Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION

FEBRUARY 2016

STATUS OF THE GRF

HIGHLIGHTS

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

The Office of Budget and Management revised revenue estimates to reflect tax changes made in legislation enacted during the fall. The net effect of the revisions was to reduce expected FY 2016 GRF revenue by $69.9 million. GRF tax revenue for the month of January, and for FY 2016 through January, was below the revised estimate.

A pattern of weak income tax revenue in Ohio, combined with slower economic growth nationally, may raise questions about whether GRF revenue will fall short of forecast. However, economic forecaster Global Insight's latest, January 2016, forecast for Ohio does not appear to be substantially different than the company's May 2015 economic forecast, which was used by LSC economists to forecast GRF revenues for the current biennium. The Tracking the Economy section of this report takes a closer look at how Global Insight's economic forecast changed between May and January.

Through January 2016, GRF sources totaled $20.56 billion:

- Revenue from the personal income tax was $116.6 million below the revised estimate;
- Sales and use tax receipts were $78.3 million above estimate.

Through January 2016, GRF uses totaled $21.68 billion:

- Program expenditures were $542.7 million below estimate, due mainly to Medicaid ($388.4 million) and Health and Human Services ($82.2 million).

VOLUME 39, NUMBER 6

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

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

STATE SOURCES	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$96,131	$91,500	$4,631	5.1%
Nonauto Sales and Use	$864,441	$861,100	$3,341	0.4%
Total Sales and Use Taxes	**$960,571**	**$952,600**	**$7,971**	**0.8%**
Personal Income	$923,559	$960,600	-$37,041	-3.9%
Corporate Franchise	$17,405	$0	$17,405	---
Financial Institution	$43,672	$45,550	-$1,878	-4.1%
Public Utility	-$322	$400	-$722	-180.4%
Kilowatt-Hour Excise	$26,927	$29,100	-$2,173	-7.5%
Natural Gas Consumption (MCF)	$1,402	$1,900	-$498	-26.2%
Commercial Activity Tax	$44,376	$48,700	-$4,324	-8.9%
Petroleum Activity Tax	$0	$0	$0	---
Foreign Insurance	$255	$200	$55	27.4%
Domestic Insurance	$0	-$100	$100	100.0%
Business and Property	$0	$0	$0	---
Cigarette	$71,059	$71,700	-$641	-0.9%
Alcoholic Beverage	$3,011	$3,900	-$889	-22.8%
Liquor Gallonage	$4,754	$4,500	$254	5.6%
Estate	$95	$0	$95	---
Total Tax Revenue	**$2,096,764**	**$2,119,050**	**-$22,286**	**-1.1%**
NONTAX REVENUE				
Earnings on Investments	$8,668	$5,550	$3,118	56.2%
Licenses and Fees	$2,995	$2,556	$439	17.2%
Other Revenue	$4,742	$1,365	$3,377	247.4%
Total Nontax Revenue	**$16,405**	**$9,471**	**$6,934**	**73.2%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$7,172	$0	$7,172	---
Total Transfers In	**$7,172**	**$0**	**$7,172**	**---**
TOTAL STATE SOURCES	**$2,120,340**	**$2,128,521**	**-$8,181**	**-0.4%**
Federal Grants	$908,607	$1,025,292	-$116,685	-11.4%
TOTAL GRF SOURCES	**$3,028,948**	**$3,153,813**	**-$124,865**	**-4.0%**

*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 January 31, 2016
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on February 1, 2016)

STATE SOURCES	Actual	Estimate*	Variance	Percent	FY 2015	Percent Change
TAX REVENUE						
Auto Sales	$772,102	$742,000	$30,102	4.1%	$747,807	3.2%
Nonauto Sales and Use	$5,422,968	$5,374,800	$48,168	0.9%	$5,161,596	5.1%
Total Sales and Use Taxes	**$6,195,069**	**$6,116,800**	**$78,269**	**1.3%**	**$5,909,403**	**4.8%**
Personal Income	$5,126,037	$5,242,600	-$116,563	-2.2%	$5,150,440	-0.5%
Corporate Franchise	$30,475	$0	$30,475	---	-$27,365	211.4%
Financial Institution	$35,312	$32,150	$3,162	9.8%	$22,131	59.6%
Public Utility	$51,297	$50,900	$397	0.8%	$36,838	39.3%
Kilowatt-Hour Excise	$198,544	$199,100	-$556	-0.3%	$170,457	16.5%
Natural Gas Consumption (MCF)	$18,566	$19,000	-$434	-2.3%	$20,461	-9.3%
Commercial Activity Tax	$657,132	$681,500	-$24,368	-3.6%	$454,329	44.6%
Petroleum Activity Tax	$3,362	$3,000	$362	12.1%	$1,944	73.0%
Foreign Insurance	$146,166	$156,100	-$9,934	-6.4%	$153,819	-5.0%
Domestic Insurance	$344	$4,700	-$4,356	-92.7%	$7,362	-95.3%
Business and Property	$42	$0	$42	---	$20	111.0%
Cigarette	$539,150	$517,700	$21,450	4.1%	$428,680	25.8%
Alcoholic Beverage	$31,986	$32,000	-$14	0.0%	$33,294	-3.9%
Liquor Gallonage	$27,161	$26,500	$661	2.5%	$26,112	4.0%
Estate	$918	$0	$918	---	$2,356	-61.1%
Total Tax Revenue	**$13,061,561**	**$13,082,050**	**-$20,489**	**-0.2%**	**$12,390,281**	**5.4%**
NONTAX REVENUE						
Earnings on Investments	$16,600	$11,000	$5,600	50.9%	$11,411	45.5%
Licenses and Fees	$12,832	$17,195	-$4,363	-25.4%	$11,942	7.4%
Other Revenue	$42,841	$34,733	$8,108	23.3%	$22,616	89.4%
Total Nontax Revenue	**$72,273**	**$62,928**	**$9,345**	**14.9%**	**$45,970**	**57.2%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$189,860	$177,300	$12,560	7.1%	$23,700	701.1%
Total Transfers In	**$189,860**	**$177,300**	**$12,560**	**7.1%**	**$23,700**	**701.1%**
TOTAL STATE SOURCES	**$13,323,694**	**$13,322,278**	**$1,416**	**0.0%**	**$12,459,951**	**6.9%**
Federal Grants	$7,231,395	$7,454,788	-$223,393	-3.0%	$5,649,435	28.0%
TOTAL GRF SOURCES	**$20,555,089**	**$20,777,066**	**-$221,977**	**-1.1%**	**$18,109,385**	**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.

REVENUES

– Thomas Kilbane, Economist, 614-728-3218

Overview

Total state sources were only $1.4 million above estimate through January.

GRF sources[1] received in FY 2016 through January were $222.0 million (1.1%) below the estimate released by the Office of Budget and Management (OBM) in September 2015 (and subsequently revised for new legislation).[2] The largest factor in the shortfall from estimates has been smaller than expected federal grants, primarily related to the level of spending in the Medicaid program.[3] (See the Expenditures section of this publication.) Total state sources (excluding federal grants) were $1.4 million (0.0%) above estimate through January. This includes tax revenue, which was $20.5 million (0.2%) below estimate, nontax revenue such as licenses and fees, and investment earnings, which was $9.3 million above estimate, and other transfers into the GRF, which were $12.6 million above estimate. Tables 1 and 2 above, show GRF sources for January and for FY 2016 through January, respectively.

Tax revenue was $20.5 million below estimate through January.

For the month of January, GRF sources received were $124.9 million (4.0%) below estimate. The primary reason for the difference, similarly to the fiscal year through January, was a large shortfall in federal grants, which were $116.7 million below estimate. State sources were only $8.2 million (0.4%) below estimate during the month. Among state sources, tax revenue was $22.3 million (1.1%) below estimate, nontax revenue was $6.9 million above estimate, and transfers in were $7.2 million even though none had been expected according to the OBM estimates. Total GRF receipts during the month were $3.0 billion.

