Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION OCTOBER 2016

STATUS OF THE GRF

HIGHLIGHTS

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

GRF tax revenues eked out a positive variance of just under $9 million in September, despite relatively small negative variances for both the sales and use tax and the personal income tax. For the full first quarter of FY 2017 recent trends continued, with GRF tax revenues below the August estimates of the Office of Budget and Management (OBM) by almost $72 million, and year-to-date GRF program expenditures also below estimates by a total of $198.1 million.

Ohio's unemployment rate fell to 4.7% in August, less than the national rate of 4.9% that month. Ohio nonfarm payroll employment decreased 2,000 from July to August, with job losses in the private service-providing sector outweighing job gains elsewhere in the economy.

Through September 2016, GRF sources totaled $8.52 billion:

- Revenue from the personal income tax was $73.0 million below estimate;
- Sales and use tax receipts were $28.2 million below estimate.

Through September 2016, GRF uses totaled $10.08 billion:

- GRF Medicaid expenditures were $288.7 million below estimate;
- Positive variances for Primary and Secondary Education ($51.5 million) and Property Tax Reimbursements ($50.8 million) were primarily timing related.

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STATUS OF THE GRF

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

STATE SOURCES	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$120,455	$126,800	-$6,345	-5.0%
Nonauto Sales and Use	$718,424	$718,700	-$276	0.0%
Total Sales and Use Taxes	**$838,879**	**$845,500**	**-$6,621**	**-0.8%**
Personal Income	$789,942	$801,800	-$11,858	-1.5%
Corporate Franchise	-$198	$0	-$198	---
Financial Institution	$505	$0	$505	---
Public Utility	$75	-$300	$375	125.0%
Kilowatt-Hour Excise	$38,266	$29,100	$9,166	31.5%
Natural Gas Consumption (MCF)	$0	$0	$0	---
Commercial Activity Tax	$8,130	$5,500	$2,630	47.8%
Petroleum Activity Tax	$1,542	$1,200	$342	28.5%
Foreign Insurance	$9,558	$3,900	$5,658	145.1%
Domestic Insurance	$0	$0	$0	---
Business and Property	-$683	$0	-$683	---
Cigarette	$84,134	$77,900	$6,234	8.0%
Alcoholic Beverage	$7,203	$4,200	$3,003	71.5%
Liquor Gallonage	$3,834	$3,800	$34	0.9%
Estate	$90	$0	$90	---
Total Tax Revenue	**$1,781,276**	**$1,772,600**	**$8,676**	**0.5%**
NONTAX REVENUE				
Earnings on Investments	$3	$0	$3	---
Licenses and Fees	$1,426	$1,995	-$569	-28.5%
Other Revenue	$11,471	$1,410	$10,061	713.6%
Total Nontax Revenue	**$12,900**	**$3,405**	**$9,495**	**278.9%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$1,416	$0	$1,416	---
Total Transfers In	**$1,416**	**$0**	**$1,416**	**---**
TOTAL STATE SOURCES	**$1,795,591**	**$1,776,005**	**$19,586**	**1.1%**
Federal Grants	$940,911	$1,050,111	-$109,200	-10.4%
TOTAL GRF SOURCES	**$2,736,502**	**$2,826,116**	**-$89,614**	**-3.2%**

*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 September 30, 2016
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on October 3, 2016)

STATE SOURCES	Actual	Estimate*	Variance	Percent	FY 2016	Percent Change
TAX REVENUE						
Auto Sales	$366,044	$374,700	-$8,656	-2.3%	$364,629	0.4%
Nonauto Sales and Use	$2,287,666	$2,307,200	-$19,534	-0.8%	$2,249,638	1.7%
Total Sales and Use Taxes	**$2,653,710**	**$2,681,900**	**-$28,190**	**-1.1%**	**$2,614,267**	**1.5%**
Personal Income	$1,987,458	$2,060,500	-$73,042	-3.5%	$2,081,152	-4.5%
Corporate Franchise	-$496	$0	-$496	---	$2,364	-121.0%
Financial Institution	$1,278	$0	$1,278	---	-$459	378.2%
Public Utility	$23,457	$25,200	-$1,743	-6.9%	$28,194	-16.8%
Kilowatt-Hour Excise	$98,612	$87,400	$11,212	12.8%	$94,779	4.0%
Natural Gas Consumption (MCF)	$11,918	$12,100	-$182	-1.5%	$12,060	-1.2%
Commercial Activity Tax	$298,382	$300,600	-$2,218	-0.7%	$283,565	5.2%
Petroleum Activity Tax	$1,542	$1,200	$342	28.5%	$1,350	14.2%
Foreign Insurance	$10,220	$4,500	$5,720	127.1%	$5,522	85.1%
Domestic Insurance	$2,370	$0	$2,370	---	$6	42337.2%
Business and Property	-$678	$0	-$678	---	$28	-2501.2%
Cigarette	$194,700	$185,900	$8,800	4.7%	$200,635	-3.0%
Alcoholic Beverage	$18,021	$13,700	$4,321	31.5%	$12,041	49.7%
Liquor Gallonage	$11,788	$11,300	$488	4.3%	$11,333	4.0%
Estate	$73	$0	$73	---	$148	-50.5%
Total Tax Revenue	**$5,312,354**	**$5,384,300**	**-$71,946**	**-1.3%**	**$5,346,984**	**-0.6%**
NONTAX REVENUE						
Earnings on Investments	$9	$0	$9	---	$8	3.2%
Licenses and Fees	$9,127	$8,550	$577	6.7%	$7,911	15.4%
Other Revenue	$49,180	$3,525	$45,655	1295.2%	$3,887	1165.4%
Total Nontax Revenue	**$58,316**	**$12,075**	**$46,241**	**382.9%**	**$11,806**	**393.9%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$15,309	$12,500	$2,809	22.5%	$165,064	-90.7%
Total Transfers In	**$15,309**	**$12,500**	**$2,809**	**22.5%**	**$165,064**	**-90.7%**
TOTAL STATE SOURCES	**$5,385,979**	**$5,408,875**	**-$22,896**	**-0.4%**	**$5,523,854**	**-2.5%**
Federal Grants	$3,132,170	$3,344,275	-$212,105	-6.3%	$2,951,060	6.1%
TOTAL GRF SOURCES	**$8,518,149**	**$8,753,150**	**-$235,002**	**-2.7%**	**$8,474,914**	**0.5%**

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

REVENUES

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

Overview

Federal grants were $212.1 million below estimate in the first quarter of FY 2017.

GRF sources[1] ended the first quarter of FY 2017 with a cumulative negative variance of $235.0 million compared to OBM's estimates of August 2016. That result was due largely to a shortfall of $212.1 million in federal grants (which are primarily related to the level of spending in the Medicaid program[2]) but also a deficit of $22.9 million in state-sources. Regarding the latter, though nontax revenue and transfers in were $46.2 million and $2.8 million above their respective estimates, GRF tax sources were below projected revenue by $71.9 million. The underperformance of tax sources in the first three months of the fiscal year continues a trend started in FY 2016, when GRF tax revenue ended the year 1.0% ($216.0 million) under expectations.[3] Of concern are the two largest GRF tax sources, the personal income tax (PIT) and the sales and use tax, which were below estimates by a total of $101.2 million in the first quarter of FY 2017. Both tax sources performed poorly in FY 2016 and are continuing to do so early in FY 2017, though this year's revenue estimates from OBM took into account FY 2016's underperformance. Tables 1 and 2 above, show GRF sources for September and for FY 2017 year to date through September, respectively.

GRF tax revenue was $71.9 million below estimate in the first quarter of FY 2017.

For the month of September, total GRF sources of $2.74 billion were $89.6 million below projections, due to a negative variance of $109.2 million in federal grants. Partially offsetting that negative variance, tax sources, nontax revenue, and transfers in were $8.7 million, $9.5 million, and $1.4 million above estimates, respectively. Most tax sources posted positive results for the month, but there were negative variances of $6.6 million for the sales and use tax and $11.9 million for the PIT. The kilowatt-hour excise tax, the cigarette tax, and the foreign insurance tax exceeded projections by $9.2 million, $6.2 million, and $5.7 million, respectively. Also, the alcoholic beverage tax and the

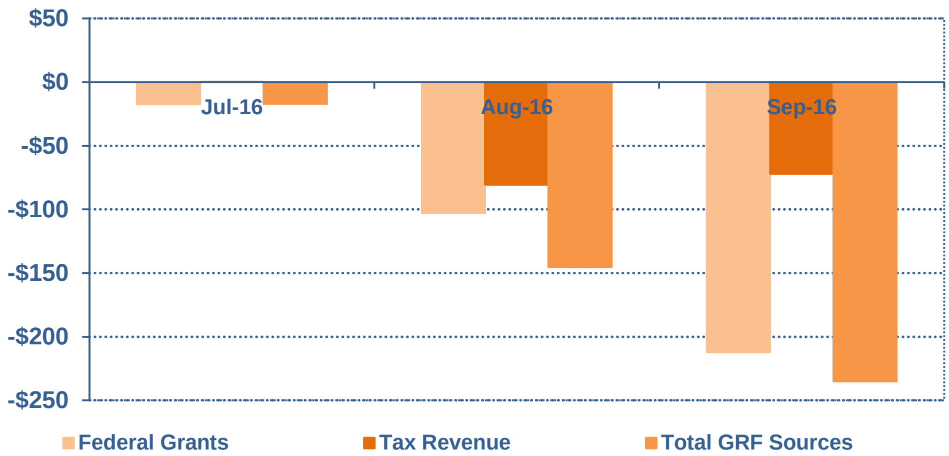
[1] GRF sources consist of state-source receipts (tax revenue, nontax revenue, and transfers in) and federal grants, which are typically federal reimbursements for Medicaid and other programs.

