Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION — JANUARY 2016

STATUS OF THE GRF

HIGHLIGHTS

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

GRF tax revenue tracked the Office of Budget and Management's September estimate very closely through the first half of FY 2016. Through six months, such revenue is $1.8 million (or less than 0.1%) above estimate. On the spending side of the budget, Medicaid expenditures are well below estimate, and most other program categories of spending are below estimate as well. The GRF thus ended the first half of the fiscal year in good shape.

The Federal Reserve, the nation's central bank, announced a widely expected policy shift in December. The Federal Reserve raised its target for the federal funds rate (a short-term interest rate) by 0.25 percentage point. Monetary policy remains supportive of economic growth (see page 26); the Federal Reserve described policy as remaining "accommodative" in its December 16 announcement.

Through December 2015, GRF sources totaled $17.53 billion:

- Revenue from the personal income tax was $79.5 million below estimate;
- Sales and use tax receipts were $70.3 million above estimate.

Through December 2015, GRF uses totaled $19.0 billion:

- Program expenditures were $337.4 million below estimate, due primarily to Medicaid ($226.4 million) and Health and Human Services ($61.0 million).

VOLUME 39, NUMBER 5

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

Legislative Service Commission
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Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of December 2015
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on January 4, 2016)

STATE SOURCES	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$108,704	$102,200	$6,504	6.4%
Nonauto Sales and Use	$814,469	$825,100	-$10,631	-1.3%
Total Sales and Use Taxes	**$923,173**	**$927,300**	**-$4,127**	**-0.4%**
Personal Income	$849,668	$840,900	$8,768	1.0%
Corporate Franchise	$3,216	$0	$3,216	---
Financial Institution	$783	-$400	$1,183	295.9%
Public Utility	$520	$300	$220	73.4%
Kilowatt-Hour Excise	$21,094	$22,600	-$1,506	-6.7%
Natural Gas Consumption (MCF)	$0	$0	$0	---
Commercial Activity Tax	$10,339	$9,000	$1,339	14.9%
Petroleum Activity Tax	$2,012	$1,500	$512	34.1%
Foreign Insurance	-$9,682	-$500	-$9,182	-1836.4%
Domestic Insurance	$0	-$100	$100	100.0%
Business and Property	$12	$0	$12	---
Cigarette	$91,218	$84,600	$6,618	7.8%
Alcoholic Beverage	$4,021	$5,400	-$1,379	-25.5%
Liquor Gallonage	$3,593	$3,700	-$107	-2.9%
Estate	$37	$0	$37	---
Total Tax Revenue	**$1,900,003**	**$1,894,300**	**$5,703**	**0.3%**
NONTAX REVENUE				
Earnings on Investments	$3	$0	$3	---
Licenses and Fees	$652	$1,850	-$1,198	-64.8%
Other Revenue	$1,816	$1,502	$314	20.9%
Total Nontax Revenue	**$2,471**	**$3,352**	**-$881**	**-26.3%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$7,512	$0	$7,512	---
Total Transfers In	**$7,512**	**$0**	**$7,512**	**---**
TOTAL STATE SOURCES	**$1,909,986**	**$1,897,652**	**$12,334**	**0.6%**
Federal Grants	$1,092,033	$1,062,192	$29,841	2.8%
TOTAL GRF SOURCES	**$3,002,019**	**$2,959,844**	**$42,175**	**1.4%**

*Estimates of the Office of Budget and Management as of September 2015.
Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Actual vs. Estimate
FY 2016 as of December 31, 2015
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on January 4, 2016)

STATE SOURCES	Actual	Estimate*	Variance	Percent	FY 2015	Percent Change
TAX REVENUE						
Auto Sales	$675,971	$650,500	$25,471	3.9%	$653,917	3.4%
Nonauto Sales and Use	$4,558,527	$4,513,700	$44,827	1.0%	$4,357,013	4.6%
Total Sales and Use Taxes	**$5,234,498**	**$5,164,200**	**$70,298**	**1.4%**	**$5,010,930**	**4.5%**
Personal Income	$4,202,479	$4,282,000	-$79,521	-1.9%	$4,141,908	1.5%
Corporate Franchise	$13,070	$0	$13,070	---	-$25,738	150.8%
Financial Institution	-$8,360	-$13,400	$5,040	37.6%	-$22,826	63.4%
Public Utility	$51,619	$50,500	$1,119	2.2%	$36,837	40.1%
Kilowatt-Hour Excise	$171,617	$170,000	$1,617	1.0%	$144,330	18.9%
Natural Gas Consumption (MCF)	$17,164	$17,100	$64	0.4%	$18,427	-6.9%
Commercial Activity Tax	$612,755	$632,800	-$20,045	-3.2%	$421,936	45.2%
Petroleum Activity Tax	$3,362	$3,000	$362	12.1%	$1,944	73.0%
Foreign Insurance	$145,911	$155,900	-$9,989	-6.4%	$153,834	-5.2%
Domestic Insurance	$344	$4,800	-$4,456	-92.8%	$7,638	-95.5%
Business and Property	$42	$0	$42	---	$20	111.0%
Cigarette	$468,091	$446,000	$22,091	5.0%	$365,138	28.2%
Alcoholic Beverage	$28,976	$28,100	$876	3.1%	$28,924	0.2%
Liquor Gallonage	$22,407	$22,000	$407	1.9%	$21,576	3.9%
Estate	$823	$0	$823	---	$2,186	-62.4%
Total Tax Revenue	**$10,964,797**	**$10,963,000**	**$1,797**	**0.0%**	**$10,307,063**	**6.4%**
NONTAX REVENUE						
Earnings on Investments	$7,932	$5,450	$2,482	45.5%	$5,069	56.5%
Licenses and Fees	$9,837	$14,639	-$4,801	-32.8%	$9,267	6.1%
Other Revenue	$38,099	$33,368	$4,731	14.2%	$21,733	75.3%
Total Nontax Revenue	**$55,868**	**$53,457**	**$2,411**	**4.5%**	**$36,069**	**54.9%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$182,688	$177,300	$5,388	3.0%	$11,785	1450.2%
Total Transfers In	**$182,688**	**$177,300**	**$5,388**	**3.0%**	**$11,785**	**1450.2%**
TOTAL STATE SOURCES	**$11,203,354**	**$11,193,757**	**$9,597**	**0.1%**	**$10,354,917**	**8.2%**
Federal Grants	$6,322,788	$6,429,496	-$106,708	-1.7%	$4,908,483	28.8%
TOTAL GRF SOURCES	**$17,526,141**	**$17,623,253**	**-$97,112**	**-0.6%**	**$15,263,400**	**14.8%**

*Estimates of the Office of Budget and Management as of September 2015.
Detail may not sum to total due to rounding.

FY 2016 GRF sources were $97.1 million below estimate.

FY 2016 GRF tax receipts were $1.8 million above estimate.

REVENUES

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

Overview

Through December, FY 2016 GRF sources[1] of $17.53 billion were $97.1 million below the estimate released by the Office of Budget and Management (OBM) in September 2015, due to a negative variance of $106.7 million in federal grants, a shortfall related to underspending primarily in the Medicaid program.[2] (See the EXPENDITURES section of this publication.) State-source receipts were $9.6 million above estimate, with positive variances of $5.4 million for transfers in, $2.4 million for nontax revenue, and $1.8 million for GRF tax sources. Tables 1 and 2 show GRF sources for the month of December and for FY 2016 through December, respectively.

For the month of December, GRF sources of $3.0 billion were $42.2 million above estimate, with federal grants and state sources ahead of projections by $29.8 million and $12.3 million, respectively. Transfers in and GRF tax sources were above estimates by $7.5 million and $5.7 million, respectively, but nontax revenue experienced a negative variance of $0.9 million.

Regarding December GRF tax revenues, the personal income tax halted a string of poor monthly performances and came in $8.8 million above estimate. In addition, the cigarette tax, the corporate franchise tax (CFT), the commercial activity tax (CAT), and the financial institutions tax (FIT) had positive variances of $6.6 million, $3.2 million, $1.3 million, and $1.2 million, respectively. On the other hand, the foreign insurance tax was $9.2 million short of anticipated revenue, and the negative variance for the sales and use tax was $4.1 million. Also, the kilowatt-hour tax and the alcoholic beverage tax were $1.5 million and $1.4 million below estimate, respectively.

