Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION SEPTEMBER 2016

STATUS OF THE GRF

HIGHLIGHTS

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

Total GRF sources in the first two months of FY 2017 were $145.4 million (2.5%) below estimates published by the Office of Budget and Management (OBM) in August 2016. Year-to-date GRF tax revenue was $80.6 million (2.2%) short of estimates, including a large negative variance from the personal income tax. On the other hand, GRF uses through August were $148.4 million (2.2%) below their anticipated levels.

Ohio's unemployment rate fell to 4.8% in July, down from 5.0% in June, but was 0.1 percentage point higher than the July 2015 rate of 4.7%. Ohio nonfarm payroll employment increased 11,400 (0.2%) over June and was 78,800 (1.5%) higher than in July 2015.

Through August 2016, GRF sources totaled $5.78 billion:

- Revenue from the personal income tax was $61.2 million below estimate;
- Sales and use tax receipts were $21.6 million below estimate.

Through August 2016, GRF uses totaled $6.52 billion:

- Program expenditures were $148.8 million below estimate, due primarily to Medicaid ($165.7 million);
- Property Tax Reimbursements experienced a positive variance of $48.7 million.

VOLUME 40, NUMBER 1

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

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Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of August 2016
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on September 8, 2016)

STATE SOURCES	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$133,347	$130,400	$2,947	2.3%
Nonauto Sales and Use	$731,655	$748,200	-$16,545	-2.2%
Total Sales and Use Taxes	**$865,003**	**$878,600**	**-$13,597**	**-1.5%**
Personal Income	$657,448	$720,600	-$63,152	-8.8%
Corporate Franchise	-$482	$0	-$482	---
Financial Institution	$470	$0	$470	---
Public Utility	$23,304	$25,500	-$2,196	-8.6%
Kilowatt-Hour Excise	$34,249	$33,600	$649	1.9%
Natural Gas Consumption (MCF)	$10,773	$10,900	-$127	-1.2%
Commercial Activity Tax	$250,973	$259,300	-$8,327	-3.2%
Petroleum Activity Tax	$0	$0	$0	---
Foreign Insurance	$350	$400	-$50	-12.6%
Domestic Insurance	$2	$0	$2	---
Business and Property	$0	$0	$0	---
Cigarette	$87,101	$82,400	$4,701	5.7%
Alcoholic Beverage	$5,138	$4,100	$1,038	25.3%
Liquor Gallonage	$4,067	$3,900	$167	4.3%
Estate	-$16	$0	-$16	---
Total Tax Revenue	**$1,938,380**	**$2,019,300**	**-$80,920**	**-4.0%**
NONTAX REVENUE				
Earnings on Investments	$3	$0	$3	---
Licenses and Fees	$42,545	$5,415	$37,130	685.7%
Other Revenue	$1,357	$1,175	$182	15.5%
Total Nontax Revenue	**$43,905**	**$6,590**	**$37,315**	**566.2%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$8,893	$7,500	$1,393	18.6%
Total Transfers In	**$8,893**	**$7,500**	**$1,393**	**18.6%**
TOTAL STATE SOURCES	**$1,991,177**	**$2,033,390**	**-$42,213**	**-2.1%**
Federal Grants	$1,022,537	$1,108,543	-$86,006	-7.8%
TOTAL GRF SOURCES	**$3,013,715**	**$3,141,933**	**-$128,219**	**-4.1%**

*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 August 31, 2016
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on September 8, 2016)

STATE SOURCES	Actual	Estimate*	Variance	Percent	FY 2016	Percent Change
TAX REVENUE						
Auto Sales	$245,589	$247,900	-$2,311	-0.9%	$238,991	2.8%
Nonauto Sales and Use	$1,569,242	$1,588,500	-$19,258	-1.2%	$1,554,676	0.9%
Total Sales and Use Taxes	**$1,814,831**	**$1,836,400**	**-$21,569**	**-1.2%**	**$1,793,667**	**1.2%**
Personal Income	$1,197,516	$1,258,700	-$61,184	-4.9%	$1,247,550	-4.0%
Corporate Franchise	-$298	$0	-$298	---	$1,320	-122.6%
Financial Institution	$773	$0	$773	---	$179	332.9%
Public Utility	$23,382	$25,500	-$2,118	-8.3%	$28,258	-17.3%
Kilowatt-Hour Excise	$60,347	$58,300	$2,047	3.5%	$61,742	-2.3%
Natural Gas Consumption (MCF)	$11,918	$12,100	-$182	-1.5%	$12,101	-1.5%
Commercial Activity Tax	$290,252	$295,100	-$4,848	-1.6%	$277,106	4.7%
Petroleum Activity Tax	$0	$0	$0	---	$0	---
Foreign Insurance	$662	$600	$62	10.3%	-$37	1879.6%
Domestic Insurance	$2,370	$0	$2,370	---	$5	43198.8%
Business and Property	$5	$0	$5	---	$21	-79.1%
Cigarette	$110,567	$108,000	$2,567	2.4%	$111,276	-0.6%
Alcoholic Beverage	$10,818	$9,500	$1,318	13.9%	$10,420	3.8%
Liquor Gallonage	$7,954	$7,500	$454	6.1%	$7,660	3.8%
Estate	-$17	$0	-$17	---	$72	-123.5%
Total Tax Revenue	**$3,531,079**	**$3,611,700**	**-$80,621**	**-2.2%**	**$3,551,341**	**-0.6%**
NONTAX REVENUE						
Earnings on Investments	$6	$0	$6	---	$6	-0.2%
Licenses and Fees	$43,367	$6,555	$36,812	561.6%	$6,146	605.6%
Other Revenue	$2,044	$2,115	-$71	-3.4%	$2,470	-17.3%
Total Nontax Revenue	**$45,416**	**$8,670**	**$36,746**	**423.8%**	**$8,622**	**426.7%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$13,893	$12,500	$1,393	11.1%	$163,073	-91.5%
Total Transfers In	**$13,893**	**$12,500**	**$1,393**	**11.1%**	**$163,073**	**-91.5%**
TOTAL STATE SOURCES	**$3,590,388**	**$3,632,870**	**-$42,482**	**-1.2%**	**$3,723,036**	**-3.6%**
Federal Grants	$2,191,259	$2,294,164	-$102,905	-4.5%	$2,540,219	-13.7%
TOTAL GRF SOURCES	**$5,781,647**	**$5,927,034**	**-$145,389**	**-2.5%**	**$6,263,255**	**-7.7%**

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

REVENUES

– Thomas Kilbane, Economist, 614-728-3218

Overview

GRF tax revenue was $80.6 million (2.2%) below estimate through the first two months of FY 2017.

GRF tax revenue through the first two months of FY 2017 was 2.2% ($80.6 million) below OBM's estimate. This continued a trend that started during FY 2016, when GRF tax revenue ended the year 1.0% ($216.0 million) under expectations.[1] Underperformance of the GRF's two dominant sources of tax revenue was to blame thus far in FY 2017. The personal income tax (PIT) performed poorly in FY 2016, ending the year with a $217.7 million revenue deficit, 2.7% below what was expected to be collected. In FY 2017 through August, that trend has continued. New FY 2017 revenue estimates from OBM take into account FY 2016's underperformance, but PIT revenue in July and August combined was still $61.2 million (4.9%) below the updated expectation. The sales and use tax, the GRF's top projected tax revenue source for FY 2017, was also below estimate through the fiscal year's first two months, accumulating $21.6 million (1.2%) less revenue than was projected.

Tables 1 and 2 above, show GRF sources[2] for August and for FY 2017 year to date through its first two months, respectively. Total GRF sources received through August were $5.8 billion, which was $145.4 million (2.5%) below estimate. Total GRF sources have been below estimate in each of the last five months due to tax revenue shortfalls but also due to smaller than expected federal grants, primarily related to the level of spending in the Medicaid program, which has generally been lower than expected.[3]

OBM's GRF revenue estimates for FY 2017, released in August, were revised based on updated information including FY 2016 performance. As a result, OBM decreased most individual tax revenue projections. Among FY 2017 decreases due to FY 2016 experience were sales and use tax revenue projections ($23.5 million), commercial activity

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[1] OBM estimates for FY 2016 were initially released in September 2015 and subsequently revised to accommodate the enactment of S.B. 208 and H.B. 340 of the 131st General Assembly. Estimates for FY 2017 were released in August 2016.