Two key FY 2016 tax revenue trends continued in January when sales and use tax revenues were higher than estimates ($8.0 million) and personal income tax revenues were lower than estimates ($37.0 million). For personal income tax, it was the second largest monthly shortfall so far this fiscal year. Adding to the overall tax revenue shortfall in the

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

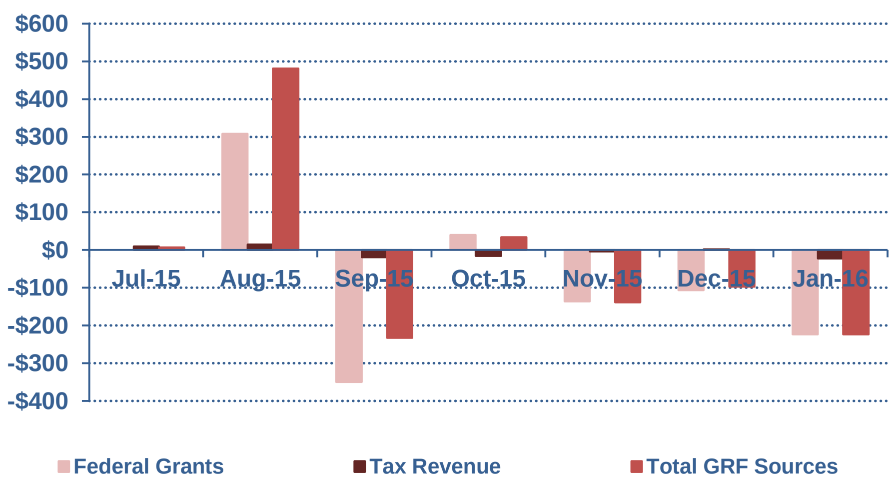
[2] The new legislation was S.B. 208 and H.B. 340 of the 131st General Assembly. Details are provided at the bottom of page 5.

[3] GRF FY 2016 Medicaid expenditures were $388.4 million below estimate through January 2016, including $162.0 million below estimate in January.

month was the commercial activity tax (CAT), receipts of which were $4.3 million below estimate. Helping to pare the January tax deficit were corporate franchise tax (CFT) receipts of $17.4 million, none of which were budgeted for. The CFT was eliminated in 2013 and OBM did not estimate any CFT receipts in FY 2016. However, adjustments to tax filings from previous years can result in additional receipts or refunds attributed to the tax.

For FY 2016 through January, the CFT payments have amounted to a net addition of $30.5 million to tax revenue, which along with higher than estimated revenues from the sales and use tax ($78.3 million) and cigarette tax ($21.5 million), have nearly made up the shortfall from personal income tax ($116.6 million) and the CAT ($24.4 million). 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 0.2% ($20.5 million) higher than actual receipts through January.

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



January was the first month that OBM estimates of revenue incorporated revisions based on the enactments of S.B. 208 and H.B. 340, both of the 131st General Assembly. S.B. 208 enhanced the small business income deduction under the income tax for tax year 2015, resulting in lower estimated personal income tax revenues in January through June of FY 2016; the estimate reductions amounted to $76.1 million for the full fiscal year, including $3.2 million in January.[4] H.B. 340 resulted in lower estimated revenues from the CAT by $1.5 million, but $6.3 million in

Combined projected FY 2016 GRF revenue effect of S.B. 208 and H.B. 340, is a loss of $69.9 million.

[4] Most of the lower revenue is expected to come in the form of additional refunds issued.

higher estimated revenues from the financial institutions tax (FIT) through the remainder of the fiscal year.[5]

On January 31, the FIT had its first collection date of the fiscal year. Receipts from the tax during the month totaled $43.7 million, which was $1.9 million (4.1%) below estimate. For FY 2016 through January, the FIT is $3.2 million (9.8%) above estimate.

Compared to the same period in FY 2015, FY 2016 sources through January were $2.4 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 $1.6 billion (28.0%). 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,[6] a non-GRF fund.

GRF tax receipts grew by $671.3 million (5.4%), 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 healthy state economy and strong consumer spending, 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, personal income tax revenue has fallen by $24.4 million from the same period in FY 2015, also due primarily to tax changes enacted in H.B. 64.

Personal income tax revenue came in below estimate for the fourth time in five months.

Personal Income Tax

Despite a brief respite during December, the personal income tax continued its FY 2016 trend in January, coming in below estimate. It was the fourth revenue shortfall out of the last five months, and fifth out of seven total months in FY 2016. January GRF revenue from the personal income tax was $923.6 million, $37.0 million (3.9%) below the estimate recently revised by OBM. It was the second largest monthly shortfall for the personal income tax in FY 2016, and the fourth time that the tax fell below monthly estimates by at least 3%.

[5] H.B. 340 enacted a tax deduction under the CAT, and repealed a tax credit under the FIT. Details about these changes can be found in the fiscal note for H.B. 340, available on the LSC website.

[6] Fund 3F00.

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,[7] 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. In January, employer withholdings missed estimates by $38.0 million (5.0%). Additionally, payments from annual returns were $7.2 million (38.9%) lower than expected. Partially offsetting the deficit, quarterly estimated payments in January were $8.3 million (3.0%) higher than expected.

For FY 2016, personal income tax revenues totaled $5.13 billion through January, $116.6 million (2.2%) below estimate, and $24.4 million (0.5%) less than the corresponding period in FY 2015. 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 have all been below estimate. However, the largest contribution to the personal income tax budget deficit thus far has been refunds, which were $63.9 million (23.2%) higher than estimated in the fiscal year through January. FY 2016 revenues through January from each component of the personal income tax relative to estimates and to the corresponding period in FY 2015 are detailed in the table below.

Personal income tax revenue was $116.6 million below estimate through January.

FY 2016 Year-to-Date Income Tax Revenue Variances and Changes by Component

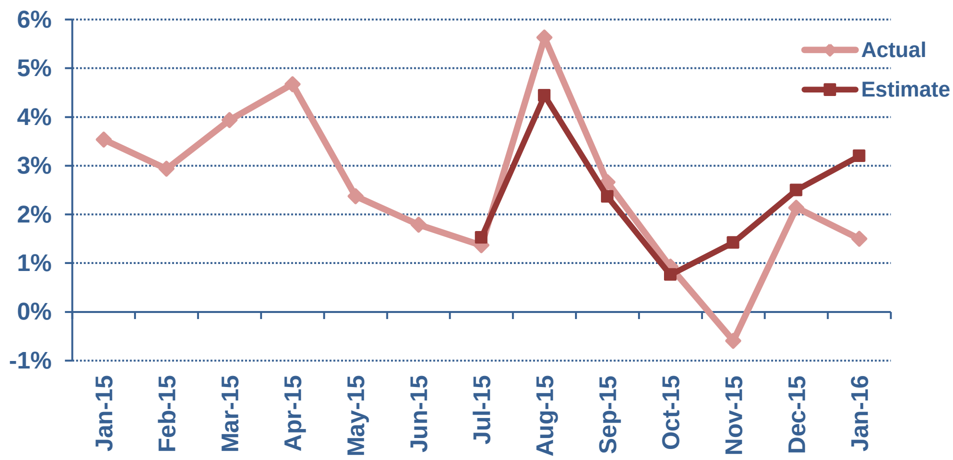
Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2015	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	-$34.5	-0.7%	$56.9	1.2%
Quarterly Estimated Payments	-$5.1	-0.7%	-$25.2	-3.5%
Trust Payments	$3.9	13.8%	$8.3	35.0%
Annual Return Payments	-$10.3	-7.8%	-$4.9	-3.9%
Miscellaneous Payments	-$8.4	-17.0%	-$10.1	-19.8%
Gross Collections	-$54.5	-0.9%	$25.0	0.4%
Less Refunds	$63.9	23.2%	$36.0	11.9%
Less LGF Distribution	-$1.8	-0.8%	$13.4	6.5%
Income Tax Revenue	-$116.6	-2.2%	-$24.4	-0.5%

[7] 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.

January's shortfall occurred even though OBM's estimate of monthly personal income tax revenue incorporated the enactment of S.B. 208 for the first time. The revisions reduced estimates for January income tax revenue by $3.2 million, and will reduce future FY 2016 OBM estimates of personal income tax revenue by $72.9 million, $62.4 million of which are estimated to be additional refunds.

H.B. 64, the budget act, reduced income tax rates for all brackets by 6.3%, for taxable years beginning in 2015. The Department of Taxation issued new withholding tables, reflecting a 3.1% reduction in withholding rates previously in effect for 2014, to be used for payrolls that end on or after August 1, 2015. The effects of these changes enacted in H.B. 64 and S.B. 208 restrain growth in revenue from the tax. 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).

