Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION   APRIL 2016

STATUS OF THE GRF

HIGHLIGHTS

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

Personal income tax receipts came in $38 million above estimate in March, bouncing back from disappointing results in the first two months of 2016. Additionally, GRF tax sources as a whole did well, reversing a year-to-date shortfall of nearly $23 million last month, and ending with a positive variance of about $9 million through March. On the other ledger of the budget, GRF uses continued a trend of large negative variances for the fiscal year, totaling $563 million through March.

Ohio's economy added 12,400 jobs in February. Though the unemployment rate was unchanged at 4.9% from the previous month, it was lower than the rate of 5.1% in February 2015.

Through March 2016, GRF sources totaled $25.61 billion:

- Revenue from the personal income tax was $92.0 million below estimate;
- Sales and use tax receipts were $46.0 million above estimate.

Through March 2016, GRF uses totaled $27.07 billion:

- Medicaid expenditures were $550.9 million below estimate and accounted for almost 98% of the total negative year-to-date variance in GRF uses;
- Including Medicaid, program expenditures as a whole were $591.1 million below estimate.

VOLUME 39, NUMBER 8

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

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

STATE SOURCES	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$133,012	$123,200	$9,812	8.0%
Nonauto Sales and Use	$654,696	$660,900	-$6,204	-0.9%
Total Sales and Use Taxes	**$787,708**	**$784,100**	**$3,608**	**0.5%**
Personal Income	$419,695	$381,700	$37,995	10.0%
Corporate Franchise	$462	$0	$462	---
Financial Institution	$43,547	$35,850	$7,697	21.5%
Public Utility	$2,265	$1,500	$765	51.0%
Kilowatt-Hour Excise	$33,919	$36,200	-$2,281	-6.3%
Natural Gas Consumption (MCF)	$1	$100	-$99	-99.3%
Commercial Activity Tax	$15,167	$5,000	$10,167	203.3%
Petroleum Activity Tax	$2,236	$1,900	$336	17.7%
Foreign Insurance	$109,402	$138,700	-$29,298	-21.1%
Domestic Insurance	$161	$200	-$39	-19.4%
Business and Property	$6	$0	$6	---
Cigarette	$79,475	$79,000	$475	0.6%
Alcoholic Beverage	$6,884	$5,000	$1,884	37.7%
Liquor Gallonage	$3,412	$3,200	$212	6.6%
Estate	$28	$0	$28	---
Total Tax Revenue	**$1,504,366**	**$1,472,450**	**$31,916**	**2.2%**
NONTAX REVENUE				
Earnings on Investments	$3	$0	$3	---
Licenses and Fees	$33,330	$4,000	$29,330	733.3%
Other Revenue	$638	$329	$309	93.9%
Total Nontax Revenue	**$33,971**	**$4,329**	**$29,642**	**684.7%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$4,379	$8,900	-$4,521	-50.8%
Total Transfers In	**$4,379**	**$8,900**	**-$4,521**	**-50.8%**
TOTAL STATE SOURCES	**$1,542,715**	**$1,485,679**	**$57,037**	**3.8%**
Federal Grants	$1,096,016	$1,092,987	$3,029	0.3%
TOTAL GRF SOURCES	**$2,638,732**	**$2,578,666**	**$60,066**	**2.3%**

*Estimates of the Office of Budget and Management as of September 2015, including revisions in February 2016.
Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Actual vs. Estimate
FY 2016 as of March 31, 2016
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on April 8, 2016)

STATE SOURCES	Actual	Estimate*	Variance	Percent	FY 2015	Percent Change
TAX REVENUE						
Auto Sales	$992,249	$953,700	$38,549	4.0%	$942,787	5.2%
Nonauto Sales and Use	$6,698,142	$6,690,700	$7,442	0.1%	$6,402,980	4.6%
Total Sales and Use Taxes	**$7,690,391**	**$7,644,400**	**$45,991**	**0.6%**	**$7,345,768**	**4.7%**
Personal Income	$5,727,312	$5,819,300	-$91,988	-1.6%	$5,936,561	-3.5%
Corporate Franchise	$30,368	$0	$30,368	---	$218	13799.7%
Financial Institution	$129,640	$108,450	$21,190	19.5%	$97,067	33.6%
Public Utility	$75,407	$74,600	$807	1.1%	$62,738	20.2%
Kilowatt-Hour Excise	$261,696	$270,300	-$8,604	-3.2%	$229,109	14.2%
Natural Gas Consumption (MCF)	$30,647	$31,400	-$753	-2.4%	$36,524	-16.1%
Commercial Activity Tax	$959,792	$971,200	-$11,408	-1.2%	$647,395	48.3%
Petroleum Activity Tax	$5,598	$4,900	$698	14.3%	$4,436	26.2%
Foreign Insurance	$316,940	$316,300	$640	0.2%	$299,221	5.9%
Domestic Insurance	$514	$4,900	-$4,386	-89.5%	$7,537	-93.2%
Business and Property	$92	$0	$92	---	$38	142.2%
Cigarette	$689,009	$665,700	$23,309	3.5%	$543,890	26.7%
Alcoholic Beverage	$41,717	$40,300	$1,417	3.5%	$41,320	1.0%
Liquor Gallonage	$33,808	$32,900	$908	2.8%	$32,539	3.9%
Estate	$933	$0	$933	---	$2,406	-61.2%
Total Tax Revenue	**$15,993,862**	**$15,984,650**	**$9,212**	**0.1%**	**$15,286,767**	**4.6%**
NONTAX REVENUE						
Earnings on Investments	$16,606	$11,000	$5,606	51.0%	$11,416	45.5%
Licenses and Fees	$53,635	$24,787	$28,848	116.4%	$52,938	1.3%
Other Revenue	$45,240	$35,427	$9,813	27.7%	$24,636	83.6%
Total Nontax Revenue	**$115,480**	**$71,214**	**$44,266**	**62.2%**	**$88,990**	**29.8%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$194,576	$191,100	$3,476	1.8%	$22,283	773.2%
Total Transfers In	**$194,576**	**$191,100**	**$3,476**	**1.8%**	**$22,283**	**773.2%**
TOTAL STATE SOURCES	**$16,303,918**	**$16,246,964**	**$56,955**	**0.4%**	**$15,398,040**	**5.9%**
Federal Grants	$9,310,931	$9,622,165	-$311,234	-3.2%	$7,167,352	29.9%
TOTAL GRF SOURCES	**$25,614,849**	**$25,869,129**	**-$254,280**	**-1.0%**	**$22,565,392**	**13.5%**

*Estimates of the Office of Budget and Management as of September 2015, including revisions in February 2016.
Detail may not sum to total due to rounding.

Total state sources were $57.0 million above estimate through March.

Tax revenue was $9.2 million above estimate through March.

REVENUES

– Thomas Kilbane, Economist, 614-728-3218

Overview

GRF sources[1] received in FY 2016 through March were $254.3 million (1.0%) below the estimate released by the Office of Budget and Management (OBM).[2] Total GRF sources have been below estimates since November, largely due to smaller than expected federal grants, primarily related to the level of spending in the Medicaid program.[3] (See the Expenditures section of this publication.) In March, the GRF received $3.0 million (0.3%) more in federal grants than estimated, leaving the account with a shortfall for the fiscal year through March of $311.2 million (3.2%). Total state sources (excluding federal grants) were $57.0 million (0.4%) above estimate through March. This includes tax revenue, which was $9.2 million (0.1%) above estimate, nontax revenue, which was $44.3 million above estimate, and other transfers into the GRF, which were $3.5 million above estimate. Tables 1 and 2 above, show GRF sources for March and for FY 2016 through March, respectively.

Total GRF receipts during March were $2.6 billion, an amount that was $60.1 million (2.3%) above estimate. Most of that surplus was from state sources which were $57.0 million (3.8%) above estimate during the month. Among state sources, tax revenue was $31.9 million (2.2%) above estimate, nontax revenue was $29.6 million above estimate, and transfers in were $4.5 million below estimate.

