9.1%**
Total All Funds	**$2,184,077**	**$2,180,139**	**$3,939**	**0.2%**	**$10,045,588**	**$10,788,172**	**-$742,584**	**-6.9%**

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

Table 6: All-Funds Medicaid Expenditures by Payment Category
Actual vs. Estimate
($ in thousands)
(Actuals based on OAKS report run on December 5, 2016)

	November				Year to Date Through November 2016			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	$915,648	$956,857	-$41,210	-4.3%	$4,152,111	$4,488,994	-$336,883	-7.5%
Nursing Facilities	$127,966	$125,985	$1,982	1.6%	$621,661	$613,948	$7,713	1.3%
DDD Services	$192,507	$192,180	$327	0.2%	$1,017,102	$1,068,329	-$51,227	-4.8%
Hospitals	$200,850	$115,564	$85,286	73.8%	$517,841	$617,230	-$99,389	-16.1%
Behavioral Health	$87,336	$96,001	-$8,665	-9.0%	$470,315	$510,043	-$39,727	-7.8%
Administration	$82,958	$99,337	-$16,380	-16.5%	$391,217	$492,063	-$100,846	-20.5%
Aging Waivers	$30,337	$30,347	-$10	0.0%	$145,064	$146,496	-$1,432	-1.0%
Prescription Drugs	$30,721	$34,279	-$3,559	-10.4%	$167,068	$187,542	-$20,474	-10.9%
Medicare Buy-In	$43,796	$38,567	$5,229	13.6%	$219,789	$191,904	$27,885	14.5%
Physicians	$10,752	$15,488	-$4,736	-30.6%	$76,458	$85,250	-$8,792	-10.3%
Medicare Part D	$30,726	$28,012	$2,714	9.7%	$145,734	$138,680	$7,055	5.1%
Home Care Waivers	$9,193	$13,196	-$4,003	-30.3%	$51,759	$71,961	-$20,201	-28.1%
ACA Expansion	$348,967	$361,557	-$12,589	-3.5%	$1,688,858	$1,785,278	-$96,421	-5.4%
All Other	$72,322	$72,769	-$448	-0.6%	$380,611	$390,457	-$9,846	-2.5%
Total All Funds	**$2,184,077**	**$2,180,139**	**$3,939**	**0.2%**	**$10,045,588**	**$10,788,172**	**-$742,584**	**-6.9%**

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

Expenditures

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Overview

Tables 3 and 4 show GRF uses for the month of November and for FY 2017 through November, respectively. GRF uses mainly consist of program expenditures but also include transfers out. For the month of November, GRF uses totaled $2.37 billion, which was $341.1 million below estimate. Through November, FY 2017 GRF uses totaled $15.61 billion, which was $496.8 million below estimate. Medicaid is the key culprit for these variances. In November, GRF Medicaid expenditures were $389.7 million (22.6%) below estimate, which increased the category's negative year-to-date variance from $95.1 million at the end of October to $484.8 million (6.1%) at the end of November. November's large negative variance in GRF Medicaid expenditures was an anticipated reversal from October when more GRF dollars than had been planned were used to make Medicaid payments, due to a delay in collecting hospital assessment revenue, a non-GRF funding source for Medicaid. Medicaid is mainly funded by the GRF but it also receives funding from several non-GRF funds.

Through November, FY 2017 GRF uses were $496.8 million below estimate due mainly to Medicaid, which was $484.8 million below estimate.

In addition to Medicaid, several other program categories also posted relatively large year-to-date variances. Health and Human Services had the second largest negative year-to-date variance at $38.1 million, followed by Justice and Public Protection at $15.7 million. Primary and Secondary Education, on the other hand, had a positive year-to-date variance of $61.8 million. The majority of these variances occurred in the first four months (July through October) of FY 2017. Please see the November issue of *Budget Footnotes* for more information on the variances in these three program categories. Timing accounted for a large portion of those variances.

The remainder of this report will first discuss in more detail the variances in both GRF and non-GRF Medicaid expenditures and then provide a summary of prior year encumbrance activities as of December 1, 2016.

Medicaid

Table 5 shows GRF and non-GRF Medicaid expenditures for the Ohio Department of Medicaid (ODM) and five other state agencies (Developmental Disabilities, Job and Family Services, Health, Aging, and Mental Health and Addiction Services) that assist ODM in carrying out the responsibility of administering Ohio Medicaid. As a joint federal-state program, both GRF and non-GRF Medicaid expenditures contain federal and state moneys. Overall, the federal government reimburses Ohio for about two-thirds of its Medicaid expenditures.

For the month of November, GRF Medicaid expenditures of $1.33 billion were $389.7 million (22.6%) below estimate while non-GRF expenditures of $852.3 million were $393.7 million (85.8%) above estimate. All-funds Medicaid expenditures of $2.18 billion in November, however, were essentially on target with the estimate ($3.9 million or 0.2% above estimate). As indicated earlier, the imbalance in GRF and non-GRF Medicaid expenditures for November was an expected reversal of the imbalance in the GRF and non-Medicaid expenditures for October. FY 2017 hospital assessment revenue, which is deposited into non-GRF funds to make quarterly supplemental Upper Payment Limit (UPL) payments and to help offset GRF Medicaid expenditures, was finalized in November instead of October as originally anticipated. As a result, more GRF dollars were used in October for Medicaid expenditures than had been planned. The first quarterly supplemental UPL payments for hospitals totaling $162.2 million also were delayed from October to November. UPL allows the state to direct supplemental payments, up to the difference between the Medicare and the Medicaid payment amounts, to service providers.