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



Sales and use tax revenue was $78.3 million above estimate through January.

Sales and Use Tax

The sales and use tax continued its role in January as the workhorse of GRF tax receipts in FY 2016. Total receipts for the month were $960.6 million, $8.0 million (0.8%) over estimate. It was the fifth out of seven months in FY 2016 that sales and use tax receipts came in above estimate. For the fiscal year-to-date through January, sales and use tax revenues are $78.3 million (1.3%) above estimate, and 4.8% 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.[8]

Nonauto Sales and Use Tax

The GRF received $864.4 million in revenue from the nonauto portion of the sales and use tax in January, $3.3 million (0.4%) more than estimated by OBM. It was the highest ever monthly total from the category, reflecting a healthy holiday sales peak in December (with the majority of tax revenue hitting the GRF in January), and the slow climb of inflation.[9] For FY 2016 through January, nonauto sales and use tax revenues were $48.2 million (0.9%) over estimate, and 5.1% higher than the same period in FY 2015. However, after over $50 million in surplus during July and August, the revenue from this portion of the tax has been very close to its estimate in the subsequent months. Consumer spending has largely driven the national economy in late calendar year 2015, and state GRF revenue has been no different.

Nonauto sales and use tax revenues were $48.2 million above estimate through January.

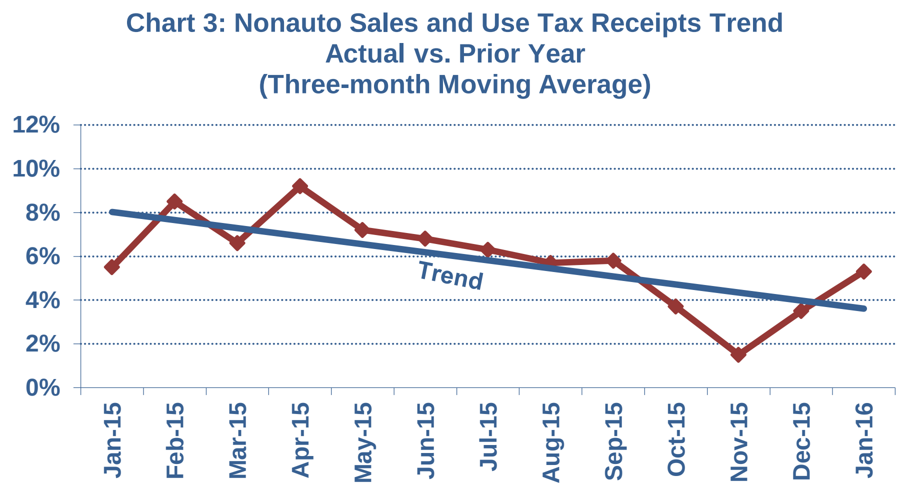
A portion of the nonauto sales and use tax receipts are paid by Medicaid health insuring corporations. This portion generally makes up a little less than 10% of the category receipts and is not always highly correlated with the remainder of nonauto sales and use taxes. In the past, this portion of the revenues has grown at a faster pace than the rest of the category, but through January of this year, had grown only about 2.0% from the same period in FY 2015, significantly slower than the other nonauto sales and use tax revenues.

The chart below shows year over year changes in nonauto sales and use tax monthly revenues on a three-month moving average. The chart illustrates revenues growing well above the rate of inflation, but at a slower pace than in the past. Average growth over the most recent three months was 5.3%. Part of the slowdown in growth is due to the portion paid by Medicaid health insuring corporations, which has slowed growth significantly in FY 2016. In the most recent three months, that portion of

[8] 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.

[9] Changes in the statewide sales tax rate, currently 5.75%, were a contributing factor as well. The current rate is as high or higher than it has been in the past, except for fiscal years 2004 and 2005, when it was 6.0%.

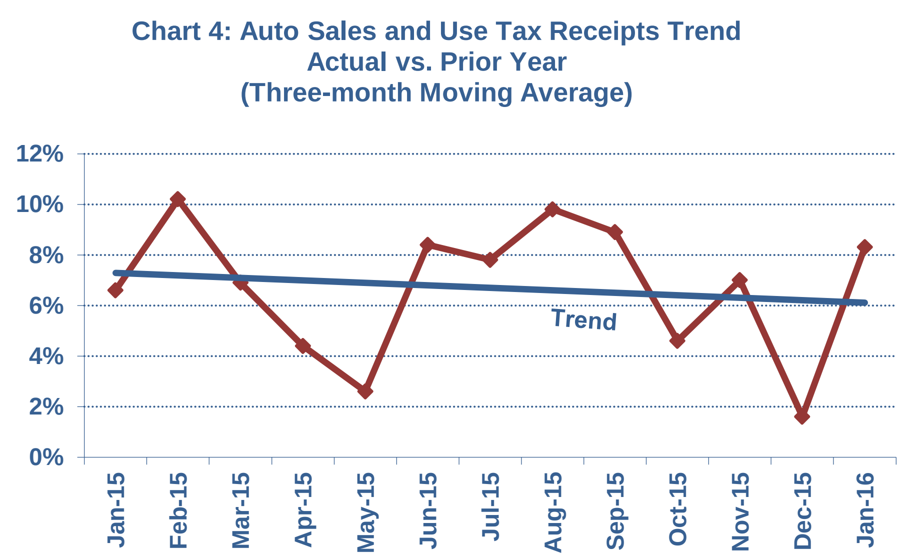
receipts fell by 0.1% year over year on average, as compared to the three months ended January 2015 when it grew by 55.6% on average.



Auto sales and use tax revenue was $30.1 million above estimate through January.

Auto Sales and Use Tax

The GRF received $96.1 million in revenue from the auto portion of the sales and use tax in January, $4.6 million (5.1%) more than estimated. It was the fifth out of seven months in FY 2016 that the auto sales and use tax revenue was higher than expected. For the fiscal year through January, revenue is $30.1 million (4.1%) above estimate, and 3.2% higher than during the same period in FY 2015. The chart below shows year over year changes in auto sales and use tax monthly revenues on a three-month moving average. The chart illustrates revenues growing at a fairly consistent pace, well above any level of inflation. Average growth over the most recent three months was 8.3%.



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. Despite poor weather in many big east coast cities, sales of cars and light trucks rose to a seasonally adjusted annual rate of 17.5 million units, up from 17.2 million in December. Light trucks have continued to be the best sellers recently, a change that has helped to push up the average auto sales price and therefore sales and use tax revenue in the category.

Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax were $71.1 million in January, just $0.6 million (0.9%) below estimate. Through January, total FY 2016 tax receipts were $21.5 million (4.1%) above OBM estimates, and 25.8% 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 $71.1 million in January revenue, $67.6 million (95.2%) was from cigarette sales, $3.4 million (4.8%) was from sales of other tobacco products, and only $44,000 (0.1%) was from the "floor tax."[10] Floor tax collections have been $16.1 million during FY 2016 through January.

Cigarette tax revenue was $21.5 million above estimate through January.

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

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of January 2016
($ in thousands)
(Actual based on OAKS reports run February 8, 2016)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary and Secondary Education	$661,762	$658,839	$2,923	0.4%
Higher Education	$181,341	$182,471	-$1,130	-0.6%
Other Education	$10,212	$7,172	$3,040	42.4%
Total Education	$853,315	$848,481	$4,834	0.6%
Medicaid	$1,325,985	$1,487,956	-$161,971	-10.9%
Health and Human Services	$142,535	$163,660	-$21,126	-12.9%
Total Welfare and Human Services	$1,468,519	$1,651,616	-$183,097	-11.1%
Justice and Public Protection	$224,324	$234,913	-$10,588	-4.5%
General Government	$38,530	$45,909	-$7,379	-16.1%
Total Government Operations	$262,854	$280,821	-$17,967	-6.4%
Property Tax Reimbursements	-$1,614	$76	-$1,690	-2218.1%
Capital Outlay	$0	$0	$0	---
Debt Service	$96,871	$104,214	-$7,344	-7.0%
Total Other Expenditures	$95,257	$104,290	-$9,034	-8.7%
Total Program Expenditures	**$2,679,944**	**$2,885,209**	**-$205,265**	**-7.1%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$26	$0	$26	---
Total Transfers Out	$26	$0	$26	---
TOTAL GRF USES	**$2,679,970**	**$2,885,209**	**-$205,239**	**-7.1%**