Driving tax revenue above estimate in March was the personal income tax (PIT), which was higher relative to its estimate ($38.0 million) than during any month in FY 2016. It was only the third month all fiscal year in which PIT revenue was higher than estimated. In addition, the commercial activity tax (CAT), sales and use tax, financial institutions tax (FIT), and the alcoholic beverage tax had higher revenues than estimated in March. Coming in below estimate during the month were the foreign

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

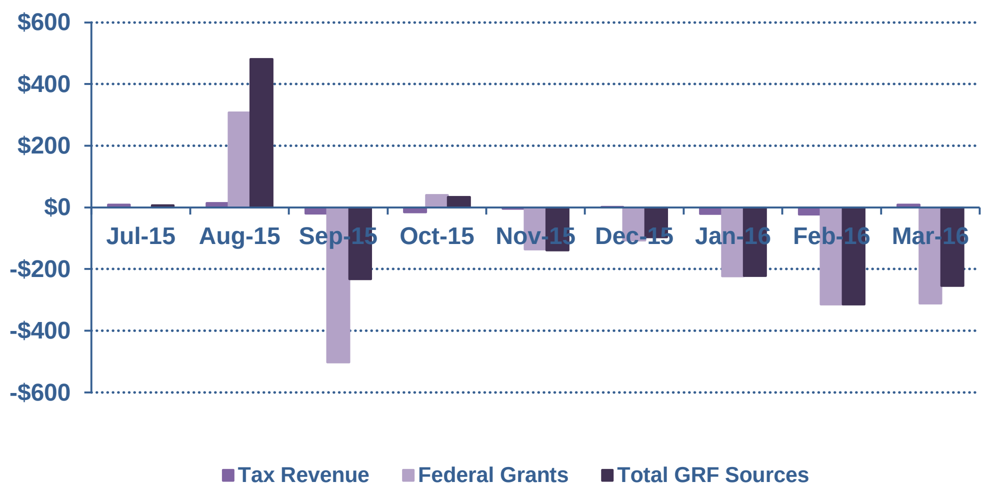
[2] OBM estimates were initially released in September 2015 and subsequently revised to accommodate the enactment of S.B. 208 and H.B. 340 of the 131st General Assembly.

[3] GRF FY 2016 Medicaid expenditures were $550.9 million below estimate through March 2016, including a shortfall of $63.3 million in March.

insurance tax ($29.3 million), a timing-related shortfall that partially offset a large positive variance in February, and the kilowatt-hour excise tax ($2.3 million). It was the fourth straight month the kilowatt-hour excise tax came in below estimate.

The chart below shows the cumulative variances against estimates for tax revenue, federal grants, and total GRF sources through each month of the fiscal year. As noted previously, overall tax revenue estimates were just 0.1% ($9.2 million) higher than actual receipts through March.

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



GRF tax receipts through March are $707.1 million higher than FY 2015.

Compared to the same period in FY 2015, FY 2016 sources through March were $3.0 billion (13.5%) higher. Much of the increase is due to an accounting change related to Medicaid expenditures which pushed federal grants higher in FY 2016 by $2.1 billion (29.9%). In the current fiscal year, expenditures for individuals who became eligible for Medicaid through the Affordable Care Act are made from the GRF, but in the past, such expenditures were debited from the Health Care Federal Fund (Fund 3F00), a non-GRF fund.

GRF tax receipts grew by $707.1 million (4.6%), from the corresponding period in FY 2015. The taxes that contributed the most to year-over-year revenue growth are the sales and use tax, the CAT, and the cigarette tax. Sales and use tax revenue growth is largely reflective of a growing state economy and strong consumer spending during most of FY 2016, while the growth in the CAT and cigarette tax revenue are more the result of policy changes. H.B. 64, the budget act, increased the share of CAT receipts credited to the GRF from 50% to 75%, and raised the cigarette tax rate from $1.25 per pack of 20 cigarettes to $1.60 per pack.

Despite healthy employment gains in the state during FY 2016, PIT revenue has fallen by $209.3 million from the same period in FY 2015, also due primarily to tax changes enacted in H.B. 64.

Personal Income Tax

PIT revenue was above estimate in March for only the third time all fiscal year.

The PIT reversed its FY 2016 trend in March, coming in above estimate by far more than any other month during the year. March GRF revenue from the PIT was $419.7 million, $38.0 million (10.0%) above the estimate of OBM. However, it was only the third month during FY 2016 for the tax to come in above estimate. Prior to March, PIT revenue (net to GRF) was at least $12 million below estimate in five of the last six months.

In March, employer withholdings were $22.6 million (3.0%) above estimate, and refunds were $33.2 million (7.3%) lower than expected. Partly offsetting the March PIT surplus, payments from annual returns were $14.1 million (20.1%) below OBM's estimate.

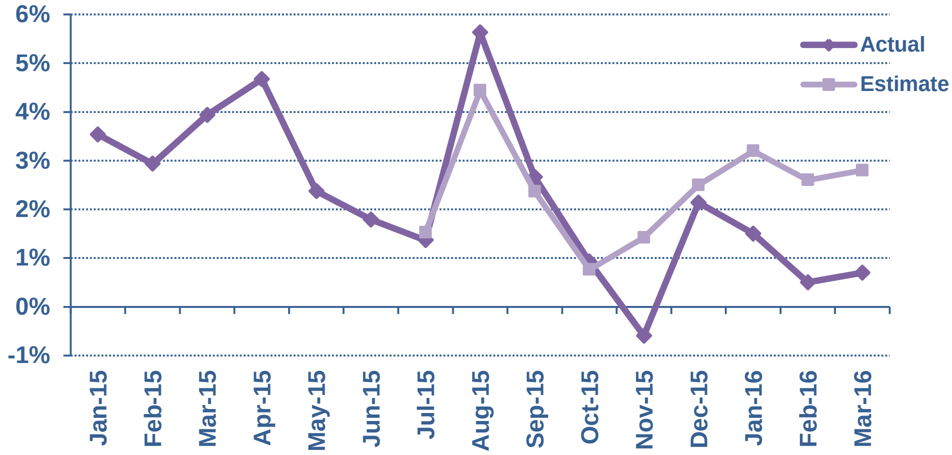
Personal income tax revenue is comprised of gross collections minus refunds and distributions to the Local Government Fund (LGF). Gross collections consist of employer withholdings, quarterly estimated payments,[4] trust payments, payments associated with annual returns, and other miscellaneous payments. The performance of the tax is typically driven by employer withholdings, which is the largest component of gross collections. However, in February, March, and April, refunds are also a significant component of net collections due to the impact of the tax filing season, which has a deadline (generally) of April 15.

Despite the pickup in March, monthly employer withholding growth remains at a slowed pace. H.B. 64, the budget act, reduced income tax rates for all brackets by 6.3%, for taxable years beginning in 2015. The effects of the changes enacted in H.B. 64 and S.B. 208[5] have limited growth in revenue from the tax; however, revenue growth has also been lower than estimates which take into account the policy changes. The chart below illustrates the slowing growth of monthly employer withholdings as well as the deficit relative to estimates in recent months (actual figures in the chart are not adjusted for the August change in withholding rates).

[4] Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than $500. Payments are due in April, June, and September of an individual's tax year and January of the following year. Most estimated payments are made by high-income taxpayers.

[5] S.B. 208 enhanced the small business income deduction under the income tax for tax year 2015, resulting in lower estimated PIT revenues in January through June of 2016.

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



For FY 2016 through March, PIT revenues totaled $5.7 billion, $92.0 million (1.6%) below estimate. All components of gross collections have contributed to the FY 2016 shortfall relative to OBM estimates, with the exception of trust payments. Employer withholding, quarterly estimated payments, payments from annual returns, and other miscellaneous payments were all below estimate. FY 2016 revenues through March from each component of the PIT relative to estimates and to the corresponding period in FY 2015 are detailed in the table below.

FY 2016 Year-to-Date Income Tax Revenue Variances and Changes by Component				
Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2015	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	-$35.7	-0.6%	$110.2	1.8%
Quarterly Estimated Payments	-$3.5	-0.5%	-$27.9	-3.7%
Trust Payments	$2.6	8.5%	$6.8	25.8%
Annual Return Payments	-$27.8	-13.1%	-$24.4	-11.7%
Miscellaneous Payments	-$10.7	-13.6%	-$10.3	-13.2%
Gross Collections	-$75.0	-1.0%	$54.5	0.8%
Less Refunds	$18.7	1.5%	$249.2	25.5%
Less LGF Distribution	-$1.7	-0.6%	$14.6	5.5%
Income Tax Revenue	-$92.0	-1.6%	-$209.3	-3.5%

Sales and Use Tax

The sales and use tax bounced back above estimate in March after a shortfall in February for the first time in FY 2016 but only on the back of strong auto sales and use tax collections. Nonauto sales and use tax collections were below estimate in March, something that has happened in five out of the last seven months. Total combined GRF sales and use tax receipts for the month were $787.7 million, $3.6 million (0.5%) over estimate. For the fiscal year-to-date through March, sales and use tax revenues are $46.0 million (0.6%) above estimate, and 4.7% higher than revenues through the same period in FY 2015.