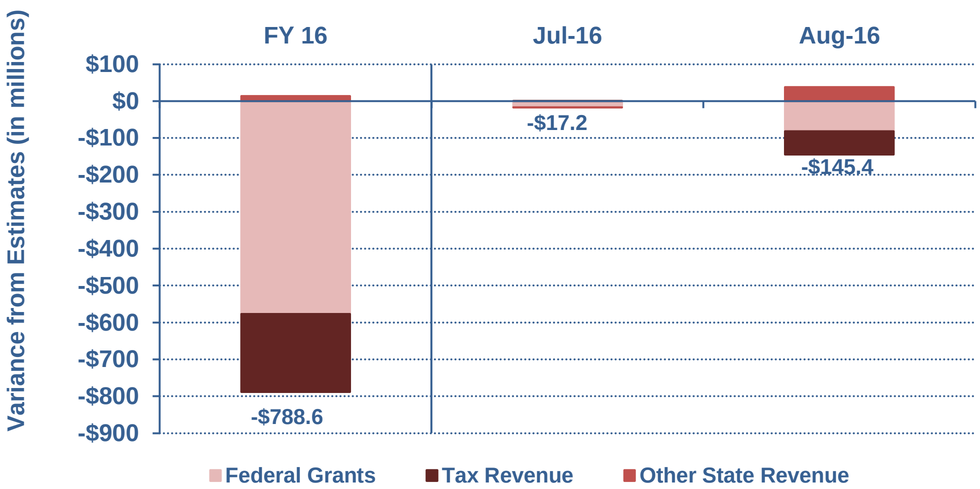
[2] GRF sources consist of state-source receipts (tax revenue, nontax revenue, and transfers in) and federal grants, which are typically federal reimbursements for Medicaid and other programs.

[3] GRF Medicaid expenditures were $925.9 million below estimate in FY 2016 and were $165.7 million below estimate through the first two months of FY 2017.

tax (CAT) revenue projections ($34.9 million), and PIT revenue projections ($223.0 million). Among taxes, only the cigarette tax ($45.6 million) and the financial institutions tax ($27.1 million) saw substantial increases in FY 2017 revenue outlook. In total, GRF tax revenue projections for FY 2017 were decreased by a net $238.7 million. OBM retained funds in the GRF from the FY 2016 GRF ending balance to provide the resources needed to make up for the expected revenue losses.

The chart below illustrates the cumulative performance of total GRF sources relative to estimates in the first two months of FY 2017 as well as in the entirety of FY 2016, broken down by its largest components. Despite positive contributions from the "other state revenue" component, FY 2017's cumulative sources through August were $145.4 million below estimate, as labeled in the far right column.

Chart 1: GRF Source Fiscal Year Cumulative Performance by Component



The large positive contribution relative to estimates in August labeled as "other state revenue" was primarily the result of an earlier than expected payment to the state from JobsOhio in the amount of $35.7 million. Other tax sources not mentioned above that contributed to the deficit in FY 2017 through August were the CAT, which was $4.8 million (1.6%) below estimate, and the public utility tax, which was $2.1 million (8.3%) below estimate. Partially offsetting these deficits were surpluses from the cigarette tax of $2.6 million (2.4%), the domestic insurance tax of $2.4 million (none expected), the kilowatt-hour excise tax of $2.0 million (3.5%), and the alcoholic beverage tax of $1.3 million (13.9%).

FY 2017 sources through August were down 7.7% ($481.6 million) from one year ago.

Compared to the first two months in FY 2016, FY 2017 sources through August were $481.6 million (7.7%) lower. Most of the decrease was due to smaller federal grants (-$349.0 million) and a large (-$163 million) transfer into the GRF in the first month of FY 2016. However, tax revenue in FY 2017 was also $20.3 million (0.6%) below its comparative FY 2016 amount. The decrease is almost entirely the result of the PIT, which through two months has collected $50.0 million less in FY 2017 than it did in FY 2016. Legislative policy changes enacted in H.B. 64, which led to a 3.1% reduction in the PIT withholding rate, did not take effect until August 2015. Based on this alone, July 2016's PIT withholdings would be expected to be 3.1% lower than in July 2015, though growth in wages would typically offset part or all of that decrease. Instead, PIT revenue in FY 2017 through August was 4.0% lower than those same months in FY 2016.

Partially offsetting the decrease in PIT revenue from FY 2016 were a $21.2 million increase in sales and use tax revenue and a $13.1 million increase in CAT revenue. The year-over-year increases in revenue from these taxes, which are also sensitive to changes in the economy, challenges the simple assumption that PIT revenue is down in FY 2017 entirely due to economic softening. But it is true that employment expansion in Ohio has slowed in 2016 relative to 2015. Through July of this year, Ohio added 4,400 jobs[4] per month on average, while in 2015 it added an average of 6,700 jobs per month.

PIT revenue in FY 2017 through August was $61.2 million (4.9%) below estimate.

Personal Income Tax

The PIT started FY 2017 nearly as gloomily as it ended FY 2016. Through the first two months of the fiscal year, GRF revenue from the PIT was $1.20 billion, $61.2 million (4.9%) below OBM's estimate, including $63.2 million (8.8%) below in August alone. This comes after finishing FY 2016 $217.7 million (2.7%) below estimate, including $138.1 million (3.7%) below in January through June.

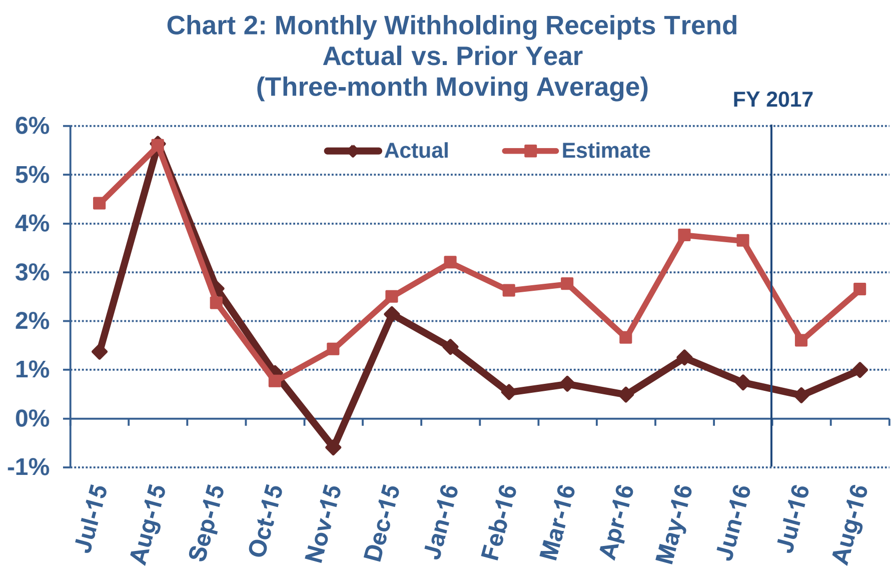
PIT revenue is comprised of gross collections, minus refunds and distributions to the Local Government Fund (LGF). Gross collections consist of employer withholdings, quarterly estimated payments,[5] trust payments, payments associated with annual returns, and other

[4] Nonfarm payroll employment, seasonally adjusted.

[5] 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.

miscellaneous payments. The performance of the tax is typically driven by employer withholdings, which is the largest component of gross collections. In the first two months of FY 2017, the PIT revenue shortfall was led by employer withholdings, which were $40.7 million (3.0%) below estimate, and refunds, which were $17.7 million (20.3%) higher than expected.

Monthly employer withholdings continue to grow year over year, but at a slow pace. Policy changes, which led to reduced withholding rates, took effect in August 2015 and limited year-over-year growth throughout FY 2016; however, revenue growth has also been lower than estimates which take policy changes into account. Those trends appear to have continued into FY 2017, even as the effects of policy changes are phased out of the year-over-year growth calculations. The chart below illustrates the slow growth of monthly employer withholdings relative to one year ago, as well as the deficit relative to estimates (actual figures in the chart are not adjusted for the withholding rate changes in August 2015).



All components of gross collections underperformed expectations in the first two months of FY 2017 and only miscellaneous payments collected more than in the first two months of FY 2016. FY 2017 revenues through August 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	-$40.7	-3.0%	-$10.0	-0.7%
Quarterly Estimated Payments	$0.0	-0.1%	-$9.7	-34.9%
Trust Payments	-$1.1	-42.4%	-$3.2	-68.8%
Annual Return Payments	-$1.4	-8.9%	-$8.2	-36.4%
Miscellaneous Payments	-$0.5	-4.6%	$3.5	52.5%
Gross Collections	**-$43.7**	**-3.1%**	**-$27.5**	**-2.0%**
Less Refunds	$17.7	20.3%	$18.7	21.7%
Less LGF Distributions	-$0.1	-0.2%	$3.9	6.5%
GRF PIT Revenue	**-$61.2**	**-4.9%**	**-$50.0**	**-4.0%**

Sales and Use Tax

August was the fifth straight month that sales and use tax revenue was below estimate.

