Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION   MARCH 2016

STATUS OF THE GRF

HIGHLIGHTS

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

February GRF tax receipts continued the recent pattern of tracking the Office of Budget and Management's (OBM's) estimate closely, despite personal income tax revenue falling short of estimate. Year-to-date GRF state source revenues (which include tax receipts) were just $82,000 below estimate at the end of February, a variance of less than 0.1%. The spending side of the budget also followed its recent pattern of larger negative variances, providing some fiscal cushion for the remaining four months of FY 2016.

Ohio's January unemployment rate was 4.9%, slightly higher than December's rate but equal to the January national rate. Ohio's payroll employment was essentially flat in January, with job gains in private sector services, construction, and manufacturing mostly offset by job losses in government (most of which were in local government).

Through February 2016, GRF sources totaled $22.98 billion:

- Revenue from the personal income tax was $130.0 million below estimate;
- Sales and use tax receipts were $42.4 million above estimate.

Through February 2016, GRF uses totaled $24.49 billion:

- Program expenditures were $658.8 million below estimate, due primarily to Medicaid ($487.7 million) and Health and Human Services ($84.1 million).

VOLUME 39, NUMBER 7

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

Legislative Service Commission
77 South High Street, 9th Floor
Columbus, Ohio 43215

Telephone: 614-466-3615

Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of February 2016
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on March 2, 2016)

STATE SOURCES	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$87,136	$88,500	-$1,364	-1.5%
Nonauto Sales and Use	$620,478	$655,000	-$34,522	-5.3%
Total Sales and Use Taxes	**$707,614**	**$743,500**	**-$35,886**	**-4.8%**
Personal Income	$181,580	$195,000	-$13,420	-6.9%
Corporate Franchise	-$568	$0	-$568	---
Financial Institution	$50,781	$40,450	$10,331	25.5%
Public Utility	$21,844	$22,200	-$356	-1.6%
Kilowatt-Hour Excise	$29,234	$35,000	-$5,766	-16.5%
Natural Gas Consumption (MCF)	$12,081	$12,300	-$219	-1.8%
Commercial Activity Tax	$287,493	$284,700	$2,793	1.0%
Petroleum Activity Tax	$0	$0	$0	---
Foreign Insurance	$61,372	$21,500	$39,872	185.5%
Domestic Insurance	$8	$0	$8	---
Business and Property	$44	$0	$44	---
Cigarette	$70,385	$69,000	$1,385	2.0%
Alcoholic Beverage	$2,846	$3,300	-$454	-13.8%
Liquor Gallonage	$3,234	$3,200	$34	1.1%
Estate	-$12	$0	-$12	---
Total Tax Revenue	**$1,427,935**	**$1,430,150**	**-$2,215**	**-0.2%**
NONTAX REVENUE				
Earnings on Investments	$3	$0	$3	---
Licenses and Fees	$7,473	$3,593	$3,880	108.0%
Other Revenue	$1,760	$365	$1,396	382.8%
Total Nontax Revenue	**$9,236**	**$3,957**	**$5,279**	**133.4%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$337	$4,900	-$4,563	-93.1%
Total Transfers In	**$337**	**$4,900**	**-$4,563**	**-93.1%**
TOTAL STATE SOURCES	**$1,437,509**	**$1,439,007**	**-$1,498**	**-0.1%**
Federal Grants	$983,519	$1,074,390	-$90,870	-8.5%
TOTAL GRF SOURCES	**$2,421,028**	**$2,513,397**	**-$92,368**	**-3.7%**

*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 February 29, 2016
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on March 2, 2016)

STATE SOURCES	Actual	Estimate*	Variance	Percent	FY 2015	Percent Change
TAX REVENUE						
Auto Sales	$859,238	$830,500	$28,738	3.5%	$829,330	3.6%
Nonauto Sales and Use	$6,043,445	$6,029,800	$13,645	0.2%	$5,789,787	4.4%
Total Sales and Use Taxes	**$6,902,683**	**$6,860,300**	**$42,383**	**0.6%**	**$6,619,117**	**4.3%**
Personal Income	$5,307,617	$5,437,600	-$129,983	-2.4%	$5,438,672	-2.4%
Corporate Franchise	$29,906	$0	$29,906	---	-$24,685	221.2%
Financial Institution	$86,093	$72,600	$13,493	18.6%	$61,922	39.0%
Public Utility	$73,142	$73,100	$42	0.1%	$60,634	20.6%
Kilowatt-Hour Excise	$227,778	$234,100	-$6,322	-2.7%	$198,180	14.9%
Natural Gas Consumption (MCF)	$30,646	$31,300	-$654	-2.1%	$36,409	-15.8%
Commercial Activity Tax	$944,625	$966,200	-$21,575	-2.2%	$644,061	46.7%
Petroleum Activity Tax	$3,362	$3,000	$362	12.1%	$1,944	73.0%
Foreign Insurance	$207,538	$177,600	$29,938	16.9%	$172,780	20.1%
Domestic Insurance	$353	$4,700	-$4,347	-92.5%	$7,415	-95.2%
Business and Property	$86	$0	$86	---	$38	127.3%
Cigarette	$609,534	$586,700	$22,834	3.9%	$481,958	26.5%
Alcoholic Beverage	$34,833	$35,300	-$467	-1.3%	$37,350	-6.7%
Liquor Gallonage	$30,396	$29,700	$696	2.3%	$29,387	3.4%
Estate	$905	$0	$905	---	$2,357	-61.6%
Total Tax Revenue	**$14,489,496**	**$14,512,200**	**-$22,704**	**-0.2%**	**$13,767,538**	**5.2%**
NONTAX REVENUE						
Earnings on Investments	$16,603	$11,000	$5,603	50.9%	$11,413	45.5%
Licenses and Fees	$20,304	$20,787	-$483	-2.3%	$17,579	15.5%
Other Revenue	$44,602	$35,098	$9,504	27.1%	$23,316	91.3%
Total Nontax Revenue	**$81,509**	**$66,885**	**$14,624**	**21.9%**	**$52,309**	**55.8%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$190,197	$182,200	$7,997	4.4%	$17,774	970.1%
Total Transfers In	**$190,197**	**$182,200**	**$7,997**	**4.4%**	**$17,774**	**970.1%**
TOTAL STATE SOURCES	**$14,761,203**	**$14,761,285**	**-$82**	**0.0%**	**$13,837,621**	**6.7%**
Federal Grants	$8,214,915	$8,529,177	-$314,263	-3.7%	$6,398,496	28.4%
TOTAL GRF SOURCES	**$22,976,118**	**$23,290,462**	**-$314,346**	**-1.3%**	**$20,236,117**	**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