Chart 1 below shows FY 2016 cumulative variances against estimates for federal grants, tax revenue, and total GRF sources. As stated above, federal grants were below estimate and all other GRF categories were above anticipated receipts. GRF tax receipts were essentially on

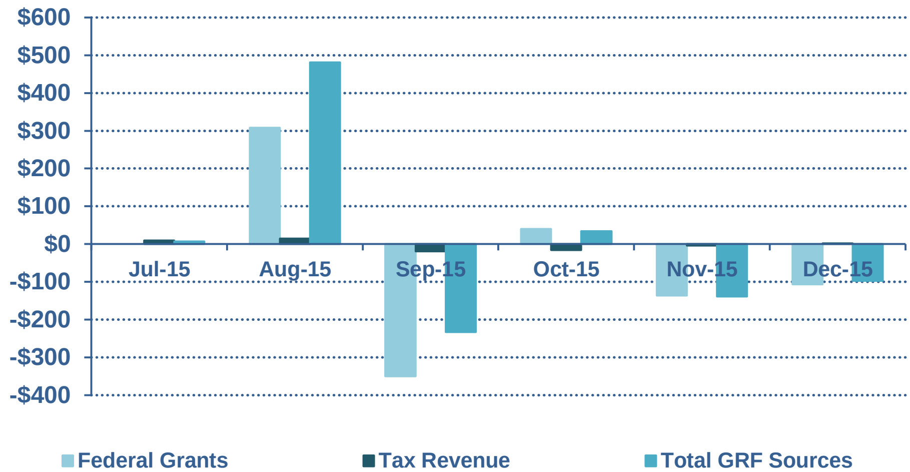
[1] GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants, which are federal reimbursements for Medicaid and certain other human services programs.

[2] Medicaid GRF expenditures were $226.4 million below estimate through December 2015.

target for the fiscal year to date but with contrasting performances from the most important tax sources. The personal income tax and the CAT had negative variances of $79.5 million and $20.0 million, respectively. However, the sales and use tax and the cigarette tax were above estimates by $70.3 million and $22.1 million, respectively. Also, the CFT,[3] the FIT, the kilowatt-hour tax, and the public utility tax were ahead of projections by $13.1 million, $5.0 million, $1.6 million, and $1.1 million, respectively. On the other hand, sizable negative variances of $10.0 million and $4.5 million, most likely due to refunds from tax credit claims, were recorded for the foreign insurance tax and the domestic insurance tax, respectively. Variances for the remaining tax sources were relatively small.

FY 2016 federal grants were $106.7 million below estimate.

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



Compared to the first half of FY 2015, FY 2016 GRF sources increased $2.26 billion. Federal grants were higher by $1.41 billion, tax receipts by $657.7 million, transfers in by $170.9 million,[4] and nontax revenues by $19.8 million. The increase in federal grants is due largely to an accounting change related to Medicaid expenditures: in this fiscal year, expenditures for individuals who became eligible for Medicaid through the Affordable Care Act are made from the GRF, though such expenditures were debited from the Health Care Federal Fund (Fund 3F00), a non-GRF fund, in FY 2015.

FY 2016 GRF sources were $2.26 billion higher than FY 2015 GRF sources.

[3] This tax was eliminated in 2013, and though GRF receipts are not anticipated from the CFT, adjustments to tax filings in previous years are likely to result in nonzero revenue in FY 2016.

[4] OBM transferred $158.0 million from the Medicaid Reserve Fund to the GRF in July 2015.

Revenue from most GRF tax sources was higher in FY 2016. Receipts from the sales and use tax, the CAT, the cigarette tax, and the personal income tax increased $223.6 million, $190.8 million, $103.0 million, and $60.6 million, respectively. The increases in sales and use tax and income tax receipts reflect a generally improving economy over last year, though growth in income tax revenue is restrained due to a reduction in tax rates provided in H.B. 64 (the budget act for the current biennium). Revenue growth for the CAT and the cigarette tax are due, similarly, to changes enacted in H.B. 64, which increased the share of CAT receipts credited to the GRF from 50% to 75%,[5] and raised the cigarette tax rate from $1.25 per pack of 20 cigarettes to $1.60 per pack. The budget act also credited all kilowatt-hour excise tax revenue to the GRF, instead of 88% of the receipts as in prior law. This change boosted FY 2016 revenue from that tax, which grew by $27.3 million, when compared to the first six months in FY 2015. The public utility tax was another tax with strong growth, as FY 2016 revenue grew $14.8 million from the corresponding period last year (when a large tax refund was issued in September 2014). Revenue grew by $38.8 million for the CFT and $14.5 million for the FIT in FY 2016, as fewer net refunds to financial institutions were made this year compared to last. On the other hand, receipts fell by a total of $15.2 million for the insurance taxes, compared to first-half receipts in FY 2015; the estate tax[6] and the MCF tax experienced revenue declines of $1.4 million and $1.3 million, respectively.

Personal Income Tax

FY 2016 GRF income tax receipts were $79.5 million below estimate.

After three consecutive months of revenue shortfalls, the personal income tax experienced a positive variance of $8.8 million (1.0%) in December. The latest monthly performance decreased the fiscal year's negative variance for the tax to $79.5 million (1.9%) from $88.3 million in the first five months. Personal income tax receipts of $849.7 million this month were also $33.1 million (4.1%) above those of December 2014.

[5] Correspondingly, H.B. 64 reduced the share of CAT revenue credited to the School District Tangible Property Tax Replacement Fund (Fund 7047) from 35% to 20% and the share credited to the Local Government Tangible Property Tax Replacement Fund (Fund 7081) from 15% to 5%. These changes were effective July 1, 2015.

[6] H.B. 153 of the 129th General Assembly eliminated the estate tax starting with dates of death on or after January 1, 2013. However, due to the length of time required for settling certain estates, estate tax payments have continued. That revenue is shared by the state GRF (20%) and the municipality or township in which the decedent resided (80%).

Personal income tax revenue is equal to gross collections after subtracting both refunds and distributions to the Local Government Fund (LGF). Gross collections are the sum of employer withholding, quarterly estimated payments,[7] trust payments, payments associated with annual returns, and miscellaneous payments.

The performance of this tax was driven by positive variances of $19.1 million in employer withholding and $2.2 million in payments by trusts, which were partially offset by negative variances of $13.1 million for quarterly estimated payments and $2.7 for payments with annual returns. In addition, refunds were $2.7 million less than anticipated for the month.

FY 2016 GRF income tax receipts were $60.6 million above FY 2015 revenue.

For the fiscal year through December, GRF receipts from the personal income tax totaled $4.20 billion. That amount was 1.9% below estimate but $60.6 million (1.5%) above FY 2015 first-half revenue. Quarterly estimated payments, miscellaneous receipts, and annual return payments had negative variances of $13.4 million, $8.2 million, and $3.2 million, respectively. Those negative variances were partly offset by overages of $3.5 million for employer withholding and $6.7 million for trust payments, resulting in a shortfall of $14.7 million in gross collections. However, the fiscal year-to-date negative variance was driven primarily by refunds, which were $66.7 million higher than projected. The table below summarizes year-to-date FY 2016 income tax revenue variances from estimates and annual changes by component.

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	$3.5	0.1%	$98.1	2.5%
Quarterly Estimated Payments	-$13.4	-3.1%	-$0.9	-0.2%
Trust Payments	$6.7	51.3%	$5.7	41.1%
Annual Return Payments	-$3.2	-2.8%	$1.9	1.7%
Miscellaneous Payments	-$8.2	-18.9%	-$9.6	-21.4%
Gross Collections	-$14.7	-0.3%	$95.2	2.1%
Less Refunds	$66.7	35.4%	$22.7	9.8%
Less LGF Distribution	-$1.8	-1.0%	$11.9	6.8%
Income Tax Revenue	-$79.5	-1.9%	$60.6	1.5%

FY 2016 employer withholding was $3.5 million above estimate.

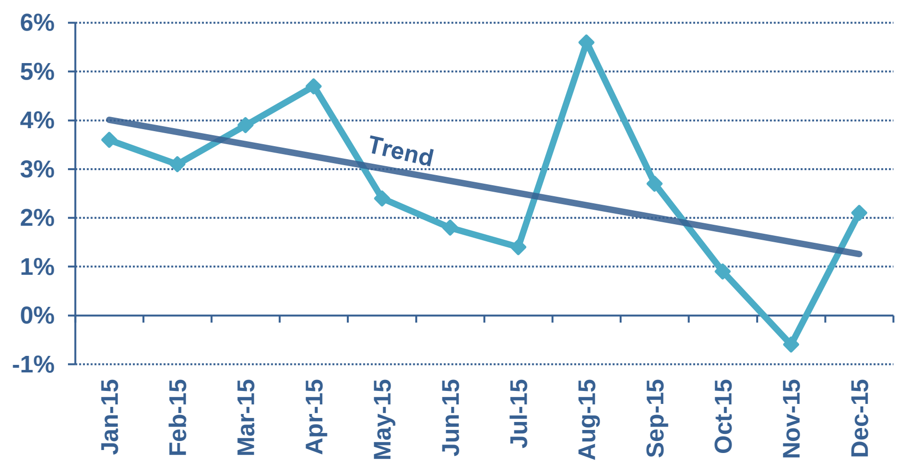
[7] Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than $500. Payments are due on or before April 15, June 15, and September 15 of the tax year and January 15 of the following year. Most estimated payments are made by high-income taxpayers.