[2] First-quarter GRF Medicaid expenditures were $288.7 million below estimate.

[3] OBM estimates for FY 2016 were revised downward to accommodate the enactment of S.B. 208 and H.B. 340 of the 131st General Assembly. Estimates for FY 2017 were released in August 2016.

commercial activity tax (CAT) had positive variances of $3.0 million and $2.6 million. Variances for the remaining tax sources were small. The chart below illustrates the cumulative performance of total GRF sources relative to estimates through September 2016. As mentioned above, major categories of GRF sources were below estimates.

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



First-quarter GRF sources in FY 2017 were below estimates by $235.0 million.

For the fiscal quarter, the largest tax sources contributed to the early tax deficit: the PIT was $73.0 million below anticipated revenue, the sales and use tax, $28.2 million, and the CAT, $2.2 million. The public utility tax also had a negative variance of $1.7 million. Partially offsetting these negative variances were positive variances of $11.2 million for the kilowatt-hour excise tax, $8.8 million for the cigarette tax, $5.7 million for the foreign insurance tax, $4.3 million for the alcoholic beverage tax, $2.4 million for the domestic insurance tax, and $1.3 million for the financial institutions tax.

FY 2017 sources through September were up $43.2 million from one year ago.

Compared to the first quarter in FY 2016, FY 2017 GRF sources through September were $43.2 million higher. Federal grants and nontax revenue increased $181.1 million and $46.5 million,[4] respectively. On the other hand, transfers in declined $149.8 million in FY 2017 (due to a large transfer of $163 million into the GRF in July 2015), and tax receipts were $34.6 million below FY 2016's level. The decrease in GRF tax sources is largely the result of $93.7 million in decreased PIT revenue through September. Other taxes which experienced revenue decreases included the cigarette tax ($5.9 million), the public utility tax ($4.7 million), and the

[4] This is primarily as the result of an earlier than expected payment to the state from JobsOhio in the amount of $35.7 million in August. The payment was expected in October.

corporate franchise tax (CFT), ($2.9 million).[5] Those declines were partially offset by increases in revenue from the sales and use tax ($39.4 million), the CAT ($14.8 million), the alcoholic beverage tax ($6.0 million), the kilowatt-hour excise tax ($3.8 million), the domestic insurance tax ($2.4 million), and the financial institutions tax ($1.7 million).

Personal Income Tax

PIT revenue in the first quarter of FY 2017 was $73.0 million below estimate.

The PIT ended the first quarter of FY 2017 as poorly as it ended FY 2016. In the three months ending in September, total GRF revenue from the PIT of $1.99 billion was $73.0 million (3.5%) below OBM's estimate, including negative variances of $63.2 million (8.8%) in August and $11.9 million (1.5%) this month. This performance comes after this tax finished the previous fiscal year $217.7 million (2.7%) below estimate, including $138.1 million (3.7%) below from January to June of 2016.

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,[6] trust payments, payments associated with annual returns, and other miscellaneous payments. The performance of the tax is typically driven by employer withholdings, which is the largest component of gross collections. Employer withholding has lagged estimates in six of the last nine months. Similarly to August, the PIT revenue shortfall this month was also led by employer withholding, which was $16.8 million (2.4%) below estimate. Also, trust payments in September were $1.0 million (11.8%) below estimate. Partially offsetting those deficits, quarterly estimated payments and taxes due with annual returns were $9.9 million (6.5%) and $7.5 million (53.9%), respectively, above estimates. In addition to the shortcoming in gross collections, PIT refunds were $13.8 million (46.5%) higher than expected.

[5] Though GRF receipts were not anticipated after this tax was eliminated at the end of 2013, adjustments to tax filings in previous years resulted in CFT revenue of $33.2 million in FY 2016.

[6] 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.

For the fiscal year to date, gross collections were $43.2 million below anticipated revenue. Employer withholding was short of estimate by a total of $57.4 million, and trust payments were $2.1 million below projected revenue. Partially offsetting those negative variances, quarterly estimated payments and payments with annual returns were $9.9 million and $6.1 million above estimate, respectively, but refunds were $31.5 million above the expected level through September 2016. FY 2017 revenues through September from each component of the PIT relative to estimates and to revenue received in the corresponding period of FY 2016 are detailed below.

FY 2017 Year-to-Date Personal Income Tax Revenue
Estimate Variances and Year-Over-Year Changes by Component

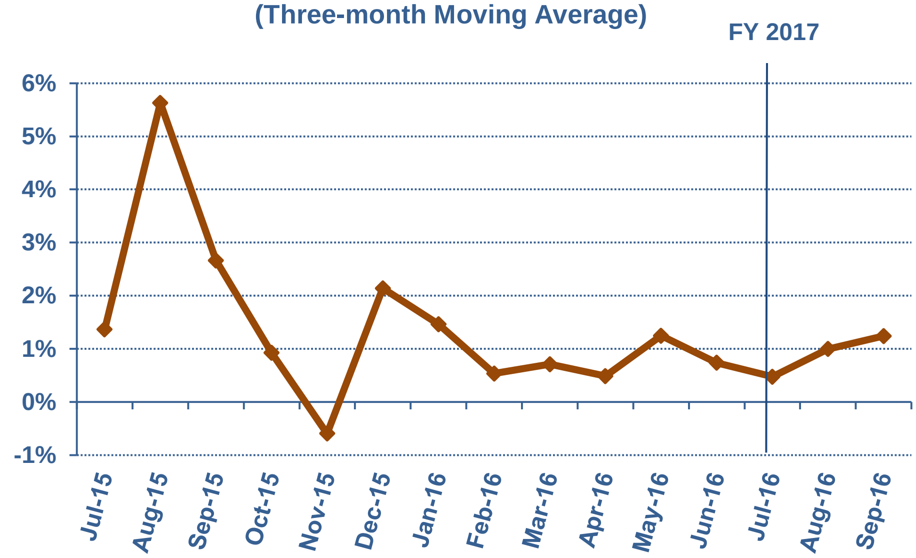
Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2016	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	-$57.4	-2.8%	$30.3	1.5%
Quarterly Estimated Payments	$9.9	5.8%	-$81.5	-31.2%
Trust Payments	-$2.1	-18.7%	-$3.4	-27.0%
Annual Return Payments	$6.1	20.5%	-$6.6	-15.6%
Miscellaneous Payments	$0.3	1.9%	$5.4	48.4%
Gross Collections	-$43.2	-1.9%	-$55.8	-2.4%
Less Refunds	$31.5	27.0%	$32.4	28.0%
Less LGF Distributions	-$1.7	-1.7%	$5.5	6.0%
GRF PIT Revenue	-$73.0	-3.5%	-$93.7	-4.5%

PIT revenue in the first quarter of FY 2017 was $93.7 million below FY 2016 revenue through September.

Compared to the first quarter in FY 2016, gross collections fell $55.8 million in FY 2017, due to decreases of $81.5 million in quarterly estimated payments and $6.6 million in payments due with annual returns. However, withholding grew $30.3 million, and miscellaneous payments increased $5.4 million; refunds, $32.4 million higher than in FY 2016, helped increase the year-over-year decline in PIT net collections.

Ohio payrolls continue to grow year over year but at a reduced pace. Policy changes in H.B. 64 (the biennium budget act), which led to reduced withholding rates, took effect in August 2015 and limited year-over-year growth throughout FY 2016. The chart below illustrates the growth of monthly employer withholdings relative to one year ago. (Figures in the chart are not adjusted for the withholding rate changes in August 2015, thus actual payroll growth is stronger than presented.) As the effects of policy changes are phased out of the year-over-year growth calculations, monthly employer withholding would reflect the true growth in payrolls. For example, withholding rates were the same in September 2015 and September 2016, so year-over-year growth in monthly withholding revenue, which was 5.1% for September, would be unaffected by the change in withholding.

Chart 2: Monthly Withholding Receipts Trend
Actual vs. Prior Year
(Three-month Moving Average)



Sales and Use Tax

FY 2017 first-quarter sales and use tax revenue was $28.2 million below estimate.

The sales and use tax is the largest state sourced revenue stream to the GRF, but this GRF source has been sluggish for several months. Through September in 2016, the tax has posted positive monthly performances only twice and experienced consecutive negative variances in the last six months.

Sales and use tax revenue to the GRF in September was $838.9 million, $6.6 million (0.8%) below estimate, but $18.3 million (2.2%) above sales tax receipts in September 2015. First-quarter GRF receipts of $2.65 billion in FY 2017 were $28.2 million (1.1%) below estimate and $39.4 million (1.5%) above FY 2016 revenue through September. Both the nonauto and auto portions of the sales and use tax were below projections.