For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections generally arise from the sale of motor vehicles, but auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax instead of the auto tax.[6] In FY 2016 through March, the nonauto portion accounted for 87.1% of the total sales and use tax collected, while auto collections were only 12.9%.

Nonauto Sales and Use Tax

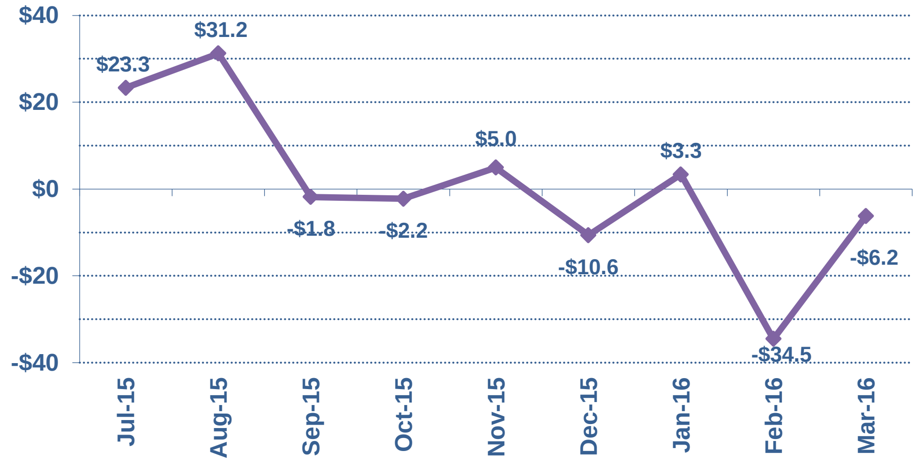
Nonauto sales and use tax revenues have been below estimate in five out of the last seven months.

Throughout FY 2016, sales and use tax collections have kept state tax revenue in (or near) the black. That performance has been supported by strong auto sales and very strong nonauto tax collections in July and August of 2015 in which they were $54.5 million above estimate combined. Since then, nonauto sales and use tax collections were a combined $47.1 million below estimate.

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

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

Chart 3: Nonauto Sales and Use Tax Receipts in FY 2016
(Variance from Estimates, in millions)



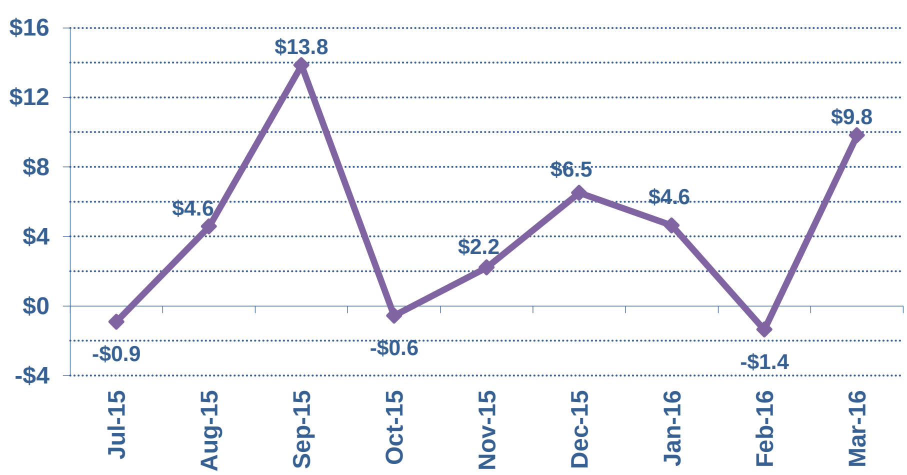
For FY 2016 through March, nonauto sales and use tax revenues were still $7.4 million (0.1%) above estimate, and 4.6% higher than the same period in FY 2015.

Auto Sales and Use Tax

The GRF received $133.0 million in revenue from the auto portion of the sales and use tax in March, $9.8 million (8.0%) more than estimated. It was the sixth out of the last eight months that the auto sales and use tax revenue was higher than expected. For the fiscal year through March, revenue from this tax is $38.5 million (4.0%) above estimate, and 5.2% higher than during the same period in FY 2015. The chart below shows FY 2016 auto sales and use tax monthly revenues relative to OBM estimates. The chart illustrates stronger than expected revenues from auto sales and use tax throughout the fiscal year.

Auto sales and use tax revenue was $38.5 million above estimate through March.

Chart 4: Auto Sales and Use Tax Receipts in FY 2016
(Variance from Estimates, in millions)



U.S. auto sales have been very strong recently, with an all-time record of total light vehicle sales set in calendar year 2015. Sales remained strong in January and February but slowed a bit in March nationwide. Sales of cars and light trucks were down in March from both February one month before and also March one year ago. Much of March's auto sales may be reflected in April's sales and use tax collections

Foreign Insurance Tax

On March 1, the foreign insurance tax had its second collection date of the fiscal year. Receipts from the tax during the month totaled $109.4 million, which was $29.3 million (21.1%) below estimate. However, because of the collection date on the first of the month, the shortfall was mainly timing related. In February, foreign insurance tax revenue was $39.9 million above estimate, mostly from more early payments than expected. In February and March combined, $160.2 million in revenue had been expected and $170.8 million was collected, resulting in a positive variance of $10.6 million for the two-month period. However, for FY 2016 through March, the foreign insurance tax is only $0.6 million (0.2%) above estimate.

Cigarette and Other Tobacco Products Tax

Cigarette tax revenue was $23.3 million above estimate through March.

GRF receipts from the cigarette and other tobacco products tax were $79.5 million in March, $0.5 million (0.6%) above estimate. Through March, total FY 2016 tax receipts were $23.3 million (3.5%) above OBM estimates, and 26.7% above revenue from the same period in FY 2015. Generally, cigarette tax receipts have experienced a long-term downward trend; however, H.B. 64 increased the cigarette tax from $1.25 to $1.60 per pack of 20 cigarettes, a 28% increase, which has led to a predictable increase in tax revenues. Of the $79.5 million in March revenue, $73.3 million (92.2%) was from cigarette sales, $5.7 million (7.2%) was from sales of other tobacco products, and $0.5 million (0.6%) was from the "floor tax."[7] Floor tax collections have been $17.2 million during FY 2016 through March.

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

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

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary and Secondary Education	$312,138	$308,774	$3,365	1.1%
Higher Education	$185,914	$184,911	$1,003	0.5%
Other Education	$6,481	$4,506	$1,975	43.8%
Total Education	$504,534	$498,191	$6,343	1.3%
Medicaid	$1,465,594	$1,528,862	-$63,268	-4.1%
Health and Human Services	$129,482	$99,886	$29,597	29.6%
Total Welfare and Human Services	$1,595,076	$1,628,747	-$33,671	-2.1%
Justice and Public Protection	$169,479	$135,784	$33,695	24.8%
General Government	$20,946	$25,241	-$4,295	-17.0%
Total Government Operations	$190,425	$161,025	$29,400	18.3%
Property Tax Reimbursements	$131,393	$55,723	$75,670	135.8%
Capital Outlay	$0	$0	$0	---
Debt Service	$155,726	$165,750	-$10,024	-6.0%
Total Other Expenditures	$287,119	$221,472	$65,646	29.6%
Total Program Expenditures	**$2,577,153**	**$2,509,435**	**$67,717**	**2.7%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$4,779	$3,000	$1,779	59.3%
Total Transfers Out	$4,779	$3,000	$1,779	59.3%
TOTAL GRF USES	**$2,581,932**	**$2,512,435**	**$69,496**	**2.8%**