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

Overview

FY 2016 state sources were on target through February.

GRF sources[1] of $23.0 billion through February in FY 2016 were $314.3 million (1.3%) below updated estimates released by OBM in January 2016.[2] Essentially the entire shortfall was due to a negative variance in federal grants, primarily related to the level of spending in the Medicaid program.[3] (See the Expenditures section of this publication.) Though GRF state-source receipts were on target, GRF tax revenue was below estimate by $22.7 million for the fiscal year to date. That negative variance was almost entirely offset by positive variances of $14.6 million and $8.0 million for nontax revenue and transfers in, respectively. Tables 1 and 2, above, show GRF sources for February and for FY 2016 through February, respectively.

For the month of February, GRF sources of $2.42 billion were $92.4 million below estimate. Similarly to the fiscal year through February, this underperformance was almost entirely due to a negative variance of $90.9 million in federal grants. For state-source receipts, negative variances of $2.2 million for GRF tax revenue and $4.6 million for transfers in were partially offset by a positive variance of $5.3 million in nontax revenue.

FY 2016 GRF tax revenue was $22.7 million below estimate.

Regarding GRF tax sources, the two largest performed poorly in February: the sales and use tax fell below expectations by $35.9 million, while the personal income tax, continuing a FY 2016 trend, came in short of anticipated revenues by $13.4 million. Also, the kilowatt-hour tax had a noticeable shortfall of $5.8 million. On the other hand, the foreign insurance tax and the financial institutions tax (FIT) had positive variances of $39.9 million and $10.3 million, respectively. The positive variance for the foreign insurance tax was probably primarily due to timing. The January-February period reflects the first fiscal year FIT payment, due January 31, which produced a combined positive variance

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

[2] OBM reduced estimated GRF tax revenues by $69.9 million in the second half of FY 2016 due to the enactment of S.B. 208 and H.B. 340 of the 131st General Assembly.

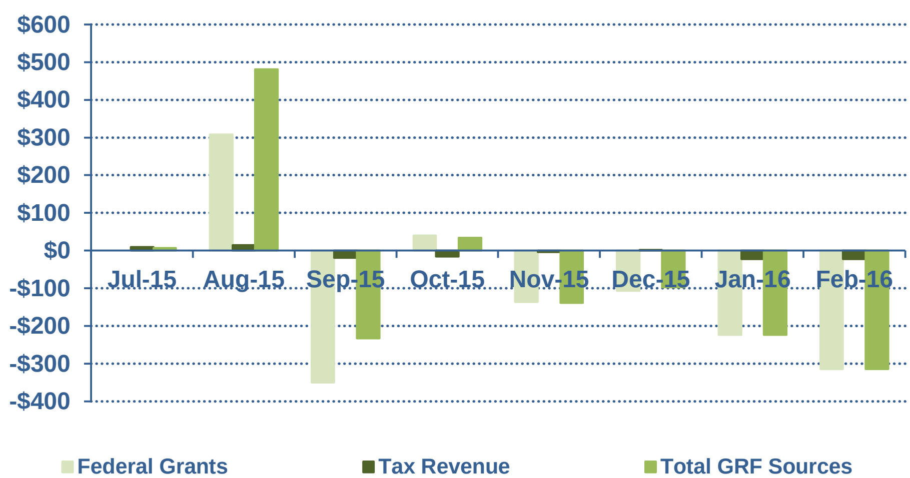
[3] GRF Medicaid expenditures were $487.7 million below estimate through February 2016, including a negative variance of $99.3 million in February.

of $8.5 million. In addition to positive results from the foreign insurance tax and the FIT, receipts from the commercial activity tax (CAT) and the cigarette tax were larger than expected by $2.8 million and $1.4 million, respectively.

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, through February, state-source receipts nearly matched the estimate, while the year-to-date deficit in federal grants increased in the latest month. The sales and use tax, the cigarette tax, the FIT, the corporation franchise tax, and the foreign insurance tax were above estimates; taxes short of estimates included the personal income tax, the CAT, the kilowatt-hour tax, and the domestic insurance tax.

FY 2016 federal grants were $314.3 million below estimate.

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



Compared to the same period in FY 2015, FY 2016 sources through February were $2.7 billion (13.5%) higher. Receipts of all GRF categories were higher than those in the previous year. Much of the increase is due to an accounting change related to Medicaid expenditures which pushed federal grants higher in FY 2016 by $1.8 billion (28.4%). In the current fiscal year, expenditures for individuals who became eligible for Medicaid through the Affordable Care Act are made from the GRF, but in the past, such expenditures were debited from the Health Care Federal Fund (Fund 3F00), a non-GRF fund.

GRF tax receipts grew by $722.0 million (5.2%) from the corresponding period in FY 2015. The taxes that contributed the most to year-over-year revenue growth were the sales and use tax, the CAT, and the cigarette tax. Sales and use tax revenue growth is largely reflective of an expanding state economy and higher consumer taxable spending, while the growth in the CAT and cigarette tax revenue are more the result of policy changes. H.B. 64, the main operating budget act for the current biennium, 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 $131.1 million from the same period in FY 2015, also due primarily to tax changes enacted in H.B. 64.