*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 January 31, 2016
($ in thousands)
(Actual based on OAKS reports run February 8, 2016)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2015**	**Percent Change**
Primary and Secondary Education	$4,748,335	$4,776,138	-$27,803	-0.6%	$4,309,887	10.2%
Higher Education	$1,294,460	$1,303,936	-$9,476	-0.7%	$1,243,059	4.1%
Other Education	$48,786	$45,950	$2,836	6.2%	$38,304	27.4%
Total Education	$6,091,582	$6,126,024	-$34,442	-0.6%	$5,591,250	8.9%
Medicaid	$10,628,491	$11,016,873	-$388,382	-3.5%	$9,259,853	14.8%
Health and Human Services	$805,022	$887,172	-$82,150	-9.3%	$841,027	-4.3%
Total Welfare and Human Services	$11,433,512	$11,904,044	-$470,532	-4.0%	$10,100,879	13.2%
Justice and Public Protection	$1,241,411	$1,240,067	$1,344	0.1%	$1,173,320	5.8%
General Government	$223,291	$245,011	-$21,720	-8.9%	$216,285	3.2%
Total Government Operations	$1,464,703	$1,485,079	-$20,376	-1.4%	$1,389,605	5.4%
Property Tax Reimbursements	$897,181	$904,987	-$7,806	-0.9%	$908,135	-1.2%
Capital Outlay	$0	$0	$0	---	$0	---
Debt Service	$977,669	$987,189	-$9,520	-1.0%	$953,387	2.5%
Total Other Expenditures	$1,874,850	$1,892,175	-$17,326	-0.9%	$1,861,521	0.7%
Total Program Expenditures	**$20,864,646**	**$21,407,323**	**-$542,676**	**-2.5%**	**$18,943,256**	**10.1%**
TRANSFERS						
Budget Stabilization	$425,500	$425,500	$0	0.0%	$0	---
Other Transfers Out	$388,260	$375,031	$13,229	3.5%	$588,788	-34.1%
Total Transfers Out	$813,760	$800,531	$13,229	1.7%	$588,788	38.2%
TOTAL GRF USES	**$21,678,406**	**$22,207,854**	**-$529,447**	**-2.4%**	**$19,532,044**	**11.0%**

*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 February 5, 2016)

	Month of January 2016				Year to Date Through January 2016			
Department	Actual	Estimate*	Variance	Percent	Actual	Estimate*	Variance	Percent
Medicaid	**$1,620,751**	**$1,813,096**	**-$192,346**	**-10.6%**	**$12,715,569**	**$13,353,532**	**-$637,963**	**-4.8%**
GRF	$1,276,371	$1,438,706	-$162,336	-11.3%	$10,279,418	$10,670,515	-$391,097	-3.7%
Non-GRF	$344,380	$374,390	-$30,010	-8.0%	$2,436,151	$2,683,017	-$246,866	-9.2%
Developmental Disabilities	**$183,478**	**$200,567**	**-$17,089**	**-8.5%**	**$1,344,885**	**$1,444,229**	**-$99,344**	**-6.9%**
GRF	$45,331	$44,261	$1,070	2.4%	$295,781	$292,103	$3,677	1.3%
Non-GRF	$138,148	$156,307	-$18,159	-11.6%	$1,049,105	$1,152,126	-$103,021	-8.9%
Job and Family Services	**$12,179**	**$13,206**	**-$1,028**	**-7.8%**	**$128,676**	**$123,070**	**$5,607**	**4.6%**
GRF	$3,240	$4,187	-$948	-22.6%	$47,640	$48,806	-$1,166	-2.4%
Non-GRF	$8,939	$9,019	-$80	-0.9%	$81,036	$74,263	$6,773	9.1%
Health	**$558**	**$751**	**-$193**	**-25.7%**	**$3,740**	**$4,442**	**-$702**	**-15.8%**
GRF	$370	$393	-$23	-5.8%	$2,069	$2,072	-$3	-0.1%
Non-GRF	$188	$358	-$170	-47.6%	$1,671	$2,370	-$699	-29.5%
Aging	**$1,580**	**$2,490**	**-$910**	**-36.5%**	**$14,067**	**$15,317**	**-$1,250**	**-8.2%**
GRF	$369	$344	$25	7.2%	$2,319	$1,964	$356	18.1%
Non-GRF	$1,211	$2,146	-$935	-43.6%	$11,748	$13,353	-$1,605	-12.0%
Mental Health and Addiction	**$615**	**$415**	**$200**	**48.2%**	**$2,925**	**$3,586**	**-$661**	**-18.4%**
GRF	$305	$65	$240	368.9%	$1,263	$1,412	-$148	-10.5%
Non-GRF	$310	$350	-$40	-11.3%	$1,661	$2,174	-$513	-23.6%
Total GRF	**$1,325,985**	**$1,487,956**	**-$161,972**	**-10.9%**	**$10,628,491**	**$11,016,873**	**-$388,382**	**-3.5%**
Total Non-GRF	**$493,176**	**$542,569**	**-$49,394**	**-9.1%**	**$3,581,372**	**$3,927,303**	**-$345,931**	**-8.8%**
Total All Funds	**$1,819,160**	**$2,030,525**	**-$211,365**	**-10.4%**	**$14,209,862**	**$14,944,175**	**-$734,313**	**-4.9%**

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

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

	January				Year to Date Through January 2016			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	$783,299	$878,674	-$95,375	-10.9%	$5,911,613	$6,144,796	-$233,183	-3.8%
Nursing Facilities	$120,520	$120,407	$112	0.1%	$803,179	$830,209	-$27,030	-3.3%
DDD Services	$179,991	$195,753	-$15,762	-8.1%	$1,307,829	$1,396,742	-$88,913	-6.4%
Hospitals	$73,673	$102,103	-$28,431	-27.8%	$1,200,936	$1,399,255	-$198,318	-14.2%
Behavioral Health	$74,983	$83,373	-$8,390	-10.1%	$603,783	$651,076	-$47,293	-7.3%
Administration	$49,582	$93,811	-$44,229	-47.1%	$460,938	$714,448	-$253,511	-35.5%
Aging Waivers	$25,297	$25,064	$233	0.9%	$183,882	$189,659	-$5,777	-3.0%
Prescription Drugs	$33,574	$35,644	-$2,070	-5.8%	$269,587	$271,734	-$2,147	-0.8%
Medicare Buy-In	$41,992	$37,635	$4,356	11.6%	$261,688	$258,052	$3,636	1.4%
Physicians	$17,669	$17,687	-$18	-0.1%	$151,363	$172,302	-$20,939	-12.2%
Medicare Part D	$24,366	$24,556	-$190	-0.8%	$169,741	$170,856	-$1,115	-0.7%
Home Care Waivers	$9,765	$12,644	-$2,879	-22.8%	$73,374	$96,931	-$23,558	-24.3%
ACA Expansion	$312,445	$319,594	-$7,149	-2.2%	$2,198,253	$2,003,597	$194,657	9.7%
All Other	$72,004	$83,578	-$11,574	-13.8%	$613,695	$644,518	-$30,822	-4.8%
Total All Funds	**$1,819,160**	**$2,030,525**	**-$211,365**	**-10.4%**	**$14,209,862**	**$14,944,175**	**-$734,313**	**-4.9%**

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

For the first seven months of FY 2016, GRF uses were $529.4 million below estimate.

EXPENDITURES

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

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

Overview

Tables 3 and 4 show GRF uses for the month of January and for FY 2016 through January, respectively. GRF uses mainly consist of program expenditures but also include transfers out. For the month of January, GRF program expenditures were $2.68 billion, $205.3 million (7.1%) below the estimate released by OBM in October 2015. The majority of this monthly variance occurred in Medicaid ($162.0 million) and Health and Human Services ($21.1 million). Through January, FY 2016 GRF program expenditures were $20.86 billion, $542.7 million (2.5%) below estimate. The majority of this year-to-date variance also occurred in Medicaid ($388.4 million) and Health and Human Services ($82.2 million). In addition, expenditures from Primary and Secondary Education and General Government were $27.8 million (0.6%) and $21.7 million (8.9%), respectively, below their year-to-date estimates.

Through January, GRF transfers out were $813.8 million, $13.2 million (1.7%) above estimate. Including both program expenditures and transfers out, GRF uses totaled $21.68 billion through January. These uses were $529.4 million (2.4%) below estimate.