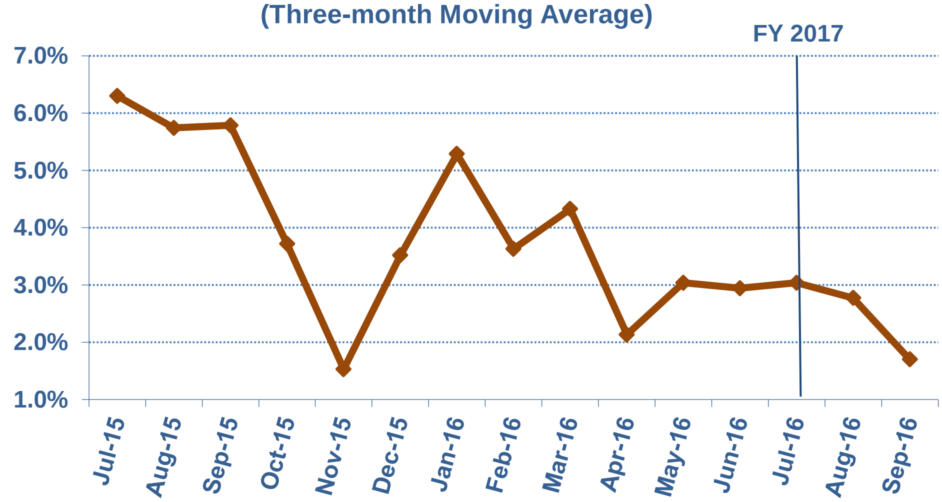
For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections generally arise from the sale of motor vehicles, but auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax instead of the auto tax.[7] Thus far in FY 2017, the nonauto portion accounted for 86% of the total sales and use tax collected, while auto collections were just 14%.

Nonauto Sales and Use Tax

Nonauto sales and use tax collections of $718.4 million in September 2016 were $0.3 million (0.0%) below estimate but $23.5 million (3.4%) above September 2015 revenue. For the fiscal quarter, GRF revenue of $2.29 billion was $19.5 million (0.8%) below estimate. Compared to first-quarter receipts last year, revenue from the nonauto sales and use tax grew only $38.0 million (1.7%), while OBM estimates were for modest growth of 2.6% because of the recent performance of the tax. Year-over-year growth in quarterly revenue fell below 2% for the first time in several months, underscoring the paltry performance of the tax in recent months. Nonauto sales and use tax receipts include tax payments by Medicaid health insuring corporations (MHICs), about 10% of sales tax receipts in FY 2016, and those payments historically have grown substantially each year. However, in the first quarter of FY 2017, sales tax revenue from MHICs was below receipts in the corresponding quarter in FY 2016. The chart below illustrates the weak but positive year-over-year growth of nonauto sales and use tax collections in recent months.

FY 2017 first-quarter nonauto sales and use tax revenue was $19.5 million below estimate.

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



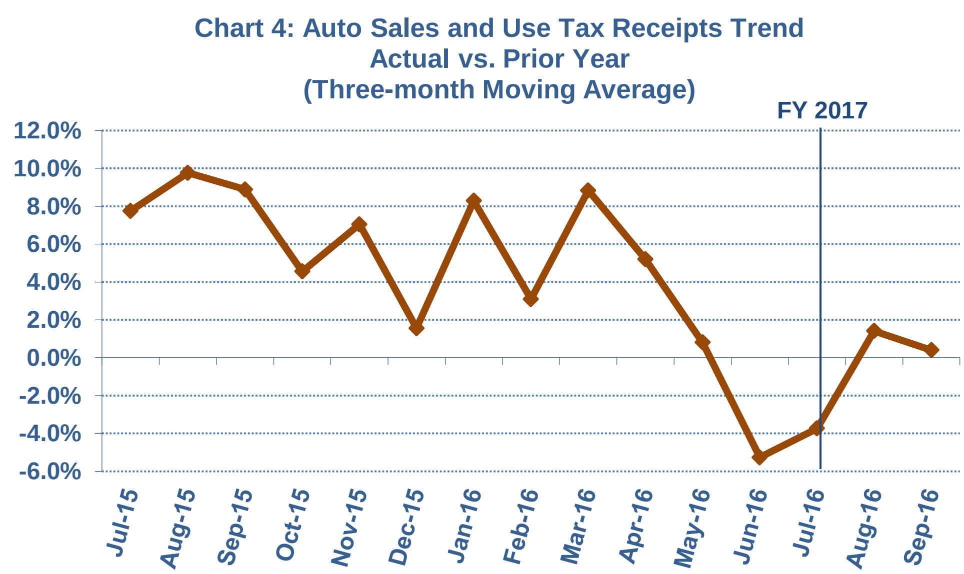
[7] Taxes arising from leases are paid immediately upon the lease signing. The clerks of court generally make auto sales and use tax payments on Mondays for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled. Therefore, auto sales and use tax receipts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

Auto sales and use tax collections were $8.7 million below estimate in the first quarter of the fiscal year.

Auto Sales and Use Tax

The GRF received $120.5 million in revenue from the auto portion of the sales and use tax in September 2016, $6.3 million (5.0%) less than expected, and $5.2 million (4.1%) below receipts last year in the same month. For the fiscal quarter, total GRF receipts of $366.0 million were $8.7 million (2.3%) below projections but $1.4 million (0.4%) above first-quarter receipts in FY 2016.

Auto sales tax collections finished FY 2016 1.2% above estimate as the result of record-setting sales figures in calendar year 2015. However, as the chart below illustrates, the pace of collections growth fell off steeply towards the end of the fiscal year, and year-over-year growth was expected to be slow in the earlier months of FY 2017 due to high sales a year ago. Fewer motor vehicles were purchased in Ohio in the first quarter of FY 2017 compared to the corresponding period last year, and the small increase in year over-year-sales tax revenue was solely due to an increase in the average price of vehicles.



Nationwide, light vehicle sales (autos and light trucks) were back up on a seasonally adjusted annual rate in September to 17.7 million units, from 16.9 million units in August, but below the level of 18.0 million units of September 2015. Though the pace of sales remains historically strong, vehicle sales have cooled off. While nationwide vehicle sales have remained close to the all-time high of 2015 in 2016, only sales of light trucks have increased from the record-setting pace of 2015. Those sales were up about 5% in the third quarter of 2016 compared to the corresponding period in 2015. In contrast, quarterly sales of cars fell about 10%.

Commercial Activity Tax

September GRF revenue from the CAT of $8.1 million was $2.6 million (47.8%) above estimate and $1.7 million (25.9%) above CAT revenue in September 2015. For the fiscal year through September, CAT GRF receipts of $298.4 million were $2.2 million (0.7%) below estimate but $14.8 million (5.2%) above revenue in the corresponding quarter in FY 2016. Though GRF receipts from the CAT were above FY 2016 first-quarter revenues, the year-over-year increase resulted from a decline of about $22.6 million in refunds in the first quarter of FY 2017 compared to the corresponding period last year. According to OAKS, quarterly gross collections from the tax were below last year's level by about $3.0 million. Generally, excluding any effect from legislated tax changes, CAT revenue is expected to grow with an expanding economy.

CAT revenue to the GRF was $2.2 million below estimate in FY 2017 through September.

The CAT is the third largest GRF tax source, and its performance has been lackluster over the last year. FY 2016 first-quarter CAT receipts were $30.6 million below estimate. That quarterly negative variance was followed by positive variances of $10.6 million and $8.6 million, respectively, in the two following quarters. However, the tax was $14.2 million below estimates in the last quarter and $25.6 million below estimate for the full fiscal year. Recognizing the weakness of this GRF source, OBM halved projected yearly revenue growth for FY 2017 for this tax, but first-quarter results in FY 2017 were uninspiring.

Cigarette and Other Tobacco Products Tax

September GRF receipts from the cigarette tax were $84.1 million, $6.2 million (8.0%) above estimate. September revenue, $77.9 million from cigarettes and $6.2 million from other tobacco products (OTP), was $5.2 million (5.8%) below receipts last year in the same month. However, this decline was almost entirely due to receipts from the "floor tax" of $5.5 million in September 2015. (H.B. 64 increased the cigarette tax from $1.25 to $1.60 per pack of 20 cigarettes starting on July 1, 2015, and cigarette dealers had to pay an extra $0.35 per pack of cigarettes in inventory which did not have the new tax stamp.)

First-quarter cigarette revenue was $8.8 million above estimate in FY 2017.

For the first fiscal quarter, total revenue of $194.7 million was $8.8 million (4.7%) above estimate but $5.9 million (3.0%) below receipts in the corresponding quarter in FY 2016. Excluding the floor tax, receipts were $2.6 million above revenue in the first three months of FY 2016, with receipts from cigarettes and OTP, above last year's levels by $1.1 million and $1.5 million, respectively. Generally, cigarette tax receipts are trending downward long term, but revenue from the tax has been remarkably strong for over a year now.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of September 2016
($ in thousands)
(Actual based on OAKS reports run October 6, 2016)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary and Secondary Education	$929,283	$901,177	$28,107	3.1%
Higher Education	$195,363	$197,278	-$1,915	-1.0%
Other Education	$12,095	$5,297	$6,798	128.3%
Total Education	$1,136,742	$1,103,752	$32,991	3.0%
Medicaid	$1,400,168	$1,523,190	-$123,022	-8.1%
Health and Human Services	$78,126	$78,606	-$480	-0.6%
Total Welfare and Human Services	$1,478,294	$1,601,796	-$123,502	-7.7%
Justice and Public Protection	$194,916	$153,261	$41,656	27.2%
General Government	$24,295	$26,232	-$1,937	-7.4%
Total Government Operations	$219,211	$179,493	$39,718	22.1%
Property Tax Reimbursements	$316,928	$314,876	$2,052	0.7%
Debt Service	$407,447	$407,965	-$517	-0.1%
Total Other Expenditures	$724,375	$722,841	$1,534	0.2%
Total Program Expenditures	**$3,558,622**	**$3,607,881**	**-$49,259**	**-1.4%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$1,000	$0	$1,000	---
Total Transfers Out	$1,000	$0	$1,000	---
TOTAL GRF USES	**$3,559,622**	**$3,607,881**	**-$48,259**	**-1.3%**