Sales and use tax receipts were just 0.2% ($25.3 million) below OBM's estimate in FY 2016, but strong performance early in the fiscal year hid significant underperformance as it came to a close. FY 2017 is unlikely to repeat that pattern, as the underperformance spilled into the first two months of the new fiscal year. Total GRF sales and use tax receipts were $8.0 million below estimate in July 2016 and $13.6 million below in August. August marked the fifth straight month that sales and use tax receipts were below estimate. Over the last seven months going back to February, sales and use tax revenue was $125.1 million (2.1%) below expectations. The sales and use tax is the largest state sourced revenue stream to the GRF.

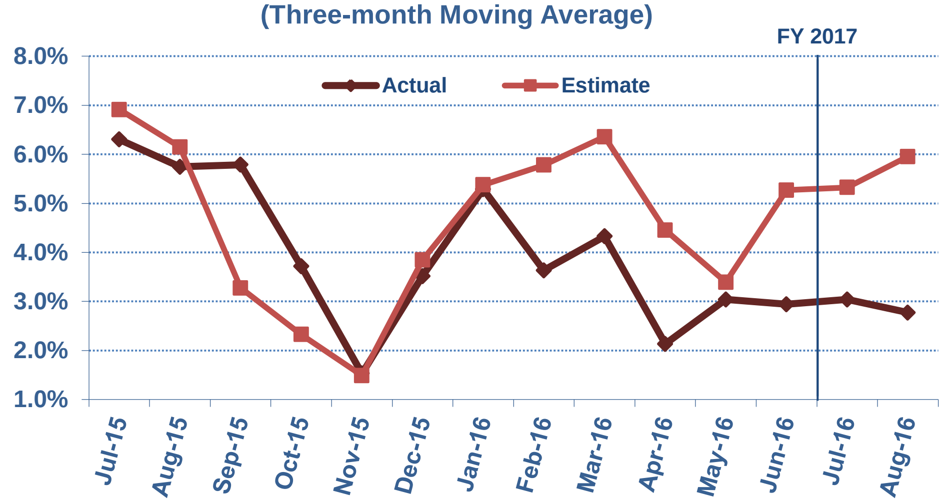
For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections generally arise from the sale of motor vehicles, but auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax instead of the auto tax.[6] 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%.

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

Nonauto Sales and Use Tax

Nonauto sales and use tax collections were a near record high $837.6 million in July and $731.7 million in August; however, neither was enough to match what OBM expected the state to collect. Picking up where FY 2016 left off, nonauto sales and use tax collections were 1.2% ($19.3 million) below estimate through the first two months of FY 2017. Over the last seven months, nonauto sales and use tax collections were a combined $108.2 million (2.1%) below estimate. The chart below illustrates the positive year-over-year growth of nonauto sales and use tax collections but also the failure to meet estimates throughout the majority of calendar year 2016.

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



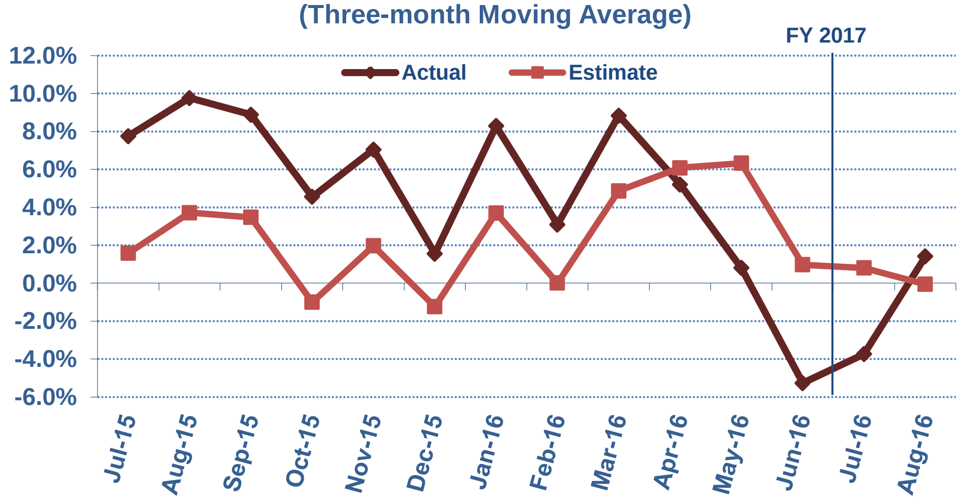
After softening in the first quarter of calendar year 2016, national measures of consumer spending picked up again in the late spring and early summer months. In Ohio, nonauto sales and use tax collections in the late spring and summer months have continued to grow relative to one year ago but not at the pace OBM estimates expected. Very little of the missed estimates in recent months can be blamed on Medicaid health insuring corporations, whose collections usually make up around 10% of nonauto sales and use tax collections. This portion is generally correlated to Medicaid spending, not necessarily broader consumer spending trends. However, despite lower than expected Medicaid spending throughout much of FY 2016, these collections grew at around the same pace as the rest of nonauto sales and use tax collections in recent months.

Auto sales and use tax collections were $2.3 million (0.9%) below estimate in the first two months of the fiscal year.

Auto Sales and Use Tax

The GRF received $245.6 million in revenue from the auto portion of the sales and use tax in the first two months of FY 2017, $2.3 million (0.9%) less than expected. 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. Year-over-year growth in early FY 2017 was expected to be slow due to high sales one year ago.

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



While nationwide auto sales in 2016 have fallen from an all-time high in 2015, sales remained at healthy levels through August. In particular, sales of light trucks have sustained a record-setting pace begun in the fall of 2015. In contrast, sales of cars fell in August to a seasonally adjusted rate not seen since 2011. The changing makeup of light vehicle 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.

CAT revenue to the GRF was $4.8 million (1.6%) below estimate in FY 2017 through August.

Commercial Activity Tax

GRF receipts from the CAT were $290.3 million in the first two months of FY 2017, $4.8 million (1.6%) below estimate. The first CAT payment of the fiscal year was due in August for quarterly return taxpayers. CAT revenue also finished FY 2016 $25.6 million (2.0%) below estimates, which was the second largest shortfall among individual taxes for the year. Weakness in collections can be explained, at least in part, by continued economic softening through the end of FY 2016, particularly in the industrial production sector, which contributes around a quarter of CAT revenue.

Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax were $110.6 million in the first two months of FY 2017, $2.6 million above estimate. The cigarette tax finished FY 2016 with 3.9% more revenue than was expected and was 2.4% above estimate through August of the new fiscal year. Of the $110.6 million in FY 2017 revenue, $99.5 million (90.0%) was from cigarettes and $11.1 million (10.0%) was from sales of other tobacco products.

Revenue from the tax has been consistently at or above estimate for over a year now. Generally, cigarette tax receipts are trending downward long-term; however, H.B. 64 increased the cigarette tax from $1.25 to $1.60 per pack of 20 cigarettes which has led to an increase in total revenues this biennium.

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

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary and Secondary Education	$704,111	$674,234	$29,877	4.4%
Higher Education	$192,926	$197,920	-$4,994	-2.5%
Other Education	$6,968	$14,397	-$7,429	-51.6%
Total Education	$904,004	$886,550	$17,454	2.0%
Medicaid	$1,528,406	$1,666,960	-$138,554	-8.3%
Health and Human Services	$91,076	$95,646	-$4,570	-4.8%
Total Welfare and Human Services	$1,619,482	$1,762,606	-$143,124	-8.1%
Justice and Public Protection	$149,807	$161,478	-$11,671	-7.2%
General Government	$43,556	$47,500	-$3,944	-8.3%
Total Government Operations	$193,363	$208,978	-$15,615	-7.5%
Property Tax Reimbursements	$135,422	$86,105	$49,317	57.3%
Debt Service	$130,240	$130,012	$228	0.2%
Total Other Expenditures	$265,663	$216,117	$49,546	22.9%
Total Program Expenditures	**$2,982,512**	**$3,074,251**	**-$91,739**	**-3.0%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$42,876	$42,509	$366	0.9%
Total Transfers Out	$42,876	$42,509	$366	0.9%
TOTAL GRF USES	**$3,025,387**	**$3,116,760**	**-$91,373**	**-2.9%**