For the first five months of FY 2017, all-funds Medicaid expenditures were $742.6 million below estimate.

Through November, FY 2017 GRF Medicaid expenditures of $7.46 billion were $484.8 million (6.1%) below estimate while non-GRF Medicaid expenditures of $2.58 billion were $257.7 million (9.1%) below estimate. Across all funds, Medicaid expenditures of $10.05 billion were $742.6 million (6.9%) below the year-to-date estimate. As expected, the majority of these variances occurred in ODM. ODM's GRF Medicaid expenditures of $7.19 billion were $467.4 million (6.1%) below the year-to-date estimate while its non-GRF Medicaid expenditures of $1.69 billion were $189.3 million (10.1%) below the year-to-date estimate. Including both GRF and non-GRF, ODM's all-funds Medicaid expenditures of $8.88 billion were below the year-to-date estimate by $656.6 million (6.9%). All-funds Medicaid expenditures from the Department of Developmental Disabilities (DDD), the second largest agency within this program category, totaled $1.05 billion through November, which was $50.6 million (4.6%) below estimate. DDD's GRF Medicaid expenditures of $237.9 million were $2.1 million (0.9%) below the year-to-date estimate while its non-GRF year-to-date expenditures of $815.9 million were $48.6 million (5.6%) 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. Managed Care continued to post the largest negative year-to-date variance at $336.9 million (7.5%), followed by Administration ($100.8 million, 20.5%), Hospitals ($99.4 million, 16.1%) and ACA Expansion ($96.4 million, 5.4%). Together, these four categories accounted for 85.3% of the total negative year-to-date variance in all-funds Medicaid expenditures.

As reported in prior issues of *Budget Footnotes*, the negative variance in the Managed Care payment category is expected to increase through the end of this calendar year as actual managed care rates for 2016 are lower than the ones used in the estimate, particularly those for the MyCare program, which provides managed care services for individuals who receive both Medicaid and Medicare benefits. Lower than expected managed care rates were also the driving force behind the negative variance in the ACA Expansion payment category. ACA expansion enrollees generally receive services through managed care although some of them may temporarily enroll in fee-for-service for a short period of time. ACA expansion enrollments were about 25,000 higher than expected. However, the category's expenditures were below the year-to-date estimate as the caseload effect on expenditures was completely offset by the managed care rate effect. Managed care rates are established annually. Federal law requires these rates to be actuarially sound. New rates for calendar year 2017 will take effect on January 1.

Approximately $86 million of the $100.8 million negative year-to-date variance in the Administration payment category was attibutable to unspent federal incentive grants. Expenditures for Ohio Benefits, a one-stop portal for Ohioans to check their eligibility for Medicaid and other public benefits, were approximately $25 million below estimate. The federal government funds about 90% of the costs for implementing Ohio Benefits. Expenditures for several other support service contracts were also lower than anticipated.

Due largely to UPL payment timing issues, expenditures from the Hospitals payment category were $85.3 million (73.8%) above estimate in November. This positive monthly variance narrowed the category's negative year-to-date variance from close to $185 million at the end of October to $99.4 million at the end of November. As indicated earlier, the first quarterly hospital UPL payments totaling $162.2 million that were planned for October were actually disbursed in November. However, the estimate for November anticipated another $43 million in UPL payments for hospital-based physicians. These payments did not occurr as planned, which narrowed the category's positive monthly variance somewhat and contributed to the category's negative year-to-date variance.

Prior Year Encumbrances

As reported in the July issue of *Budget Footnotes*, state agencies carried into FY 2017 over $428 million in encumbered GRF funds that were originally appropriated for fiscal years prior to FY 2017. An agency generally has five months to spend prior year encumbrances for operating expenses. Any unspent operating expense encumbrances will lapse at the end of the five-month period and will become part of the GRF cash balance once OBM cancels the encumbrances. Subject to the approval of the Director of Budget and Management, an agency may carry funds encumbered for purposes other than operating expenses beyond the five-month period. Encumbrances for some grant and aid payments may be carried for several months or even years.

Prior Year GRF Encumbrances by Agency ($ in millions)

Agency	Prior Year Encumbrances as of July 1, 2016	Amount Expended	Outstanding Encumbrances as of December 1, 2016	Amount Lapsed
Education	$153.9	$106.2	$47.1	$0.6
Job and Family Services	$65.0	$36.3	$27.0	$1.8
Development Services	$25.3	$8.1	$16.7	$0.5
Higher Education	$20.3	$5.5	$14.8	$0.1
Rehabilitation and Correction	$31.1	$23.4	$7.0	$0.7
Medicaid	$50.4	$16.8	$4.7	$28.9
All Other Agencies	$82.3	$56.3	$19.0	$7.0
Total	**$428.4**	**$252.5**	**$136.4**	**$39.6**

Detail may not sum to total due to rounding.