The remainder of this report will first discuss the variances in Medicaid expenditures and then briefly comment on the variances in the Health and Human Services, Primary and Secondary Education, and General Government program categories.

For the first seven months of FY 2016, GRF Medicaid expenditures were $388.4 million below estimate.

Medicaid

For the month of January, GRF Medicaid expenditures were $1.33 billion, $162.0 million (10.9%) below estimate; non-GRF Medicaid expenditures were $493.2 million, $49.4 million (9.1%) below estimate. Including both the GRF and non-GRF, all-funds Medicaid expenditures were $1.82 billion in January, $211.4 million (10.4%) below estimate. Medicaid is primarily funded by the GRF but it also receives funding from 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.

Through January, GRF Medicaid expenditures were $10.63 billion, which was $388.4 million (3.5%) below estimate, while non-GRF expenditures were $3.58 billion, which was $345.9 million (8.8%) below estimate. Across all funds, Medicaid expenditures totaled $14.21 billion for the first seven months of FY 2016. These expenditures were $734.3 million (4.9%) below estimate.

For the first seven months of FY 2016, all-funds Medicaid expenditures were $734.3 million below estimate.

The Ohio Department of Medicaid (ODM) has the primary responsibility for administering Medicaid; it is assisted by five other state agencies – Developmental Disabilities, Job and Family Services, Health, Aging, and Mental Health and Addiction Services. Table 5 details the GRF and non-GRF portions of Medicaid expenditures for each of the six agencies that take part in administering Ohio Medicaid. As seen from the table, through January, ODM's GRF expenditures of $10.28 billion were $391.1 million (3.7%) below estimate. ODM's non-GRF expenditures of $2.44 billion were $246.9 million (9.2%) below estimate. Across all funds, ODM's year-to-date expenditures of $12.72 billion were $638.0 million (4.8%) below estimate. The Department of Developmental Disabilities (DDD) registered a positive year-to-date variance of $3.7 million (1.3%) in GRF Medicaid expenditures but a negative year-to-date variance of $103.0 million (8.9%) in non-GRF Medicaid expenditures for an overall negative year-to-date variance of $99.3 million (6.9%) in all-funds Medicaid expenditures. Together, ODM and DDD account for about 99% of total Medicaid expenditures.

Table 6 details all-funds Medicaid expenditures by payment category. As seen from the table, year-to-date expenditures were below estimates for all but two payment categories. Administration had the largest negative year-to-date variance at $253.5 million (35.5%), of which $44.2 million occurred in January. 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 has been lower than anticipated. The demand for the federal grants has also been lower than expected. These two factors accounted for the majority of the negative variance in the Administration payment category.

Managed Care had the largest negative monthly variance of $95.4 million in January and the second largest negative year-to-date variance of $233.2 million (3.8%). 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. Another main contributor was lower than expected Aged, Blind, and Disabled (ABD) caseloads in managed care. Per member per month cost for an ABD is much higher than that of a non-ABD Medicaid recipient. While ABDs

For the first seven months of FY 2016, all-funds ACA Expansion expenditures were $194.7 million above estimate.

make up about 15% of all Medicaid recipients, they account for about half of all Medicaid expenditures.

A lower than anticipated per member per month cost for an ABD enrolled in fee-for-service was the primary factor behind the negative variance in the Hospitals payment category, which had the third largest negative year-to-date variance. 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. Expenditures from the Hospitals payment category were $28.4 million (27.8%) below estimate in January and $198.3 million (14.2%) below estimate through January.

ACA Expansion and Medicare Buy-in were the only two payment categories with positive year-to-date variances. Through January, ACA Expansion expenditures of $2.20 billion were $194.7 million (9.7%) above estimate. This positive variance was due largely to higher than expected caseloads. Some individuals who are currently classified under ACA Expansion 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. Note that the ACA Expansion payment category registered its first negative monthly variance ($7.1 million, 2.2%) of the fiscal year in January.

Year-to-date expenditures of $261.7 million from the Medicare Buy-in payment category were $3.6 million (1.4%) above estimate due entirely to a positive monthly variance of $4.4 million (11.6%) in January from the category. The Medicare Buy-in Program pays Medicare premiums, deductibles, and coinsurance for certain low-income Ohioans. This payment category experienced a positive variance in January for the first time this fiscal year, due to a larger than anticipated increase in Medicare Part B premiums, effective January 1, 2016.

Health and Human Services

GRF expenditures from the Health and Human Services program category were $142.5 million in January, $21.1 million (12.9%) below estimate. Through January, this program category's expenditures were $805.0 million, $82.2 million (9.3%) below estimate. The Ohio Department of Job and Family Services (ODJFS) accounted for the largest share ($42.4 million) of the category's negative year-to-date variance, followed by the Department of Mental Health and Addiction Services (DMHAS) at $21.4 million and the Department of Health (DOH) at $12.7 million.

Expenditures from the majority of ODJFS line items were below their year-to-date estimates. The largest negative year-to-date variance

($15.2 million) within the ODJFS budget occurred in item 600410, TANF State/Maintenance of Effort. According to prior issues of OBM's *Monthly Financial Report*, this item's expenditures were partly affected by lower than anticipated cash assistance caseloads and partly by a change in the state/federal funding split. Other notable negative variances were from item 600416, Information Technology Projects ($7.6 million), item 600413, Child Care State/Maintenance of Effort ($5.7 million), and item 600521, Family Assistance - Local ($3.6 million). Lower than expected disbursements from prior year encumbrances contributed to the negative variance in item 600416. The negative variances in items 600413 and 600521 were timing related as disbursements from these items were made based on counties' drawdown of funding.

Within the DMHAS budget, item 336423, Addiction Services Partnership with Correction, had the largest negative year-to-date variance. Expenditures from this item were $8.6 million below their year-to-date estimate. Expenditures from item 336504, Community Innovations, were also $4.4 million below their year-to-date estimate. These two items were newly created in H.B. 64, the current biennium's budget act. Item 336422, Criminal Justice Services, contributed another $3.7 million to the program category's negative year-to-date variance.

Year-to-date expenditures from all but two of DOH's line items were below estimates. The largest negative variance occurred in item 440459, Help Me Grow. Through January, this item's expenditures were $3.0 million below estimate.

Primary and Secondary Education

GRF expenditures from the Primary and Secondary Education program category were $4.75 billion through January, $27.8 million (0.6%) below estimate. The Ohio Department of Education (ODE) is the only agency that is included in this program category. Due mainly to timing, expenditures from several line items were either above or below their year-to-date estimates. Items with notable negative year-to-date variances include item 200437, Student Assessments, at $22.7 million, item 200540, Special Education Enhancements, at $13.4 million, and item 200408, Early Childhood Education, at $9.8 million. Item 200550, Foundation Funding, on the other hand, posted a notable positive year-to-date variance of $25.5 million. Item 200550 is the main funding source of school foundation payments. Beginning in February, ODE will start using the current year student enrollment for payment calculations. It is not unusual to see variances in this item as individual school foundation payments are based on a variety of data that may not be finalized until much later in the fiscal year.

General Government

Through January, GRF expenditures from the General Government program category of $223.3 million were $21.7 million (8.9%) below estimate. This program category consists of executive agencies that are not included in other program categories, four out of the five statewide elected offices,[11] and all legislative agencies. The Department of Administrative Services (DAS) and the Development Services Agency (DSA) had the largest variances in this program category. Expenditures from DAS and DSA were $6.3 million and $5.5 million, respectively, below their year-to-date estimates; the majority of these negative variances occurred in the month of January. Year-to-date expenditures from most other agencies in the General Government program category were also below estimates, by various amounts.

[11] The offices of the Governor, Secretary of State, Treasurer, and Auditor of State are included in the General Government program category while the Office of the Attorney General is included in the Justice and Public Protection program category.