*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 August 31, 2016
($ in thousands)
(Actual based on OAKS reports run September 6, 2016)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2016**	**Percent Change**
Primary and Secondary Education	$1,442,926	$1,419,491	$23,435	1.7%	$1,584,418	-8.9%
Higher Education	$373,603	$379,315	-$5,712	-1.5%	$352,284	6.1%
Other Education	$15,285	$23,183	-$7,899	-34.1%	$16,465	-7.2%
Total Education	$1,831,813	$1,821,989	$9,825	0.5%	$1,953,167	-6.2%
Medicaid	$3,228,650	$3,394,352	-$165,702	-4.9%	$3,301,914	-2.2%
Health and Human Services	$216,993	$240,435	-$23,442	-9.7%	$246,645	-12.0%
Total Welfare and Human Services	$3,445,643	$3,634,787	-$189,144	-5.2%	$3,548,559	-2.9%
Justice and Public Protection	$411,340	$425,939	-$14,599	-3.4%	$417,154	-1.4%
General Government	$77,092	$80,750	-$3,658	-4.5%	$81,498	-5.4%
Total Government Operations	$488,432	$506,689	-$18,257	-3.6%	$498,652	-2.0%
Property Tax Reimbursements	$135,496	$86,761	$48,735	56.2%	$92,486	46.5%
Debt Service	$374,645	$374,642	$3	0.0%	$593,336	-36.9%
Total Other Expenditures	$510,142	$461,403	$48,739	10.6%	$685,822	-25.6%
Total Program Expenditures	**$6,276,030**	**$6,424,868**	**-$148,837**	**-2.3%**	**$6,686,199**	**-6.1%**
TRANSFERS						
Budget Stabilization	$29,483	$29,483	$0	0.0%	$425,500	-93.1%
Other Transfers Out	$212,614	$212,159	$454	0.2%	$346,000	-38.6%
Total Transfers Out	$242,096	$241,642	$454	0.2%	$771,500	-68.6%
TOTAL GRF USES	**$6,518,126**	**$6,666,509**	**-$148,383**	**-2.2%**	**$7,457,699**	**-12.6%**

*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 September 7, 2016)

	Month of August 2016				Year to Date Through August 2016			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid	**$1,753,150**	**$1,897,134**	**-$143,984**	**-7.6%**	**$3,424,731**	**$3,593,040**	**-$168,309**	**-4.7%**
GRF	$1,470,450	$1,603,561	-$133,111	-8.3%	$3,113,714	$3,272,035	-$158,321	-4.8%
Non-GRF	$282,700	$293,573	-$10,873	-3.7%	$311,017	$321,005	-$9,988	-3.1%
Developmental Disabilities	**$260,033**	**$268,383**	**-$8,349**	**-3.1%**	**$442,256**	**$472,348**	**-$30,092**	**-6.4%**
GRF	$47,981	$47,387	$594	1.3%	$98,038	$97,847	$191	0.2%
Non-GRF	$212,053	$220,996	-$8,943	-4.0%	$344,218	$374,501	-$30,283	-8.1%
Job and Family Services	**$22,743**	**$35,314**	**-$12,571**	**-35.6%**	**$36,484**	**$52,824**	**-$16,339**	**-30.9%**
GRF	$8,963	$14,942	-$5,979	-40.0%	$15,018	$22,541	-$7,523	-33.4%
Non-GRF	$13,780	$20,372	-$6,592	-32.4%	$21,467	$30,283	-$8,816	-29.1%
Health	**$4,400**	**$1,927**	**$2,473**	**128.4%**	**$5,843**	**$3,887**	**$1,957**	**50.3%**
GRF	$324	$288	$36	12.6%	$650	$585	$65	11.1%
Non-GRF	$4,076	$1,639	$2,437	148.7%	$5,193	$3,302	$1,891	57.3%
Aging	**$481**	**$579**	**-$98**	**-16.9%**	**$1,663**	**$1,832**	**-$169**	**-9.2%**
GRF	$277	$282	-$5	-1.7%	$689	$704	-$15	-2.1%
Non-GRF	$204	$297	-$93	-31.3%	$975	$1,128	-$154	-13.6%
Mental Health and Addiction	**$506**	**$600**	**-$94**	**-15.7%**	**$864**	**$940**	**-$76**	**-8.1%**
GRF	$410	$500	-$90	-17.9%	$541	$640	-$99	-15.4%
Non-GRF	$95	$100	-$5	-4.5%	$323	$300	$23	7.6%
Total GRF	**$1,528,406**	**$1,666,960**	**-$138,554**	**-8.3%**	**$3,228,650**	**$3,394,352**	**-$165,702**	**-4.9%**
Total Non-GRF	**$512,908**	**$536,977**	**-$24,069**	**-4.5%**	**$683,193**	**$730,519**	**-$47,326**	**-6.5%**
Total All Funds	**$2,041,314**	**$2,203,936**	**-$162,622**	**-7.4%**	**$3,911,843**	**$4,124,871**	**-$213,028**	**-5.2%**

*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 September 7, 2016)

	August				Year to Date Through August 2016			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	$787,592	$874,912	-$87,320	-10.0%	$1,577,705	$1,672,605	-$94,900	-5.7%
Nursing Facilities	$131,808	$125,697	$6,111	4.9%	$245,533	$241,020	$4,513	1.9%
DDD Services	$256,236	$261,868	-$5,633	-2.2%	$433,009	$457,998	-$24,989	-5.5%
Hospitals	$90,146	$96,588	-$6,442	-6.7%	$164,535	$171,367	-$6,832	-4.0%
Behavioral Health	$102,643	$114,597	-$11,954	-10.4%	$186,054	$203,928	-$17,874	-8.8%
Administration	$89,603	$112,954	-$23,351	-20.7%	$155,853	$182,222	-$26,369	-14.5%
Aging Waivers	$25,076	$30,324	-$5,248	-17.3%	$60,601	$57,841	$2,760	4.8%
Prescription Drugs	$37,673	$42,711	-$5,039	-11.8%	$68,070	$76,881	-$8,811	-11.5%
Medicare Buy-In	$42,604	$38,288	$4,316	11.3%	$84,890	$76,482	$8,408	11.0%
Physicians	$19,261	$19,374	-$112	-0.6%	$33,430	$34,939	-$1,509	-4.3%
Medicare Part D	$27,230	$27,637	-$407	-1.5%	$54,568	$55,242	-$674	-1.2%
Home Care Waivers	$11,888	$16,290	-$4,401	-27.0%	$21,167	$29,268	-$8,101	-27.7%
ACA Expansion	$334,730	$354,706	-$19,976	-5.6%	$670,702	$706,292	-$35,590	-5.0%
All Other	$84,823	$87,990	-$3,167	-3.6%	$155,726	$158,786	-$3,060	-1.9%
Total All Funds	**$2,041,314**	**$2,203,936**	**-$162,622**	**-7.4%**	**$3,911,843**	**$4,124,871**	**-$213,028**	**-5.2%**

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

Expenditures

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

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

Overview

For the first two months of FY 2017, GRF uses were $148.4 million below estimate.

For the month of August, GRF uses were $91.4 million below the estimate released by OBM in August 2016.[7] Through August, FY 2017 GRF uses totaled $6.52 billion, $148.4 million below estimate. GRF uses mainly consist of program expenditures but also include transfers out. For the first two months of FY 2017, GRF program expenditures were $6.28 billion, $148.8 million below estimate. GRF transfers out were $242.1 million, $0.5 million above estimate. Tables 3 and 4 show GRF uses for the month of August and for FY 2017 through August, respectively.

Medicaid expenditures were the most prominent source for the negative year-to-date variance in GRF uses. GRF Medicaid expenditures were $138.6 million below estimate in August, which increased the category's negative year-to-date variance to $165.7 million. While Medicaid is mainly funded by the GRF, it also receives funding from various non-GRF funds. The variances in both GRF and non-GRF Medicaid expenditures are discussed in detail in the section that immediately follows this overview.

For the month of August, property tax reimbursement payments were $49.3 million above estimate. Through August, this category's expenditures were $48.7 million above estimate. GRF dollars provided under this program category are used to make semiannual payments to school districts and other local governments. The payments based on the August 2016 property tax settlement will be made through the end of December. As funds are disbursed when county auditors request the payments, it is not unusual to see variances from month to month, especially in the early months of a payment cycle.

Medicaid Expenditures

As indicated earlier, Medicaid receives funding from the GRF and various non-GRF funds. As a joint federal-state program, both GRF and non-GRF Medicaid expenditures contain federal and state moneys. Overall, the federal and state shares of Medicaid expenditures are about 64% and 36%, respectively.

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[7] See the last section of this report for a summary of the OBM estimate for GRF uses for FY 2017.

Table 5 provides GRF and non-GRF Medicaid expenditures by agency. As seen from the table, for the month of August, GRF Medicaid expenditures of $1.53 billion were $138.6 million (8.3%) below estimate while non-GRF Medicaid expenditures of $512.9 million were $24.1 million (4.5%) below estimate. Across all funds, Medicaid expenditures of $2.04 billion in August were below estimate by $162.6 million (7.4%).

Through the first two months of FY 2017, GRF Medicaid expenditures were $3.23 billion, $165.7 million (4.9%) below estimate, while non-GRF Medicaid expenditures were $683.2 million, $47.3 million (6.5%) below estimate. Across all funds, Medicaid expenditures totaled $3.91 billion, $213.0 million (5.2%) below their year-to-date estimate.