As of December 1, 2016, outstanding prior year GRF encumbrances totaled $136.4 million.

As shown in the table above, as of December 1, 2016, $252.5 million (58.9%) of the $428.4 million in total prior year encumbrances was expended, $136.4 million was still outstanding, and the remaining $39.6 million lapsed. The Ohio Department of Education (ODE) had the largest share (34.6%) of the total outstanding encumbrances as of December 1, followed by the Ohio Department of Job and Family Services (ODJFS) at 19.8%, the Development Services Agency (DSA) at 12.3%, and the Ohio Department of Higher Education (ODHE) at 10.9%. Together, these four agencies had $105.6 million (77.5%) of the $136.4 million in total outstanding prior year encumbrances.

Items 200408, Early Childhood Education, 200540, Special Education Enhancements, and 200550, Foundation Funding, accounted for $12.5 million (26.6%), $11.0 million (23.3%), and $10.4 million (22.0%), respectively, of ODE's total $47.1 million in outstanding prior year encumbrances as of December 1. These encumbrances will be used for making any necessary subsidy payment adjustments for early childhood education service providers, county boards of developmental disabilities, and schools.

ODJFS had $27.0 million in outstanding prior year encumbrances as of December 1. Items with significant outstanding encumbrances are item 655522, Medicaid Program Support – Local ($8.5 million, 31.3%), item 600321, Program Support ($4.0 million, 14.6%), and item 600523, Family and Children Services ($3.5 million, 13.1%). Funds encumbered in item 655522 are used to pay the state's share of Medicaid costs for local administrative services. The encumbrances in item 600321 are for contracts with vendors that provide various administrative support services for ODJFS. Funds encumbered in item 600523 are used to provide funding to county agencies for child protective services.

DSA had $16.7 million in outstanding prior year encumbrances as of December 1. The vast majority of DSA's outstanding prior year encumbrances were for various economic development grants. Many of these grant programs are operated on a reimbursement basis, under which grantees have to carry out the programs and certify that certain requirements or objectives have been met before they are reimbursed by the state. Depending on the scope of a project, the grantee may not actually receive the award until several years after the award was originally made.

ODHE had $14.8 million in outstanding prior year encumbrances as of December 1, of which $13.7 million occurred in item 235438, Choose Ohio First Scholarship. Item 235438 is used to pay the state's obligations to scholarship recipients.

ISSUE UPDATES

Department of Higher Education Hosts First Student Summit to End Sexual Violence

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

On November 3, 2016, the Ohio Department of Higher Education (ODHE) hosted the state's first summit to train students on ways to end sexual violence on Ohio's college campuses. The one-day "Generation IX: Our Time. Our Power. Our Voices." summit, held in Columbus, featured national activists, safety experts, Title IX coordinators, and more than 300 students discussing some of the nation's best practices to end sexual assault. Attendees heard two keynote addresses and participated in various breakout sessions that covered a variety of topics, including Title IX, advocacy, activism, strategies to engage with campus administration and collaborate with community-based organizations, sustaining student-led movements, and the impact of sexual violence on various groups of students on campus.

The summit is one component of the state's multipronged "Changing Campus Culture" initiative that is designed to strengthen the ability of colleges and universities to better prevent and respond to sexual assault on their campuses. The initiative is supported by an appropriation of $2.0 million from GRF line item 235492, Campus Safety and Training, which has been used by ODHE to develop model best practices for preventing and responding to sexual assault on campus, disseminate and analyze a campus climate survey, create an online resource portal, provide regional training to campuses, and offer grants to individual institutions to help implement the best practices developed by ODHE.

All 52 Educational Service Centers Qualify for "High-Performing" Designation for FY 2017 Funding Purposes

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

In October 2016, the State Board of Education designated all 52 educational service centers (ESCs) in the state as "high performing" pursuant to criteria established in H.B. 64 and rules adopted by the State Board. To qualify for the designation, an ESC must have demonstrated cost savings of at least 5% in FY 2016 for its client school districts and community schools across five primary services identified by the ESC. All ESCs exceeded the 5% threshold. Overall, 52 ESCs documented total cost savings of $54.1 million in FY 2016.

An ESC's high-performing status determines the level of per-pupil state operating funding it receives in FY 2017 – $27 per pupil for high-performing ESCs, the same amount that all ESCs received in FY 2016. An ESC that was not designated as high performing would have received state per-pupil funding of $25. ESCs are slated to receive total per-pupil state operating funding of $41.6 million in FY 2017 through an earmark from GRF line item 200550, Foundation Funding. Per-pupil state operating funding comprises about 15% of ESC funding paid by the Ohio Department of Education in FY 2017. Most of the remainder is supported by service contracts with client districts and schools, payment for which is deducted and transferred from the client's state foundation funding. ESCs may also bill school districts directly for other fee-for-service contracts.