Personal Income Tax

Personal income tax revenue was $130.0 million below estimate through February.

Despite a brief respite in December, the personal income tax resumed its FY 2016 trend in February by coming in below estimate. It was the fifth revenue shortfall out of the last six months and in all but two months this fiscal year. February GRF revenue from the personal income tax of $181.6 million was $13.4 million (6.9%) below the estimate recently revised by OBM. It was the largest monthly shortfall (in percentage terms) for the personal income tax in FY 2016, followed by a shortfall of 5.6% in September. January's negative variance was $37.0 million (3.9%).

Personal income tax revenue is comprised of gross collections, minus refunds and distributions to the Local Government Fund (LGF). Gross collections consist of employer withholdings, quarterly estimated payments,[4] trust payments, payments associated with annual returns, and other miscellaneous payments. The performance of the tax in February was driven by a shortfall of $23.8 million in employer withholdings and $3.4 million lower than expected payments from annual returns. On the other hand, quarterly estimated payments were $2.4 million higher than expected and refunds were $12.1 million below anticipated levels for the month.

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

For FY 2016, personal income tax revenues to the GRF totaled $5.31 billion through February, $130.0 million (2.4%) below estimate and $131.1 million (2.4%) less than the corresponding period in FY 2015. All components of gross collections have contributed to the fiscal-year-to-date shortfall, with the exception of trust payments. Employer withholding and payments from annual returns were the largest contributors to a negative variance of $80.7 million in gross collections. Refunds, which were $51.8 million higher than estimated, also contributed to the total deficit. The table below summarizes year-to-date FY 2016 income tax revenue variances from estimates and annual changes by components.

Withholding was $58.2 million below estimate through February.

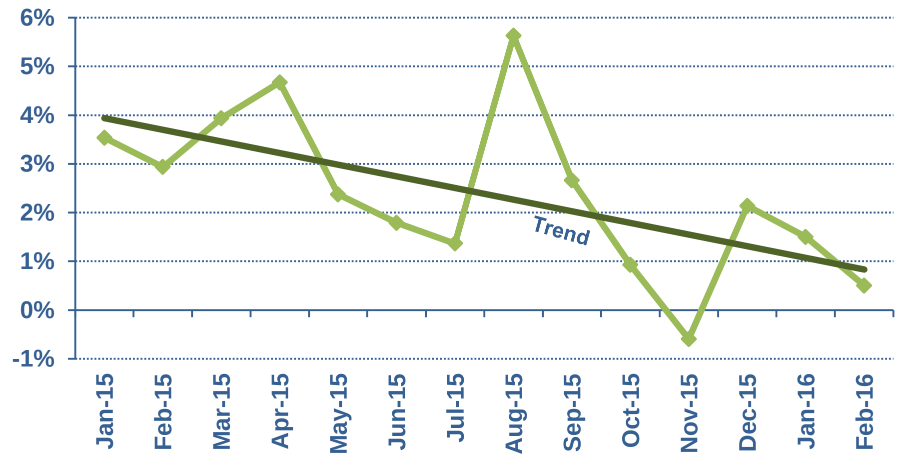
FY 2016 Year-to-Date Income Tax Revenue Variances and Changes by Component

Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2015	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	-$58.2	-1.1%	$67.6	1.3%
Quarterly Estimated Payments	-$2.8	-0.4%	-$24.6	-3.3%
Trust Payments	$2.7	9.4%	$7.1	28.6%
Annual Return Payments	-$13.7	-9.7%	-$8.2	-6.0%
Miscellaneous Payments	-$8.7	-13.4%	-$8.1	-12.6%
Gross Collections	-$80.7	-1.2%	$33.9	0.5%
Less Refunds	$51.8	6.9%	$151.2	23.0%
Less LGF Distribution	-$2.5	-1.0%	$13.7	5.7%
Income Tax Revenue	-$130.0	-2.4%	-$131.1	-2.4%

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 are responsible for the anemic rate of revenue growth from the tax.[5] The chart below illustrates the slowing growth of monthly employer withholdings. (Figures in the chart are not adjusted for the August change in withholding rates).

[5] Ohio payroll employment grew by about 1.5% during the year ending in January 2016, somewhat faster than revenue growth. Monthly employer withholding data, after adjusting for the withholding rate reduction, imply that Ohio payrolls grew by 3.6% from the period December 2014 through February 2015 to the corresponding three months of FY 2016.

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



Sales and use tax revenue was $42.4 million above estimate through February.

Sales and Use Tax

For the first time in FY 2016, monthly GRF revenue from the sales and use tax was significantly below estimate. Total receipts for the month were $707.6 million, $35.9 million (4.8%) below estimate, mostly from the nonauto portion of the tax. However, for the fiscal year through February, sales and use tax revenue was still $42.4 million (0.6%) above estimate and $283.6 million (4.3%) higher than revenues through the same period in FY 2015.

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

Nonauto sales and use tax revenues were $13.6 million above estimate through February.