Compared to FY 2015, employer withholding grew $98.1 million this fiscal year. Trust payments and annual return payments increased by $5.7 million and $1.9 million, respectively. In contrast, miscellaneous payments and quarterly estimated payments declined $9.6 million and $0.9 million, respectively; both refunds and distributions to the LGF were higher, by $22.7 million and $11.9 million, respectively, than in the first six months of FY 2015.

As stated in previous editions of *Budget Footnotes*, 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. These changes imply that percentage growth in withholding receipts will understate actual payroll growth in future months, and more generally they will restrain any growth in revenue from the tax.

Chart 2 illustrates the trend in employer withholding receipts in 2015. It shows receipts growth decreasing due to both the recent reduction of withholding rates and weak payroll growth this fiscal year, though Ohio payrolls have continued to expand. However, December results helped reverse the slump in receipts growth in recent months.

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



Sales and Use Tax

GRF receipts from the sales and use tax of $923.2 million in December 2015 were $4.1 million (0.4%) below estimate but $36.5 million (4.1%) above receipts in December 2014. For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections[8] 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. In the first half of FY 2016, GRF sales and use tax receipts totaled $5.23 billion, $70.3 million (1.4%) above estimate, with both the nonauto tax and the auto tax ahead of estimates. Total GRF sales and use tax receipts were also $223.6 million (4.5%) above receipts in the corresponding period in FY 2015.

FY 2016 sales and use tax receipts were $70.3 million above estimate.

Nonauto Sales and Use Tax

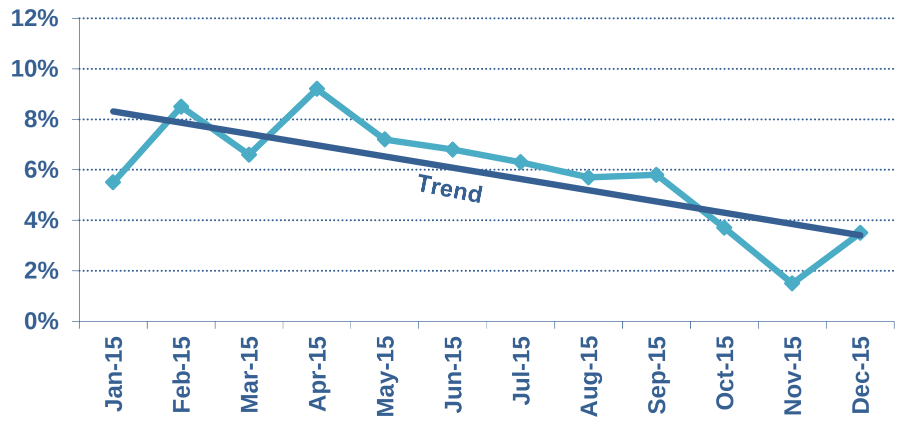
Nonauto sales and use tax GRF revenue of $814.5 million in December 2015 was $10.6 million (1.3%) below estimate and $36.4 million (4.7%) above revenue in the same month in 2014. This monthly performance reduced the fiscal year to date variance to $44.8 million (1.0%), down from $55.5 million through November. Through December, FY 2016 GRF receipts of $4.56 billion from the nonauto sales and use tax were $201.5 million (4.6%) above receipts in the first half of FY 2015. Generally, sales taxes paid by Medicaid health insuring corporations boost yearly growth in nonauto sales tax revenue. However, compared to the corresponding period last year, those payments were essentially flat through December 2015.

FY 2016 nonauto sales and use tax receipts were $44.8 million above estimate.

Chart 3 shows increases in nonauto sales and use tax monthly receipts against prior year receipts in the same month. The chart shows receipts growth decreasing: the rate of growth in the second fiscal quarter of FY 2016 was, on average, about 3.5%, compared to the corresponding quarter in FY 2015. In the first quarter of FY 2016, that growth rate was about 5.8%.

[8] The clerks of court generally make auto sales and use tax payments on Monday for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled. Therefore, auto sales and use tax receipts largely reflect vehicles sold and titled during the month.

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

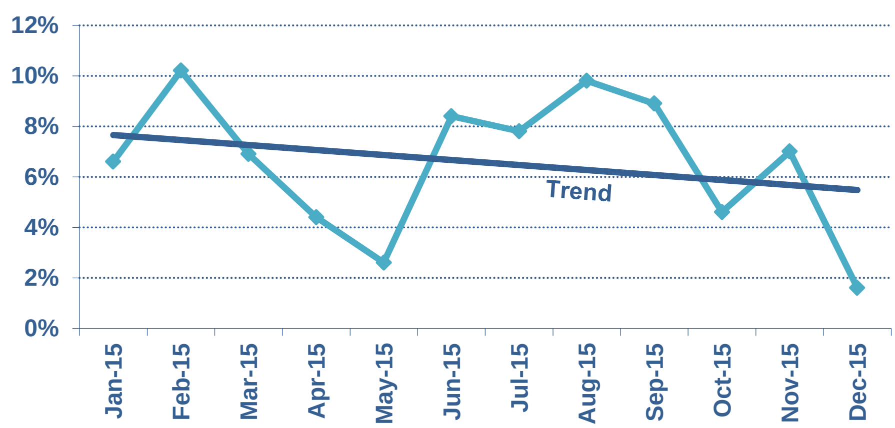


FY 2016 auto sales and use tax receipts were $25.5 million above estimate.

Auto Sales and Use Tax

GRF receipts from the auto sales and use tax of $108.7 million in December were $6.5 million (6.4%) above estimate and nearly equal to receipts in the same month last year. Through December in FY 2016, the auto sales and use tax has performed well with GRF receipts totaling $676.0 million, above estimate by $25.5 million (3.9%). Year-to-date revenue was also $22.1 million (3.4%) above receipts in FY 2015 through December. Chart 4 below compares FY 2016 monthly auto sales and use tax receipts with year-ago receipts in the same period. It indicates the rate of growth in the second fiscal quarter of FY 2016 was, on average, about 1.6%, compared to the corresponding quarter in FY 2015. In the first fiscal quarter of FY 2016, the growth rate was about 8.9%.

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



Nationwide, light vehicle (auto and light truck) sales dipped to 17.3 million (at a seasonally adjusted annual rate) in December, from 18.2 million units in November. However, sales in calendar year (CY) 2015 totaled 17.39 million units, up 5.8% from 16.43 million units in the prior year. The combination of the strengthening labor market, improved credit access, and plummeting gasoline prices contributed to the strongest light vehicle sales on record, slightly above the previous mark of 17.35 million units achieved in CY 2000. Sales of light trucks increased 12.7% to 9.9 million units (57% of total sales) but those of autos declined 2.1% to 7.5 million (43% of total sales). The increase in the share of light truck sales pushed the average new car transaction price to record levels, which helps buoy tax receipts.

Commercial Activity and Petroleum Activity Taxes

December receipts from the CAT were $10.3 million, $1.3 million (14.9%) above estimate, and $4.4 million (73.0%) above revenue in December 2014. For the fiscal year through December, CAT revenues to the GRF totaled $612.8 million, $20.0 million (3.2%) below estimate. CAT revenue credited to the School District Tangible Property Tax Replacement Fund (Fund 7047) was $163.0 million, and the Local Government Tangible Property Tax Replacement Fund (Fund 7081) received $40.8 million. The shortfall in CAT revenue was due primarily to unexpected increases in credit claims against the tax but also slow growth of the tax base. Through December, refunds totaled $74.9 million, about $31.8 million more than in FY 2015. GRF receipts from the CAT were $190.8 million (45.2%) above receipts in the corresponding period of FY 2015 because of the 50% increase in the GRF share of CAT receipts enacted in H.B. 64.[9]

FY 2016 GRF CAT receipts were $20.0 million below estimate.

Beginning July 1, 2014, the CAT as applied to receipts from the sale or exchange of motor fuel was replaced by the petroleum activity tax (PAT). Total PAT revenue (on an all-funds basis) in the first half of FY 2016 was $42.9 million. Of that total, the GRF received $3.4 million, an amount $0.4 million (12.1%) above estimate, and $1.4 million (73.0%) above PAT GRF revenue through December in FY 2015. Of the year-to-date GRF revenue, $2.0 million was booked in December 2015, an amount nearly equal to that received by the GRF in December 2014.