$5.8 million Awarded to Improve Birth and Developmental Outcomes

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

On November 16, 2016, the Ohio Department of Health (ODH) announced that $5.8 million in federal funds was awarded to 27 counties that are at-risk for poor birth or childhood developmental outcomes. These funds will be used to expand local evidence-based home visiting services to pregnant women and parents with young children. The individual county awards range from $46,200 to $632,000. For a complete list of the awards, please refer to the map on the Prevent Infant Mortality Ohio website: www.preventinfantmortality.test.ohio.gov.

ODH recently released its 2015 Ohio Infant Mortality Report, which may be accessed online at: www.odh.ohio.gov. The report found that Ohio's overall infant mortality rate for all races has risen from 6.8 (number of infant deaths per 1,000 live births) in 2014 to 7.2 in 2015. The black infant mortality rate increased from 14.3 in 2014 to 15.1 in 2015. Ohio's goal is to obtain a rate of 6.0 or lower for every race or ethnic group. In 2015, the white and Hispanic groups were the only two that met or exceeded this goal with rates of 5.5 and 6.0, respectively. The three leading causes of infant mortality are prematurity/preterm births, sleep-related deaths (i.e., Sudden Infant Death Syndrome or asphyxia), and birth defects.

The state has targeted funding to combat infant mortality in recent years, including the current biennium. For instance, the Ohio Department of Medicaid awarded $22.5 million in FY 2016 to fund 46 projects in nine counties. These counties have communities within their jurisdictions that accounted for almost two-thirds of all infant deaths and 90% of black infant deaths during 2015. In the second half of FY 2017, ODH also plans to provide $2.6 million to 14 counties with the highest black infant mortality rates and another $2.5 million to improve equity in birth outcomes in nine counties.

Grants Awarded to Prevent Underage Drinking and Reduce Prescription Drug Misuse

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

On October 20, 2016, the Ohio Department of Mental Health and Addiction Services (OMHAS) announced that $720,000 was awarded to nine grant recipients to prevent underage drinking and to reduce prescription drug misuse among youth and young adults. The grant recipients are located in the following counties: Champaign, Coshocton, Hardin, Holmes, Mercer, Seneca, Tuscarawas, Warren, and Wayne. Each recipient will receive $80,000 to implement evidence-based programs and strategies that help prevent underage drinking among individuals aged 12 to 20 and reduce prescription drug misuse among individuals aged 12 to 25. The grants may be renewed for up to two more years, depending on the availability of funds and a recipient's progress toward meeting certain goals.

The grant funding was provided through the Strategic Prevention Framework-Partnership for Success (SPF-PFS) Initiative, which is a five-year grant program funded by the federal Substance Abuse and Mental Health Services Administration and administered by OMHAS. The initiative aims to establish an integrated public health infrastructure that aligns prevention priorities among different entities at the state and local levels. Ohio's SPF-PFS Initiative seeks to ensure that rural and Appalachian populations have access to evidence-based prevention services.

State Board of Pharmacy Awarded Federal Prescription Drug Monitoring Program Grant

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

In late September 2016, the State Board of Pharmacy was awarded a two-year $399,365 grant under the federal Bureau of Justice Assistance's Harold Rogers Prescription Drug Monitoring Program. The grant will be used to enhance the Ohio Automated Rx Reporting System (OARRS), a state-run database created to address prescription drug abuse, misuse, and diversion. The Board plans to allocate the grant for two primary objectives: (1) expanding database access to include Ohio's drug courts and (2) improving drug law enforcement. The latter largely will be accomplished by hiring two compliance agents specifically assigned to OARRS. The agents' duties will include reviewing complaints, investigating possible violations, assisting with the investigation and review of drug overdose deaths, and conducting regular training of law enforcement in the use of OARRS.

Established in 2006, OARRS collects information on the dispensing and personal furnishing of controlled prescription drugs to Ohio patients. In 2015, OARRS collected more than 24 million prescription records reported by more than 3,000 Ohio pharmacies for 4 million patients.

DNR Awards Nearly $15.0 million in Outdoor Recreational Facility Grants to Communities and Organizations Across the State

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

On October 28, 2016, the Department of Natural Resources (DNR) announced the recipients of nearly $15.0 million in funding under three grant programs. The majority of this amount, $10.5 million, will go to 22 recipients in 12 counties under the Clean Ohio Trails Fund Grant Program for community projects to connect regional trail systems and provide access to outdoor recreation areas from urban areas. Another $3.0 million under the NatureWorks Grant Program is being awarded to 89 recipients in 69 counties. This money will be used to create and renovate parks and outdoor recreation areas, including the acquisition of green space and improvements and construction of playgrounds, restroom facilities, shelters, and ballfields. The remaining $1.5 million will go to 13 communities and organizations in 14 counties under the Recreational Trails Grant Program for local trails projects. A complete list of grant recipients can be found on DNR's website at: http://realestate.ohiodnr.gov/outdoor-recreation-facility-grants.