*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 September 30, 2016
($ in thousands)
(Actual based on OAKS reports run October 6, 2016)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2016**	**Percent Change**
Primary and Secondary Education	$2,372,209	$2,320,667	$51,542	2.2%	$1,790,404	32.5%
Higher Education	$568,966	$576,593	-$7,626	-1.3%	$546,609	4.1%
Other Education	$27,380	$28,480	-$1,100	-3.9%	$24,556	11.5%
Total Education	$2,968,556	$2,925,740	$42,815	1.5%	$2,361,569	25.7%
Medicaid	$4,628,818	$4,917,543	-$288,725	-5.9%	$4,746,425	-2.5%
Health and Human Services	$295,119	$319,040	-$23,922	-7.5%	$324,131	-9.0%
Total Welfare and Human Services	$4,923,937	$5,236,583	-$312,646	-6.0%	$5,070,556	-2.9%
Justice and Public Protection	$606,257	$579,200	$27,057	4.7%	$550,137	10.2%
General Government	$101,387	$106,982	-$5,595	-5.2%	$102,919	-1.5%
Total Government Operations	$707,644	$686,182	$21,462	3.1%	$653,056	8.4%
Property Tax Reimbursements	$452,424	$401,637	$50,787	12.6%	$463,572	-2.4%
Debt Service	$782,093	$782,607	-$514	-0.1%	$768,013	1.8%
Total Other Expenditures	$1,234,517	$1,184,244	$50,273	4.2%	$1,231,586	0.2%
Total Program Expenditures	**$9,834,653**	**$10,032,749**	**-$198,096**	**-2.0%**	**$9,316,766**	**5.6%**
TRANSFERS						
Budget Stabilization	$29,483	$29,483	$0	0.0%	$425,500	-93.1%
Other Transfers Out	$213,614	$212,159	$1,454	0.7%	$346,475	-38.3%
Total Transfers Out	$243,096	$241,642	$1,454	0.6%	$771,975	-68.5%
TOTAL GRF USES	**$10,077,749**	**$10,274,391**	**-$196,642**	**-1.9%**	**$10,088,741**	**-0.1%**

*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 October 5, 2016)

	Month of September 2016				Year to Date Through September 2016			
Department	Actual	Estimate*	Variance	Percent	Actual	Estimate*	Variance	Percent
Medicaid	**$1,694,112**	**$2,061,892**	**-$367,781**	**-17.8%**	**$5,118,843**	**$5,654,933**	**-$536,090**	**-9.5%**
GRF	$1,346,957	$1,462,612	-$115,655	-7.9%	$4,460,671	$4,734,647	-$273,976	-5.8%
Non-GRF	$347,155	$599,280	-$252,125	-42.1%	$658,172	$920,286	-$262,114	-28.5%
Developmental Disabilities	**$191,097**	**$206,695**	**-$15,598**	**-7.5%**	**$633,353**	**$679,043**	**-$45,690**	**-6.7%**
GRF	$44,469	$47,355	-$2,886	-6.1%	$142,507	$145,202	-$2,695	-1.9%
Non-GRF	$146,628	$159,339	-$12,712	-8.0%	$490,846	$533,841	-$42,995	-8.1%
Job and Family Services	**$17,596**	**$27,484**	**-$9,888**	**-36.0%**	**$54,080**	**$80,307**	**-$26,227**	**-32.7%**
GRF	$7,905	$12,179	-$4,274	-35.1%	$22,922	$34,720	-$11,798	-34.0%
Non-GRF	$9,691	$15,305	-$5,614	-36.7%	$31,158	$45,588	-$14,429	-31.7%
Health	**$1,304**	**$3,582**	**-$2,278**	**-63.6%**	**$7,147**	**$7,469**	**-$322**	**-4.3%**
GRF	$295	$263	$32	12.1%	$945	$848	$97	11.4%
Non-GRF	$1,009	$3,319	-$2,310	-69.6%	$6,202	$6,621	-$419	-6.3%
Aging	**$457**	**$579**	**-$121**	**-20.9%**	**$2,121**	**$2,411**	**-$290**	**-12.0%**
GRF	$293	$282	$11	4.0%	$982	$986	-$4	-0.4%
Non-GRF	$164	$297	-$133	-44.6%	$1,139	$1,425	-$286	-20.1%
Mental Health and Addiction	**$375**	**$500**	**-$125**	**-25.0%**	**$1,239**	**$1,440**	**-$201**	**-13.9%**
GRF	$250	$500	-$250	-50.1%	$791	$1,140	-$349	-30.6%
Non-GRF	$125	$0	$125	---	$448	$300	$148	49.4%
Total GRF	**$1,400,168**	**$1,523,190**	**-$123,022**	**-8.1%**	**$4,628,818**	**$4,917,543**	**-$288,725**	**-5.9%**
Total Non-GRF	**$504,773**	**$777,541**	**-$272,768**	**-35.1%**	**$1,187,966**	**$1,508,060**	**-$320,094**	**-21.2%**
Total All Funds	**$1,904,941**	**$2,300,732**	**-$395,790**	**-17.2%**	**$5,816,784**	**$6,425,603**	**-$608,819**	**-9.5%**

*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 October 5, 2016)

	September				Year to Date Through September 2016			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	$811,104	$960,402	-$149,298	-15.5%	$2,388,808	$2,633,007	-$244,198	-9.3%
Nursing Facilities	$123,967	$125,790	-$1,823	-1.4%	$369,500	$366,810	$2,690	0.7%
DDD Services	$179,895	$194,391	-$14,496	-7.5%	$612,904	$652,389	-$39,485	-6.1%
Hospitals	$70,459	$235,174	-$164,715	-70.0%	$234,994	$406,541	-$171,547	-42.2%
Behavioral Health	$86,216	$92,417	-$6,201	-6.7%	$272,270	$296,345	-$24,074	-8.1%
Administration	$72,446	$108,108	-$35,662	-33.0%	$231,352	$290,329	-$58,977	-20.3%
Aging Waivers	$28,291	$29,020	-$729	-2.5%	$88,892	$86,860	$2,031	2.3%
Prescription Drugs	$30,231	$34,120	-$3,889	-11.4%	$98,300	$111,001	-$12,700	-11.4%
Medicare Buy-In	$42,600	$38,381	$4,220	11.0%	$127,491	$114,863	$12,628	11.0%
Physicians	$15,262	$15,519	-$257	-1.7%	$48,692	$50,458	-$1,766	-3.5%
Medicare Part D	$29,811	$27,683	$2,128	7.7%	$84,379	$82,925	$1,454	1.8%
Home Care Waivers	$9,195	$13,077	-$3,883	-29.7%	$30,362	$42,346	-$11,984	-28.3%
ACA Expansion	$335,607	$357,748	-$22,142	-6.2%	$1,006,309	$1,064,040	-$57,731	-5.4%
All Other	$69,859	$68,903	$956	1.4%	$222,531	$227,689	-$5,158	-2.3%
Total All Funds	**$1,904,941**	**$2,300,732**	**-$395,790**	**-17.2%**	**$5,816,784**	**$6,425,603**	**-$608,819**	**-9.5%**

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

For the first quarter of FY 2017, GRF uses were $196.6 million below estimate.

Expenditures

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

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

Overview

For the first quarter of FY 2017, GRF program expenditures totaled $9.83 billion, $198.1 million below the estimate released by OBM in August 2016. GRF transfers out totaled $243.1 million, $1.5 million above estimate. Including both program expenditures and transfers out, GRF uses totaled $10.08 billion, $196.6 million below their year-to-date estimate. Tables 3 and 4 show GRF uses for the month of September and for FY 2017 through September, respectively.

Medicaid continues to dominate the variances in GRF uses. Through September, GRF Medicaid expenditures were $288.7 million below estimate. The Health and Human Services program category had the second largest negative year-to-date variance at $23.9 million. The negative variances in Medicaid and Health and Human Services were partly offset by the largely timing-related positive year-to-date variances in Primary and Secondary Education ($51.5 million), Property Tax Reimbursements ($50.8 million), and Justice and Public Protection ($27.1 million). Combined expenditures from these five program categories were $183.3 million below their year-to-date estimate.

The remainder of this report will first discuss in detail the variances in both GRF and non-GRF Medicaid expenditures as Medicaid receives funding from both GRF and non-GRF sources. After that, it will briefly discuss the variances in the other four program categories.

For the first quarter of FY 2017, GRF Medicaid expenditures were $288.7 million below estimate.

Medicaid

Table 5 shows GRF and non-GRF Medicaid expenditures by agency. Medicaid is administered by the Ohio Department of Medicaid (ODM), with the assistance of five other state agencies – Developmental Disabilities, Job and Family Services, Health, Aging, and Mental Health and Addiction Services. Table 6 shows all-funds Medicaid expenditures by payment category. As a joint federal-state program, both GRF and non-GRF Medicaid expenditures contain federal and state moneys. Overall, the federal and state shares of Medicaid expenditures are about 64% and 36%, respectively.