[9] On an all-funds basis, FY 2016 first-half CAT revenue was below FY 2015 revenue, due to nearly $28.1 million in revenue from motor fuel sales that year (for taxable gross receipts in the second quarter of 2014), prior to the imposition of the petroleum activity tax (PAT). Excluding the effect of motor fuel sales receipts, FY 2016 all funds CAT receipts would be about 0.5% above revenue in the corresponding period last year.

FY 2016 cigarette tax receipts were $22.1 million above estimate.

Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax of $91.2 million in December 2015 were $6.6 million (7.8%) above estimate, and $13.7 million (17.6%) above revenue in December 2014. Through December, total tax receipts of $468.1 million were $22.1 million (5.0%) above estimate. Revenue from the "floor tax"[10] was $16.1 million, receipts from cigarette sales were $419.5 million, and sales of other tobacco products (OTP) yielded $32.5 million. FY 2016 receipts increased $103.0 million (28.2%) from the corresponding period in FY 2015. Cigarette revenue increased by $87.3 million, while receipts from OTP decreased by $0.4 million; there were no receipts during FY 2015 from the floor tax. Generally, cigarette tax receipts experience a downward trend, while revenue from OTP is closely tied to price changes of those products. However, H.B. 64 increased the cigarette tax from $1.25 to $1.60 per pack of 20 cigarettes, a 28% increase, and thus monthly cigarette revenue is very likely to be higher in FY 2016 when compared to FY 2015.

[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 went into effect on July 1, 2015.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of December 2015
($ in thousands)
(Actual based on OAKS reports run January 6, 2016)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary and Secondary Education	$600,631	$606,888	-$6,257	-1.0%
Higher Education	$179,831	$180,996	-$1,165	-0.6%
Other Education	$4,638	$4,711	-$73	-1.5%
Total Education	$785,100	$792,595	-$7,495	-0.9%
Medicaid	$1,551,827	$1,480,930	$70,896	4.8%
Health and Human Services	$110,609	$111,322	-$713	-0.6%
Total Welfare and Human Services	$1,662,435	$1,592,252	$70,183	4.4%
Justice and Public Protection	$151,129	$132,898	$18,231	13.7%
General Government	$23,065	$26,658	-$3,593	-13.5%
Total Government Operations	$174,193	$159,556	$14,638	9.2%
Property Tax Reimbursements	$864	$42,527	-$41,663	-98.0%
Capital Outlay	$0	$0	$0	---
Debt Service	$16,617	$17,073	-$456	-2.7%
Total Other Expenditures	$17,481	$59,600	-$42,119	-70.7%
Total Program Expenditures	**$2,639,210**	**$2,604,003**	**$35,207**	**1.4%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$0	$13,000	-$13,000	-100.0%
Total Transfers Out	$0	$13,000	-$13,000	-100.0%
TOTAL GRF USES	**$2,639,210**	**$2,617,003**	**$22,207**	**0.8%**

*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 December 31, 2015
($ in thousands)
(Actual based on OAKS reports run January 6, 2016)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2015**	**Percent Change**
Primary and Secondary Education	$4,086,573	$4,117,299	-$30,726	-0.7%	$3,690,330	10.7%
Higher Education	$1,113,119	$1,121,465	-$8,346	-0.7%	$1,072,684	3.8%
Other Education	$38,575	$38,779	-$204	-0.5%	$31,587	22.1%
Total Education	$5,238,267	$5,277,543	-$39,276	-0.7%	$4,794,601	9.3%
Medicaid	$9,302,506	$9,528,917	-$226,411	-2.4%	$8,023,849	15.9%
Health and Human Services	$662,487	$723,511	-$61,024	-8.4%	$698,158	-5.1%
Total Welfare and Human Services	$9,964,993	$10,252,428	-$287,435	-2.8%	$8,722,007	14.3%
Justice and Public Protection	$1,017,087	$1,005,155	$11,932	1.2%	$955,782	6.4%
General Government	$184,762	$199,103	-$14,341	-7.2%	$177,759	3.9%
Total Government Operations	$1,201,849	$1,204,258	-$2,409	-0.2%	$1,133,541	6.0%
Property Tax Reimbursements	$898,795	$904,910	-$6,115	-0.7%	$907,658	-1.0%
Capital Outlay	$0	$0	$0	---	$0	---
Debt Service	$880,798	$882,974	-$2,177	-0.2%	$854,938	3.0%
Total Other Expenditures	$1,779,593	$1,787,885	-$8,292	-0.5%	$1,762,596	1.0%
Total Program Expenditures	**$18,184,702**	**$18,522,114**	**-$337,412**	**-1.8%**	**$16,412,744**	**10.8%**
TRANSFERS						
Budget Stabilization	$425,500	$425,500	$0	0.0%	$0	---
Other Transfers Out	$388,234	$375,031	$13,203	3.5%	$582,809	-33.4%
Total Transfers Out	$813,734	$800,531	$13,203	1.6%	$582,809	39.6%
TOTAL GRF USES	**$18,998,436**	**$19,322,645**	**-$324,209**	**-1.7%**	**$16,995,553**	**11.8%**

*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 January 5, 2016)

	Month of December 2015				Year to Date Through December 2015			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid	**$1,805,390**	**$1,762,833**	**$42,557**	**2.4%**	**$11,094,819**	**$11,540,436**	**-$445,617**	**-3.9%**
GRF	$1,502,259	$1,431,879	$70,380	4.9%	$9,003,048	$9,231,809	-$228,761	-2.5%
Non-GRF	$303,130	$330,954	-$27,823	-8.4%	$2,091,771	$2,308,627	-$216,856	-9.4%
Developmental Disabilities	**$176,900**	**$220,438**	**-$43,538**	**-19.8%**	**$1,161,407**	**$1,243,662**	**-$82,255**	**-6.6%**
GRF	$40,245	$41,050	-$805	-2.0%	$250,450	$247,843	$2,607	1.1%
Non-GRF	$136,654	$179,387	-$42,733	-23.8%	$910,957	$995,819	-$84,862	-8.5%
Job and Family Services	**$23,864**	**$24,027**	**-$163**	**-0.7%**	**$116,498**	**$109,863**	**$6,634**	**6.0%**
GRF	$8,627	$7,419	$1,208	16.3%	$44,400	$44,619	-$219	-0.5%
Non-GRF	$15,238	$16,608	-$1,371	-8.3%	$72,097	$65,244	$6,853	10.5%
Health	**$1,408**	**$2,123**	**-$715**	**-33.7%**	**$12,487**	**$12,827**	**-$340**	**-2.6%**
GRF	$294	$255	$39	15.2%	$1,951	$1,620	$331	20.4%
Non-GRF	$1,114	$1,868	-$754	-40.4%	$10,537	$11,207	-$670	-6.0%
Aging	**$482**	**$500**	**-$19**	**-3.8%**	**$3,182**	**$3,691**	**-$509**	**-13.8%**
GRF	$301	$263	$38	14.6%	$1,699	$1,679	$20	1.2%
Non-GRF	$181	$238	-$57	-24.0%	$1,483	$2,012	-$529	-26.3%
Mental Health and Addiction	**$547**	**$365**	**$182**	**49.7%**	**$2,309**	**$3,171**	**-$861**	**-27.2%**
GRF	$101	$65	$36	54.8%	$958	$1,347	-$388	-28.8%
Non-GRF	$446	$300	$146	48.6%	$1,351	$1,824	-$473	-25.9%
Total GRF	**$1,551,827**	**$1,480,930**	**$70,896**	**4.8%**	**$9,302,506**	**$9,528,917**	**-$226,411**	**-2.4%**
Total Non-GRF	**$456,763**	**$529,355**	**-$72,592**	**-13.7%**	**$3,088,196**	**$3,384,733**	**-$296,537**	**-8.8%**
Total All Funds	**$2,008,589**	**$2,010,285**	**-$1,696**	**-0.1%**	**$12,390,702**	**$12,913,650**	**-$522,948**	**-4.0%**

*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 January 5, 2016)