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

Development Services Agency Awards $11.6 million to Local Governments for Community Improvements

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

On November 1, 2016, the Development Services Agency (DSA) announced the award of 37 grants totaling $11.6 million for local governments to make public improvements. This funding comes from the set-aside portion of the federal Community Development Block Grant (CDBG) Program. Under this set-aside, local governments apply to DSA for funding for projects that serve primarily low- and moderate-income populations in their communities. The eligible projects fall into one of the three categories: (1) Critical Infrastructure, (2) Neighborhood Revitalization, and (3) Downtown Revitalization. The table below summarizes the 2016 CDBG set-aside grants and total community improvement project costs by program category. Overall, the CDBG set-aside grants account for almost 53% of the total project costs.

CDBG Set-aside Grants, 2016				
Category	**Number of Grants**	**CDBG Grant Amount**	**Total Project Cost**	**CDBG Grant Share of Total Cost**
Critical Infrastructure	21	$5,033,900	$9,289,230	54.2%
Neighborhood Revitalization	9	$4,500,000	$7,918,283	56.8%
Downtown Revitalization	7	$2,100,000	$4,803,048	43.7%
TOTAL	**37**	**$11,633,900**	**$22,010,561**	**52.9%**

Attorney General Awards $79.5 million in Crime Victim Services Grants

– Jessica Murphy, LSC Fellow, 614-466-9108

On October 7, 2016, the Office of the Attorney General announced the award of $79.5 million in 563 crime victim services grants.[10] The grants support the delivery of 422 crime victim services programs by more than 340 providers statewide. Of the total awarded, $76.1 million is to be funded by the federal Crime Victims Assistance Fund (Fund 3830) and $3.4 million is to be funded by the state Victims of Crime/Reparations Fund (Fund 4020). Twenty-four entities were awarded a total of $4.3 million in federal crime victim services grants to operate 27 new programs across the state. The remainder ($71.8 million) of the federal grants and all of the state grants were awarded to support existing programs. Crime victim services programs are operated by public agencies, including local prosecutors, and private nonprofit organizations.

Fund 3830's revenues are from a population-based grant administered by the U.S. Department of Justice. There is no state match requirement for the grant. The Ohio Attorney General's Victim Services Section administers this federal grant at the state level. Fund 4020's revenues are generated primarily from court costs imposed on offenders and driver's license reinstatement fees.

[10] A complete grant award list can be found at: www.ohioattorneygeneral.gov/Media/News-Releases.

Controlling Board Releases $3.5 million for Juvenile Community Corrections Facility Renovations

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

On November 14, 2016, the Controlling Board approved the Department of Youth Services' request for the release of $3.5 million in capital funds for general renovations and maintenance repair projects at the state's 12 county-operated juvenile community corrections facilities (CCFs). Specific projects include door and lock replacements, safety and security system improvements, HVAC and boiler replacements, lighting upgrades, roof replacements, and various other facility improvements. The table below lists each CCF by county, as well as the corresponding project cost.

CCFs provide treatment services in a secure facility setting to less serious felony level offenders between the ages of 12 and 18 who would otherwise be committed into the care and custody of the Department. All construction, renovation, and operating costs of the CCFs are paid for by the Department. In FY 2016, these facilities served 447 youth statewide.

Community Corrections Facility Projects by County (Total: $3,469,811)					
County	**Facility**	**Project Cost**	**County**	**Facility**	**Project Cost**
Athens	Hocking Valley Community Residential Center	$314,856	Marion	North Central Ohio Rehabilitation Center	$50,000
Belmont	Oakview Juvenile Residential Center	$146,625	Miami	West Central Juvenile Rehabilitation Center	$340,000
Butler	Butler County Juvenile Rehabilitation Center	$180,000	Montgomery	Montgomery County Center for Adolescent Services	$385,000
Erie	Northern Ohio Juvenile Community Corrections Facility	$393,400	Perry	Perry Multi-County Juvenile Facility	$340,000
Greene	Miami Valley Juvenile Rehabilitation Center	$515,000	Stark	Multi-County Juvenile Attention System	$50,000
Lucas	Lucas County Youth Treatment Center	$741,430	Wood	Juvenile Residential Center of Northwest Ohio	$13,500

Tracking the Economy

– Thomas Kilbane, Economist, 614-728-3218

Overview

The national unemployment rate fell to 4.6% in November, lowest since 2007.

Ohio's nonfarm payroll employment decreased in October for the third straight month, while the state unemployment rate was 4.9%, the same as the U.S. as a whole (in October). Employment in the state is still growing year over year, but at the slowest pace in over three years. A new report from the Bureau of Economic Analysis (BEA) estimated that economic production in Ohio rose in the second quarter, but decreased on balance during the first half of 2016 by 0.5% (seasonally adjusted annual rate). According to the Federal Reserve's survey in October and early November of businesses in the region, total economic activity rose slightly during the period, but auto assembly plant production was down more than 5% year over year, and retail sales were down in general.