The Ohio Department of Medicaid (ODM) is primarily responsible for administering Medicaid, with the assistance of five other state agencies – Developmental Disabilities, Job and Family Services, Health, Aging, and Mental Health and Addiction Services. As seen from Table 5, ODM, the largest agency within this program category, also had the largest year-to-date variance. Through the first two months of FY 2017, ODM's GRF expenditures totaled $3.11 billion, which was $158.3 million (4.8%) below estimate, and its non-GRF expenditures totaled $311.0 million, which was $10.0 million (3.1%) below estimate. Across all funds, ODM's expenditures were $168.3 million (4.7%) below their year-to-date estimate. GRF and non-GRF Medicaid expenditures from the Department of Developmental Disabilities (DDD), the second largest agency within this program category, totaled $442.3 million through the first two months of FY 2017, which was $30.1 million (6.4%) below estimate. Together, ODM and DDD account for about 99% of the Medicaid expenditure total.

Managed Care had the largest negative variance for the year among Medicaid payment categories.

Table 6 details all-funds Medicaid expenditures by payment category. As seen from the table, Managed Care had the largest negative variance for the year to date at $94.9 million (5.7%), mainly due to new managed care rates for 2016, effective January 1. These rates were lower than projected, particularly those for the MyCare program, which provides managed care services for Ohioans who receive both Medicaid and Medicare benefits. The rates will continue through the end of the calendar year, meaning the Managed Care category will likely continue to have a negative variance through at least the first half of FY 2017.

Other payment categories that had significant negative year-to-date variances were ACA Expansion ($35.6 million, 5.0%), Administration ($26.4 million, 14.5%), and DDD Services ($25.0 million, 5.5%). The negative variance for ACA Expansion is driven by the previously described lower than anticipated managed care rates, applicable to this group (Group VIII). Although Group VIII caseloads continued to be higher than expected in FY 2017, the effect on expenditures was completely offset by the managed care rate changes. The negative variance for Administration continued into the new fiscal year in part due to the underspending of federal grants for electronic medical records. This variance should shrink after ODM completes a number of information technology contracts. The negative variance for DDD Services was largely due to slower than projected new waiver enrollment. However, DDD anticipates that waiver expenditures will catch up before the end of FY 2017.

The Medicare Buy-In, Nursing Facilities, and Aging Waivers categories had positive variances. All funds expenditures in the Medicare Buy-In category totaled $84.9 million, which was $8.4 million (11.0%) above estimate. This positive variance was driven by a larger than anticipated increase in Medicare Part B premiums for 2016. These rates will be in effect through the end of the calendar year, likely resulting in a positive variance for Medicare Buy-In through at least the first half of FY 2017. The Medicare Buy-in Program pays Medicare premiums, deductibles, and coinsurance for certain low-income Ohioans.

GRF uses are expected to total $36.62 billion for FY 2017.

Summary of OBM Estimate for GRF Uses for FY 2017

The table below shows the estimate released by OBM in August 2016 for GRF uses for FY 2017. For reporting purposes, agencies' GRF expenditures are grouped into nine program categories. As seen from the table, GRF program expenditures are estimated to total $35.89 billion in FY 2017. Of this amount, over $18.54 billion will go to Medicaid and over $7.91 billion will go to Primary and Secondary Education. Together, these two program categories will account for more than 73% of the total program expenditures in FY 2017.

OBM also anticipates $417.9 million in GRF transfers out. The largest transfer planned for this year occurred in July when $150 million was transferred to the Health and Human Services Fund (Fund 5SA4) per Section 512.33 of H.B. 64. The second largest transfer is scheduled for June, during which $100 million will be deposited in the Public School Building Fund (Fund 7021) per Section 531.10 of S.B. 310. Furthermore, OBM estimated $312.7 million in year-end encumbrances from the GRF. After accounting for program expenditures, transfers out, and year-end encumbrances, OBM expects GRF uses to total $36.62 billion for FY 2017.

OBM Estimate for GRF Uses for FY 2017 by Program Category ($ in thousands)		
Program Categories	**Expenditures**	**As a % of Total Program Expenditures**
1 - Medicaid	$18,537,250	51.6%
2 - Primary and Secondary Education	$7,913,147	22.0%
3 - Higher Education	$2,307,632	6.4%
4 - Justice and Public Protection	$2,095,599	5.8%
5 - Property Tax Reimbursements	$1,822,100	5.1%
6 - Debt Service	$1,376,147	3.8%
7 - Health and Human Services	$1,371,423	3.8%
8 - General Government	$393,808	1.1%
9 - Other Education	$75,504	0.2%
Total Program Expenditures	**$35,892,611**	**100.0%**
Transfers Out	**$417,875**	**--**
Year-end Encumbrances	**$312,696**	**--**
Total GRF Uses	**$36,623,182**	**--**

Issue Updates

Naloxone Grant Programs Helped Save Almost 2,400 Ohioans

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

The Ohio Department of Mental Health and Addiction Services (OMHAS) announced that the Naloxone Grant Program helped save approximately 2,400 Ohioans from overdose during FY 2016 by making naloxone more accessible statewide. The program provided over 7,800 naloxone kits to 78 participating county health departments, who in turn distributed the kits to local law enforcement, emergency personnel, and first responders. Funds were awarded based on population size; however, each county health department was guaranteed an allocation of at least $1,800. County health departments received either a Project DAWN kit, which contains two doses of naloxone, two nasal atomizers, a CPR barrier device, and instructional materials, or a ten-pack of naloxone syringes. H.B. 64, the current budget bill, provided $500,000 in FY 2016 for the program. Another $500,000 is allocated to the program in FY 2017.

Naloxone is a drug that can reverse an overdose caused by an opioid drug such as a prescription medication or heroin. It can be administered via intranasal spray, intravenous injection, or intramuscular injection. Naloxone cannot reverse an overdose caused by a non-opioid drug such as cocaine or methamphetamine. In Ohio, naloxone can be distributed without a prescription under certain conditions.

OHFA Awards $104.3 million in Hardest-Hit Funds for Communities to Demolish Blighted Residential Property

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

On July 13, 2016, the Ohio Housing Finance Agency (OHFA) awarded $104.3 million to 18 counties under the Neighborhood Initiative Program (NIP). The NIP is designed to stabilize local property values through the demolition and greening of vacant blighted homes. Funding comes from the fifth round of funding under the U.S. Treasury's Hardest-Hit Fund, a program started in 2010 to help struggling homeowners avoid foreclosure and communities tackle blight in areas particularly affected by the housing crisis. To be eligible for funding under NIP, counties must have a county land reutilization corporation. The table below shows the 18 county land reutilization corporations receiving awards and the total award amount under the July award announcement.

Neighborhood Initiative Program Awards by County Land Reutilization Corporations	
County Land Reutilization Corporation	**Award**
Cuyahoga	$31,264,000
Lucas	$13,809,078
Franklin	$12,189,568
Montgomery	$8,182,016
Mahoning	$6,894,969
Trumbull	$6,566,271
Summit	$6,436,638
Stark	$6,017,166
Hamilton	$3,107,342
Ashtabula	$2,704,305
Butler	$1,775,624
Richland	$1,393,673
Erie	$1,043,179
Lake	$750,000
Clark	$634,786
Jefferson	$634,786
Portage	$450,000
Fairfield	$443,906
TOTAL	**$104,297,307**

Awards were based on each county's request for demolition funds and track record in using previous awards under earlier rounds of NIP funding. The maximum amount of assistance per property under NIP is $25,000. Since 2010, the U.S. Treasury has provided a total of $762.3 million in Hardest-Hit Fund allocations to OHFA to administer the state's foreclosure prevention and neighborhood stabilization programs. Of this amount, $238.0 million has been allocated for the demolition of blighted residential properties under NIP.

Department of Developmental Disabilities Announces Expansion of Employment First Partnership

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

On July 1, 2016, the Ohio Department of Developmental Disabilities (ODODD) announced the expansion of the Employment First Program. Employment First is a partnership between ODODD and the Opportunities for Ohioans with Disabilities Agency (OOD) that seeks to ensure that individuals with disabilities have the opportunity to gain community employment. ODODD is increasing funding for vocational rehabilitation (VR) counseling services by approximately $400,000, which will bring total program funding for these activities to $2.2 million. This additional funding will allow for the hiring of five new VR counselors who will serve an additional 300 individuals with disabilities seeking community employment. The new counselors will be placed in regions that were identified as having the greatest need based on the number of open cases and projected referrals. These regions will serve 14 counties and include Akron, Dayton, Cleveland, Mansfield, and Toledo. ODODD and OOD estimate that the Employment First Program will serve a total of 1,800 in federal fiscal year 2017.