Nonauto Sales and Use Tax

The GRF received $620.5 million from the nonauto sales and use tax in February, an amount that was $34.5 million (5.3%) below estimate, and also $7.7 million (1.2%) below revenue in the corresponding month in 2015. The negative variance in February was only the second time this fiscal year the tax fell below estimate by more than 1%; in December 2015, revenue missed the estimate by $10.6 million (1.3%). For FY 2016

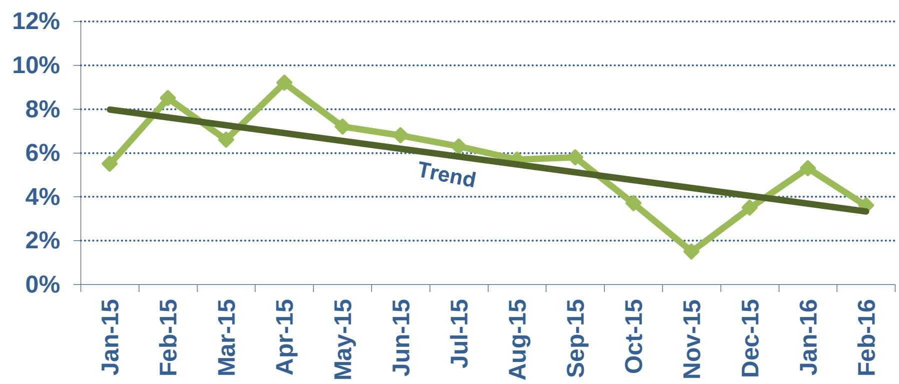
[6] Taxes arising from leases are paid immediately upon the lease signing. The clerks of court generally make auto sales and use tax payments on Mondays for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled. Therefore, auto sales and use tax receipts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

through February, however, nonauto sales and use tax revenue remained above estimate by $13.6 million (0.2%). Year-to-date revenue was also $253.7 million (4.4%) above such revenue a year ago.

A portion of the nonauto sales and use tax receipts is paid by Medicaid health insuring corporations, and is generally related to Medicaid spending. This portion generally makes up a small share of the revenue from this tax source and is not correlated with the remainder of nonauto sales and use taxes. In the past, this portion of the revenues grew at a faster pace than the rest of the category; however, this year, sales tax collections from the health insuring corporations has seen little growth, up 1.1% through February, as Medicaid spending has been below estimates throughout the fiscal year.

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 but generally at a slower pace than at the start of FY 2016. Average growth over the most recent three months was 3.6%.

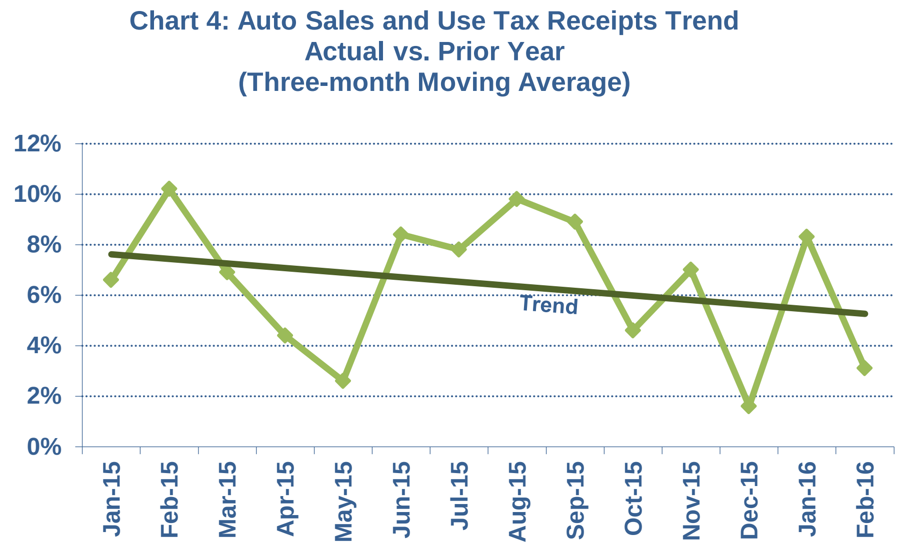
Chart 3: Nonauto Sales and Use Tax Receipts Trend
Actual vs. Prior Year
(Three-month Moving Average)



Auto sales and use tax revenue was $28.7 million above estimate through February.

Auto Sales and Use Tax

The GRF received $87.1 million in revenue from the auto sales and use tax in February, an amount $1.4 million (1.5%) below estimate. The auto sales tax had generally been above estimate this fiscal year. For the fiscal year through February, revenue was $28.7 million (3.5%) above estimate and $29.9 million (3.6%) higher than in the corresponding 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 an uneven pace in FY 2016 but with the growth rate generally trending downward. Average growth over the most recent three months was 3.1%.



Sales of U.S. light vehicles (autos and light trucks) maintained a sturdy pace in February 2016. They were 17.4 million units at a seasonally adjusted annual rate, slightly below January's level of 17.5 million units and about 6.7% above sales in February 2015. Cheap credit and low gas prices continue to push sales of light trucks, which jumped about 9.3% in the first two months of calendar year (CY) 2016, when compared to the corresponding period in 2015. On the other hand, sales of autos declined about 4.2%.

Commercial Activity and Petroleum Activity Taxes

FY 2016 GRF CAT receipts were $21.6 million below estimate.

The third CAT payment for calendar quarter taxpayers in FY 2016 provided GRF receipts of $287.5 million in February. This revenue was $2.8 million (1.0%) above estimate and $97.8 million (51.5%) above revenue in the same month last year. For the fiscal year through February, CAT revenues to the GRF totaled $944.6 million, $21.6 million (2.2%) below estimate. CAT revenue credited to the School District Tangible Property Tax Replacement Fund (Fund 7047) through February was $251.9 million. The Local Government Tangible Property Tax Replacement Fund (Fund 7081) received $63.0 million. This weakness in CAT revenue this fiscal year has been due, in part, to increased credit claims against the tax but also reflects an economic slowdown in the second half of CY 2015. Refunds totaled $78.4 million, about $26.0 million more than in FY 2015 through February,[7] and GRF receipts from the CAT were $300.6 million (46.7%) above receipts in the corresponding period of FY 2015 because of the increase in the GRF share of CAT receipts enacted in H.B. 64.

[7] This increase in refunds occurred in the first half of FY 2016.

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). No receipts were expected or received from the PAT in February. In the first eight months of FY 2016, total revenue from the PAT was $39.1 million, of which $3.4 million was deposited in the GRF. That GRF amount was $0.4 million (12.1%) above estimate and $1.4 million (73.0%) above revenue in the corresponding period in FY 2015.

Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products tax were $70.4 million in February, an amount $1.4 million (2.0%) above estimate and $17.1 million (32.1%) above revenue in February 2015. Through February, total FY 2016 tax receipts of $609.5 million were $22.8 million (3.9%) above OBM estimates and $127.6 million (26.5%) 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 total receipts for the fiscal year, $551.5 million was from cigarette sales, an increase of $111.8 million compared to FY 2015; $16.6 million of FY 2016 revenue was from the "floor tax"[8]; and $41.4 million was from sales of other tobacco products. Compared to the corresponding period last year, FY 2016 revenue from the sales of other tobacco products has been flat.

Cigarette tax revenue was $22.8 million above estimate through February.

[8] 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 February 2016
($ in thousands)
(Actual based on OAKS reports run March 7, 2016)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary and Secondary Education	$723,249	$722,901	$348	0.0%
Higher Education	$196,252	$202,608	-$6,356	-3.1%
Other Education	$3,623	$3,216	$407	12.7%
Total Education	$923,124	$928,726	-$5,601	-0.6%
Medicaid	$1,573,429	$1,672,700	-$99,271	-5.9%
Health and Human Services	$90,358	$92,299	-$1,942	-2.1%
Total Welfare and Human Services	$1,663,787	$1,765,000	-$101,213	-5.7%
Justice and Public Protection	$129,436	$135,777	-$6,341	-4.7%
General Government	$25,638	$25,104	$534	2.1%
Total Government Operations	$155,074	$160,881	-$5,807	-3.6%
Property Tax Reimbursements	-$642	$41	-$684	-1648.1%
Capital Outlay	$0	$0	$0	---
Debt Service	$53,221	$56,021	-$2,800	-5.0%
Total Other Expenditures	$52,579	$56,063	-$3,484	-6.2%
Total Program Expenditures	**$2,794,564**	**$2,910,669**	**-$116,105**	**-4.0%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$12,964	$0	$12,964	---
Total Transfers Out	$12,964	$0	$12,964	---
TOTAL GRF USES	**$2,807,528**	**$2,910,669**	**-$103,141**	**-3.5%**

*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 February 29, 2016
($ in thousands)
(Actual based on OAKS reports run March 7, 2016)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2015**	**Percent Change**
Primary and Secondary Education	$5,471,584	$5,499,039	-$27,455	-0.5%	$4,982,901	9.8%
Higher Education	$1,490,713	$1,506,544	-$15,832	-1.1%	$1,439,608	3.5%
Other Education	$52,409	$49,166	$3,243	6.6%	$40,896	28.2%
Total Education	$7,014,706	$7,054,750	-$40,043	-0.6%	$6,463,405	8.5%
Medicaid	$12,201,920	$12,689,573	-$487,653	-3.8%	$10,457,542	16.7%
Health and Human Services	$895,379	$979,471	-$84,092	-8.6%	$936,874	-4.4%
Total Welfare and Human Services	$13,097,299	$13,669,044	-$571,745	-4.2%	$11,394,416	14.9%
Justice and Public Protection	$1,370,847	$1,375,844	-$4,997	-0.4%	$1,298,795	5.5%
General Government	$248,929	$270,115	-$21,186	-7.8%	$240,832	3.4%
Total Government Operations	$1,619,776	$1,645,960	-$26,183	-1.6%	$1,539,627	5.2%
Property Tax Reimbursements	$896,539	$905,028	-$8,489	-0.9%	$908,134	-1.3%
Capital Outlay	$0	$0	$0	---	$0	---
Debt Service	$1,030,890	$1,043,210	-$12,320	-1.2%	$993,355	3.8%
Total Other Expenditures	$1,927,428	$1,948,238	-$20,810	-1.1%	$1,901,489	1.4%
Total Program Expenditures	**$23,659,210**	**$24,317,991**	**-$658,781**	**-2.7%**	**$21,298,937**	**11.1%**
TRANSFERS						
Budget Stabilization	$425,500	$425,500	$0	0.0%	$0	---
Other Transfers Out	$401,224	$375,031	$26,193	7.0%	$582,835	-31.2%
Total Transfers Out	$826,724	$800,531	$26,193	3.3%	$582,835	41.8%
TOTAL GRF USES	**$24,485,934**	**$25,118,522**	**-$632,588**	**-2.5%**	**$21,881,772**	**11.9%**

*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 March 7, 2016)