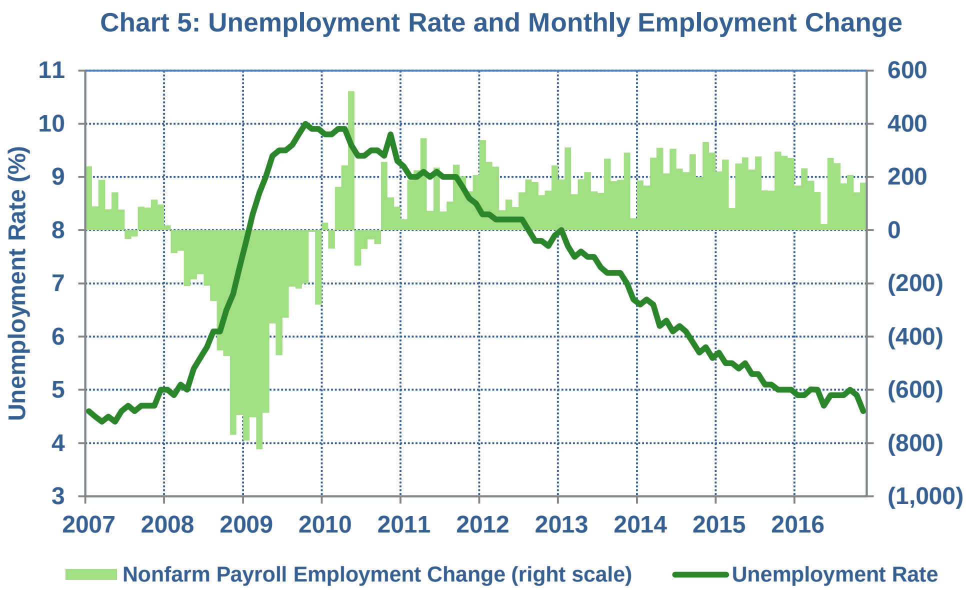
Somewhat in contrast, newly reported nationwide economic indicators were mostly positive. The national unemployment rate fell to 4.6% in November, lowest since 2007. Nationwide sales of existing homes in October posted the strongest seasonally adjusted rate in nearly a decade. Nationwide sales of motor vehicles remained strong through November. Due in part to the strength of those figures, at the conclusion of its meeting on December 13-14, the Federal Reserve is widely expected to raise its target for short-term interest rates for only the second time since the end of the Great Recession.

The National Economy

Employment and Unemployment

The national unemployment rate fell to 4.6% in November, its lowest rate since 2007 (see chart below). Employment gains and decreases in the labor force[11] in back-to-back months led to the drop from 5.0% in September and 4.9% in October. The unemployment rate is measured as the percent of the labor force that is unemployed.

[11] The labor force is the number of civilians age 16 and over who are either currently employed or unemployed but looked for work in the last four weeks.



Nationwide employment has increased in 74 straight months.

The U.S. added 178,000 jobs[12] in November, continuing a streak of 74 straight months with employment gains. The pace of job growth in 2016 has averaged 180,000 per month with only May (low) and June and July (high) as significant outliers.

The largest November gains among industries came in professional and business services (+63,000), and education and health services (+44,000), while information services (-10,000), and manufacturing (-4,000) lost jobs. The biggest change from prior employment trends came in the retail trade, which lost 8,000 jobs in November, but had gained 223,000 since November one year ago.

Average hourly earnings among private, nonfarm employees dipped in November after ten straight months of increases. Overall, earnings for these workers still grew 2.5% in the last 12 months.

Production

U.S. economic output expanded more in the third quarter of 2016 than previously thought. The BEA estimated that inflation-adjusted gross domestic product (real GDP) grew at a 3.2% annual rate[13] during the quarter, faster than any other quarter in two years. (The BEA had previously reported 2.9% growth using preliminary data.) The jump can be attributed in part to higher exports of goods, which increased at a 14.2% rate from the second quarter. Exports of soybeans saw a

[12] Nonfarm payroll, seasonally adjusted.

[13] Seasonally adjusted.

particularly large jump, a development which was not expected to continue at that pace in the future. Despite the jump in quarterly production, 12-month economic growth remained below 2% for the fourth straight quarter.

Industrial production remained flat in October as the result of a decrease in output of utilities offsetting an increase in mining and a small increase in manufacturing. The increase in mining was the largest monthly increase since March 2014, while the decrease in utilities production was the result of warmer than usual temperatures reducing the demand for heating. In the bigger picture, manufacturing production remains lower than its level 12 months ago, according to the Federal Reserve's measure.

Consumer Spending

Real (price-adjusted) consumer spending increased slightly in October and over the last 12 months, grew 2.8%, a similar pace to growth in 2015. In particular, spending continues to increase the most for durable goods. Spending growth in 2016 has been buoyed by growth in real disposable personal income, which increased 2.7% over the past 12 months.

Nationwide sales of motor vehicles remained strong through November. Annual sales of light vehicles were a record high in 2015; with one month to go in 2016, total sales are not far off the record pace. Driven in part by low gas prices, light trucks and SUVs continue to be more popular than ever, keeping average sales prices high. In November, Kelley Blue Book estimated the average transaction price for light vehicles was $34,948.

Real Estate

Unit sales of existing homes in October were highest in nearly a decade.