*October 2015 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

Table 4: General Revenue Fund Uses
Actual vs. Estimate
FY 2016 as of March 31, 2016
($ in thousands)
(Actual based on OAKS reports run April 6, 2016)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2015**	**Percent Change**
Primary and Secondary Education	$5,783,723	$5,807,813	-$24,090	-0.4%	$5,651,344	2.3%
Higher Education	$1,676,627	$1,691,456	-$14,829	-0.9%	$1,618,779	3.6%
Other Education	$58,890	$53,672	$5,218	9.7%	$45,695	28.9%
Total Education	$7,519,240	$7,552,940	-$33,701	-0.4%	$7,315,818	2.8%
Medicaid	$13,667,513	$14,218,434	-$550,921	-3.9%	$11,720,518	16.6%
Health and Human Services	$1,024,862	$1,079,357	-$54,495	-5.0%	$1,028,250	-0.3%
Total Welfare and Human Services	$14,692,375	$15,297,791	-$605,416	-4.0%	$12,748,768	15.2%
Justice and Public Protection	$1,540,326	$1,511,628	$28,698	1.9%	$1,420,933	8.4%
General Government	$269,875	$295,357	-$25,481	-8.6%	$263,027	2.6%
Total Government Operations	$1,810,201	$1,806,985	$3,216	0.2%	$1,683,960	7.5%
Property Tax Reimbursements	$1,027,931	$960,751	$67,180	7.0%	$936,404	9.8%
Capital Outlay	$0	$0	$0	---	$0	---
Debt Service	$1,186,616	$1,208,960	-$22,344	-1.8%	$1,157,118	2.5%
Total Other Expenditures	$2,214,547	$2,169,710	$44,836	2.1%	$2,093,521	5.8%
Total Program Expenditures	**$26,236,363**	**$26,827,427**	**-$591,064**	**-2.2%**	**$23,842,067**	**10.0%**
TRANSFERS						
Budget Stabilization	$425,500	$425,500	$0	0.0%	$0	---
Other Transfers Out	$406,003	$378,031	$27,972	7.4%	$587,835	-30.9%
Total Transfers Out	$831,503	$803,531	$27,972	3.5%	$587,835	41.5%
TOTAL GRF USES	**$27,067,866**	**$27,630,958**	**-$563,092**	**-2.0%**	**$24,429,902**	**10.8%**

*October 2015 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

Table 5: Medicaid Expenditures by Department
Actual vs. Estimate
($ in thousands)
(Actuals based on OAKS report run on April 6, 2016)

	Month of March 2016				Year to Date Through March 2016			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid	**$1,731,391**	**$2,251,387**	**-$519,996**	**-23.1%**	**$16,229,506**	**$17,799,363**	**-$1,569,857**	**-8.8%**
GRF	$1,417,595	$1,480,759	-$63,164	-4.3%	$13,223,088	$13,779,558	-$556,470	-4.0%
Non-GRF	$313,797	$770,629	-$456,832	-59.3%	$3,006,418	$4,019,805	-$1,013,387	-25.2%
Developmental Disabilities	**$197,067**	**$217,861**	**-$20,793**	**-9.5%**	**$1,792,234**	**$1,892,862**	**-$100,628**	**-5.3%**
GRF	$41,878	$41,057	$820	2.0%	$379,221	$373,291	$5,930	1.6%
Non-GRF	$155,190	$176,803	-$21,614	-12.2%	$1,413,013	$1,519,571	-$106,558	-7.0%
Job and Family Services	**$17,070**	**$19,248**	**-$2,179**	**-11.3%**	**$158,711**	**$152,861**	**$5,850**	**3.8%**
GRF	$5,493	$6,463	-$970	-15.0%	$58,269	$58,946	-$677	-1.1%
Non-GRF	$11,577	$12,786	-$1,209	-9.5%	$100,442	$93,915	$6,527	6.9%
Health	**$509**	**$500**	**$9**	**1.7%**	**$4,704**	**$5,443**	**-$739**	**-13.6%**
GRF	$284	$263	$22	8.2%	$2,603	$2,597	$6	0.2%
Non-GRF	$225	$238	-$13	-5.5%	$2,101	$2,845	-$745	-26.2%
Aging	**$3,312**	**$2,123**	**$1,189**	**56.0%**	**$18,849**	**$19,673**	**-$824**	**-4.2%**
GRF	$309	$255	$54	21.2%	$2,935	$2,501	$434	17.4%
Non-GRF	$3,003	$1,868	$1,135	60.8%	$15,914	$17,172	-$1,259	-7.3%
Mental Health and Addiction	**$227**	**$515**	**-$288**	**-55.9%**	**$3,432**	**$4,466**	**-$1,034**	**-23.2%**
GRF	$35	$65	-$30	-46.1%	$1,396	$1,542	-$145	-9.4%
Non-GRF	$192	$450	-$258	-57.3%	$2,036	$2,924	-$889	-30.4%
Total GRF	**$1,465,594**	**$1,528,862**	**-$63,268**	**-4.1%**	**$13,667,513**	**$14,218,434**	**-$550,921**	**-3.9%**
Total Non-GRF	**$483,983**	**$962,773**	**-$478,790**	**-49.7%**	**$4,539,923**	**$5,656,233**	**-$1,116,310**	**-19.7%**
Total All Funds	**$1,949,577**	**$2,491,635**	**-$542,058**	**-21.8%**	**$18,207,436**	**$19,874,668**	**-$1,667,231**	**-8.4%**

*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 April 6, 2016)

	March				Year to Date Through March 2016			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	$793,577	$875,430	-$81,853	-9.4%	$7,509,348	$7,918,198	-$408,850	-5.2%
Nursing Facilities	$113,407	$111,335	$2,072	1.9%	$1,042,343	$1,061,785	-$19,442	-1.8%
DDD Services	$193,065	$213,458	-$20,393	-9.6%	$1,747,026	$1,829,288	-$82,262	-4.5%
Hospitals	$81,981	$557,389	-$475,408	-85.3%	$1,389,218	$2,386,286	-$997,068	-41.8%
Behavioral Health	$86,758	$87,745	-$987	-1.1%	$797,308	$844,805	-$47,497	-5.6%
Administration	$80,837	$76,259	$4,578	6.0%	$598,973	$868,854	-$269,881	-31.1%
Aging Waivers	$27,240	$24,835	$2,405	9.7%	$238,130	$245,214	-$7,084	-2.9%
Prescription Drugs	$35,983	$34,872	$1,111	3.2%	$349,346	$350,972	-$1,626	-0.5%
Medicare Buy-In	$41,841	$37,822	$4,020	10.6%	$345,516	$333,603	$11,913	3.6%
Physicians	$17,578	$17,297	$282	1.6%	$204,823	$212,835	-$8,012	-3.8%
Medicare Part D	$27,275	$27,451	-$176	-0.6%	$223,886	$225,675	-$1,788	-0.8%
Home Care Waivers	$9,514	$12,757	-$3,243	-25.4%	$95,125	$125,553	-$30,428	-24.2%
ACA Expansion	$322,636	$333,750	-$11,114	-3.3%	$2,838,623	$2,641,287	$197,337	7.5%
All Other	$117,884	$81,236	$36,648	45.1%	$827,771	$830,314	-$2,543	-0.3%
Total All Funds	**$1,949,577**	**$2,491,635**	**-$542,058**	**-21.8%**	**$18,207,436**	**$19,874,668**	**-$1,667,231**	**-8.4%**

* Estimates are from the Department of Medicaid.

Detail may not sum to total due to rounding.

EXPENDITURES

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

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

Overview

Through March, GRF program expenditures were $26.24 billion, $591.1 million below the estimate released by OBM in October 2015. GRF transfers out were $831.5 million, $28.0 million above their year-to-date estimate. Including both program expenditures and transfers out, GRF uses totaled $27.07 billion for the first nine months of FY 2016, $563.1 million below estimate. Medicaid accounted for almost 98% ($550.9 million) of the total negative year-to-date variance in GRF uses. Details on Medicaid expenditures are provided in the section that follows this overview.

For the first three quarters of FY 2016, GRF uses totaled $27.07 billion, $563.1 million below estimate.

Tables 3 and 4 show GRF uses for the month of March and for FY 2016 through March, respectively. For the month of March, GRF program expenditures totaled $2.58 billion, $67.7 million (2.7%) above estimate. Several program categories registered notable variances this month. The largest positive variance occurred in Property Tax Reimbursements ($75.7 million, 135.8%). Funds provided under this program category are primarily used to reimburse school districts and other local governments for losses incurred as a result of the 10% and 2.5% "rollbacks" in real property taxes. It is not unusual to see monthly variances in this category as the timing of disbursements assumed in the estimate may be different than the timing of payment requests from county auditors. The total reimbursement payments based on the August 2015 property tax settlement, which were made during the first half of FY 2016, were fairly close to estimate ($6.1 million or 0.7% below estimate). The reimbursement payments based on the February 2016 property tax settlement will be made through the end of June.

Medicaid accounted for almost 98% of the total negative year-to-date variance in GRF uses.

The Justice and Public Protection program category had the second largest positive monthly variance at $33.7 million, which changed the category's year-to-date variance from a negative $5.0 million at the end of February to a positive $28.7 million at the end of March. Three agencies that accounted for the vast majority of the category's March variance were: the Department of Rehabilitation and Correction (DRC, $24.0 million), the Public Defender Commission (PUB, $5.0 million), and the Court of Claims (CLA, $4.4 million). While timing was the main contributing factor behind the positive variances in DRC and PUB expenditures, CLA will finish the fiscal year above estimate.