The Employment First initiative was created on March 19, 2012, by Executive Order 2012-05K. Since the start of the program in October 2013, 700 individuals have been successfully employed for an average of approximately 19 hours per week at an average wage of $8.54 per hour. State funding for the program is provided through GRF appropriation item 322508, Employment First Initiative, which is within ODODD's budget. Federal match for the program is received through the Consolidated Federal Fund (Fund 3790) and expended through appropriation item 415616, Federal - Vocational Rehabilitation, which is within OOD's budget.

ODE Contracts for ACT and SAT as State's College Readiness Tests

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

In June 2016, the Ohio Department of Education (ODE) contracted with ACT, Inc., and the College Board to provide their respective ACT and SAT college readiness tests at state expense as part of the state's college and work ready assessment system. H.B. 487 of the 130th General Assembly required ODE and the Ohio Department of Higher Education (ODHE) to jointly select nationally standardized college admissions assessments that will be administered to all juniors in the spring of each school year. Statewide administration of the state-funded tests will occur for the first time in 2017. ODE expects approximately 140,000 high school juniors annually to take either the ACT or SAT. Each district and community school will choose to administer one test or the other. A district's selection applies to all of its schools each school year but may change from one year to the next. Under the contracts, the state will pay $36.35 per student for the SAT and $40.00 per student for the ACT. These costs are paid primarily from GRF line item 200437, Student Assessment.

The results of the college readiness tests may be used to meet the new graduation testing requirements H.B. 487 established for students entering ninth grade in the 2014-2015 school year (the class of 2018) and beyond. In addition to applicable curriculum requirements, such students must satisfy testing requirements for a diploma in one of three ways, including scoring at a "remediation free" level on one of the two college readiness tests.[8] Currently, this requirement can be met by earning English, reading, and math subscores of at least 18, 22, and 22, respectively, on the ACT or writing, reading, and math subscores of at least 430, 450, and 520, respectively, on the SAT.[9]

Ohio Arts Council Announces FY 2017 Grant Awards

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

On July 27, 2016, the Ohio Arts Council (OAC) approved 630 grants for FY 2017 totaling more than $12 million. According to OAC, 118 new applicants received awards this year. Funding for the grants from GRF appropriation item 307502, State Program Subsidies, has been increasing in recent years. Appropriations increased by $2.75 million in FY 2016 and an additional $500,000 in FY 2017.

The bulk of the grant awards were distributed through four major funding categories: Operating Support, Project Support, Arts Learning, and Individual Artists. Each of these four categories is comprised of one or more individual programs. The table below summarizes the number of grantees and the amount awarded by category and program.

Ohio Arts Council Grant Awards Summary, FY 2017

Funding Category	Program	Grantees	Amount Awarded
Operating Support	Sustainability	285	$10,303,837
	Arts Access	18	$62,900
Arts Learning	Arts Partnerships	58	$824,997
	Artist in Residence	13	$32,000
Project Support	ArtSTART	100	$324,302
	ArtsNEXT	38	$337,799
Individual Artists	Traditional Arts Apprenticeships	8	$32,000
Other	Various	110	$418,771
TOTAL		**630**	**$12,336,606**

As the table shows, OAC allocates the vast majority of funding to the Operating Support category's Sustainability program, which provides four-year funding support for established large and mid-sized arts organizations. The Arts Learning category supports projects in arts education and helps community arts organizations work with

[8] The other two options are to accumulate a certain number of points on end-of-course exams or earn a State Board of Education-approved industry-recognized credential and achieve a "workforce readiness score" on the state-selected job skills assessment.

[9] Under state law, remediation free levels are set periodically by Ohio's university presidents. According to ODE, these score thresholds may change based on the revised SAT exam that debuted earlier this year.

local schools. The Project Support category helps organizations complete short-term and experimental projects. The Individual Artists category allows master artists to train apprentices. OAC also awarded funding under various other programs, including Artists with Disabilities Access, Building Cultural Diversity, Capacity Building, and Ohio Artists on Tour to name a few. Additional details regarding these programs are available on OAC's website at: http://www.oac.ohio.gov/grants.

Criminal Justice Services Awards $2.8 million in Federal Family Violence Prevention and Services Act Grants

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

On June 15, 2016, the Office of Criminal Justice Services awarded $2.8 million in federal Family Violence Prevention and Services Act grants for 60 projects in 49 counties. The grants were awarded to nonprofit and faith-based associations to establish, maintain, and expand projects that prevent incidents of family violence or provide immediate shelter and related assistance for family violence victims and their dependents. Both new and continuation projects were eligible to apply for a grant award of up to $50,000. New projects had to provide a local funding match of at least 35% of the project's total cost during the time period covered by the grant; continuation projects had to provide at least 20%. All but one of the 60 grants awarded were for continuation projects. Individual project awards ranged from $27,471 to the $50,000 maximum, which was received by 22 projects in 21 counties. The average award was $46,774. A list of project awards can be found on the office's website: www.ocjs.ohio.gov/.

State and Local Governments Received a Total of $1.80 billion in State Motor Fuel Tax Revenue in FY 2016

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

Revenue from the $0.28 per gallon state motor fuel tax (MFT) amounted to $1.80 billion in FY 2016, a 2.4% decrease from revenue of $1.84 billion in FY 2015, when MFT revenue recorded a ten-year high. Under the Ohio Constitution, MFT revenue must be spent on highway purposes. The revenue is distributed to various state agencies and local governments by statutory formula. The Highway Operating Fund (Fund 7002), used by the Ohio Department of Transportation (ODOT), received the largest share at 56.5% ($1.01 billion) of the total MFT revenue distributed in FY 2016. Another 6.7% ($119.7 million) of MFT revenue was used to cover debt service on highway capital improvement bonds issued for ODOT to fund more highway construction and pavement and bridge preservation projects.

Local governments received the second largest share of MFT revenue, totaling $561.0 million (31.2%) of distributions in FY 2016 for road and bridge projects. In addition to this money, $61.5 million (3.4%) of total MFT revenue in FY 2016 was directed toward the Public Works Commission for local road and bridge projects under the Local Transportation Improvement Program (LTIP). Other state agencies, including the (1) Development Services Agency, (2) Department of Natural Resources, (3) Public Utilities Commission of Ohio, and (4) Department of Taxation, each received between $1 million and $16 million in FY 2016 MFT revenue to support various transportation-related programs and activities overseen by the agencies.

Ohio EPA Awards $328,553 in Mosquito Control Grants

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

On June 16, 2016, the Ohio Environmental Protection Agency (Ohio EPA) announced the first round of mosquito control grants totaling $328,553 to 17 local health departments and a collaborative project between Ohio State and the city of Cleveland Department of Public Health.[10] 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 will be used to implement one or more of the following activities: (1) mosquito surveillance, (2) larval control, (3) adult mosquito control, e.g., spraying, (4) community outreach, and (5) breeding source reduction, e.g., trash and tire removal. Grant awards range from $2,100 to the Coshocton County Health Department to $44,800 to the Trumbull County Combined Health District. The average grant amount is $18,253.

The Ohio EPA plans to award a second round of mosquito control grants in FY 2017 totaling $691,340. Both rounds are drawing on 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.

[10] The list of individual awards can be found on the Ohio EPA's website: http://epa.ohio.gov/News/OnlineNewsRoom/NewsReleases/TabId/6596/ArticleId/971/language/en-US/month/6/year/2016/ohio-epa-announces-first-round-of-statewide-mosquito-control-grants.aspx.

ODHE Awards Higher Education Innovation Grants

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

In July, the Ohio Department of Higher Education (ODHE) awarded $5 million in the first round of funding under the Ohio Higher Education Innovation Grant Program to six institutions of higher education and their partners. The program supports projects that seek to enhance the quality of higher education and make it more affordable. H.B. 64 earmarked $5 million in each fiscal year from Fund 5RA0 line item 235616, Workforce and Higher Education Programs, to support the program. This fund received a transfer of FY 2015 GRF surplus revenues. ODHE plans to request proposals for the second round of grants later this fall, with awards likely determined sometime in the early months of 2017. The lead institution receiving a first round award, the amount of the award received, and a brief description of each project are listed below.