The residential real estate market was very strong across the country in October. Sales of existing homes (the bulk of the market) posted its strongest seasonally adjusted rate in nearly a decade, housing construction starts jumped to its highest tally since 2007, and sales of new homes remained solidly above the total one year ago. Sales of existing homes increased in all four regions[14] of the country in each of September and October. Still, it remains to be seen if the strong pace will last as costs continue to rise. The nationwide median existing home sales price was 6.0% higher in October than one year ago, far exceeding the pace of income growth. Mortgage rates, which have been low all year, are

[14] The National Association of Realtors splits the country into Northeast, Midwest, South, and West regions for existing home sales reporting purposes.

beginning to rise as well. The average rate for a 30-year fixed rate mortgage climbed above 4.0% in the last week of November for the first time all year, according to Freddie Mac's Primary Mortgage Market Survey.

Inflation and Monetary Policy

Broad measures of consumer prices all indicated increases in October, as has been the case for most of the year. In September and October, consumer price increases were driven by gasoline prices, a notoriously volatile segment. Measures of "core" prices, which exclude volatile prices of food and energy products, have been rising steadily all year. Over the last 12 months ended in October, the price index for personal consumption expenditures (PCE) excluding food and energy increased 1.7%. Among consumer price index components, the largest increases in major categories during the last 12 months were for medical care and utility gas service. The largest price decreases during that time were for used cars and trucks.

The Federal Open Market Committee (FOMC)[15] is scheduled to meet on December 13 and 14, shortly after production of this newsletter. At the conclusion of the meeting, the FOMC is widely expected to raise its target for short-term interest rates for only the second time since the end of the Great Recession. In testimony to Congress on November 17, Chair Janet Yellen said: "the Committee judged [at its meeting earlier in November] that . . . an increase could well become appropriate relatively soon . . . ." Financial markets have taken that, and other indicators, to mean a rate rise in December is on the way.

The Ohio Economy

Employment and Unemployment

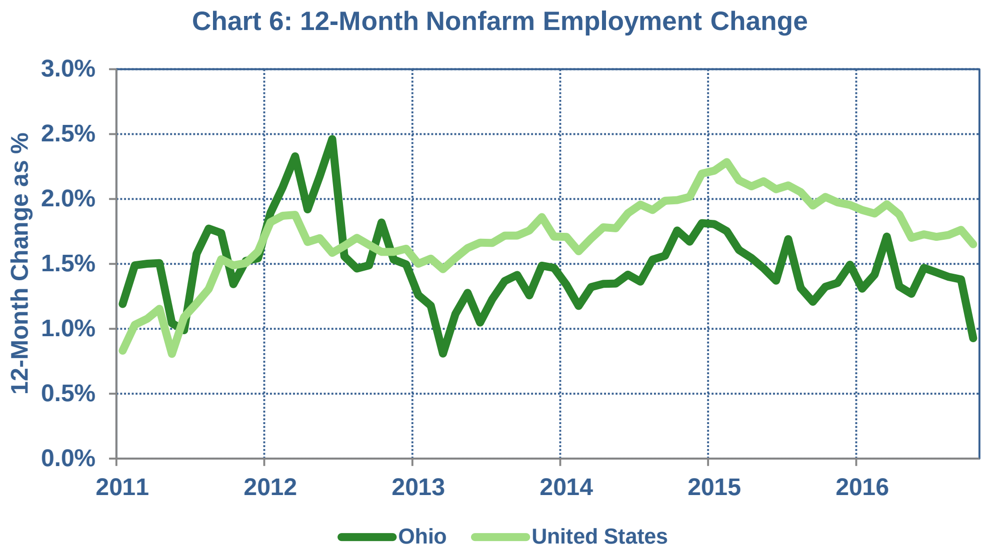
Ohio lost 2,800 jobs[16] in October, continuing an autumn malaise in the state's labor market. Ohio has lost more jobs than it gained in each of the last three months. Overall during 2016, job gains continue to be positive in Ohio, but the pace of growth has slowed. Average monthly job gains during the first ten months of 2016 was 2,100, while the average was 6,700 during all of 2015.

In October, Ohio lost jobs for the third straight month.

[15] The FOMC is the body within the Federal Reserve that meets eight times a year to determine the appropriate stance of monetary policy.

[16] Nonfarm payroll employment, seasonally adjusted.

The chart below illustrates the pace of year-over-year job growth in Ohio and the U.S. since the beginning of 2011. While in the midst of an usually long period of sustained job growth, the pace of growth has slowed for both regions since the beginning of 2015. In October, Ohio's year-over-year job growth dropped to its lowest level since March of 2013.



Ohio's year-over-year job growth dropped to the lowest level since March 2013.

Job growth in Ohio over the last five years has largely been concentrated in private service-providing sectors, but in recent months job growth in those areas has slowed. Over the last three months, private service-providing sectors in Ohio have lost a net of 10,600 jobs, and job growth year over year in those areas has slowed to 1.0%. Among industries, administrative support and waste services lost the most net jobs in October (-5,100), as well as the last 12 months (-13,100).