ISSUE UPDATES

Controlling Board Approves Equipment Purchase for Newborn Screening

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

On January 11, 2016, the Controlling Board approved a $900,000 spending request from the Ohio Department of Health (ODH) to purchase reagents, supplies, and laboratory equipment for newborn screenings related to Krabbe disease. This purchase is in response to H.B. 64 of the 131st General Assembly, which requires ODH to begin screening newborn children born on or after July 1, 2016 for this disease. Ohio is one of six states (the others are Illinois, Kentucky, New Jersey, New Mexico, and Pennsylvania) that have recently enacted laws requiring Krabbe disease screenings for newborns. New York and Missouri already screen for this disease.[12]

Krabbe disease is an inherited disorder that impacts the myelin sheath of the nervous system. Symptoms typically develop before six months of age and may include the following: feeding difficulty, fevers with no signs of infection, delays in developmental milestones, muscle spasms, loss of head control, progressive loss of hearing and sight, or seizures. The disease impacts 1 in 100,000 individuals in the United States.

Currently, ODH's Newborn Screening Program includes screening for 36 genetic, endocrine, or metabolic disorders, all performed at the Public Health Laboratory. When a newborn is born in a hospital or birthing center, a few drops of blood are taken from the baby's heel prior to the baby leaving the hospital and sent to the ODH Public Health Laboratory for testing. ODH estimates that approximately 138,000 newborns will be screened this year.

ODE Awards Competency-Based Education Pilot Program Grants

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

On December 16, 2015, the Ohio Department of Education (ODE) announced the five Ohio public school districts and consortia that have been awarded a total of $2 million in grants over the FY 2016-FY 2017 biennium under the Competency-Based Pilot Program established in H.B. 64. The five grant winners are Chagrin Falls Exempted Village School District, Cincinnati City School District, and three consortiums led by the Educational Service Center of Cuyahoga County, the Fairfield County

[12] According to the Hunter's Hope Foundation, an organization founded in 1997 to raise awareness of Krabbe disease and other related disorders.

Educational Service Center, and the Geauga County Educational Service Center, respectively. Each grant recipient will receive $200,000 each year to plan and implement their programs. The programs must be implemented for the 2016-2017, 2017-2018, and 2018-2019 school years. Among other requirements, award recipients are required to partner with a postsecondary institution and local businesses or community partners.

In contrast to traditional education systems that award credit based on the amount of time spent studying a subject, a competency-based education system allows students to progress through classes at their own pace. It is designed to facilitate accelerated learning for students who master academic material quickly and provide additional instructional support time for students who need it. H.B. 64 requires ODE, by December 31, 2018, to review and evaluate the competency-based education programs implemented by grant recipients, including student outcomes, and determine the feasibility of a funding model that reflects student achievement outcomes demonstrated through competency-based education.

ODE and DHE Select Recipients for $10 million in College Credit Plus Teacher Credential Grants

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

In December 2015, the departments of Education and Higher Education (DHE) selected the school districts, colleges, and universities to share $10 million in funding set aside in H.B. 64 to increase the number of high school teachers with the credentials required to teach college courses under College Credit Plus (CCP), a program that allows qualified high school students to take college courses at state expense for both college and high school credit. The table below lists the recipients and award amounts for each purpose. The overall goal of the teacher credential funding is to increase participation in CCP and thus, reduce the cost of higher education for students. Half of these funds will help high schools, colleges, and universities identify and support teachers seeking the necessary qualifications to teach postsecondary courses while the other half will assist universities in creating and offering qualification courses for free or at reduced cost. Both types of grants are funded through FY 2016 earmarks of Fund 5RB0 line item 200644, Straight A Fund, in ODE's budget.

College Credit Plus Teacher Credential Grant Awards			
Recipient	**Award Amount**	**Recipient**	**Award Amount**
Teacher Support Grants			
Mahoning County ESC	$1,078,822	East Central Ohio ESC	$932,167
Ohio Appalachian Collaborative	$835,602	Kent State University at Stark	$498,442
North Central State College	$431,049	University of Toledo	$311,609
Cuyahoga Community College	$302,237	Midwest Regional ESC	$267,929
Sinclair Community College	$227,577	St. Bernard-Elmwood Place CSD	$38,898
Westlake CSD	$38,898	Gallipolis CSD	$36,768
Free or Reduced Cost Course Grants			
Franklin University	$884,615	Bowling Green State University	$800,000
Wright State University	$702,820	Cleveland State University	$692,608
University of Cincinnati	$499,998	Kent State University	$499,022
University of Toledo	$454,720	Ohio Dominican University	$450,000

Attorney General Releases Economic Development Compliance Report

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

On November 24, 2015, the Ohio Attorney General's Office released its 2015 Economic Development Compliance Report,[13] a statutorily required annual review of the compliance of recipients with terms and conditions of state awards for economic development administered by the Ohio Development Services Agency (DSA). Of the 341 awards examined in the report, 269 were determined to be substantially compliant while 72 did not comply, resulting in an overall compliance rate of 78.9%.[14] The metrics used to determine compliance included the degree to which a recipient met, as applicable, their commitments for job creation, job retention, payroll, and workforce training. The report also provides a breakdown of the compliance rates of four main award categories: workforce grants (100%), project grants (76.3%), tax credits (73.4%), and low-interest loans (81.3%). Furthermore, the report provides information on remedial actions taken by DSA, including seeking grant reimbursements totaling $190,900 from nine recipients, reducing tax credits, and increasing loan interest rates.

The table below shows the compliance rates reported in the 2011-2015 reviews. As seen from the table, all four award categories' compliance rates have generally been trending upward and the workforce grant category has consistently shown the highest

[13] The full report is available at: www.ohioattorneygeneral.gov/Media/Newsreleases.

[14] "Substantially compliant" means attainment of 90% of the metrics set forth in the award agreement.

compliance rate. These grants are used by recipients to offset the costs of training workers in new skills.

Economic Development Award Compliance Rates, 2011-2015					
Award Category	**2011**	**2012**	**2013**	**2014**	**2015**
Workforce Grants	88.5%	89.9%	100.0%	100.0%	100.0%
Project Grants	27.0%	48.6%	49.5%	74.4%	76.3%
Tax Credits	35.1%	59.5%	53.8%	62.4%	73.4%
Loans	23.9%	42.0%	55.8%	57.1%	81.3%
OVERALL	59.1%	63.5%	54.9%	70.6%	78.9%

ODMHAS Reopens Patient Wing of Regional Psychiatric Hospital

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

On December 17, 2015, the Ohio Department of Mental Health and Addiction Services (ODMHAS) announced the reopening of a newly renovated patient unit at Appalachian Behavioral Healthcare (ABH), a state operated regional psychiatric hospital. The four-phase, $3.6 million project included renovations of 20 private and 34 semiprivate patient rooms, redesign of dining and common areas, and expansion of group and private treatment spaces. The completion of this project restores the facility to its full, 88-bed operational capacity; during construction ABH had 74 beds available. As of January 2016, the facility has a service area that includes 21 counties in southeast Ohio. Including ABH, ODMHAS operates a total of six regional psychiatric hospitals that provide inpatient and outpatient services.

State Forest Timber Sales Provide $2.0 million to Local Governments and School Districts

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

On December 21, 2015, the Department of Natural Resources (DNR) announced that 15 school districts, 25 townships, and 11 county governments would receive more than $2.0 million from the sale of timber from state forest lands in FY 2015. Under current law, 65% of the net proceeds from the sale of timber must be distributed to the county, townships, and school districts from which the timber was harvested. The remaining 35% is retained by DNR's Division of Forestry and deposited to the credit of the State Forest Fund (Fund 5090). Fund 5090 received approximately $1.7 million in total revenue from timber sales in FY 2015, including $1.1 million from its share of net proceeds and $562,000 to cover the cost of timber sales. Of the amount distributed to the local communities, 50% goes to the school district from which the timber was harvested, 25% to the general fund of the township from which the timber was harvested, and 25% to the general fund of the respective county. The table below shows the amounts received by each type of recipient by county. A full list of recipients can be found at: http://forestry.ohiodnr.gov/portals/forestry/pdfs/ttt/TreesToTextbooksFY15.pdf.