Expenditures from DRC's GRF appropriation items, 501405, Halfway House, and 501501, Community Residential Programs – CBCF, totaled $21.1 million in March. The OBM estimate, however, anticipated large disbursements from these two items in the month of April but none from March. The variances in these two items should resolve themselves by the end of April. PUB's year-to-date expenditures were essentially on target with estimate ($497,000 below estimate), despite a $5.0 million positive variance in March.

GRF appropriation item 015402, Wrongful Imprisonment Compensation, accounted for the CLA's positive variance. This item, which is used to compensate an individual who has been judged wrongfully imprisoned, does not normally receive direct appropriation from the main operating budget act. Therefore, the OBM estimate assumes no expenditures from item 015402. When a wrongful judgment is journalized, funds are transferred from the Controlling Board's appropriation item 911614, CB Emergency Purposes, into item 015402 for expenditures. Expenditures from item 015402 were $4.4 million in March and $5.6 million for FY 2016 through March.

As reported in prior issues of *Budget Footnotes*, due mainly to timing issues, expenditures from the Health and Human Services program category were below estimates in several months. This trend was reversed in March. The category's expenditures posted a positive variance of $29.6 million (29.6%) in March, which reduced the category's negative year-to-date variance to $54.5 million.

Medicaid and Debt Service were the two program categories that experienced notable negative variances in March. Medicaid's March expenditures added $63.3 million to the category's total negative year-to-date variance (see below for more details). GRF debt service payments were $10.0 million below their March estimate, increasing the category's negative year-to-date variance to $22.3 million (1.8%). Funds provided under this category are used to retire general obligation bonds issued by the state. Those bonds are backed by the full faith and credit of the state. The state is obligated to fully fund any required debt service payments.

Medicaid

Medicaid is primarily funded by the GRF but it also receives funding from various non-GRF funds. For the month of March, GRF Medicaid expenditures were $1.47 billion, $63.3 million (4.1%) below estimate. Non-GRF Medicaid expenditures were $484.0 million, $478.8 million (49.7%) below estimate. Across all funds, Medicaid expenditures were $1.95 billion in March, $542.1 million (21.8%) below estimate. Once again, the timing of the Hospital Care Assurance Program (HCAP) payment was a major contributor to March's non-GRF variance. As reported in the last issue of *Budget Footnotes*, the anticipated HCAP payment totaling $305.2 million for February did not occur as scheduled. The estimate anticipated another $305.2 million in HCAP payment for March. This payment did not occur as scheduled either. Under HCAP, Ohio makes subsidy payments to hospitals that provide uncompensated care to low income and uninsured individuals at or below 100% of the federal poverty level. The timing of the Upper Payment Limit (UPL) for hospitals accounted for another $154.9 million of March's non-GRF variance. UPL allows the state to direct supplemental payments – up to the difference between the Medicare and Medicaid amounts – to service providers. An approval from the Center for Medicare and Medicaid Services (CMS) is required for the HCAP and UPL payments. While the estimate anticipated the HCAP and UPL payments in February and March, the Ohio Department of Medicaid (ODM) is still in the process of waiting for CMS's approval. These payments will now likely be made at the end of the fiscal year.

Delay in HCAP and UPL payments for hospitals contributed $765.3 million to the total negative year-to-date variance in non-GRF (all-funds) Medicaid expenditures.

For the first three quarters of FY 2016, GRF Medicaid expenditures were $13.67 billion, $550.9 million (3.9%) below estimate. Non-GRF Medicaid expenditures were $4.54 billion, $1.12 billion (19.7%) below estimate. All-funds Medicaid expenditures were $18.21 billion, $1.67 billion (8.4%) below estimate. As a joint federal-state program, both GRF and non-GRF Medicaid expenditures contain federal and state moneys. Overall, the federal and state shares of Medicaid expenditures are about 64% and 36%, respectively.

For the first three quarters of FY 2016, GRF Medicaid expenditures were $550.9 million below estimate; non-GRF Medicaid expenditures were $1.12 billion below estimate.

Table 5 shows the GRF and non-GRF portions of Medicaid expenditures made by ODM and five other state agencies that assist ODM in administering Medicaid.[8] For the first nine months of FY 2016, ODM's GRF expenditures were $13.22 billion, $556.5 million (4.0%) below estimate. Its non-GRF expenditures were $3.01 billion, $1.01 billion (25.2%) below estimate. Across all funds, ODM's expenditures of $16.23 billion were $1.57 billion (8.8%) below their year-to-date estimate. GRF Medicaid expenditures for the Department of Developmental Disabilities (DDD), the second largest agency within this program category, were $5.9 million (1.6%) above their year-to-date estimate. DDD's non-GRF Medicaid expenditures were $106.6 million (7.0%) below their year-to-date estimate. Together, ODM and DDD account for about 99% of the Medicaid expenditure total.

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

Through March, all-funds Medicaid expenditures were $1.67 billion below estimate.

Table 6 details all-funds Medicaid expenditures by payment category. As seen from the table, Hospitals had the largest negative year-to-date variance at $997.1 million (41.8%), of which $475.4 million occurred in the month of March. As indicated earlier, the originally scheduled HCAP payments totaling $610.4 million for February and March and UPL payment totaling $154.9 million for March will not be made until the end of FY 2016. HCAP and UPL payments are made with non-GRF funds. Another major factor behind the negative variance for Hospitals was lower than forecasted per-member per-month cost for an Aged, Blind, and Disabled (ABD) recipient in fee-for-service. A forecasted increase in such a per-member per-month cost was included in the estimate for the Hospitals payment category. So far, the forecasted increase has not yet materialized.

Managed Care had the second largest negative year-to-date variance at $408.9 million (5.2%). One main contributing factor was lower than expected new managed care rates. Managed care rates are adjusted at the beginning of each calendar year. The new rates, effective January 1, 2016, are lower than the ones assumed in the estimate, particularly those for the MyCare program. MyCare is designed to provide for a better integration and coordination of benefits and services for Ohioans who are eligible for both Medicare and Medicaid. Another main contributor was lower than expected ABD caseloads in managed care. As a result of lower than expected rates and caseloads, the variance in the Managed Care category is expected to grow through the end of the fiscal year.

Although the Administration payment category posted a small positive variance of $4.6 million in March, this category had the third largest negative year-to-date variance at $269.9 million (31.1%). The estimate for this payment category includes the contract for ODM's new eligibility determination system, Ohio Benefits, and pass-through federal grants for electronic medical records. The cost for Ohio Benefits and the demand for the federal grants have both been lower than expected. Furthermore, a number of ODM information technology contracts have not yet been completed. Payments for those contracts will likely be made at the end of the fiscal year.

Also worth noting, the All Other category had a positive variance of $36.6 million (45.1%) in March. This positive variance was the result of a Medicaid School Program settlement of $40.4 million from CMS due to prior year adjustments. It brought the year-to-date variance for this category to just $2.5 million (0.3%) below estimate.

ACA Expansion and Medicare Buy-in were the only two payment categories with positive year-to-date variances. Through March, ACA Expansion expenditures of $2.84 billion were $197.3 million (7.5%) above estimate. This positive variance was due largely to higher than expected caseloads. ACA caseloads have been about 5% higher than anticipated. However, the caseload driven positive variance has been offset to some extent due to the lower Managed Care rates described above that are also applicable to individuals enrolled in the ACA expansion. As a result, this category's positive variance will likely continue to shrink through the end of the fiscal year. Furthermore, some individuals currently enrolled in the ACA Expansion category may later be determined to be eligible under another category of coverage instead. If those individuals are recategorized, their costs would shift in future months.

Year-to-date expenditures of $345.5 million from the Medicare Buy-in payment category were $11.9 million (3.6%) above estimate, of which $4.0 million occurred in the month of March. The category's positive variance was due to a larger than anticipated increase in Medicare Part B premiums, effective January 1, 2016. The Medicare Buy-in program pays Medicare premiums, deductibles, and coinsurance for certain low-income Ohioans.

ISSUE UPDATES

Controlling Board Approves Purchase of Mosquito Traps

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

On March 21, 2016, the Controlling Board approved a $100,000 request by the Ohio Department of Health (ODH) to purchase 500 mosquito traps during FY 2016. The traps will allow ODH to estimate mosquito populations in order to help inform local control efforts. This type of trap has been recommended to capture the Asian tiger mosquito, which has been identified by the Centers for Disease Control and Prevention (CDC) as a vector of the Zika, dengue, and chikungunya viruses.