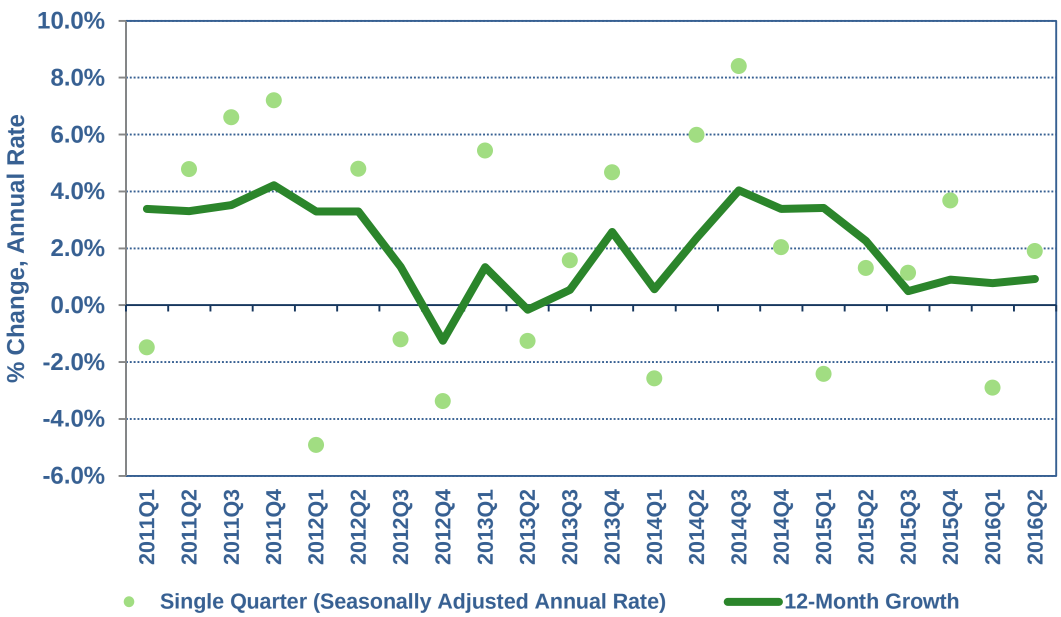
The unemployment rate in Ohio ticked up in October to 4.9%, even as another large monthly decrease in the labor force was reported. That rate matched the U.S. rate in October, as well as Ohio's unemployment rate in January 2016. In October, 280,000 Ohioans were estimated to be unemployed.

State Production

Production in Ohio grew by 1.9% in the second quarter of 2016 (seasonally adjusted annual rate), which ranked in the top half of states. However, the BEA also estimated that production in Ohio decreased by 2.9% in the first quarter, which had previously been estimated to have increased 1.4%. The major downward revision results in Ohio's year-over-year production growth rate remaining between 0.5% and 0.9% in each of the last four quarters (see chart below). The decrease in production during the first quarter was unexpected, but not unusual; it was the eighth quarter since the end of the recession in which Ohio's production decreased by at least 1.0% (annual rate). However, Ohio has lacked a quarter with a big production increase of late. Not since the third quarter of 2014 has Ohio had a quarter with production growth over 4.0%.

Ohio's state GDP declined 2.9% in the first quarter of 2016.

Chart 7: Ohio Real GDP Growth



Among industries, Ohio's real estate rental and leasing, and transportation and warehousing contributed the most to positive GDP growth during the second quarter (taking into account both size of industry and growth rates). The two largest negative contributions by industry came from mining, which has been declining for some time now, and the retail trade, which was more unexpected.

Regional Economy

Economic activity in the region increased slightly during the period from early October to mid-November, according to the Federal

The number of drilling rigs in the Marcellus and Utica shales continues to increase slowly.

Reserve Bank of Cleveland's most recent report.[17] The report also mentioned the following:

- Manufacturing production was reported as generally stable, though year-to-date auto assembly plant production through September was down more than 5% from the same period in 2015.
- Sales of new motor vehicles continue to decline, but sales of used vehicles are up from one year ago.
- Retail sales were down due in part to warm weather depressing winter related sales and continued increasing competition from Internet retailers.
- The number of drilling rigs operating in the Marcellus and Utica shales continues to increase slowly as wellhead prices rise.
- Commercial construction activity moved higher, while real estate agents cited low existing-home inventory as the primary factor driving up prices in the residential market.
- A number of businesses reported that the results of the presidential election increased uncertainty in the future.

Housing

Year-over-year volume growth of Ohio home sales slowed in October relative to prior months, but average sale price spiked. This scenario matches the Beige Book description of high residential prices in the region driven by low inventory. Overall, 2016 remains a very strong year for residential real estate in the state. Statewide unit sales volume was up 4.4% through October from the period one year ago, and average sales price during the period was $164,067, a 4.8% increase year over year.

[17] Prior to meetings of the FOMC, the Federal Reserve publishes the Beige Book, which reports on regional economic activity in each of the central bank's 12 districts. The Federal Reserve Bank of Cleveland's district includes all of Ohio and parts of Kentucky, Pennsylvania, and West Virginia. Information in the latest report was collected on or before November 18, 2016.