	Month of February 2016				Year to Date Through February 2016			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid	**$1,782,545**	**$2,194,444**	**-$411,899**	**-18.8%**	**$14,498,115**	**$15,547,976**	**-$1,049,861**	**-6.8%**
GRF	$1,526,074	$1,628,284	-$102,209	-6.3%	$11,805,493	$12,298,799	-$493,306	-4.0%
Non-GRF	$256,471	$566,160	-$309,689	-54.7%	$2,692,622	$3,249,177	-$556,555	-17.1%
Developmental Disabilities	**$250,282**	**$230,772**	**$19,509**	**8.5%**	**$1,595,167**	**$1,675,001**	**-$79,834**	**-4.8%**
GRF	$41,563	$40,130	$1,433	3.6%	$337,343	$332,233	$5,110	1.5%
Non-GRF	$208,719	$190,643	$18,076	9.5%	$1,257,824	$1,342,768	-$84,944	-6.3%
Job and Family Services	**$12,965**	**$10,543**	**$2,423**	**23.0%**	**$141,641**	**$133,612**	**$8,029**	**6.0%**
GRF	$5,137	$3,677	$1,460	39.7%	$52,777	$52,483	$293	0.6%
Non-GRF	$7,828	$6,866	$963	14.0%	$88,865	$81,129	$7,736	9.5%
Health	**$455**	**$500**	**-$45**	**-9.0%**	**$4,195**	**$4,942**	**-$747**	**-15.1%**
GRF	$250	$263	-$13	-4.8%	$2,319	$2,335	-$15	-0.7%
Non-GRF	$205	$238	-$33	-13.7%	$1,876	$2,607	-$732	-28.1%
Aging	**$1,469**	**$2,233**	**-$764**	**-34.2%**	**$15,537**	**$17,550**	**-$2,014**	**-11.5%**
GRF	$307	$282	$25	8.8%	$2,626	$2,246	$380	16.9%
Non-GRF	$1,163	$1,951	-$789	-40.4%	$12,911	$15,304	-$2,394	-15.6%
Mental Health and Addiction	**$280**	**$365**	**-$85**	**-23.2%**	**$3,205**	**$3,951**	**-$746**	**-18.9%**
GRF	$98	$65	$33	51.2%	$1,361	$1,477	-$115	-7.8%
Non-GRF	$182	$300	-$118	-39.3%	$1,843	$2,474	-$631	-25.5%
Total GRF	**$1,573,429**	**$1,672,700**	**-$99,271**	**-5.9%**	**$12,201,920**	**$12,689,573**	**-$487,653**	**-3.8%**
Total Non-GRF	**$474,568**	**$766,158**	**-$291,590**	**-38.1%**	**$4,055,940**	**$4,693,460**	**-$637,520**	**-13.6%**
Total All Funds	**$2,047,997**	**$2,438,858**	**-$390,861**	**-16.0%**	**$16,257,860**	**$17,383,033**	**-$1,125,174**	**-6.5%**

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

Table 6: All-Funds Medicaid Expenditures by Payment Category
Actual vs. Estimate
($ in thousands)
(Actuals based on OAKS report run on March 7, 2016)

	February				Year to Date Through February 2016			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	$804,158	$897,972	-$93,814	-10.4%	$6,715,771	$7,042,768	-$326,997	-4.6%
Nursing Facilities	$125,756	$120,240	$5,516	4.6%	$928,936	$950,450	-$21,514	-2.3%
DDD Services	$246,132	$219,088	$27,043	12.3%	$1,553,961	$1,615,830	-$61,869	-3.8%
Hospitals	$106,305	$429,642	-$323,338	-75.3%	$1,307,241	$1,828,897	-$521,656	-28.5%
Behavioral Health	$106,763	$105,984	$779	0.7%	$710,546	$757,060	-$46,514	-6.1%
Administration	$57,157	$78,147	-$20,989	-26.9%	$518,136	$792,595	-$274,459	-34.6%
Aging Waivers	$27,008	$30,720	-$3,712	-12.1%	$210,890	$220,379	-$9,489	-4.3%
Prescription Drugs	$43,775	$44,366	-$591	-1.3%	$313,363	$316,100	-$2,738	-0.9%
Medicare Buy-In	$41,986	$37,729	$4,257	11.3%	$303,674	$295,781	$7,893	2.7%
Physicians	$35,882	$23,237	$12,645	54.4%	$187,245	$195,539	-$8,294	-4.2%
Medicare Part D	$26,871	$27,368	-$497	-1.8%	$196,612	$198,224	-$1,612	-0.8%
Home Care Waivers	$12,238	$15,865	-$3,627	-22.9%	$85,611	$112,796	-$27,185	-24.1%
ACA Expansion	$317,734	$303,940	$13,794	4.5%	$2,515,988	$2,307,537	$208,451	9.0%
All Other	$96,233	$104,560	-$8,327	-8.0%	$709,887	$749,078	-$39,191	-5.2%
Total All Funds	**$2,047,997**	**$2,438,858**	**-$390,861**	**-16.0%**	**$16,257,860**	**$17,383,033**	**-$1,125,174**	**-6.5%**

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

EXPENDITURES

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

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

Overview

For the first eight months of FY 2016, GRF uses totaled $24.49 billion, $632.6 million (2.5%) below estimate. Medicaid accounted for 77% of this negative variance.

GRF uses for the month of February were $2.81 billion, $103.1 million (3.5%) below the estimate released by OBM in October 2015. Medicaid accounted for $99.3 million of the monthly variance total. GRF uses mainly consist of program expenditures but also include transfers out. Through February, FY 2016 GRF program expenditures were $23.66 billion, $658.8 million (2.7%) below estimate. Year-to-date transfers out were $826.7 million, $26.2 million (3.3%) above estimate. This positive variance is nearly double that of the prior month and is described in the last section of this report. GRF uses as a whole totaled $24.49 billion, $632.6 million (2.5%) below estimate. Tables 3 and 4 show GRF uses for the month of February and for FY 2016 through February, respectively.

Medicaid accounted for 77% of the total negative year-to-date variance in GRF uses. For the first eight months of FY 2016, GRF Medicaid expenditures were $487.7 million (3.8%) below estimate. As indicated earlier, Medicaid spending for February was below OBM's monthly estimate by $99.3 million, which increased the year-to-date variance. Details on Medicaid expenditures are provided below.

Elsewhere, Health and Human Services had the second largest negative year-to-date variance after Medicaid at $84.1 million, of which $1.9 million occurred in the month of February. Expenditures from the Primary and Secondary Education category were on target with February's estimate, so the category's negative year-to-date variance remained unchanged at $27.5 million. As detailed in previous issues of *Budget Footnotes*, the variances in these two program categories are largely timing driven.

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 February, GRF Medicaid expenditures of $1.57 billion were $99.3 million (5.9%) below estimate while non-GRF Medicaid expenditures of $474.6 million were $291.6 million (38.1%)

below estimate. Across all funds, Medicaid expenditures of $2.05 billion in February were below estimate by $390.9 million (16.0%). The majority of this monthly variance was related to Hospital Care Assurance Program (HCAP) payment timing issues. The anticipated HCAP payment totaling $305.2 million for February will now likely be made near the end of the fiscal year. Under HCAP, Ohio makes subsidy payments to hospitals that provide uncompensated care to low income and uninsured individuals at or below 100% of the federal poverty level.