	December				Year to Date Through December			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	$938,452	$861,341	$77,112	9.0%	$5,128,314	$5,266,122	-$137,808	-2.6%
Nursing Facilities	$114,332	$115,856	-$1,524	-1.3%	$682,660	$709,802	-$27,142	-3.8%
DDD Services	$167,165	$216,035	-$48,870	-22.6%	$1,127,838	$1,200,989	-$73,150	-6.1%
Hospitals	$79,811	$103,430	-$23,620	-22.8%	$1,127,264	$1,297,151	-$169,887	-13.1%
Behavioral Health	$81,611	$84,521	-$2,909	-3.4%	$528,801	$567,703	-$38,903	-6.9%
Administration	$72,198	$92,038	-$19,841	-21.6%	$411,355	$620,637	-$209,282	-33.7%
Aging Waivers	$27,755	$25,561	$2,194	8.6%	$158,585	$164,595	-$6,010	-3.7%
Prescription Drugs	$37,033	$35,011	$2,023	5.8%	$236,013	$236,090	-$77	0.0%
Medicare Buy-In	$36,582	$36,967	-$385	-1.0%	$219,697	$220,417	-$720	-0.3%
Physicians	$17,582	$18,304	-$722	-3.9%	$133,694	$154,615	-$20,921	-13.5%
Medicare Part D	$24,249	$24,533	-$284	-1.2%	$145,375	$146,300	-$925	-0.6%
Home Care Waivers	$9,240	$12,596	-$3,356	-26.6%	$63,608	$84,287	-$20,679	-24.5%
ACA Expansion	$326,727	$303,786	$22,941	7.6%	$1,885,808	$1,684,002	$201,806	12.0%
All Other	$75,851	$80,307	-$4,455	-5.5%	$541,691	$560,939	-$19,248	-3.4%
Total All Funds	**$2,008,589**	**$2,010,285**	**-$1,696**	**-0.1%**	**$12,390,702**	**$12,913,650**	**-$522,948**	**-4.0%**

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

EXPENDITURES

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

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

Overview

GRF uses for the month of December were $2.64 billion, $22.2 million (0.8%) above the estimate released by OBM in October 2015. GRF uses mainly consist of program expenditures but also include transfers out. Through December, FY 2016 GRF program expenditures were $18.18 billion, $337.4 million (1.8%) below estimate. Year-to-date transfers out were $813.7 million, $13.2 million (1.6%) above estimate. GRF uses as a whole totaled $19.0 billion, $324.2 million (1.7%) below estimate. Tables 3 and 4 show GRF uses for the month of December and for FY 2016 through December, respectively.

For the first half of FY 2016, GRF uses totaled $19.0 billion, $324.2 million (1.7%) below estimate.

Medicaid accounted for nearly 70% of the total negative year-to-date variance in GRF uses. For the first half of FY 2016, GRF Medicaid expenditures were $226.4 million (2.4%) below estimate. Medicaid spending for December exceeded OBM's monthly estimate by $70.9 million, which helped narrow the year-to-date variance. Details on Medicaid expenditures are provided below.

Elsewhere, property tax reimbursement payments were below estimate in December, by $41.7 million. This negative monthly variance reversed the category's year-to-date variance from a positive $35.5 million at the end of November to a negative $6.1 million at the end of December. The reimbursement payments based on the August 2015 property tax settlement were largely completed by the end of November, so December's variance was expected. Transfers out also had a negative monthly variance in December of $13.0 million, reducing the year-to-date positive variance from $26.2 million at the end of November to $13.2 million at the end of December.

Health and Human Services had the second largest negative year-to-date variance after Medicaid at $61.0 million, of which $0.7 million occurred in the month of December. Expenditures from the Primary and Secondary Education category were $6.3 million below estimate in December, which increased the category's negative year-to-date variance to $30.7 million. As detailed in previous issues of *Budget Footnotes*, the variances in these two program categories are largely timing-driven.

Through December, GRF Medicaid expenditures were $226.4 million below estimate; non-GRF Medicaid expenditures were $296.5 million below estimate.

Medicaid

Medicaid is primarily funded by the GRF although 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.

For the month of December, GRF Medicaid expenditures of $1.55 billion were $70.9 million (4.8%) above the estimate provided by OBM while non-GRF Medicaid expenditures of $456.8 million were $72.6 million (13.7%) below estimate. Across all funds, Medicaid expenditures of $2.01 billion in December were just slightly below estimate by $1.7 million (0.1%). For the first half of FY 2016, GRF Medicaid expenditures were $9.30 billion, $226.4 million (2.4%) below estimate, while non-GRF Medicaid expenditures were $3.09 billion, $296.5 million (8.8%) below estimate. Across all funds, Medicaid expenditures totaled $12.39 billion, $522.9 million (4.0%) below their year-to-date estimate.

The Ohio Department of Medicaid (ODM) is primarily responsible for administering Medicaid, with the assistance of five other state agencies – Developmental Disabilities, Job and Family Services, Health, Aging, and Mental Health and Addiction Services. Table 5 details the GRF and non-GRF portions of Medicaid expenditures from each of the six agencies that take part in administering Ohio Medicaid. As seen from the table, ODM, the largest agency within this program category, also had the largest year-to-date variance. For the first half of FY 2016, ODM's GRF expenditures totaled $9.0 billion, which was $228.8 million (2.5%) below estimate, and its non-GRF expenditures totaled $2.09 billion, which was $216.9 million (9.4%) below estimate. Across all funds, ODM's expenditures were $445.6 million (3.9%) below their year-to-date estimate. GRF and non-GRF Medicaid expenditures from the Department of Developmental Disabilities (DDD), the second largest agency within this program category, totaled $1.16 billion for the first half of FY 2016, which was $82.3 million (6.6%) below estimate. Together, ODM and DDD account for about 99% of the Medicaid expenditure total.

Table 6 details all-funds Medicaid expenditures by payment category. As seen from the table, Administration had the largest negative year-to-date variance at $209.3 million (33.7%). This negative variance is partly the result of the contract for ODM's new eligibility determination system, Ohio Benefits, costing less than was budgeted. Additionally, expenditures from the prior year encumbrance for Administration were slower than expected.

Two other payment categories that had significant negative year-to-date variances were Hospitals ($169.9 million, 13.1%) and Managed Care ($137.8 million, 2.6%). The negative variance for Hospitals is due to ODM not experiencing the forecasted increasing cost per claim. The negative variance for Managed Care is due to lower than expected Aged, Blind, and Disabled (ABD) caseloads. Managed Care had a positive variance of $77.1 million in December, which partially offset a large negative variance in November due to the timing of a $121.8 million payment for Affordable Care Act (ACA) health insurer fees for managed care companies. This payment did not occur in November as originally anticipated but was processed in December.

Through December, all-funds Medicaid expenditures were $522.9 million below estimate.

The ACA Expansion category had a significant positive year-to-date variance. All funds expenditures from ACA Expansion totaled $1.89 billion for the first half of FY 2016, which was $201.8 million (12.0%) above estimate. This positive variance was due to higher than anticipated caseloads. Some individuals currently enrolled into 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. All individuals who become eligible for Medicaid through ACA are mostly served under managed care.

Issue Updates

OMHAS Awards $2.5 Million for Recovery Housing

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

On November 23, 2015, the Ohio Department of Mental Health and Addiction Services (OMHAS) awarded $2.5 million for recovery housing. Of this total, $2.2 million supports 25 projects that will add approximately 200 new recovery housing beds in 18 counties. Seven of these 18 counties had not received recovery housing funds previously: Ashtabula, Athens, Fairfield, Fulton, Lake, Licking, and Trumbull. The remaining $300,000 was awarded to complete existing projects, provide statewide training, and provide policy development and support. A full list of projects receiving funding can be found on the News page of OMHAS's website (www.mha.ohio.gov/News) under the Press Releases heading.

Recovery housing is a safe and healthy living environment that promotes an alcohol and drug-free lifestyle and enhances participation and retention in clinical treatment. Residents in recovery housing receive services such as peer support, accountability, relapse prevention, and employment skills training. The General Assembly appropriated $5.0 million in both FY 2014 and FY 2015 to increase recovery housing capacity. H.B. 64 appropriates an additional $2.5 million in both FY 2016 and FY 2017 for this purpose. With this $15.0 million total spending, OMHAS hopes to increase recovery housing capacity in Ohio by nearly 1,000 beds over the four-year period from FY 2014 to FY 2017.

Chancellor Announces Sexual Violence Prevention Initiative for Higher Education Institutions

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

In late October 2015, the Chancellor of Higher Education announced the Changing Campus Culture (CCC) initiative to strengthen the ability of colleges and universities to prevent and better respond to sexual assault on their campuses.[11] H.B. 64 required the Department of Higher Education (DHE), in consultation with public and private nonprofit institutions of higher education, to develop model best practices for preventing and responding to sexual assault on campus. In response, DHE issued a report that offered the following five recommendations for institutions to adopt: (1) use

[11] A report as well as other information on the Changing Campus Culture initiative can be found online at: https://www.ohiohighered.org/ccc.

data to guide action, (2) empower staff, faculty, campus law enforcement, and students to prevent and respond to sexual violence through evidence-based training, (3) communicate a culture of shared respect and responsibility, (4) develop a comprehensive response policy, and (5) adopt a survivor-centered response. The goal of the initiative is to have each of the state's colleges and universities adopt all five recommendations by the beginning of the 2016-2017 academic year.