For the month of September, GRF Medicaid expenditures of $1.40 billion were $123.0 million (8.1%) below estimate. Non-GRF Medicaid expenditures of $504.8 million for the same month were $272.8 million (35.1%) below estimate, of which $236.2 million was due to a delay in making certain anticipated payments for managed care organizations ($74.0 million) and hospitals ($162.2 million). (These timing issues are further explained below.) Across all funds, Medicaid expenditures totaled $1.90 billion in September, which was below estimate by $395.8 million (17.2%).

For the first quarter of FY 2017, all-funds (including both GRF and non-GRF) Medicaid expenditures were $608.8 million below estimate, due partly to timing.

For the first quarter of FY 2017, GRF Medicaid expenditures were $4.63 billion, $288.7 million (5.9%) below estimate, while non-GRF Medicaid expenditures were $1.19 billion, $320.1 million (21.2%) below estimate. Across all funds, Medicaid expenditures totaled $5.82 billion, $608.8 million (9.5%) below their year-to-date estimate. As expected, the majority of these variances occurred in ODM, which accounted for $274.0 million and $262.1 million of the total year-to-date variances in GRF and non-GRF Medicaid expenditures, respectively.

When examining all-funds Medicaid expenditures by payment category, the largest negative year-to-date variance occurred in Managed Care. This payment category's negative variance grew $149.3 million in September to a total of $244.2 million (9.3%) for the first quarter of FY 2017. A large part of the September variance was caused by a delay in making originally anticipated managed care pay-for-performance payments totaling $74.0 million for the month; approximately $49 million of these payments will now be made in October. Sections 327.60 and 327.80 of H.B. 64 authorizes ODM to provide performance payments to Medicaid managed care organizations, respectively, for meeting certain performance standards and for providing care and services to participants of MyCare, which is a program designed to improve access to and quality of services for individuals who receive both Medicaid and Medicare benefits. Under both performance payment programs, ODM is to withhold a percentage of each premium payment it pays to managed care organizations. The withheld funds are then transferred from the GRF to the Managed Care Performance Fund (Fund 5KW0) for performance payments. The appropriation for GRF appropriation item 651525, Medicaid/Health Care Services, is reduced by the transferred amount.

While timing led to a significant negative variance in managed care payments for the month of September, new managed care rates for 2016, which became effective on January 1, continued to be the main contributing factor to the category's negative year-to-date variance. The actual rates for 2016 are lower than the projected ones used in the estimates, particularly those for MyCare. Managed Care will likely continue to have a negative variance through at least the first half of FY 2017 as the rates are adjusted annually at the beginning of each calendar year. Lower than expected managed care rates for 2016 also

The delay in making UPL payments totaling $162.2 million was the main culprit behind the negative year-to-date variance in the Hospitals payment category.

accounted for the negative year-to-date variance of $57.7 million (5.4%) in the ACA Expansion (or Group VIII) category. Group VIII caseloads continued to be higher than expected in FY 2017; enrollments have been above estimate by almost 20,000. However, the caseload effect on expenditures was completely offset by the managed care rate changes.

The Hospitals payment category had the second largest negative year-to-date variance at $171.5 million (42.2%), of which $164.7 million occurred in the month of September. The estimate anticipated payments totaling $162.2 million in September for hospitals under the Upper Payment Limit (UPL) Program. These payments did not occur as originally scheduled, resulting in a large timing-related negative variance in the Hospitals payment category. UPL allows the state to direct supplemental payments, up to the difference between the Medicare and Medicaid amounts, to certain providers. These payments are funded by assessments on hospitals and federal reimbursements, both are deposited into non-GRF funds.

Two other payment categories that had significant negative year-to-date variances were Administration ($59.0 million, 20.3%) and DDD Services ($39.5 million, 6.1%). Various contracts and related payments progressed slower than expected in ODM and its five "sister" agencies. Expenditures from the Administration category were, therefore, lower than anticipated. The negative variance for DDD Services was largely due to slower than projected new waiver enrollment. DDD anticipates that waiver expenditures will catch up before the end of FY 2017.

Health and Human Services

As indicated earlier, Health and Human Services is the other program category that had a significant negative year-to-date variance. Whereas the category's September expenditures were largely on par with estimate, the category's year-to-date expenditures of $295.1 million were $23.9 million (7.5%) below estimate. The Ohio Department of Job and Family Services (ODJFS) and the Ohio Department of Health (DOH) accounted for $14.8 million and $4.4 million, respectively, of the category's total negative year-to-date variance.

Expenditures from the majority of appropriation items within the ODJFS budget were below their year-to-date estimates. Item 600321, Program Support, had the largest negative year-to-date variance at $3.7 million. Items 600521, Family Assistance – Local and 600523, Family and Children Services, contributed $2.2 million each to the agency's overall negative year-to-date variance. Items 600445, Unemployment Insurance Administration, and 600416, Information Technology Projects, contributed another $2.1 million and $2.0 million, respectively. Similarly, expenditures from the majority of DOH's appropriation items were below their year-to-date estimates. The largest negative year-to-date variance ($1.3 million) within the DOH budget occurred in item 440459, Help Me Grow.

Primary and Secondary Education

Through September, expenditures from the Primary and Secondary Education program category totaled $2.37 billion. These expenditures were above estimate by $51.5 million (2.2%), of which $28.1 million occurred in the month of September. Expenditures from appropriation item 200550, Foundation Funding, within the Ohio Department of Education (ODE) budget were $60.8 million above their year-to-date estimate, which was partially offset by the smaller negative year-to-date variances in several other items within the ODE budget. ODE is the only agency that is included in the Primary and Secondary Education program category.

Foundation payments for individual schools are calculated based on a variety of factors, including a district's enrollment and property wealth. It is not unusual to see variances from month to month in school foundation payments as such payments for a given fiscal year are often not finalized until the following fiscal year. At the end of a fiscal year, funds are usually encumbered in item 200550 for expenditure in the following fiscal year for making adjustments to the prior fiscal year's foundation payments. For example, item 200550 carried encumbrances totaling $64.8 million at the end of FY 2016 for expenditure in FY 2017. In August, ODE made the first adjustment to FY 2016 foundation payments, which turned out to be higher than anticipated and contributed to the positive year-to-date variance in the Primary and Secondary Education program category. The second adjustment is scheduled to occur in October.

Property Tax Reimbursements

For the first quarter of FY 2017, property tax reimbursement payments totaled $452.4 million, $50.8 million (12.6%) above estimate. The month of August accounted for the majority ($49.3 million) of the category's positive year-to-date variance. 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 2016 property tax settlement will be made through the end of December. Funds are disbursed when county auditors and treasurers request the payments. Therefore, it is not unusual to see variances from month to month, especially in the early months of a payment cycle.

Justice and Public Protection

Expenditures from the Justice and Public Protection program category were $194.9 million in September, $41.7 million (27.2%) above estimate. This positive monthly variance changed the category's year-to-date variance from a negative $14.6 million at the end of August to a positive $27.1 million at the end of September. Year-to-date expenditures from the Department of Rehabilitation and Correction (DRC), the largest agency within this program category, were $31.1 million above estimate. This positive variance was partially offset by the smaller negative year-to-date variances in several other agencies included in the program category.

Timing appears to be the main culprit behind the DRC's overall positive year-to-date variance. The OBM estimate anticipated disbursements totaling $15.0 million from item 501405, Halfway House, and $19.5 million from item 501501, Community Residential Programs – CBCF, in the month of October. These payments were made in September instead, contributing to the large positive year-to-date variances of $19.8 million in item 501405 and $19.6 million in item 501501. These variances should resolve themselves by the end of October. Expenditures from DRC's item 505321, Institution Medical Services, on the other hand, were $12.9 million below their year-to-date estimate, which partially offset the positive year-to-date variances in items 501405 and 501501.

ISSUE UPDATES

Paying Off Ohio's Unemployment Compensation Debt Early Saves Employers Approximately $351 Million in Calendar Year 2017

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

On August 30, 2016, the Ohio Department of Job and Family Services (ODJFS) paid off the remaining balance on $3.39 billion in loans taken out from the U.S. Department of Labor (DOL) to pay unemployment benefits. This early payoff is expected to produce a net savings of approximately $351 million in federal unemployment tax for calendar year (CY) 2017 paid by employers across the state. ODJFS was able to pay off the debt early by borrowing $246 million from the state's unclaimed funds. The loan from unclaimed funds was authorized by H.B. 390 of the 131st General Assembly, which also requires ODJFS to apply a surcharge on employers in CY 2017 sufficient to repay the loan. ODJFS estimates that paying off the loan from DOL will reduce the amount of federal unemployment tax paid by Ohio employers in CY 2017 by $597 million. Net savings to Ohio employers, therefore, is approximately $351 million ($597 million–$246 million).

Due to an increase in unemployment claims during the Great Recession, the state's Unemployment Compensation Fund, which is used to pay unemployment benefits, was depleted on January 12, 2009. At that time, Ohio began borrowing from DOL to pay benefits. Ohio was one of 36 states and territories required to take out loans from DOL as a result of the recession. After two years of a state having an outstanding loan balance, DOL begins annually to increase the federal unemployment taxes paid by the state's employers. An Ohio employer typically pays $42 per year per employee in federal unemployment taxes. However, due to the outstanding loan balance, Ohio employers are paying $147 per employee in CY 2016 and would have paid $168 per employee in CY 2017 if the loan had not been paid off.

In addition to increasing federal unemployment taxes on employers, DOL charges interest on any outstanding loan balance.[8] ODJFS has paid a total of $257.7 million in interest on its loan from DOL, all from general revenue funds. According to ODJFS estimates, the early pay off of the loan will save the state about $30 million in interest payments.