- **Lakeland Community College** ($1,965,684). Funds will be used to create the Pathways to Careers project, which will focus on the comprehensive use of data analytics to support better space utilization and course management strategies. The Ohio Association of Community Colleges will administer the project on behalf of the participating four universities and 18 community colleges.
- **Columbus College of Art and Design (CCAD)** ($998,000). Funds will be used to support the Credit for Life Integrated Portfolio (CLIP) program, which will assist schools in creating online portfolios for students to submit demonstrated, life-learning experience for college credit. CCAD developed CLIP in collaboration with Franklin University.
- **Northwest State Community College** ($607,458). Funds will be used to standardize procedures and consolidate administrative services and software that will be shared by Northwest State and Terra State community colleges.
- **Shawnee State University** ($517,545). Funds will be used to establish the Bridge to Success Program, which will provide an accelerated remediation program and other support services to a selected group of students who intend to enroll at Shawnee and that have been identified as academically unprepared, low income, and the first in their families to go to college. Students in the program will also receive support from Southern State Community College, Scioto Career Technical Center, Ohio University – Southern, and the Lawrence County Educational Service Center.
- **Stark State College** ($506,484). Funds will be used to create the ShaleNet Measurement and Mechatronics Technician degree program, which will educate and train students for work in the oil and gas industry on an accelerated 18-month schedule. The program will be open to students at Stark and its partnering schools, Eastern Gateway Community College and Hocking College.

- **Sinclair Community College** ($404,649). Funds will be used to support the Guided Pathways Model for Student Success, which will be a collaboration between Sinclair and Columbus State Community College to develop pathway coursework and to map out career choices to assist their students. The proposed project builds on a successful initiative at Sinclair.

TRACKING THE ECONOMY

– *Ruhaiza Ridzwan, Senior Economist, 614-387-0476*

U.S. employment grew 151,000 in August after surging for two straight months. The unemployment rate was unchanged in August, remaining at 4.9% since June.

Overview

The U.S. economy continues to expand. Inflation-adjusted gross domestic product (real GDP) rose at an annualized rate of 1.1% in the second quarter, largely attributed to gains in consumer spending and exports. The U.S. economy continued to add more jobs, however, job gains slowed in August. Consumer spending increased at an annualized rate of 4.4% in the second quarter of 2016 compared to 1.6% in the first quarter and continued to grow in July. Sales of light vehicles decreased in August but remained at a high level. Personal income grew in July. Wages and salaries also increased. Inflation remained low. U.S. housing markets remained strong.

In Ohio, nonfarm payroll employment rose by 11,400 in July. The state's unemployment rate edged down to 4.8% in July, but was slightly higher than in July 2015. The state's unemployment rate in July was lower than the U.S. unemployment rate of 4.9%. The number of workers that are classified as unemployed in Ohio in July was more than in July of the previous year. In Ohio, the number of homes sold in the first seven months of this year was higher than in the year-earlier period, but sales in July were lower.

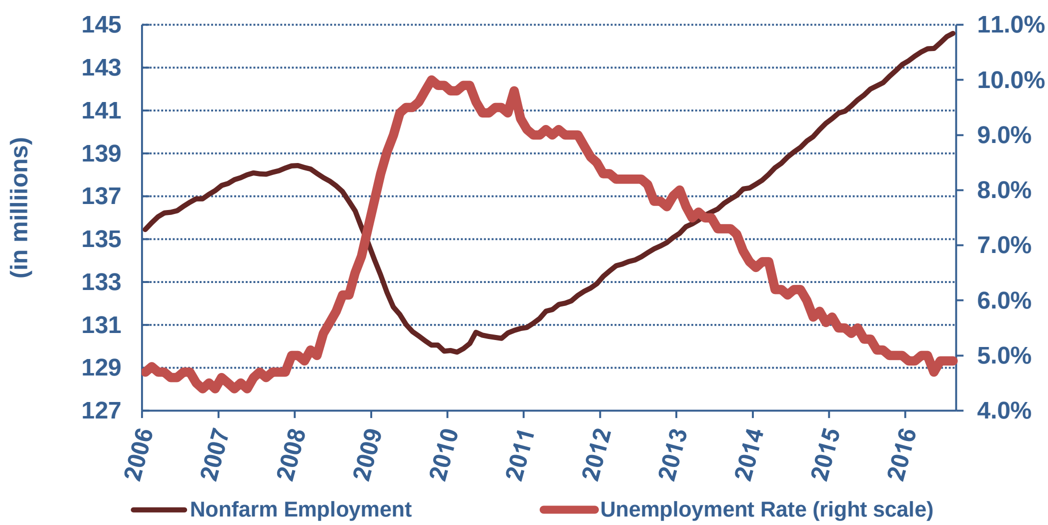
The National Economy

Employment and Unemployment

Total nonfarm payroll rose by 151,000 jobs in August, following two consecutive months of robust gains. The unemployment rate in August was unchanged at 4.9% since June. The total number of unemployed persons increased by 79,000 to 7.8 million in August; the number of unemployed persons in August was lower than total unemployed persons in August 2015. The labor force increased by 176,000 in August; the labor force participation rate was unchanged. Total employment gains in June and July were revised downward by a net 1,000 compared to the previously reported gains. Total nonfarm payroll as of March 2016 will be lowered by an estimated 150,000, 0.1% from the currently published level, according to the Bureau of Labor Statistics (BLS), when the annual benchmark of employment statistics is published next year.[11] Chart 5 shows trends in U.S. employment and unemployment over the last ten years.

Over the 12 months ending in August, employment gains averaged 204,000. Year-to-date monthly employment gains averaged 182,000 compared to 229,000 per month in 2015. Compared to July, August saw significant employment gains in building material and garden supply stores, finance and insurance, and healthcare and social assistance. During the 12 months ending in August, employment gains were largest in education and health services, professional and business services, leisure and hospitality, and retail trade. Job losses occurred primarily in mining and logging and in manufacturing.

Chart 5: U.S. Employment and Unemployment



Production

Real GDP grew at an annualized rate of 1.1% in the second quarter of 2016 following growth at a 0.8% rate in the first quarter, according to the revised estimate published by the U.S. Bureau of Economic Analysis (BEA) in August. The increase was largely due to gains in consumer spending and exports. Growth was reduced by declines in private inventory investment, residential fixed investment, state and local government spending, and nonresidential fixed investment. The estimate of second quarter real GDP growth was revised downward from an

[11] Each year, BLS revises the Current Employment Statistics (CES) survey estimates by incorporating the comprehensive counts of employment for the month of March based on actual state unemployment insurance tax records. The estimate released this month is preliminary.

annualized rate of 1.2%, mainly due to lower state and local government spending and private inventory investment than previously estimated. Annual revisions to estimates for earlier years increased growth slightly.

Industrial production increased 0.7% in July, with gains in all major sectors. The increase in July was the largest since November 2014, when the index rose to its highest level ever. Manufacturing output rose 0.5% in July and 0.2% compared to a year ago. The gain in July was the largest since July 2015. The index of factory output remained below its all-time peak in 2007. The output of utilities increased 2.1% in July due to above-normal temperatures. Mining output rose 0.7% in July following a decrease in June.

Manufacturing activity declined in August after expanding for five straight months, according to a monthly survey of purchasing managers reported by the Institute for Supply Management (ISM). New orders, production, employment, inventories, order backlogs, and imports decreased. Nonmanufacturing activity continued to grow but at a slower pace in August. Nonmanufacturing business activity, new orders, employment, prices, and imports continued to increase. Nonmanufacturing inventories, order backlogs, and new export orders declined.

Consumer Spending and Personal Incomes

Retail and food services sales were unchanged from June to July but increased 2.3% compared to a year earlier. Motor vehicle and parts dealers sales increased 1.1% in July and increased 2.4% from July 2015. Retail and food services sales excluding motor vehicle and parts declined 0.3% in July but increased 2.2% from July 2015. Sales for food services and drinking places declined 0.2% in July but increased 5.0% compared to July 2015. Food and beverage stores decreased 0.6% in July but increased 1.4% from July 2015. Nonstore retailers and health and personal care stores increased by 14.1% and 7.8%, respectively, from a year earlier. Both gasoline stations and electronic and appliance stores decreased compared to a year earlier.

Personal income rose 0.4% in July after increasing 0.3% in June. Wages and salaries edged up for a fifth straight month. Personal savings increased to 5.7% of disposable income in July after declining to 5.5% in June. Real consumer spending rose 0.3% in July after increasing 0.4% in June. Both consumer spending for durable goods and services grew in July.

Sales of light vehicles declined in August. The annualized rate of U.S. total light vehicle sales was 16.9 million in August, seasonally adjusted, compared to 17.8 million in July and 17.6 million in August 2015. Total light vehicles sales from January to August averaged 17.2 million units, unchanged compared to the average sales during the same period in 2015.

Home Sales

Sales of existing homes nationwide decreased by 3.2% on a seasonally adjusted basis in July, after increasing for four consecutive months, according to the National Association of Realtors. Compared to July 2015, sales of existing homes were down by 1.6%. Existing home sales in the Midwest fell by 5.2% on a seasonally adjusted basis in July but were unchanged compared to July 2015.