H.B. 64 appropriates $2.0 million from the GRF in FY 2016 to support the initiative. The funds were initially used to develop the report and recommendations. In addition to that work, the funds will be used to disseminate a common campus climate survey for campuses to administer, support data analysis of the surveys, provide training programs, create an online resource portal, host a Campus Sexual Violence Prevention Summit, and offer grants to individual institutions to help implement any of the recommendations made under the CCC initiative.

Controlling Board Approves Spending to Enhance Ohio's Prescription Drug Monitoring Program

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

On December 14, 2015, the Controlling Board approved the Ohio State Board of Pharmacy's requested spending of $525,000 ($325,000 in FY 2016 and $200,000 in FY 2017) for the Ohio Automated Rx Reporting System (OARRS). The money comes from two Ohio Department of Health (ODH) grants awarded by the U.S. Centers for Disease Control and Prevention. ODH will transfer the cash for the Pharmacy Board's use over the course of the FY 2016-FY 2017 biennium. OARRS is an electronic database established by the Pharmacy Board in 2006 to track the prescribing and dispensing of controlled prescription drugs to patients. It is designed to assist in detecting and preventing abuse, misuse, and diversion of controlled substances. The Pharmacy Board will use the additional funding to (1) develop a proactive reporting system to assist prescribers and pharmacists in more quickly identifying patients who may be abusing or misusing a controlled substance, (2) develop a batch reporting tool to permit a prescriber to request a prescription history report on multiple patients at a single time, (3) contract with a third-party vendor to develop training videos and continuing education seminars, (4) contract with a public health evaluator to implement an evaluation study of the requirements of H.B. 341 of the 130th General Assembly, including the mandated use of OARRS by prescribers who prescribe or furnish opioid analgesics or benzodiazepines and pharmacists who dispense controlled substances, and (5) provide OARRS data and metrics for public health performance improvements, reports, and evaluations.

Developmental Disabilities Announces Online Autism Spectrum Disorder Training and Certification Program

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

On November 23, 2015, the Ohio Department of Developmental Disabilities (ODODD) announced that *ASD Strategies in Action*, a new online training and certification program for people who interact with individuals with autism spectrum disorder (ASD), is available for use at: https://autismcertificationcenter.org/. The program is designed to help users to more effectively care for, support, and work with individuals who have ASD. The program provides an introductory course and three ten- to 15-hour age-specific courses containing modules covering specific strategies, real-life examples, and expert interviews. Each age-specific course provides reflection questions, assessments, and certificates upon completion. The program is free for Ohio residents and nonresidents who work with individuals with ASD in Ohio. ODODD expects the program to be self-sustaining, as users from other states will pay fees to access the program online.

H.B. 483 of the 130th General Assembly required ODODD to establish a voluntary training and certification program to ensure that people who provide interventions to individuals with ASD are properly trained to work with and meet the needs of those individuals. The Office of Health Transformation (OHT) provided ODODD with a total of $1.0 million in fiscal years 2015 and 2016 from the Health Transformation Innovation Fund for the project. With these funds, ODODD entered into an agreement with the Ohio Center for Autism and Low Incidence (OCALI) to develop an autism certification center, which includes a video platform and a series of training modules for the program. Additionally, the Ohio Department of Education (ODE) provided funding to OCALI for the project from the department's federal IDEA discretionary funds.

Division of Liquor Control Issues an All-Time High Number of Alcohol Manufacturing Permits in CY 2015

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

On November 27, 2015, the Division of Liquor Control (DOLC) within the Department of Commerce announced that the number of manufacturers of alcoholic beverages in Ohio reached an all-time high in CY 2015. As of November 13 that year, the Division issued 579 alcohol manufacturing permits, a 15.1% increase over the number of such permits issued in CY 2014. Among the types of manufacturing permits issued by the Division, the A-1c permit (beer manufacturers that produce less than 31 million gallons per year) saw the highest year-over-year increase (23.8%) between CY 2014 and CY 2015, from 126 to 156 permits. Overall, the largest number of manufacturing permits were issued to wineries under the A-2 permit class. These accounted for 232 (40.1%) of the 579 total permits issued by the Division as of November 2015. The table below displays the number of alcohol manufacturing permits by permit class.

Number of Alcohol Manufacturing Permits by Permit Class				
Permit Class	**Permit Description**	**Permit Fee**	**CY 2014**	**CY 2015***
A-1	Manufacturer of beer (more than 31 million gallons per year)	$3,906	3	3
A-1A	Sale of beer or intoxicating liquor by the glass	$3,906	117	144
A-1c	Manufacturer of beer (less than 31 million gallons per year)	$1,000	126	156
A-2	Manufacturer of wine	$76	217	232
A-3	Manufacturer of spirituous liquor	$2 to $3,906	10	10
A-3A	Manufacturer of spirituous liquor (less than 10,000 gallons)	$2 to $400	27	31
A-4	Manufacture and sale of low proof (21% ABV or less) prepared and bottled drinks	$3,906	3	3
		Total	**503**	**579**

*The number of manufacturer permits for CY 2015 as of November 13, 2015.

Liquor permit fees are collected by DOLC and deposited into the Undivided Liquor Permit Fund (Fund 7066), and then distributed to the State Liquor Regulatory Fund (Fund 5LP0) used by DOLC (45%), the local taxing district where the permit is issued (35%), and the Statewide Treatment and Prevention Fund (Fund 4750) used by OMHAS (20%). In FY 2015, DOLC collected approximately $40.2 million for all liquor permit fees.

Controlling Board Approves Additional Funding for Tourism Promotion

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

On December 14, 2015, the Controlling Board approved a Development Services Agency (DSA) request to increase FY 2016 funding for tourism promotion from the Tourism Fund (Fund 5MJ0) by $1.6 million. The Office of TourismOhio within DSA will use the additional funding to buy television, radio, print, and digital advertising in conjunction with a new tourism branding campaign called "Ohio. Find it here." The increase brings DSA's total funding for tourism promotion to $10.6 million in FY 2016. Of this total, DSA estimates that approximately $9.1 million in FY 2016 will be spent on purchased personal services, mostly for media buys.

The Office of TourismOhio has been operating on a five-year pilot funding mechanism that began in FY 2014 and runs through FY 2018. The concept is for TourismOhio to be financed based on the growth in sales tax revenue collected from certain tourism-related industries. During the five-year pilot funding period, up to about $10 million in sales tax proceeds credited to the GRF each year is transferred to Fund 5MJ0. As of the beginning of December 2015, the fund had a cash balance of $15.4 million.

ODE Contracts for ACT, Inc.'s WorkKeys as Job Skills Assessment

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

In October 2015, ODE contracted with ACT, Inc. to provide its WorkKeys assessment as the state's nationally recognized job skills assessment for high school students. H.B. 487 of the 130th General Assembly required ODE to select such an assessment as part of the new graduation requirements the act established for students entering ninth grade in the 2014-2015 school year (the class of 2018) and beyond. In addition to applicable curriculum requirements, such students must satisfy testing requirements for a diploma by accumulating a certain number of points on end-of-course exams, scoring at a "remediation free" level on a college-admissions test, or earning a State Board of Education-approved industry-recognized credential and achieving a "workforce readiness score" on the selected job skills assessment. The State Board has determined that the latter requirement can be met by earning a total of 13 points (increasing to 14 points for the class of 2020 and beyond) across the WorkKeys assessment's three sections, including at least three points on each section. The sections are applied mathematics, reading, and locating information. Under the contract with ACT, Inc., the assessment will be offered in both online and paper formats at a cost to the state of $8.33 per assessment.

Bureau of Motor Vehicles Completes Installation Phase of Self-Service Terminal Pilot Project

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

On November 3, 2015, the Bureau of Motor Vehicles completed the installation phase of its BMV4U pilot project by installing its ninth vehicle registration renewal self-service terminal (SST) at a Meijer store located in Cincinnati. BMV4U is a one-year pilot program to determine the viability of expanding service delivery for Ohio residents by allowing them to obtain vehicle registration renewals and license plate stickers from stand-alone terminals located at retail grocery outlets in the Cincinnati, Cleveland, and Columbus metropolitan areas. The cost to renew a vehicle registration using a SST is the same as if it were renewed at a deputy registrar, by mail, or on the Internet.

The initial one-time cost of implementing the pilot project totaled $30,495, which included the establishment of electrical and data lines, as well as Internet installation, at each SST location. Ongoing costs will include a total of $1,127 in monthly Internet fees, as well as a $3 fee that is paid to the service and equipment vendor for each SST vehicle registration renewal processed. The pilot project's funding is primarily generated by the $3.50 deputy registrar fee that accompanies each vehicle registration renewal processed at SSTs, with additional funding appropriated from the State Board of Motor Vehicles Fund (Fund 4W40) as necessary. The following table shows vehicle registration activity by SST location since the start of the pilot project in March of this year. As of early December 2015, 5,378 vehicle registrations had been renewed using SSTs. The BMV issues more than 11 million vehicle registrations annually.