The ODH Laboratory has recently started Zika virus surveillance testing, but it is limited to cases where blood specimens have been collected within seven days of symptom onset. Specimens collected after seven days are sent to the CDC for testing since ODH's method of testing becomes less effective after that time period. Dengue specimens are sent to the CDC while chikungunya specimens can be sent to either the CDC or one of four other out-of-state laboratories that perform this testing. As of March 14, 2016, there have been eight confirmed cases of Zika virus in Ohio. For calendar year 2015, there were eight cases of dengue and nine cases of chikungunya. In all of these cases, the viruses were acquired outside of Ohio during travel.

BWC Approves 8.6% Premium Rate Reduction for Private Employers

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

On March 16, 2016, the Bureau of Workers' Compensation (BWC) Board of Directors approved a rate reduction of 8.6% for the approximately 256,000 private employers that pay premiums to the State Insurance Fund. The rate reduction will begin on July 1, 2016, and is estimated to decrease premium collections by about $113 million in FY 2017.

Since FY 2011, BWC has approved a series of rate reductions and premium rebates for both public and private employers. In addition, BWC is providing private and public employers premium credits as part of the switch to a prospective billing system. In total, the rate reductions have amounted to just over $1.0 billion, lowering the average premium rate for private employers by approximately 21.5% and the public employer rate by approximately 29.6% since FY 2011. The premium rebates, issued in FY 2013 and FY 2015, totaled nearly $2.0 billion. The premium credits that are being issued to private and public employers are expected to amount to $1.27 billion once the transition is complete. Altogether, the rate reductions, coupled with the premium rebates and credits, will reduce the net position of the State Insurance Fund by $4.25 billion (see table below). The current net position of the State Insurance Fund is approximately $8.9 billion.

Cumulative Effect of Premium Adjustments on State Insurance Fund Since FY 2011	
Rate Reductions	**Premiums Collected Reduction**
Private Employer Rate Reductions FY 2011-FY 2015	$755,000,000
Public Employer Rate Reductions FY 2011-FY 2015	$251,000,000
Premium Collection Total	**$1,006,000,000**
Premium Rebates	**Premium Rebates Issued**
Premium Rebate FY 2013	$965,635,975
Premium Rebate FY 2015	$1,013,171,352
Premium Rebate Total	**$1,978,807,327**
Transition Credit for Prospective Billing	**Value of Credits (Estimated)**
Private Employer Transition Credits	$1,085,781,000
Public Employer Transition Credits	$182,000,000
Transition Credit Total (Estimated)	**$1,267,781,000**
Total Cumulative Net Effect	**$4,252,588,327**

ODMHAS Awards $9.1 million to Support Early Childhood Mental Health

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

On January 21, 2016, the Ohio Department of Mental Health and Addiction Services (ODMHAS) awarded $9.1 million for the Whole Child Matters: Early Childhood Mental Health Initiative to reduce expulsions in preschool and kindergarten.[9] As part of the initiative, 75 counties received $7.6 million (as shown in the table below) to support up to 64 mental health consultants who coordinate with teachers, staff, and families of at-risk children in early learning programs such as childcare, Head Start, and preschool. Services provided by the consultants include onsite interventions, resources for parents, and professional development for teachers. The remaining $1.5 million is to be used for workforce development, training and infrastructure, centralized intake, and Race to the Top Early Childhood Mental Health initiatives.

[9] During the 2012-2013 school year in Ohio, 3,996 kindergarteners were suspended or expelled for fighting or disruptive behavior.

Whole Child Matters: Early Childhood Mental Health Initiative Grants		
Recipient Organizations	**Counties Served**	**Funding**
Hopewell Health Centers	Athens, Gallia, Guernsey, Hocking, Jackson, Lawrence, Meigs, Morgan, Muskingum, Noble, Perry, Pike, Ross, Scioto, Vinton, Washington	$1,227,113
Nationwide Children's Hospital	Clark, Coshocton, Crawford, Delaware, Fairfield, Fayette, Franklin, Hardin, Jefferson, Knox, Licking, Madison, Marion, Morrow, Pickaway, Union, Wyandot	$983,569
Mental Health and Recovery Services Board of Stark County	Ashland, Belmont, Carroll, Harrison, Holmes, Monroe, Portage, Stark, Tuscarawas, Wayne	$924,719
Alcohol, Drug Addiction and Mental Health Services Board of Cuyahoga County	Cuyahoga, Lorain, Summit	$755,870
Child Focus, Inc.	Adams, Brown, Clermont, Clinton, Hamilton, Highland, Warren	$724,037
A Renewed Mind	Lucas, Seneca, Sandusky	$723,391
Children's Resource Center	Defiance, Fulton, Henry, Williams, Wood	$453,139
D&E Counseling Center	Columbiana, Mahoning, Trumbull	$374,604
Crossroads Lake County	Ashtabula, Lake	$315,749
Mental Health and Recovery Board of Erie and Ottawa Counties	Erie, Ottawa	$265,387
Catalyst Life Services	Richland	$194,790
Catholic Charities of Geauga County	Geauga	$192,363
Catholic Charities of Southwestern Ohio	Butler	$188,172
Hancock County Board of Alcohol, Drug Addiction and Mental Health Services	Hancock	$109,087
Samaritan Behavioral Health	Montgomery	$107,707
Consolidated Care, Inc.	Champaign, Logan	$94,115
TOTAL		**$7,633,812**

Controlling Board Approves $14.6 million in Straight A Fund Grants

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

On February 22, 2016, the Controlling Board approved 20 grants totaling $14.6 million in the third round of Straight A Fund grant awards. The grants will support projects that aim to increase student achievement, reduce spending, utilize a greater share of resources in the classroom, or use a shared services delivery model. City, local, exempted village, and joint vocational school districts, educational service centers, community schools, STEM schools, institutions of higher education, and education consortia representing partnerships among these groups were eligible to apply for the grants. Of the 20 grants awarded, 13 were provided to education consortia of varying sizes and the remaining seven were provided to individual applicants. Overall, 86 educational entities are represented among the applicants selected for funding. Grant amounts range from about $69,000 to $1 million. Grant recipients were selected by an appointed nine-member board. To see the full list of grant awards and project descriptions, go to education.ohio.gov and search for "Straight A Fund." H.B. 64 funds the program through a transfer from FY 2015 GRF surplus revenues, which are appropriated in Fund 5RB0 line item 200644, Straight A Fund, in the Ohio Department of Education's budget. The fourth round of grant awards is slated to be announced early in FY 2017 with $15 million available for distribution.

Controlling Board Approves Grant Awards for Regional Workforce Training

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

On February 22, 2016, the Controlling Board approved the allocation of $3 million in capital funds under the Ohio Department of Higher Education's (DHE) Regionally Aligned Priorities in Delivering Skills (RAPIDS) Program. RAPIDS grants provide funding for capital equipment and facilities used to train students and current workers for the specific workforce requirements of varying regions throughout the state. This round of grants was awarded to institutions in the Northwest, Southeast, and Southwest regions, with each region allocated a total of $1 million. A brief description of each region's grant recipients and activities are provided below.

Northwest region. A collaborative of Northwest State Community College, the University of Toledo, Bowling Green State University, Owens Community College, and Rhodes State College will focus on education and training in computer network security for the manufacturing sector.

Southeast region. The Southeast Ohio Oil & Gas Training Collaborative, a group composed of Washington State Community College, Zane State College, Belmont College, and Eastern Gateway Community College, will focus on curriculum development, career pathways, and developing strong business partnerships with the region's energy industry. A goal of this collaborative is to train more diesel mechanics, welders, drivers with commercial driver licenses, pipefitters, and other technical occupations for work within the sector.

Southwest region. REDI Cincinnati, a group made up of Miami University, the University of Cincinnati, and Cincinnati State Technical and Community College, will use new equipment to educate and train students in 3D printing technology and other tools in advanced manufacturing.

Overall, H.B. 497 of the 130th General Assembly appropriated $8.5 million in capital funding for the program to DHE, $2 million of which was already allocated by the Controlling Board in November 2015. Additional regions will receive awards as strategic plans are submitted and approved.

OHFA Awards Almost $10 million in March for Affordable Housing and Homelessness Initiatives

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

On March 18, 2016, the Ohio Housing Finance Agency (OHFA) Board approved almost $9.8 million in funding to support affordable housing and homelessness initiatives across the state. The assistance flows through four separate OHFA programs, summarized in the table below.