The majority of the all-funds negative variance in February ($390.9 million) was due to a delay in a $305.2 million HCAP payment.

For the first eight months of FY 2016, GRF Medicaid expenditures were $12.20 billion, $487.7 million (3.8%) below estimate, while non-GRF Medicaid expenditures were $4.06 billion, $637.5 million (13.6%) below estimate. Across all funds, Medicaid expenditures totaled $16.26 billion, $1.13 billion (6.5%) 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 eight months of FY 2016, ODM's GRF expenditures totaled $11.81 billion, which was $493.3 million (4.0%) below estimate, and its non-GRF expenditures totaled $2.69 billion, which was $556.6 million (17.1%) below estimate. Across all funds, ODM's expenditures were $1.05 billion (6.8%) 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 $1.60 billion for the first eight months of FY 2016, which was $79.8 million (4.8%) below estimate. Together, ODM and DDD account for about 99% of the Medicaid expenditure total.

Through February, GRF Medicaid expenditures were $487.7 million below estimate; non-GRF Medicaid expenditures were $637.5 million below estimate.

Table 6 details all-funds Medicaid expenditures by payment category. As seen from the table, Hospitals had the largest negative year-to-date variance at $521.7 million (28.5%), of which $323.3 million occurred in the month of February. As indicated earlier, the originally scheduled HCAP payment totaling $305.2 million for February will not be made until the end of FY 2016. All HCAP payments are made with non-GRF funds. The other major factor behind the negative variance for Hospitals was lower than forecasted costs for Aged, Blind, and Disabled (ABD) recipients in fee-for-service; these costs have consistently been lower than those used in the estimate.

Through February, all-funds Medicaid expenditures were $1.13 billion below estimate.

Two other payment categories that had significant negative year-to-date variances were Managed Care ($327.0 million, 4.6%) and Administration ($274.5 million, 34.6%). The negative variance for Managed Care is mainly due to new Managed Care rates, effective January 1, that were lower than projected. In addition, there have been lower than estimated ABD caseloads in Managed Care. As a result, the variance in the Managed Care category is expected to grow through the end of the fiscal year. The negative variance for Administration continues, in part, due to the underspending of federal grants for electronic medical records. Additionally, a number of ODM information technology contracts have not been completed. Payments for these contracts will likely be made before the end of the fiscal year.

The Medicare Buy-In category experienced a positive variance of $4.3 million in February. All funds expenditures in the Medicare Buy-In category for the first eight months of FY 2016 totaled $303.7 million, which was $7.9 million (2.7%) above estimate. This positive variance is driven by a larger than anticipated increase in Medicare Part B premiums for 2016 and is therefore expected to grow through the end of the fiscal year. The Medicare Buy-in Program pays Medicare premiums, deductibles, and co-insurance for certain low-income Ohioans.

The ACA Expansion category continues to have a positive year-to-date variance. All-funds expenditures from ACA Expansion totaled $2.52 billion for the first eight months of FY 2016, which was $208.5 million (9.0%) above estimate. This positive variance is driven by caseloads that are 5% higher than anticipated. However, the caseload driven positive variance will be offset to some extent due to the lower Managed Care rates described above that are also applicable to individuals enrolled in the ACA expansion. Also worth noting, 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.

Medicaid Related Transfers Out

GRF transfers out in February partially offset the negative variance in program expenditures. GRF transfers out totaled $13.0 million in February while the OBM estimate anticipated none. This positive monthly variance nearly doubled the category's year-to-date variance from a positive $13.2 million at the end of January to $26.2 million at the end of February. The entirety of February transfers out was related to Medicaid. Specifically, cash was transferred from the

GRF to the Managed Care Performance Payment Fund (Fund 5KW0)[9] pursuant to Section 327.80 of H.B. 64, which requires ODM to provide performance payments to Medicaid managed care organizations providing care and services to participants of MyCare Ohio, a program that is designed to improve access to and quality of care and services for individuals who are eligible for both Medicare and Medicaid. ODM is to withhold a percentage of each premium payment it pays to a managed care organization for a program participant. The withheld funds are then transferred from the GRF to Fund 5KW0 for performance payments. The appropriation for GRF appropriation item 615525, Medicaid/Health Care Services, is reduced by the transferred amount.

[9] Prior to the February transfers, $13.1 million cash was transferred from the GRF to Fund 5KW0 in November and another $13.5 million cash was transferred in July, which brings the year-to-date GRF cash transfer to Fund 5KW0 to $39.5 million.

Issue Updates

Annual Report Shows Decline in Remediation Rates and Increase in High School Graduates Enrolling in Public Higher Education

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

In late January, the Department of Higher Education (DHE) and the Ohio Department of Education (ODE) released their annual report on remediation coursework.[10] The *2015 Ohio Remediation Report* shows a continued decline in the number of first-time public university and community college students requiring remedial coursework in mathematics and English. The table below illustrates the drop in the percentage of such students between academic year 2012-2013, the year before such rates began to decline in earnest, and academic year 2014-2015.

Remediation Rates of First-time Ohio Public College or University Students by Subject Area and Academic Year		
Subject Area	**2012-2013**	**2014-2015**
Remedial Mathematics or English	40%	32%
Remedial Mathematics Only	34%	28%
Remedial English Only	20%	13%
Remedial Mathematics and English	14%	10%

While the rate of enrollment in remedial coursework continued to decline in academic year 2014-2015, the report also adds that the number of Ohio high school graduates attending a state institution increased for the first time in six years. Approximately 48,750 high school graduates attended a state institution for the first time in academic year 2014-2015, an increase of 5.6% over the 46,150 graduates that attended in the previous academic year.