In July, sales of new single-family houses increased to 654,000 units on a seasonally adjusted annualized rate, according to the U.S. Department of Commerce. This was 12.4% above the revised June rate of 582,000 units and was 31.3% above the previous July's estimate of 498,000 units. The median sales price of new houses sold in July 2016 was $294,600 while the average sales price was $355,800. In the Midwest, sales of new single-family houses increased by 1.2% from June to July and by 35.5% compared to July 2015.

The number of building permits issued nationwide decreased by 0.1% on a seasonally adjusted basis in July from the revised June rate but was 0.9% above the July 2015 estimate. U.S. housing starts increased by 2.1% on a seasonally adjusted basis in July from the revised June estimate and 5.6% above the July 2015 rate. In the Midwest, housing starts increased by 2.3% from June to July and also by 2.3% compared to July 2015.

Inflation

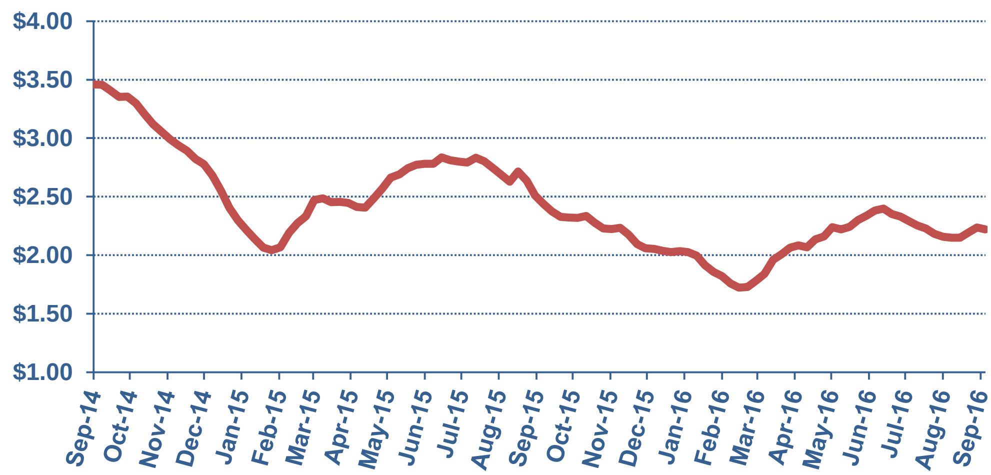
Consumer Prices

The consumer price index for all urban consumers (CPI-U) was unchanged in July, on a seasonally adjusted basis. The CPI-U rose 0.2% in June. Compared to a year earlier, the CPI-U increased 0.8% in July. The food index was unchanged in July after decreasing in May and June. The energy index declined 1.6% in July following gains for four straight months. The decrease was due to the gasoline index, which decreased 4.7% in July after increasing in four consecutive months.

The core inflation, as measured by the CPI-U excluding food and energy, was 0.1% in July, seasonally adjusted, as reported by BLS. The CPI core index was up 0.2% in June and increased 2.2% over July of last year. Some of the largest 12-month percentage increases in the core CPI index were in medical care services (4.1%), medical care commodities (3.6%), and shelter (3.3%).

The U.S. average regular gasoline retail price was $2.22 per gallon on September 5, 2016, according to the U.S. Energy Information Administration's weekly survey. Chart 6 shows weekly U.S. average regular gasoline retail prices since September 2014.

Chart 6: Weekly U.S. Regular All Formulations Retail Gasoline Prices (Dollars per Gallon)



Producer Prices

The producer price index (PPI) for final demand decreased 0.4% in July, seasonally adjusted, after increasing 0.5% in June and 0.4% in May. The decrease in July was due to decreases in prices for both final demand services and final demand goods. The final demand index decreased 0.2% compared to a year earlier.

Prices for final demand less food, energy, and trade services were unchanged in July following a 0.3% increase in June. The index for final demand less food, energy, and trade services increased 0.8% compared to a year earlier.

The Ohio Economy

Employment and Unemployment

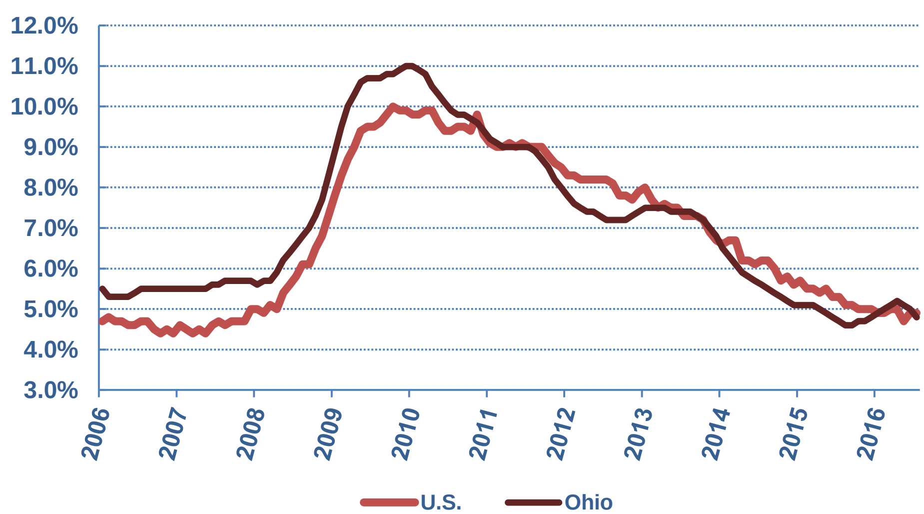
In July, Ohio's total nonfarm payroll employment, seasonally adjusted, rose by 11,400, or about 0.2% from June's revised total, following an increase of 10,300 jobs from May to June. The state's nonfarm payroll employment was 78,800, or 1.5% higher than in July 2015. Employment gains during the past year were in healthcare and social assistance, accommodation and food services, state government (including public universities), and professional, scientific, and technical services.

In July, employment in private service-producing industries and government increased by 8,000 and 4,700, respectively, while employment in goods-producing industries decreased by 1,300. The increase in private service-producing industries was more than accounted for by educational and health services (+5,000), trade, transportation, and utilities (+2,700), and professional and business services (+2,100). Government employment increased in local (+3,100) and state (+1,700) governments but federal employment decreased (-100). The goods-producing industries showed an increase in manufacturing (+2,600) but decreases in mining and logging (-300) and in construction (-3,600).

In July, Ohio's unemployment rate was slightly below the U.S. unemployment rate.

The state's unemployment rate edged down from 5.0% in June to 4.8% in July, but was slightly higher than in July 2015. In comparison, the U.S. unemployment rate was 4.9% in July, same as in June, but lowered from 5.3% in July 2015. The state's unemployment rate in July 2016 was lower than the U.S. unemployment rate. The number of workers that are classified as unemployed in Ohio was 278,000 in July, 11,000 more than in July 2015. Chart 7 shows U.S. and Ohio unemployment rates over the last ten years.

Chart 7: U.S. and Ohio Unemployment Rates



Ohio Home Sales

In July, the number of existing homes sales in the state decreased by 7.0% compared to July 2015, according to the Ohio Association of Realtors. Existing home sales rose by 4.8% in the first seven months of this year compared with the corresponding months of 2015. The statewide sales price of homes sold in the first seven months of 2016 averaged $163,173, 4.2% higher than the corresponding period a year earlier.

Regional Economy

Sales of existing single-family homes in Ohio remained robust.

Economic activity within the Federal Reserve Bank of Cleveland's district grew at a modest pace in recent months, according to the Beige Book report released in September.[12] Manufacturing output rose slightly, but steel manufacturers reported positive expectations due to the increase in domestic steel prices. The suppliers to motor vehicle, aerospace, commercial construction, housing, and food industries continued to note an "elevated" level of activity. Sales of new and existing single-family homes remained robust. Prices of building materials increased modestly according to home builders and commercial contractors. Retailers noted higher revenues at the start of the third quarter in comparison to the same period in the previous year, supported by expanding labor markets, low gas prices, and sales promotion. Restauranteurs stated that softer retail sales were offset by a gain in corporate catering sales. Sales of new vehicles declined in the first seven months of 2016 compared to the same months in the previous year. Sales of light trucks, including SUVs and crossovers, outperformed car sales. Commercial and retail lending activity continued to grow at a steady pace, with the strongest demand in commercial real estate loans, mergers and acquisitions financing, auto loans, and home equity products. Natural gas production in the Marcellus and Utica shales remained at the highest level ever but grew at a slower pace over the last few months.

[12] The Summary of Commentary on Current Economic Conditions (commonly known as the "Beige Book") summarizes information from business and other contacts outside of the Federal Reserve System. Information in the latest report was collected on or before August 29, 2016. The Federal Reserve Bank of Cleveland's district includes all of Ohio and parts of Kentucky, Pennsylvania, and West Virginia.