Vehicle Registration Renewal by Self-Service Terminal Location*

Self-Service Terminal Location	Installation Date	Number of Transactions	Total Amount Collected	Number of Vehicles Registered
Columbus Area				
Marcs – Westerville	3/30/2015	2,104	$155,475	2,673
Marcs – Columbus	4/21/2015	686	$47,370	818
Discount Drug Mart – Columbus	10/7/2015	68	$4,491	79
Cleveland Area				
Giant Eagle – Brook Park	5/7/2015	397	$24,978	448
Marcs – Garfield Heights	5/14/2015	225	$14,684	256
Giant Eagle – Amherst	7/23/2015	218	$12,803	258
Cincinnati Area				
Meijer – Cincinnati	8/25/2015	361	$26,809	482
Meijer – Loveland	9/9/2015	224	$16,396	287
Meijer – Hyde Park	11/3/2015	64	$4,587	77
	Total	**4,347**	**$307,593**	**5,378**

*Data is current as of December 3, 2015.

TRACKING THE ECONOMY

– *Thomas Kilbane, Economist, 614-728-3218*

Overview

The Federal Reserve raised its short-term interest rate target for the first time in over nine years.

Amid mixed reports from different sectors of the economy, the Federal Reserve raised its short-term interest rate target for the first time in over nine years. Nationwide job growth in the fourth quarter was strong and U.S. auto sales had their strongest year on record in 2015. Energy prices continue to fall, adding purchasing power for consumers, but hurting the oil and gas industries and keeping overall inflation rates below the Federal Reserve's target for the economy. Soft domestic production reports and international instability offer reasons for caution moving forward.

The latest reports on employment gains, state production, and income growth all rank Ohio in the top half of the 50 states. However, the U.S. Census Bureau's annual population update puts Ohio near the bottom of states in population growth for 2015.

The National Economy

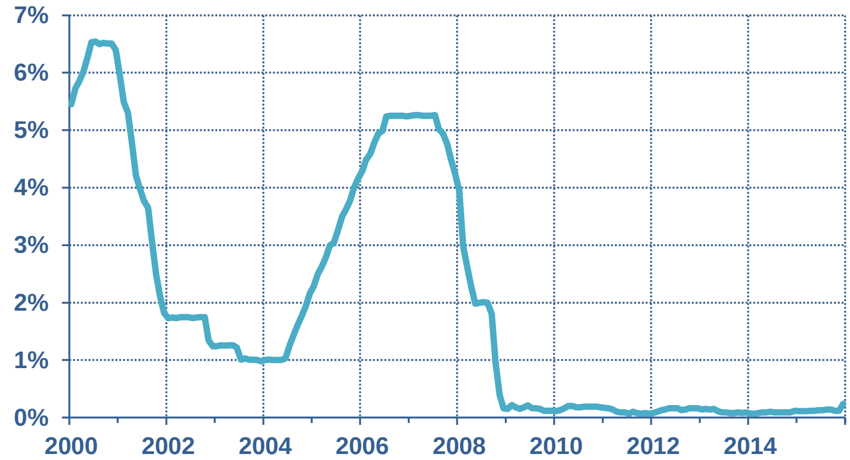
Monetary Policy

At the conclusion of its December 15-16 meeting, the Federal Open Market Committee (FOMC) decided to raise the target for the federal funds rate[12] to a range of 0.25% to 0.5%.[13] The rise was the first since June 2006 and ended an unprecedented seven year stay at near zero rates (see chart below). The move comes despite a continuing shortfall of inflation from the Federal Reserve's 2% target. Undeterred, the committee members continue to project inflation will move towards its long-run target in 2016, although the committee did remain cautious about the timing of further rises in the future, saying "only gradual increases" are likely. Fourteen out of 17 participants deemed a target federal funds rate of only 1.5% or below to be appropriate by the end of 2016.

[12] The federal funds rate is the short-term interest rate at which depository institutions lend reserve balances to other depository institutions overnight. The FOMC sets a target rate and the Federal Reserve uses monetary tools with the goal of moving the actual rate to the target.

[13] The previous rate target was from 0% to 0.25%.

Chart 5: Average Monthly Federal Funds Rate Through December 2015



Despite the much-anticipated rise in the Federal Reserve's target, rates remain far below historical levels. The FOMC describes the policy environment after the rise as remaining "accommodative" and "supportive of further improvement in the labor market and a return to 2% inflation." Real interest rates remain low by historical standards.[14]

Inflation

Energy prices fell in November for the third month out of the last four, after a brief respite in October. The consumer price index (CPI) for energy fell a seasonally adjusted 1.3%, with gasoline down 2.4%. Overall, the consumer price index for all urban consumers (CPI-U) was unchanged during the month, as was the price index for personal consumption expenditures (PCE), the Federal Reserve's preferred measure of inflation. Even the price index for PCE excluding food and energy was up only minimally in November, increasing by 0.1% seasonally adjusted.

Energy prices fell in November for the third month out of the last four.

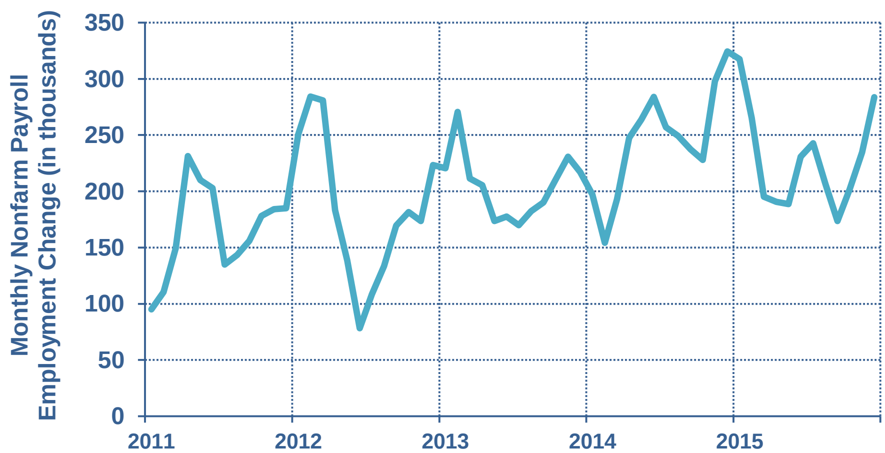
Low energy prices have been a theme for 2015. During the 12 months ending in November, the CPI for energy prices fell 14.7%, with the gasoline index down a whopping 24.1%. Caught under that weight, CPI for all items rose just 0.5% during that time. Stubbornly low inflation has made life tough for the FOMC and will be a key indicator to watch heading into 2016.

[14] A real interest rate is calculated as a nominal interest rate minus a measure of inflation.

Employment and Unemployment

The labor market ended 2015 with a roar, adding 292,000 jobs[15] in December according to estimates from the U.S. Bureau of Labor Statistics (BLS). BLS also revised job gains in October and November upward a combined total of 50,000, bringing the average monthly job growth over the last three months to 284,000, the highest three-month average since January (see chart below). The report also indicated strong U.S. labor force numbers, estimating 966,000 additional people in the labor force[16] in December as compared to September. It was the largest three-month increase since March 2014.

Chart 6: U.S. Monthly Employment Change
(Three-Month Moving Average)



The national unemployment rate stayed unchanged at 5.0%, remaining at the lowest point since 2008. Average hourly earnings of all employees[17] rose 2.5% during 2015.

Production, Shipments, and Inventories

The manufacturing index of the Institute for Supply Management (ISM) indicated a contraction of activity in the manufacturing sector for the second straight month in December. Prices, inventories, and backlogs of orders have all been decreasing for at least six months based on survey responses of the nation's manufacturing supply executives. ISM's nonmanufacturing index indicated growth in nonmanufacturing sectors but at the slowest rate since April 2014.

[15] Nonfarm payroll employment.

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

[17] Private, nonagricultural payrolls.

Industrial production decreased for the third straight month in November according to the Federal Reserve's industrial production index. Industrial production decreased 0.6% in November after falling 0.4% in October. It was the largest two-month decrease since June 2009. Large decreases came in mining and utilities, while manufacturing was unchanged. Total industrial production was down 1.2% in the 12 months up to November 2015.

Manufacturers' inventories decreased as well in November, by 0.3% according to the U.S. Census Bureau. It was the fifth straight month the report indicated a decrease in inventories. Put together, the reports from the ISM, the Federal Reserve, and the Census Bureau offer a bad omen for 2015 fourth quarter gross domestic product (GDP), which will be first reported on January 29. Inflation-adjusted (real) GDP increased at an annual rate of 2% in the third quarter.