FY 2015 Timber Sale Distributions by Recipient Type

County	School Districts	County General Fund	Townships	Total
Adams	$90,248	$45,124	$45,124	$180,496
Athens	$46,005	$23,003	$23,003	$92,011
Hocking	$23,444	$11,722	$11,722	$46,888
Jackson	$41,353	$20,677	$20,677	$82,707
Meigs	$31,027	$15,514	$15,514	$62,055
Muskingum	$37,762	$18,881	$18,881	$75,524
Perry	$1,219	$610	$610	$2,439
Pike	$127,251	$63,626	$63,626	$254,503
Ross	$130,650	$65,325	$65,325	$261,300
Scioto	$368,274	$184,137	$184,137	$736,548
Vinton	$129,942	$64,971	$64,971	$259,884
TOTAL	**$1,027,175**	**$513,590**	**$513,590**	**$2,054,355**

Joint Legislative Task Force on Department of Transportation Issues Submits First Report

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

On December 15, 2015, the Joint Legislative Task Force on Department of Transportation Issues submitted to legislative leadership the first of two required reports containing findings and recommendations concerning certain specified transportation and public safety-related issues.[15] The task force, created and guided by language in H.B. 53 and H.B. 64, was charged with focusing its first report on studying: (1) increasing speed limits on, and access to, rural highways and freeways, (2) saving money on license plates by eliminating the two-plate requirement, and (3) establishing a limited driving privilege license. The report's conclusions are as follows:

[15] The Task Force consists of a bipartisan panel of six legislators including three members of the House Finance and Appropriations Committee appointed by the Speaker of the House of Representatives and three members of the Senate Transportation Committee appointed by the President of the Senate. The full report can be found at: http://jltft.legislature.ohio.gov.

- Based on the cost to structurally redesign certain features of the interstate system in order to maintain current safety standards, and the likely increase in crash-related fatalities and injuries, the speed limit should not be increased from the current 70 mph to 75 mph.
- The current two license plate requirement should be retained to allow for more effective law enforcement operations. The potential state savings to adopt a one plate requirement was estimated at up to $1.4 million annually.
- The establishment of a limited driving privilege license containing embedded information accessible only to law enforcement officers should be addressed in stand-alone legislation.

The Task Force is also required to submit a second report studying: (1) the effectiveness of the Ohio motor fuel tax in meeting the funding needs of the Ohio Department of Transportation and (2) alternative methods to fund Ohio roadways and infrastructure. The Task Force must submit that report to legislative leadership by December 15, 2016, after which it ceases to exist.

Ohio Rural Fire Departments to Receive $175,000 Under the Federal Volunteer Fire Assistance Grant

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

On January 5, 2016, DNR Division of Forestry announced that 22 rural fire departments in 13 counties will receive approximately $175,000 in matching grants under the Federal Volunteer Fire Assistance (VFA) grant. The purpose of the grant is to provide funding for rural fire departments to upgrade equipment. Specifically, calendar year (CY) 2016 VFA grants can be used to purchase wildland fire slip-in pumper units, wildland fire personal protective equipment, all terrain and utility vehicles, and Multi-Agency Radio Communication System (MARCS) equipment, and to convert Federal Excess Personal Property into fire apparatus. VFA grants provide up to $10,000 to fire departments in communities with populations of fewer than 10,000 residents. The Division of Forestry indicates that of Ohio's 1,300 fire departments, approximately 900 are classified as rural. The table below summarizes the VFA grant recipients and the award amounts.

Federal Volunteer Fire Assistance Grants		
County	**Fire Department Recipient**	**Grant Amount**
Athens	Rome Township	$10,000
Gallia	Vinton Rio Grande Springfield Township	$10,000 $7,500 $7,678
Henry	Liberty-Washington Township	$10,000
Hocking	Murray City Good Hope Township Marion Township	$10,000 $4,000 $10,000
Jackson	Coalton	$10,000
Jefferson	Stratton Yorkville	$10,000 $1,600
Meigs	Racine	$7,295
Muskingum	Roseville	$5,669
Perry	Shawnee Crooksville Somerset-Reading Township	$9,250 $10,000 $6,631
Pike	Benton Township Beaver	$5,000 $10,000
Scioto	Union Township Rarden	$10,000 $574
Vinton	Zaleski	$10,000
Washington	Little Hocking	$10,000
TOTAL		**$175,197**

TRACKING THE ECONOMY

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Overview

Expansion of the national economy continued in early 2016, after growth slowed in late 2015.

Expansion of the national economy continued in early 2016, after growth slowed in late 2015. Inflation-adjusted gross domestic product (real GDP) rose at only a 0.7% annual rate in the fourth quarter. Total factory production was about flat in the last five months of the year. Mild weather in late 2015 held down demand for utility services. Many other sectors of the economy continued to expand. In January, employment on nonfarm payrolls nationwide rose 151,000, a smaller monthly gain than in most months of 2015. The U.S. unemployment rate fell to 4.9%, the lowest in nearly eight years. Consumer spending expanded further in 2015, though growth slowed late in the year. Sales of light motor vehicles remained strong in January. Home sales and construction continued to advance in 2015.

The economy in this region also grew in 2015, at a pace described as modest. Employment growth in Ohio last year was the strongest in 16 years, however, with most of the increase in service industries. Home sales in the state continued to expand in 2015.

Finished goods inflation remains low, held down in part by declines in energy and other commodity prices and by the strong dollar. Low crude oil and natural gas prices have led to job cuts and curtailed exploration activity by energy producers, while consumers and firms in other industries have benefited from lower fuel prices. A strong dollar tends to facilitate U.S. imports and curb foreign demand for U.S.-produced goods and services.

The Federal Reserve made no change in monetary policy in January. The nation's central bank kept the range for its target short-term market interest rate at 0.25% to 0.5%, after raising the range by one-quarter percentage point in December, and also held unchanged its interest rates charged on loans to commercial banks and paid on bank reserves.

The last section of this report compares the economic outlook as of January 2016 with the outlook that LSC economists used last June to develop forecasts of GRF revenue in the current biennium.

The National Economy

Employment and Labor Markets

In January, employment on nonfarm payrolls rose 151,000, seasonally adjusted, down from gains averaging 279,000 per month in last year's fourth quarter and 228,000 in all of 2015. Increases in employment in January were reported for retail stores, restaurants and bars, and health care providers, continuing uptrends in numbers of jobs in these industries. Manufacturing employment rose in January after little change in 2015. Employment fell in January at private educational service firms and for couriers and messengers, due to larger than usual seasonal layoffs. The downtrend in mining employment continued. Data indicate that weather disrupted work during the survey period in January less than usual for that month.

Nationwide unemployment fell to 7.8 million persons in January, 4.9% of the labor force and lowest since 2008. The unemployment rate has been held down by low rates of participation in the labor force, which includes persons working or actively looking for work.[16] Labor force participation of persons age 16 and older in January was 62.7%, up from 62.4% last September, the lowest since 1977. If more of the people not in the labor force had been actively seeking jobs, the unemployment rate would have been higher. Low labor force participation is only partly due to increasing numbers of older persons retiring. Labor force participation among persons age 16 to 64 in January was 72.4%, up from a low of 72.1% in 2014, the lowest since 1982.

Nationwide unemployment fell to 7.8 million persons in January, 4.9% of the labor force and lowest since 2008.

The number of job openings nationwide at the end of December was 5.6 million, based on a BLS survey, and had considerably more than doubled (up by 161%) since the low point in 2009.

Production

Growth of economic output slowed toward the end of 2015. Real GDP rose at only a 0.7% annual rate in the fourth quarter, down from a 2.0% annual growth rate in the third quarter, as consumer spending growth slowed and both business investment and exports fell. For all of 2015, real GDP rose 2.4%, the same relatively slow pace as in 2014.

Total industrial production fell 0.4% in December, the third straight monthly decline. Industrial production also fell early last year, and at year-end was 1.8% lower than a year earlier, reflecting weakness in

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

mining and utilities, the latter due to continued unseasonably warm weather in December. Manufacturing output fell by 0.1% from November to December, and was 0.8% higher at year-end than a year earlier, slower year-over-year growth than earlier in the year and in 2014.

In January, indexes for manufacturing production and new orders showed small increases, seasonally adjusted, according to an Institute for Supply Management (ISM) survey of purchasing managers. Inventories and employment continued to fall. An ISM report on nonmanufacturing industries showed continued, but generally slower, growth in January.

Consumer Spending

Real consumer spending rose only 0.1% in December as spending on goods fell back after a sizable increase in November. Compared with a year earlier, real consumer spending in December was 2.6% higher, supported by a 3.1% rise in real after-tax income.

In January, sales of cars and light trucks rose to a 17.5 million unit seasonally adjusted annual rate from 17.2 million in December. The seasonal adjustment in January is large, hence somewhat uncertain, but clearly sales held up well despite the severe weather along the Atlantic coast late in the month. In 2015, light vehicle sales set an all-time calendar year record at 17.4 million.