OHFA Affordable Housing and Homelessness Awards, March 2016

Program	Purpose	Award Amount
Housing Development Loan Program	Loans to develop and rehabilitate affordable housing projects	$7,000,000
Housing Development Assistance Program	Financing assistance for affordable housing developments	$1,050,000
Capital Funding to End Homelessness Initiative	One-time boost of funds to local continuums of care to assist their strategies of ending homelessness in Ohio	$1,200,000
Multifamily Lending Program	Loans for the development of multifamily housing units	$540,000
TOTAL		**$9,790,000**

As a quasi-public state agency, OHFA does not directly receive appropriations from the General Assembly for its grant programs. However, the Ohio Development Services Agency (DSA) typically provides some grant funding to OHFA to help support these programs. The DSA funding derives from the Ohio Housing Trust Fund (Fund 6460), as well as federal HOME Investor Partnership Program funding under the HOME Program Fund (Fund 3V10). Additionally, the Housing Development Loan Program is backed by unclaimed funds held by the Ohio Department of Commerce.

Controlling Board Approves $4.6 million in Additional Funding for DRC's Community-Based Programs

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

On February 8, 2016, the Controlling Board approved a request by the Department of Rehabilitation and Correction (DRC) to transfer $4.6 million in FY 2016 from GRF line item 501407, Community Nonresidential Programs, to fund a community-based substance use disorder treatment program and to add more beds in community-based correctional facilities (CBCFs).[10]

The majority of the transfer, $4.1 million, was moved to GRF line item 501405, Halfway House, to comply with a provision enacted in H.B. 64 that requires DRC to establish and operate a community-based substance use disorder treatment program. Under the program, qualified prisoners[11] will be transferred into a halfway house to receive intensive substance abuse treatment from a provider certified by ODMHAS. DRC plans to amend existing agreements with eight halfway houses to incorporate around 236 additional beds to house participating prisoners at a maximum cost of $85 per day per prisoner. Those prisoners successfully completing treatment generally will be placed at a private residence on electronic monitoring at a maximum cost of $16 per day per prisoner. Prisoners who do not satisfactorily complete the treatment program may be returned to prison if they have not served their entire prison terms.

The remainder of the $4.6 million transfer, $514,355, was moved to GRF line item 501501, CBCFs, to fund a total of 98 additional CBCF beds split between two locations: the Bennett Cooper Complex in Dayton and a county-owned facility in Painesville (Lake County). These beds will be used for offenders who violate their terms of post-release control and would otherwise be returned to prison.

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[10] CBCFs are state-funded, county-operated facilities used to house nonviolent felony offenders in lieu of keeping them in state prisons.

[11] A qualifying prisoner must: (1) be at least age 18, (2) be serving the last 12 months of a prison sentence based solely on a fourth or fifth degree nonviolent felony, (3) have no record of violent offenses, (4) show no signs of drug or alcohol withdrawal or the need for medical detoxification, (5) be physically and mentally capable of uninterrupted participation in the treatment, and (6) have a substance use disorder.

Attorney General Announces Ohio Part of Multi-jurisdictional Settlements Involving Municipal Derivative Transactions

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

On February 24, 2016, the Ohio Attorney General's Office announced that Ohio will receive a portion of the multi-jurisdictional settlement agreements with Natixis Funding Corp. and Société Générale over their fraudulent and anticompetitive conduct in marketing, sale, and placement of municipal bond derivative transactions. The two settlements, which total $56.7 million, were entered into with Ohio and 21 other participating attorneys general.[12] As part of the settlements, Natixis will pay $30.0 million and Société Générale will pay $26.8 million into settlement funds. They will also pay $1.5 million and $1.3 million, respectively, to the attorneys general.

Municipal bond derivatives are contracts that governments and not-for-profit entities use to reinvest the proceeds of tax-exempt bond offerings until the funds are needed or to hedge against interest rate risk. The settlement funds will be used to provide restitution to affected governments and not-for-profit entities. The potential eligible claimants in Ohio include state government, 20 local governments, eight not-for-profits, and one quasi-governmental entity. The majority of the tax-exempt bond offerings that were affected were for low-income housing or senior housing projects.

[12] Joining Ohio in the settlements are the attorneys general of: Colorado, Connecticut, District of Columbia, Florida, Idaho, Illinois, Iowa, Kansas, Maryland, Michigan, Missouri, Montana, Nevada, New Jersey, New York, North Carolina, Oregon, Pennsylvania, South Carolina, Tennessee, and Wisconsin.

TRACKING THE ECONOMY

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Overview

Parts of the U.S. and Ohio economies continued to grow in the first quarter, but other parts are soft. The U.S. economy added more jobs and weekly earnings rose slightly in March. The U.S. unemployment rate edged up slightly as more people sought jobs. In Ohio, payroll employment increased in February. Ohio's unemployment rates matched U.S. unemployment rates in January and February. Nationwide, consumer spending growth slowed in the first quarter through February. Light vehicle sales in March remained at a high level, but were down from the record pace in 2015 and earlier this year. Mining activity continues to drop. In Ohio, sales of homes were up in February, but nationally existing home sales were down. Inflation measured by the consumer price index remains low, but increases in prices other than food and energy have been trending higher.

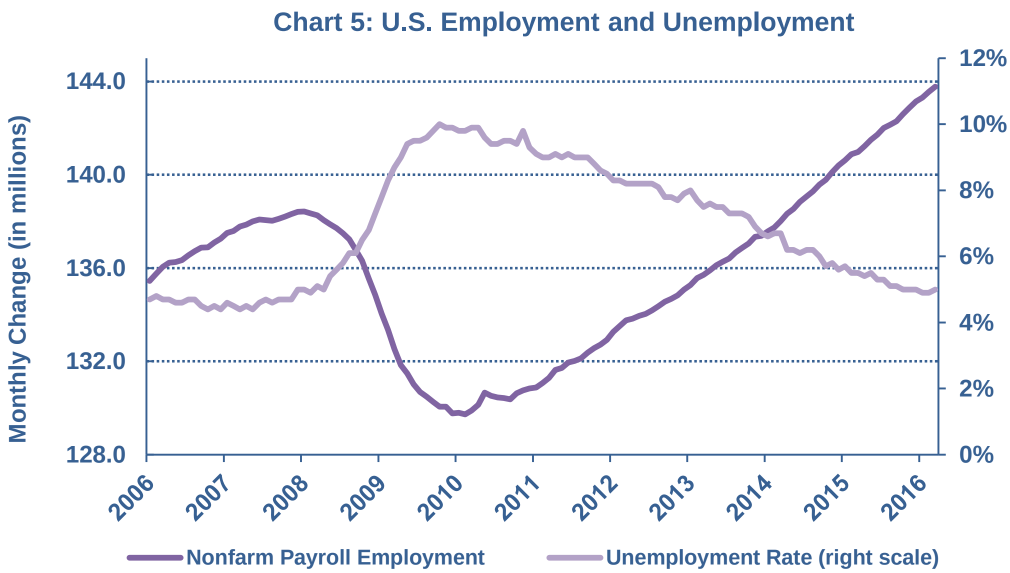
U.S. unemployment edged up in March.

The National Economy

Employment and Unemployment

Total nonfarm payroll employment in the U.S. grew by 215,000 in March while the unemployment rate increased slightly to 5.0%. The unemployment rate was 4.9% in February. The labor force participation rate increased from 62.9% in February to 63.0% in March, the highest labor participation rate since March 2014. In March, the number of unemployed individuals increased slightly to 8.0 million from 7.8 million in February. Chart 5 presents trends in U.S. employment and unemployment over the last ten years.

U.S. payroll employment grew by 215,000 in March.



U.S. manufacturing employment decreased by 29,000 in March.

Last month's job growth occurred mainly in retail trade (which added 48,000 jobs), construction (37,000 jobs), and healthcare (37,000 jobs). Employment in manufacturing and mining decreased by 29,000 and 12,000, respectively, in March. The average number of hours worked during the week by all employees on private nonfarm payrolls was unchanged in March. The manufacturing workweek declined slightly, and factory overtime remained at the same level for the fourth month in a row. The average workweek for production and nonsupervisory employees on private nonfarm payrolls was also unchanged. The average hourly earnings for all employees on private nonfarm payrolls increased by seven cents in March, and increased by 2.3% over the last year. The average hourly earnings of private-sector production and nonsupervisory employees also increased.

Production

According to the third estimate produced by the U.S. Bureau of Economic Analysis (BEA), the nation's inflation-adjusted gross domestic product (real GDP)[13] grew faster than previously estimated in the last quarter of 2015, at a 1.4% annual rate, following 2.0% growth in the third quarter. The growth in real GDP was revised upward from the second estimate of 1.0%, primarily due to higher estimated personal consumption expenditures and exports. For the entire year of 2015, real GDP grew 2.4%, the same rate as in 2014.