Consumer Spending

In what has become a familiar storyline, auto sales had a strong December, sealing a record-breaking year. In 2015, approximately 17.39 million light vehicles sold, edging 2000 for the highest year of sales on record. Sales were driven by low gas prices, an improving labor market, and low interest rates for auto loans. The top three selling vehicles in 2015 were the Ford F-Series, Chevrolet Silverado, and Dodge Ram according to data from motorintelligence.com. All three are pickup trucks, illustrating the impact that low gas prices have had on the market.

Light vehicle sales in 2015 were the highest on record.

Overall, inflation-adjusted personal consumption spending picked up in November, increasing 0.3% at a seasonally adjusted rate. It was the fifth out of the last eight months that spending grew at 0.2%-0.3% per month (about a 3% annual rate). As other parts of the economy begin to show signs of abating (e.g., production) consumer spending has remained healthy.

Real Estate

Existing home sales for October were revised downward and initial reports for November had sales dropping another 10.5% at a seasonally adjusted annual rate. Together, the back-to-back months of decreasing sales resulted in a year-over-year decrease for the first time since September 2014, with sales 3.8% below November one year ago. The reports bring recent sales of existing homes more in line with sales of new homes which, while up in November, have been slower in recent months. From September through November, monthly sales of new homes averaged a seasonally adjusted annual rate of 467,000 after averaging 506,000 in January through August.

Ohio's labor force increase in November was the second largest monthly increase since 2006.

Housing starts were a bright spot in real estate data in November, rebounding after October posted the slowest month since March. The increase in housing starts during the month was driven by multi-unit structures in the South region of the United States.

Average 30-year fixed rate mortgages settled at 4.01% during the week of December 31 according to Freddie Mac's Primary Mortgage Market Survey. It was the first time the rate was above 4% since July.

The Ohio Economy

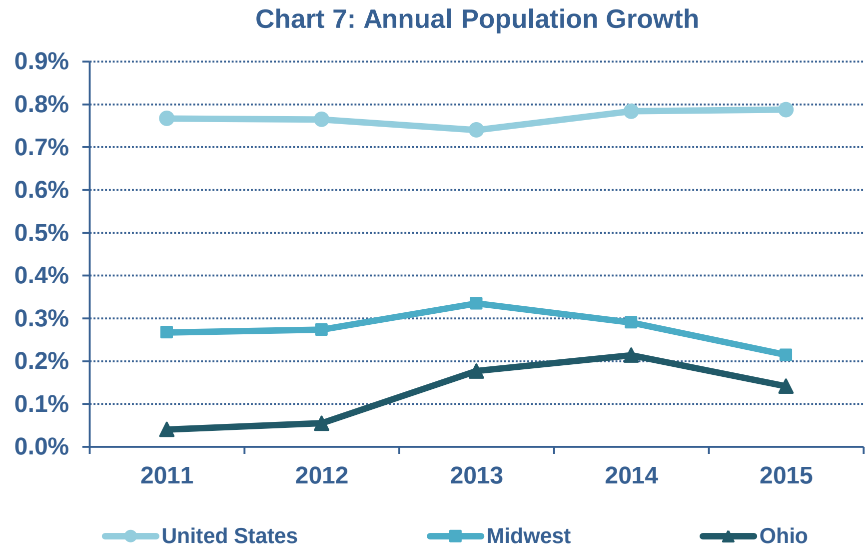
Employment and Unemployment

Ohio's nonfarm payroll employment rose by 9,900 (0.2%) in November. Employment increased for the tenth out of the last 13 months, and average monthly job growth for 2015 through November (6,200) rose above 2014's full-year average (5,908). Continuing long-term trends, the accommodation and food services sector together with the professional and technical services sector added 9,000 jobs in November. Accomodation and food services employment is up 4.1% from November 2014, while professional and technical services is up 3.7%.

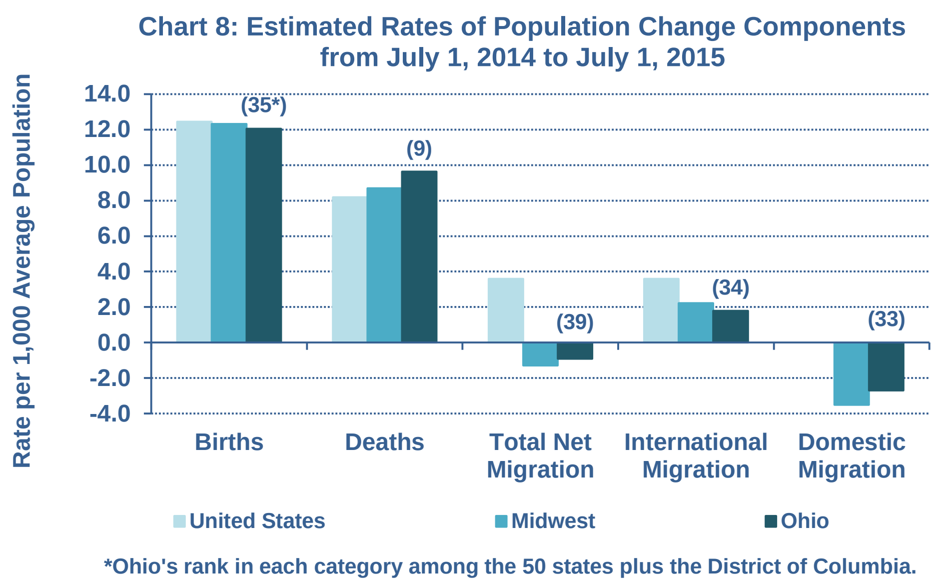
The unemployment rate in Ohio rose to 4.5% in November, from 4.4% in October, but largely because the labor force increased by 9,600 people. The labor force is the number of people who are either employed or unemployed but have looked for work in the last four weeks. The labor force increase was the second largest for Ohio in a single month since 2006, and is an encouraging sign for a state economy that lost a large number of workers from its labor force during the summer months.

Population and Demographics

The U.S. Census Bureau estimates that between July 1, 2014 and July 1, 2015, Ohio's resident population increased by 16,425 (0.14%) people, bringing Ohio's estimated population to just above 11.6 million. The 2015 population increase is a slowdown from estimated population growth of 0.18% and 0.21% in 2013 and 2014, respectively, (see chart below). Ohio ranked 41st among the 50 states plus the District of Columbia in 2015 growth as a percentage of population. Despite growing at a slower pace than most, Ohio is still estimated to be the seventh most populous state in the nation, encompassing approximately 3.6% of the U.S. population.



The components used by the Census Bureau to estimate population change in 2015 paint Ohio as an aging state that fails to attract enough migrants to stimulate substantial population growth. Between July 1, 2014 and July 1, 2015, Ohio is estimated to have had 12.05 births and 9.63 deaths per 1,000 residents. This natural population gain was dragged down by an estimated net migration loss of 0.91 per 1,000 residents. International immigration to the state was estimated to be low even relative to fellow states in the Midwest[18] (see chart below).



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[18] The Midwest region as defined by the U.S. Census Bureau includes the states of Illinois, Indiana, Michigan, Ohio, Wisconsin, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota.

Personal income in Ohio grew 1.3% during the third quarter of 2015.

Personal Income and Production

Personal income in Ohio grew 1.3% during the third quarter of 2015 according to the Bureau of Economic Analysis (BEA). BEA also revised its estimates of second-quarter growth upward to 1.2% from the previously reported 0.9%. These two quarters of growth come after personal income in Ohio declined during the first quarter by 0.2%. All 50 states experienced personal income growth of at least 0.6% during the third quarter. Ohio's 1.3% growth was the 18th highest among the states.

Approximately 68% of the growth came from net earnings (earnings by place of work), with the remainder from dividends, interest, rent, and transfer receipts. Among nonfarm industries,[19] earnings growth rates were highest in the arts, entertainment, and recreation field.

BEA also reported Ohio's inflation-adjusted GDP to have grown at the seasonally adjusted annual rate of 4.5% in the second quarter of 2015, which ranked 15th among the 50 states. Ohio's GDP had declined in two straight quarters prior, so the rebound is great, if somewhat dated, news. The industries of finance and insurance, real estate, and manufacturing all made significant contributions to the GDP growth, among others.

Home Sales

Ohio home sales in November continued to dip after a strong summer but remained 3.7% above sales from one year ago. The average sale price in November was a healthy $147,804, the highest average sale price in November since 2005. Year-to-date sales are up 9.7% over 2014 and the average sale price is up 3.8% during the same period.

[19] Excludes forestry and fishing as well as farming.