[8] DOL waived interest in federal fiscal years 2009 and 2010.

ODE Releases First Report Cards with Component Grades

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

On September 15, 2016, the Ohio Department of Education (ODE) released report cards for public districts and schools for the 2015-2016 school year, the first year A-F letter grades have been assigned for each of six components: Achievement, Graduation Rate, Progress, Gap Closing, K-3 Literacy, and Prepared for Success. All grades except for the one for the Prepared for Success component are derived from performance on the ten individually graded measures used to evaluate districts and schools for the three prior school years. The Prepared for Success component grade is based on six ungraded measures that, for the two previous school years, were reported for informational purposes only. Beginning with the report cards for the 2017-2018 school year, the component grades will be used to assign an overall letter grade. Due to recent changes to state tests, the General Assembly has suspended many sanctions related to state test results for the 2014-2015, 2015-2016, and 2016-2017 school years. The table below summarizes how the 608 school districts receiving report cards fared this past school year on the six component measures.

School District Report Card Results, 2015-2016 School Year

Component	A	B	C	D	F	No Rating
Graduation Rate	54%	27%	11%	4%	3%	0%
Progress	19%	34%	13%	25%	9%	0%
Achievement	1%	11%	34%	49%	5%	0%
Prepared for Success	2%	6%	45%	43%	5%	0%
K-3 Literacy	1%	3%	15%	32%	39%	11%
Gap Closing	0%	3%	5%	6%	86%	0%

As measured by the total percentage of A's and B's, school districts fared the best on the graduation rate and progress components, the latter of which measures the academic growth students are making from year to year. Based on the total percentage of D's and F's, school districts struggled most with closing achievement gaps between certain designated groups and all students and improving literacy among struggling readers in grades K-3.

OFCC Approves $17 Million in Grants for Community School Facilities

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

On August 18, 2016, the Ohio Facilities Construction Commission (OFCC) approved $17.0 million in grants to eight community schools under the Community School Classroom Facilities Grants Program (see table below). Created in H.B. 64, the program provides capital funding to eligible high-performing community schools for the purchase, construction, or renovation of classroom facilities. To qualify for funding, projects must increase the supply of seats in high performing schools, serve specific unmet student needs through community school education, and show innovation in design and potential as a successful, replicable school model. Recipients also must contribute a local match of at least 50% of total project costs. According to OFCC's program guidelines, the Controlling Board must give final approval to the awards before funds can be disbursed. Funding for the program is appropriated in Fund 7021 line item C230W4, Community School Classroom Facilities Assistance.

Community School Classroom Facilities Grant Recipients		
County	**Community School**	**Award Amount**
Cuyahoga	Menlo Park Academy	$4,635,885
Cuyahoga	Village Preparatory School Willard	$4,604,390
Franklin	Patriot Preparatory Academy	$1,912,487
Franklin	Columbus Collegiate Academy West	$1,698,054
Cuyahoga	Citizens Academy Southeast	$1,567,128
Richland	Richland Academy School of Excellence	$1,462,720
Montgomery	DECA Prep, Inc.	$777,567
Cuyahoga	Entrepreneurship Preparatory School Woodland Hills	$352,595
TOTAL		**$17,010,826**

Ohio Transitions to a Unified Disability Determination System

– Ivy Chen, Principal Economist, 614-644-7764

On August 1, 2016, the Ohio Department of Medicaid (ODM) implemented a new system for making Medicaid eligibility determinations for the aged, blind, and disabled (ABD) population. Under the new system, a single disability determination is used for both Medicaid and Supplemental Security Income (SSI).[9] Under the old eligibility criteria, the income limit for Medicaid (64% of the Federal Poverty Line (FPL) or $634 per month in 2016) was more stringent than that used for SSI (75% of FPL or $743 per month). However, individuals were permitted to "spend down" a portion of their income each month to qualify for Medicaid. For example, if individuals earning

[9] The old system is referred to as a 209(b) system and the new one as a 1634 system. These refer to the sections of the Social Security Act that authorize the eligibility rules used in each system. Prior to this change, Ohio operated two disability determination systems, one for Medicaid, which was operated by county departments of job and family services on behalf of Ohio Medicaid, and one for SSI, which is administered by the Opportunities for Ohioans with Disabilities Agency on behalf of the U.S. Social Security Administration.

$700 per month spent $66 on medical costs during the month, they would have "spent down" their income to $634 and could receive Medicaid for the remainder of the month. The new system eliminates the "spend down," but increases eligibility for full Medicaid coverage by raising the income limitation to the SSI level. Similarly, the asset limitation under the new system also increases from $1,500 to $2,000 to match the SSI level.

The majority of the Medicaid enrollees who receive benefits as ABD are not impacted by these changes. All existing beneficiaries were moved from the old Client Registry Information System Enhanced (CRIS-E) to the new Ohio Benefits system on August 1 and are receiving full Medicaid coverage. According to ODM estimates based on data from July, this includes 346,392 individuals with full Medicaid coverage who qualified under the old system and 34,043 individuals who qualified for Medicaid in the previous year under the "spend down" provision. Pending approval by the federal Centers for Medicare and Medicaid, eligibility for these individuals will be redetermined under the new criteria after January 1, 2017, on their renewal date. Also receiving full Medicaid coverage on August 1 are 21,274 individuals who were not enrolled in full coverage previously, but qualify under the new system due to being SSI recipients, due to Medicaid expansion, or due to a new Specialized Recovery Services program.[10] ODM also estimates that there are 34,050 individuals who may have qualified for Medicaid under the "spend down" provision of the old system (but did not actually qualify in the previous year) who do not qualify under the new system. This estimate includes 15,296 individuals who qualify for Medicare. The remaining 18,754 will need to be covered by private insurance. The majority of them are expected to be enrolled in a federally subsidized Exchange plan.[11]

Department of Agriculture Awards $4.7 Million in Agricultural Society Facility Grants

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

The Department of Agriculture (AGR) recently awarded a total of $4.7 million to 94 county and independent agricultural societies under the Agricultural Society Facilities Grant Program. The Controlling Board approved the release of the grant funding on August 8, 2016 ($300,000) and September 26, 2016 ($4.4 million). The grant program was created under H.B. 64 with funding of $4.7 million under capital line item C70022, Agriculture Society Facilities. Every grant recipient was awarded the maximum grant amount of $50,000 and was required to provide a matching grant. County and

[10] This new program is for individuals with serious and persistent mental illness with incomes up to 225% of FPL.

[11] An overview of the redesign is available on the Office of Health Transformation website: www.healthtransformation.ohio.gov.

independent agricultural societies, which host county and agricultural fairs, can use the grant to support capital projects such as construction, reconstruction, planning, and equipping their facilities. In addition to this capital funding, AGR reimburses part of the expenses incurred by county and independent agricultural fairs for youth activities under GRF line item 700501, County Agricultural Societies. In FY 2016, approximately $391,000 was spent for this purpose.

Local Governments Receive $1.6 Million in Latest Innovation Grant and Loan Awards

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

On August 24, 2016, the Development Services Agency announced $1.6 million in funding for local government innovation and efficiency projects under two programs administered by the Local Government Innovation Council. Three loans totaling $1,050,000 were approved in the seventeenth round of funding under the Local Government Innovation Program. The loans must be used on demonstration projects involving shared services, collaboration, or merger of services between political subdivisions. Twelve grants totaling $575,854 were approved under the tenth round of awards under the Local Government Efficiency Program. Local governments must use the grants on Lean Six Sigma strategies that improve processes and produce efficiencies.

The Local Government Innovation Council was originally created in H.B. 153, the main operating appropriations act of the 129th General Assembly, for the purpose of making loans and grants to political subdivisions for qualified innovation projects. The first round of Innovation Program loans and grants was awarded in July 2013, while Efficiency Program grants began in February 2014. Including the August 24 awards, the loans and grants have totaled $30.9 million.[12]

The Council is also responsible for administering the Local Government Safety Capital Grant Program, which was established in H.B. 64. These grants are awarded to political subdivisions to buy vehicles, equipment, and systems that improve public safety. In May 2016, the Council awarded $9.5 million to 42 communities, the full amount appropriated for the program in FY 2016. Funding from the program is derived from GRF transfers to the Local Government Safety Capital Fund (Fund 5RD0). The program is also appropriated $10 million in funding in FY 2017.

[12] This amount does not include the Efficiency Program scholarships that are awarded to political subdivisions for employees to be trained in process improvement methods. The scholarships are up to $2,000 per employee.

Controlling Board Approves $1.8 Million in Funding to Begin Implementing Ohio's Medical Marijuana Control Program

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

On August 22, 2016, the Controlling Board approved the creation of the Medical Marijuana Control Program Fund (Fund 5SY0) and a transfer of $1.8 million cash from the Emergency Purposes Fund (Fund 5KM0) into Fund 5SY0 for the Medical Marijuana Control Program, which was established by H.B. 523 of the 131st General Assembly. Of this total funding for FY 2017, $923,077 will go to the Department of Commerce, which is responsible for the licensure of medical marijuana cultivators, processors, and testing laboratories, and the remaining $882,400 will go to the Pharmacy Board, which is responsible for the licensure of retail dispensaries, the registration of patients and caregivers, and the operation of the Ohio Medical Marijuana Advisory Committee. Under H.B. 523, both agencies are required, by September 8, 2017, one year after the bill's effective date, to adopt program rules, including fees for licenses and registrations. They are also required to take all actions necessary to ensure the program is fully operational by September 8, 2018, or two years after the bill's effective date.