[13] BEA issues three estimates of GDP annualized rates for each quarter (advance, second, and third estimates); the estimates are produced roughly a month apart within the following quarter as more data become available.

Industrial production (IP) fell 0.5% in February, as a gain in manufacturing was more than offset by declines in the mining and utilities indexes. Manufacturing output increased 0.1% in February, following a 0.4% gain in January. Capacity utilization for total industry decreased 0.4 percentage point in February compared to the preceding month. In April, the Federal Reserve revised its IP index and the related measures of capacity utilization to incorporate newly available output and price data. The revision showed that total IP is now estimated to have returned to its prerecession peak in November 2014, six months later than previously estimated.

Manufacturing activity expanded in March for the first time in the last six months, based on a survey of purchasing managers reported by the Institute for Supply Management (ISM). New orders and production increased. ISM's purchasing managers index (PMI)[14] increased from 49.5 in February to 51.8 in March. The PMI remained above 43.2 for 82 consecutive months, which ISM estimates signifies expansion in the overall economy during that period.

Consumer Spending

Both personal income and disposable personal income grew by 0.2% in February. The previous month, personal income increased by 0.5% while disposable personal income increased by 0.4%. In February, wages and salaries decreased, but personal saving edged up. Consumer spending grew slowly in February. Real personal consumption expenditures increased 0.2% in February, following little change in January. According to the BEA, total light vehicle sales in the U.S. decreased 5.5% from February to March, on a seasonally adjusted basis. First quarter sales decreased 4% from the strong fourth quarter pace, a 15% annualized rate of decline.

In March, all three of the University of Michigan's indexes, based on surveys of consumers that are conducted throughout the month, fell slightly compared to the previous month, but responses were fairly stable over the last three quarters. Consumers continued to feel optimistic about their personal finances and expected another year of modest economic growth. The consumer sentiment index fell from 91.7 in February to 91.0 in March. The index was 2.2% lower than the 93.0 level registered in the

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[14] The PMI is a composite index based on the diffusion indexes of five of the ISM indexes (new orders, production, employment, suppliers' deliveries, and inventories) with equal weights. A PMI reading above 50 indicates expansion of the manufacturing sector and a reading below 50 indicates contraction. The difference from 50 indicates how widespread the expansion or contraction is.

preceding March. The current conditions index fell to 105.6 in March from 106.8 in February while the index of consumer expectations decreased from 81.9 in February to 81.5 in March.

Home Sales

The National Association of Realtors reported that sales of existing homes nationwide fell by 7.1% in February, on a seasonally adjusted basis. Sales of existing homes were up by 2.2% compared to February 2015. In the Midwest, existing home sales tumbled by 13.8% from January to February but were unchanged compared to the preceding February.

The U.S. Department of Commerce reported that new residential sales increased to 512,000 units on a seasonally adjusted annualized basis in February. This exceeded the revised January rate of 502,000 but was below the previous February's estimate of 545,000. The median sales price of new houses sold in February was $301,400 while the average price was $348,900. The number of new houses for sale at the end of February was 240,000.

Inflation

Inflation, measured by CPI-U, was 1.0% over the year ending in February, while core inflation was 2.3%.

The consumer price index for all urban consumers (CPI-U) declined by 0.2% in February, seasonally adjusted; it was unchanged in January. Compared to a year ago, the CPI-U increased 1.0% before seasonal adjustment. The decrease in February was primarily driven by a 6.0% decline in the energy index, with the price of gasoline down 13.0%. The food index increased by 0.2% in February, and the CPI core index (all items excluding food and energy) rose by 0.3% in February. Compared to 12 months ago, the core index is up by 2.3%. According to data published by the U.S. Energy Information Administration (EIA), the national average retail price for a gallon of regular gasoline increased over the last seven consecutive weeks through April 4, but prices remained low compared to a year ago.

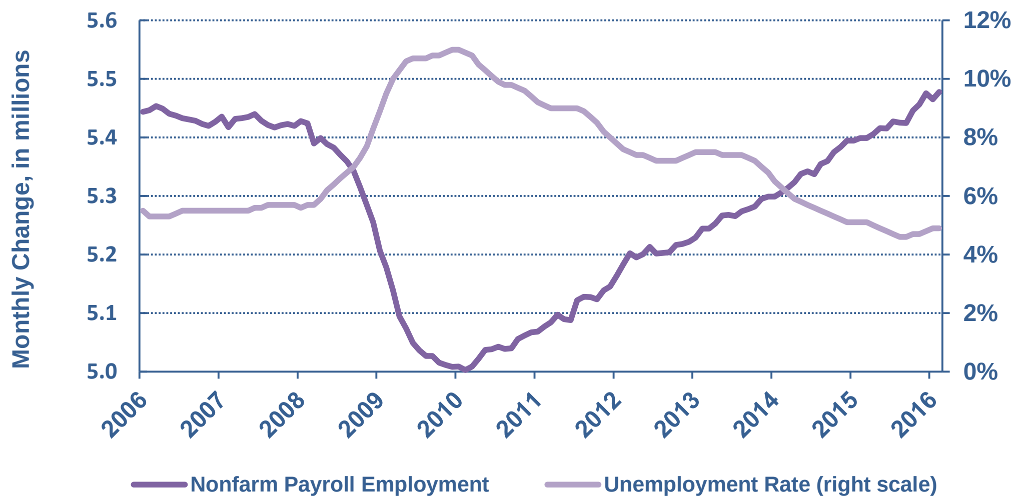
The producer price index for final demand also declined 0.2% in February, seasonally adjusted. Final demand prices grew 0.1% in January and decreased 0.2% in December. The drop in February was linked to the 0.6% decline in prices for final demand goods, primarily tied to lower prices of gasoline. The index for final demand services was unchanged in February. The index for final demand less food, energy, and trade services rose 0.1% in February, following an increase of 0.2% in both January and December. Wholesale food prices fell 0.3% in February after increasing 1.0% in January. Wholesale energy prices continued to drop in February.

The Ohio Economy

Employment and Unemployment

Ohio's economy continued to add more jobs in February while its unemployment rate was unchanged. Chart 6 below shows trends in the state's payroll employment and unemployment rate over the last ten years.

Chart 6: Ohio Employment and Unemployment



From January to February, total nonagricultural wage and salary employment increased by 12,400 jobs, on a seasonally adjusted basis, or 0.2%. The state's employment increased by 78,700, or 1.5%, compared to a year ago. Ohio's unemployment rate was 4.9% in February, unchanged from the preceding month but lower than a year ago; the preceding February, the unemployment rate was 5.1%. The number of Ohioans unemployed increased to 285,000 in February compared to 279,000 in January.

Ohio payroll employment grew by 12,400 in February.

February employment gains in private service-providing industries (+9,600) and government employment (+3,400) were slightly offset by job losses in goods-producing industries (-600). Most of the increase in service-providing industries was in trade, transportation, and utilities (+5,800), educational and health services (+4,300), and financial activities (+3,900). Job gains in federal and local government outweighed job losses in state government. Job losses in goods-producing industries occurred mainly in manufacturing.

Total private employees' average weekly earnings decreased by $5.70 in February but increased compared to a year earlier. In February, the average workweek for total private employees, at 33.9 hours, was slightly shorter than in January and also shorter than in the preceding February. From January to February, average hourly earnings decreased by ten cents but was still higher than the preceding February. In February, both average weekly earnings and the average workweek for Ohio's production employees in manufacturing industries were unchanged from January but increased from one year ago. Average weekly earnings in durable goods manufacturing increased in February, but average weekly earnings in nondurable goods manufacturing decreased.

Personal Income

Ohio personal income grew 0.9% in the fourth quarter of 2015.

Ohio's personal income grew 0.9% in the fourth quarter of 2015, augmented by bonuses paid to union workers in auto industries. Nationwide, the average state personal income grew 0.8% in the fourth quarter of 2015, down from 1.0% in the third quarter. For the entire year of 2015, Ohio's personal income grew 3.1%, somewhat below the nationwide growth rate for the period of 4.4%. Ohio's growth ranked 38th in the nation (from highest growth to lowest).

Ohio Home Sales

The Ohio Association of Realtors reported that the number of existing home sales in Ohio increased by 9% in February compared to a year earlier. In the year's first two months, existing home sales rose by 10% compared to the first two months in 2015. The average sale price in January and February was 4% higher than a year ago.