Construction and Real Estate

Housing starts for all of 2015 were at the highest rate since 2007.

Housing starts slowed, seasonally adjusted, in December, but for all of 2015 were 11% higher than a year earlier and at the highest rate since 2007. Starts on new housing construction in 2015 remained short of more typical levels in the past, particularly for single-family homes.

Sales of new homes last year rose 15%, and were the highest since 2007. Sales were still below the pace in most earlier years on record (since 1963), especially in the Northeast and Midwest. Sales of previously occupied homes through realtors, reported by the National Association of Realtors, rose 6% in 2015.

The dollar value of all construction in the U.S. rose 10% last year. Private residential construction increased 13%, private nonresidential construction rose 12%, and public construction gained 6%.

Inflation

The consumer price index (CPI) for all items fell 0.1% in December. Compared with its year-earlier level, the CPI-all items rose 0.7%, held down by declines in all major energy index components. The CPI for all items excluding food and energy rose 2.1% in the latest 12 months, the largest year-over-year increase in this index since 2012.

The producer price index for final demand fell 0.2% in December, and was 1.0% lower at year-end than a year earlier. Final demand goods prices were 3.7% lower in December than a year earlier; final demand services prices were 0.4% higher. Price declines were widespread at earlier stages in the production process.

Pay increases have edged gradually higher, as measured by the Bureau of Labor Statistics' employment cost index. Wage and salary gains from a year earlier averaged 2.2% for civilian workers in 2015, up from 1.9% in 2014 and highest since 2008 when they averaged 3.1%.

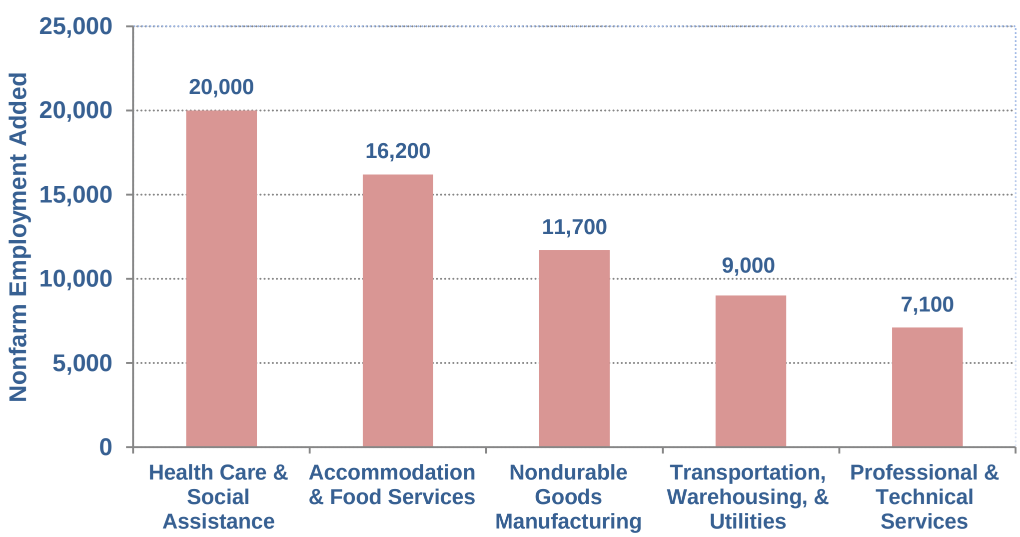
The Ohio Economy

Employment and Unemployment

Despite Ohio's unemployment rate rising to 4.7% in December, the labor market ended 2015 with strength, adding 15,200 jobs[17] during the month. For the year, Ohio added 82,700 jobs (+1.5%), the most during a calendar year since 1999. Leading the way throughout 2015, the health care and social assistance sector contributed 20,000 jobs (+2.6%). Other industries adding sizable numbers of jobs are shown in Chart 5. Employment was reduced in arts, entertainment, and recreation, -6,000 (-7.7%); administrative, support, and waste services, -5,300 (-1.6%); mining and logging, -1,800 (-11.5%); and state government, -1,400 (-0.8%).

In 2015, Ohio added 82,700 jobs (+1.5%), the most during a calendar year since 1999.

Chart 5: Ohio 2015 Highest Job Gains by Sector



[17] Nonfarm payroll employment, seasonally adjusted.

Ohio home sales in 2015 were up 10.2% from 2014.

One reason for the rise in the unemployment rate during December was an increase in the state's labor force, by 16,000 people. It was just enough to bring the change in Ohio's labor force positive for the year (+1,000 people). Big losses from the labor force during the summer months had helped to deflate the unemployment rate as low as 4.4%, but even with the rise to 4.7% in December, it remains below the national rate (5.0%) in that month and below Ohio's rate one year earlier (5.1%).

Home Sales

Ohio home sales in December were up 10.3% over one year ago, ending a healthy 2015 on a strong note. For the year, 143,608 units sold (up 10.2% from 2014) at an average sale price of $155,247 (up 3.8% from 2014). Since 2000, those sales and price figures have only been topped in 2005, according to the Ohio Association of Realtors. Among local regions, 2015 average sales price growth was the highest in the northwest part of the state. Average sales price rose 9.5% in Toledo, 8.0% in Hancock and Wyandot counties, and 8.2% across a region including Auglaize, Clark, Champaign, Logan, Mercer, Miami, and Shelby counties.

Regional Economy

Business activity in the region continued to expand at a modest pace through the end of 2015 according to the Federal Reserve Bank of Cleveland's most recent report.[18] Strong demand for motor vehicles added to consumer spending and manufacturing activity. Along with motor vehicles, the construction and aerospace industries contributed to growth in manufacturing activity in the region even as many manufacturing sectors around the nation weakened during the period. Looking forward, the reported outlook in 2016 for industries across Ohio's region was mixed.

Economic Forecast Update

The table below compares the outlook for the economy, as predicted by forecasting firm Global Insight in January of this year and in May 2015. The latter set of predictions as well as other variables were inputs to forecasts by LSC economists of GRF revenues, for use by the

[18] Prior to meetings of its Federal Open Market Committee, the Federal Reserve publishes the Beige Book, which reports on regional economic activity in each of the central bank's districts. The Federal Reserve Bank of Cleveland's District includes all of Ohio and parts of Kentucky, Pennsylvania, and West Virginia. Information in the latest report was collected on or before January 4, 2016.

Conference Committee in deliberations on H.B. 64, the main operating budget act of the current General Assembly.

Changes to the forecast were generally small. Overall growth of real GDP this year was revised downward slightly for the U.S. and somewhat more for Ohio. Inflation, measured by the consumer price index, was revised lower, as energy prices fell more than previously expected. Employment and income growth were revised upward for FY 2016; changes were mixed for FY 2017. Unemployment rates have fallen more than previously expected.

Figures shown are percent changes from the average of the four quarters in state FY 2015 to that for FY 2016, and from FY 2016 to FY 2017, except that unemployment rates are averages for the four quarters of the fiscal year indicated.

Revisions to Global Insight Economic Forecast for FY 2016 and FY 2017 (selected variables, state fiscal year basis)

	Forecast for FY 2016 as of		Forecast for FY 2017 as of	
Variable Name (National)	**May 2015**	**January 2016**	**May 2015**	**January 2016**
U.S. real GDP growth	2.3%	2.2%	3.0%	3.0%
U.S. wage & salary growth	4.8%	4.9%	4.9%	5.1%
U.S. personal income growth	3.9%	4.4%	5.1%	4.5%
U.S. CPI inflation	0.7%	0.5%	2.4%	2.1%
U.S. nonfarm employment growth	1.7%	1.9%	1.4%	1.5%
U.S. unemployment rate	5.2%	5.0%	5.0%	4.9%
	Forecast for FY 2016 as of		**Forecast for FY 2017 as of**	
Variable Name (Ohio)	**May 2015**	**January 2016**	**May 2015**	**January 2016**
Ohio real GDP growth	1.9%	1.5%	2.4%	2.5%
Ohio wage & salary growth	4.3%	4.3%	4.2%	4.5%
Ohio personal income growth	3.6%	3.9%	4.3%	4.1%
Ohio nonfarm employment growth	1.2%	1.3%	1.0%	1.0%
Ohio unemployment rate	5.0%	4.5%	4.9%	4.6%