Mosquito Control Grants Total Just Over $1.0 Million in 2016

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

On September 6, 2016, the Ohio Environmental Protection Agency (Ohio EPA) announced the award of $691,340 in the second round of mosquito control grants to 31 local health departments in 30 counties. Including the first round of grants awarded by Ohio EPA on June 16,[13] 49 grantees in 45 counties were awarded a total of just over $1.0 million in mosquito control grants in 2016. The table below summarizes 2016 mosquito control grant totals by county. The purpose of these competitively awarded grants is to support a larger statewide effort by the Ohio Department of Health to lessen the likelihood of an outbreak of mosquito-borne viruses such as Zika, West Nile, and La Cross Encephalitis. The grants are supported by money appropriated from the Scrap Tire Management Fund (Fund 4R50) which is primarily supported by a $0.50 per tire fee on the sale of tires, and the Environmental Protection Remediation Fund (Fund 5410), which is mainly supported by money collected from enforcement settlement actions.

[13] See the September 2016 issue of *Budget Footnotes* for details on the first round of mosquito control grants.

2016 Ohio EPA Mosquito Control Grant Awards by County (Rounds 1 and 2) (Total: $1,019,893)					
County	**Award**	**County**	**Award**	**County**	**Award**
Athens	$27,110	Huron	$18,500	Preble	$5,900
Butler	$25,000	Jackson	$8,509	Putnam	$5,000
Champaign	$37,300	Lake	$60,750	Richland	$30,350
Columbiana	$42,550	Lawrence	$20,741	Ross	$28,050
Coshocton	$2,100	Madison	$3,200	Scioto	$68,300
Cuyahoga	$32,500	Mahoning	$20,940	Shelby	$44,900
Delaware	$22,450	Marion	$12,800	Trumbull	$44,800
Erie	$4,780	Medina	$25,750	Tuscarawas	$60,000
Fairfield	$18,050	Miami	$5,000	Union	$13,000
Gallia	$21,869	Montgomery	$9,300	Van Wert	$20,000
Geauga	$29,550	Morrow	$5,600	Vinton	$14,579
Greene	$22,000	Muskingum	$18,124	Warren	$7,500
Hancock	$10,000	Perry	$22,650	Washington	$24,000
Hocking	$5,137	Pickaway	$27,954	Wood	$11,000
Holmes	$43,700	Pike	$15,000	Wyandot	$23,600

TRACKING THE ECONOMY

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Overview

The economy expanded further in the third quarter. Employment nationwide rose again in September. Total unemployment increased slightly but remained low. Rising employment and incomes, and improved job prospects, are supporting expansion of consumer spending. Light motor vehicle sales are at a high level though off the record pace set last year. Indicators for construction activity are mixed. Weakness in nonresidential fixed investment has been most pronounced in the oil and gas sector but not limited to that area. In Ohio, total nonfarm payroll employment trended upward in 2016 through August, though more slowly than last year. Inflation remains low but has picked up compared with a year ago.

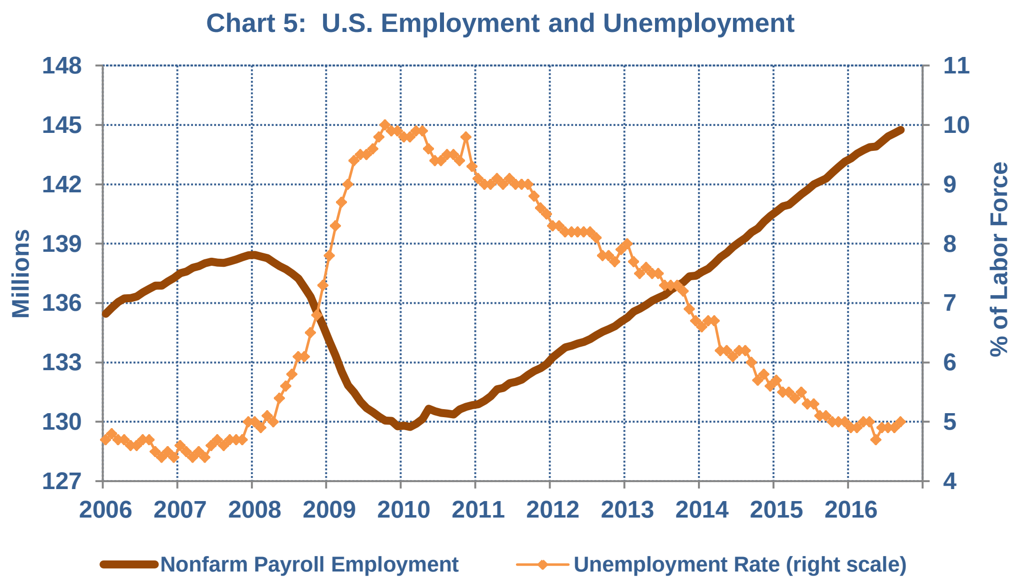
The National Economy

Employment and Unemployment

Total nonfarm payroll employment nationwide rose by 156,000 in September, continuing the uptrend.

Total nonfarm payroll employment nationwide rose by 156,000 (0.1%) in September, continuing the uptrend underway since 2010. Earlier this year, monthly employment gains through August averaged 181,000, down from 229,000 per month in all of 2015. Nonfarm payrolls rose in September to 144.7 million people, 1.7% more than a year earlier. Job growth last month continued to be concentrated in the service sector, including professional and business services, health care, restaurants and bars, and retail trade. Mining employment was little changed in September after sharp declines in most earlier months for nearly two years. Average hourly earnings in the private sector rose 2.6% in the latest 12 months, the same as in 2015 but up from earlier in the expansion.

The number of people unemployed (without a job and actively looking for work) in the U.S. rose to 7.9 million in September, and the unemployment rate rose slightly to 5.0% from 4.9% in the previous three months. The nationwide unemployment rate has been at or just below this level for the past year, after ranging as high as 10.0% during and following the 2007-2009 recession. The unemployment rate and total employment through September are shown in Chart 5.



Various indicators point to labor market tightening.

Various indicators point to labor market tightening. A survey showed 5.4 million private-sector job openings nationwide at the end of July, the most in the 15 years that this series has been published by the U.S. Bureau of Labor Statistics (BLS). Initial claims for unemployment compensation, also reported by BLS, fell in the week ended October 1 to 249,000 nationwide, seasonally adjusted, one of the lowest levels since 1973.

Monetary Policy

At the conclusion of its September 20-21 meeting, the Federal Open Market Committee (FOMC)[14] decided to maintain the target range for the federal funds rate at 0.25% to 0.5%.[15] The committee last made a change in December 2015 when it moved the target range from near zero to its current status. Since then, projections for the pace of future rate rises have continually been softened. At the September meeting, the committee acknowledged that growth of economic activity has picked up since the first half of 2016, and that the case for an increase in the target range has strengthened. The vote among committee members was split, with three of ten voting members preferring to raise the target range immediately. That points to a potential rate rise in the near future, as does a report of the members' projections released following the meeting. In the

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

[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 the Federal Reserve uses monetary tools with the goal of moving the actual rate to the target.

projections report, 14 of 17 committee members (not all vote at each meeting) thought a target rate rise would be appropriate before the end of 2016. There are two FOMC meetings left in 2016, one in November and one in December.

Production

Inflation-adjusted gross domestic product (real GDP) rose at a 1.4% seasonally adjusted annual rate in this year's second quarter, revised higher in the third estimate from the Bureau of Economic Analysis (BEA). Real GDP grew 2.4% in 2014 and 2.6% in 2015, but growth in six of the last seven quarters has been below that pace. The slowed growth is due in part to declines in business investment from a peak in the third quarter of 2015. Weakness in oil and gas drilling and related equipment spending appears to account for a substantial part of this slowdown. A slower pace of investment in transportation equipment, weaker exports, and an end to inventory accumulation also contributed to the slowdown in overall production growth. In the last four quarters, real GDP has grown by just 1.3%, the slowest year-over-year growth since the second quarter of 2013.

Reports on this year's third quarter show fairly flat industrial production, and growth elsewhere in the economy. The manufacturing index from the Institute for Supply Management (ISM) ticked back up slightly into expansion territory in September, after indicating slight contraction in August. A comparable ISM report for nonmanufacturing industries showed continued expansion. The Federal Reserve's measure of industrial production decreased in August after strong readings in June and July. Predictions of third quarter real GDP from Federal Reserve banks as of October 7 showed growth at a 2.1% seasonally adjusted annual rate (Atlanta) and 2.2% (New York). BEA will report its first estimate of third-quarter 2016 growth near the end of October.

Total U.S. rig count on September 30 was 29% higher than its low point in May.

The Federal Reserve's measure of industrial production declined in five of the last six quarters through the second quarter of 2016, largely due to slowdowns in mining related in part to natural gas and oil. But of late, total U.S. counts of drilling rigs actively exploring for or developing oil or natural gas have reversed that trend and begun climbing. On September 30, data from Baker Hughes indicated the total U.S. rig count (oil and natural gas combined) to be 29% higher than its low point in May. The Federal Reserve's measure of total nationwide manufacturing production in August was unchanged from December 2015.

Consumer Spending

Nationwide consumer spending dipped in August, ending a four-month period from April to July which saw the most growth in consumer spending since November 2014. Real consumer spending (adjusted for price changes) dropped just 0.1% in August; during the four months prior, it rose by an average of 0.4% per month (seasonally adjusted). August was the third month of the year in which seasonally adjusted spending decreased from the month before, but overall consumer spending has continued to grow in 2016 at the same average pace as during 2015 (0.2% per month, or at about a 2.6% annual rate).

Consumer spending declined in August after four prior months of increases.

Sales of motor vehicles remained strong through September, though at a slowed pace from one year ago. Annual sales of light vehicles rose to an all-time high in 2015. Light trucks have maintained sales volume better than cars, sales of which have softened throughout 2016. Still, total light vehicle sales averaged a seasonally adjusted annual rate of 17.3 million units in 2016 through September, just a tick down from the 17.4 million units that sold in all of 2015.

Real Estate

Seasonally adjusted sales volume of existing homes cooled in July and August from a recent peak in June. The median sales price of existing homes nationwide (the bulk of residential unit sales) was up 5.1% in August from one year ago. The pace of starts on new home construction cooled in August as well, though starts remained relatively flat from August one year ago (+0.9%). On the other hand, sales of new homes (a much smaller share of the market than existing homes) jumped in July and remained at an elevated level in August. The number of housing units under construction at the end of August was 13% higher than a year earlier, continuing a five-year uptrend.

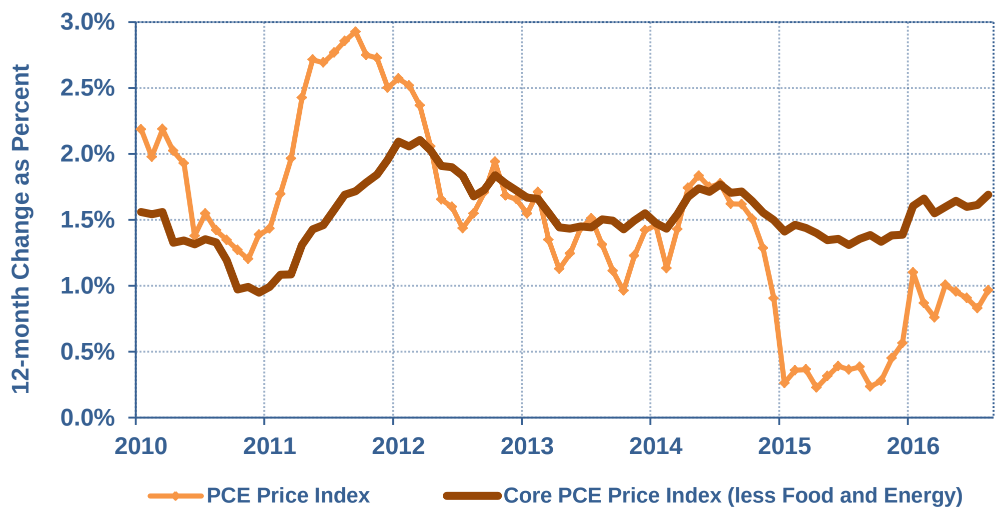
Mortgage rates began to rise in July after hitting a three-year low of 3.41% for a 30-year fixed-rate loan, according to the Freddie Mac Primary Mortgage Market Survey. But in mid-September, mortgage lending rates reversed course. By the week of September 29, rates fell enough to offset nearly all of the increase, averaging 3.42%

Inflation

Broad measures of consumer prices indicated increases in August, as they have for all but one month since February. This was despite decreases in the prices of food (fourth straight month) and energy (second straight month), based on price indexes for personal consumption expenditures (PCE). Over the last 12 months, the price index for PCE increased by 1.0%, while the price index for PCE excluding food and energy (core PCE) increased by 1.7%. After a jump at the beginning of 2016, the 12-month change in the price index for core PCE has remained fairly steady, as shown in Chart 6. Among consumer price index components, the largest increases over the last 12 months were for medical care.

An index of prices received by producers for final goods and services in August remained unchanged from July and also from August one year ago.

Chart 6: U.S. Price Index for Personal Consumption Expenditures



The Ohio Economy

Employment and Unemployment

Ohio lost 2,000 jobs[16] in August, halting the momentum from an average monthly gain of 9,300 jobs in the prior three months. Year to date, employment continues to grow in Ohio, though at a slowed pace from 2015. Through August, job gains averaged 3,500 per month in 2016, compared to 6,700 per month throughout the 12 months of 2015.

Ohio job gains have averaged 3,500 per month in 2016, as compared to 6,700 in 2015.

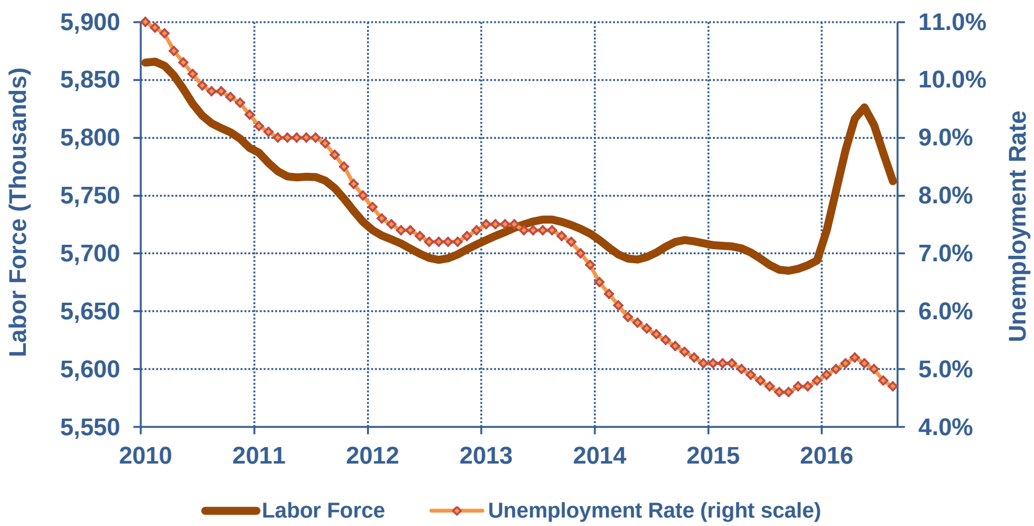
The accommodation and food services subsector was the largest source of job growth in Ohio over the last 12 months adding 18,400 jobs, including 3,200 in August. Its pace of job growth during the last 12 months (4.0%) was only eclipsed by the smaller subsectors of real estate and rental and leasing (6.5%), and state government (6.5%). Total government jobs in Ohio increased by 17,200 in the last 12 months, including 11,400 at the state level, mostly in public colleges and universities which are included in the state government job category.

[16] Nonfarm payroll employment, seasonally adjusted.

Ohio's unemployment rate declined to 4.7% in August, nearly identical to a year ago (4.6%). Despite the year-over-year similarity, the unemployment rate has moved quite a bit during the last 12 months. August was the fourth straight month of decline from a recent peak of 5.2% in April, which had been reached by five straight prior months of increases. The unemployment rate is measured as the number of unemployed persons as a percent of the labor force (those who are working or looking for work).[17] Recent high volatility in Ohio's labor force correlates with unemployment rate changes, particularly in 2016. The share of the changes due to actual labor market developments and the share due to statistical noise is unclear. The chart below illustrates the high degree of volatility in Ohio's recent labor force data relative to the prior six-year period.

Ohio's unemployment rate declined to 4.7% in August, nearly identical to a year ago.

Chart 7: Ohio Labor Force and Unemployment Rate



Personal Income and Production

Ohio's personal income grew by 1.0% in the second quarter of 2016. Wages and salaries grew faster than dividends, interest, and rent for the fourth out of the last five quarters. Over the last four quarters, Ohio's personal income grew 2.9%, slower growth than for the U.S. as a whole (3.2%).

Ohio remained near the average of states for growth in production during the first quarter. The state's real GDP grew at a 1.4% seasonally adjusted annual rate, after growing by 1.8% in 2015. Production growth

[17] Specifically, 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.

Ohio is one of only two states that had at least three central cities of metropolitan areas ranked in the top 30 for total GDP in 2015.

has varied substantially across geographic regions of the state however. Of metropolitan areas in 2015, real GDP grew the fastest in Columbus (3.3%) and Akron (2.9%), but declined in Dayton (-0.3%), Springfield (-2.0%), and Mansfield (-2.1%). The Cleveland-Elyria metropolitan area led the state in 2015 with $128 billion of total GDP, followed by the greater Cincinnati area with $127 billion, and the Columbus metropolitan area with $124 billion. Ohio is one of only two states in the U.S. that was home to the central city of at least three metropolitan areas ranked in the top 30 for total GDP during 2015.[18] Most of the state's GDP is produced in metropolitan areas.

Housing

Ohio home sales in August were up from one year ago (5.2%), continuing a strong 2016 for residential real estate. Through August, year-to-date sales volume was up 4.9% and the average sales price was up 4.2% over the same period in 2015. At those rates of annual growth, sales volume and average sales price would both finish 2016 at all-time highs, according to data from the Ohio Association of Realtors.[19] The average sales price is up in 2016 in nearly all regions of Ohio as compared to the same period in 2015. Among the regions with the highest sales volume, sales price growth was highest in Columbus at 5.5%.

[18] California was the other state with five metropolitan areas ranked in the top 30. Florida just missed the list; its third largest metropolitan area, Orlando, ranked 31st.

[19] The Ohio Association of Realtors began keeping data in 1998.