Finally, the report recommends three strategies to continue the trend of decreased enrollment in college remediation coursework: (1) improve student success in entry-level courses by aligning mathematics to academic programs of study, (2) develop, implement, and evaluate co-requisite strategies (under which a student enrolls in both remedial and credit-bearing courses in the same subject at the same time) to support underprepared students, and (3) strengthen advising and faculty support for all students.

[10] The full report can be viewed at: https://www.ohiohighered.org/data-reports/college-readiness.

Attorney General Awards Grants for Campus Sexual Assault Victim Services

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

On December 29, 2015, Ohio's Attorney General announced the award of 13 grants totaling more than $1.2 million to support sexual assault victim services at the campuses of 15 Ohio colleges and universities. The recipients include nine colleges and universities and four nonprofit, community-based service providers, with the latter partnering with one or more campuses (see table below). The funding will be used to provide direct services to victims of campus sexual assault, including crisis response and advocacy.

The grants are part of $3 million that the Attorney General set aside from federal Victims of Crime Act (VOCA) funding to help Ohio's colleges and universities better respond to sexual assaults. It was part of a larger campus sexual assault initiative that the Attorney General announced last June that also included (1) resources for schools to develop agreements with law enforcement, prosecutors, and victim service providers and (2) campus sexual assault investigation training for law enforcement personnel. The Attorney General may award additional campus sexual assault victim services grants in the future.

Campus Sexual Assault Victim Services Grants			
Recipient	**Grant Amount**	**Recipient**	**Grant Amount**
The Rape Crisis Center[11]	$233,634	Crime Victim Services[12]	$69,235
University of Toledo	$214,000	The Domestic Violence Shelter, Inc.[13]	$50,671
The Ohio State University	$196,791	Urbana University	$18,420
Columbus State Community College	$148,093	Miami University	$14,566
Wilmington College	$114,218	University of Cincinnati	$12,400
Kent State University	$90,565	Compass, Inc.[14]	$10,363
Bowling Green State University	$82,835	**TOTAL**	**$1,255,791**

[11] Partnership with the University of Akron.

[12] Partnership with Bluffton University, the Ohio State University at Lima, the University of Northwestern Ohio, and Rhodes State College.

[13] Partnership with the Ohio State University at Mansfield and North Central State College.

[14] Partnership with Kent State University at Tuscarawas.

$90,000 in Grants for Human Trafficking Prevention Awarded

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

On January 14, 2016, in conjunction with Human Trafficking Awareness Month, the Ohio Children's Trust Fund (OCTF) and the Ohio Human Trafficking Task Force announced $90,000 in grant funding to support nine trafficking prevention programs across 25 Ohio counties. The grant funding was awarded by the OCTF through a competitive process. Each project will identify and assist at-risk youth populations and provide them with information and resources to prevent human trafficking.

Human Trafficking Prevention Grants		
Recipient Organization	**Counties Served**	**Funding**
A Caring Place Child Advocacy Center	Jefferson, Harrison	$8,380
Asian American Community Services	Cuyahoga, Franklin, Hamilton, Summit	$15,000
Children's Lantern	Defiance, Fulton, Henry, Paulding, Putnam, Williams	$5,200
Delaware County Against Human Trafficking Coalition	Delaware, Morrow	$3,346
Ethiopian Tewahedo Social Services	Franklin	$13,516
First Step Family Violence Intervention Services, Inc.	Coshocton	$8,827
Montgomery County Sheriff's Office – RANGE Task Force	Montgomery	$15,000
Shelby High School, Zoetic Zinnias Student Organization	Richland	$5,731
Sisters in Shelter	Crawford, Defiance, Fulton, Hancock, Henry, Huron, Ottawa, Paulding, Putnam, Sandusky, Seneca, Williams, Wood, Wyandot	$15,000

The OCTF is governed by a 15-member board which consists of state agency administrators, gubernatorial appointees, and legislators. Board members are responsible for overall child abuse and neglect prevention policy, program direction, and the monitoring of expenditures from the OCTF. The Ohio Human Trafficking Task Force, which consists of representatives from ten state agencies, was created in 2012 by an executive order. The Task Force coordinates efforts to identify and rescue victims, creates a coordinated law enforcement system to investigate and prosecute human trafficking crimes, and provides the services and treatment necessary for victims to regain control of their lives.

Controlling Board Approves an Additional $234.0 million to Support the Ohio Benefits Project

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

On January 25, 2016, the Controlling Board approved a request by the Department of Administrative Services (DAS) to increase funding by approximately $96.9 million in FY 2016 and $137.1 million in FY 2017 to support ongoing development of the state's integrated health and human services benefits eligibility system, commonly known as Ohio Benefits. The system supports multiple health and human service programs at both the state and county level and provides Ohio residents with an online self-service portal that can be used to check eligibility for a variety of public benefits programs. Once fully operational, the system will replace the state's current benefits eligibility system, the Client Registry Information System-Enhanced (CRIS-E). Approximately 90% of the funding for the Ohio Benefits project is being provided by a federal grant to the Ohio Department of Job and Family Services (ODJFS). DAS in turn bills ODJFS for the costs as they are incurred and deposits the amounts collected into the Major IT Purchases Fund (Fund 4N60) to pay costs of the project.

Implementation of the Ohio Benefits system is taking place in three phases. Phase one, implemented in October 2013, provides Medicaid applications and eligibility determinations for Ohio residents based on Medicaid's modified adjusted gross income eligibility rules. The additional funding approved by the Controlling Board will support the second and third phases of the Ohio Benefits project. Phase two, scheduled for implementation in July 2016, will support eligibility determination for Medicaid's Aged, Blind, and Disabled Program. Two additional programs, the Supplemental Nutrition Assistance Program (SNAP) and the Temporary Assistance for Needy Families (TANF) Program, will be supported by Ohio Benefits upon implementation of phase three in January 2017. The system will also support Enterprise Document Management and Shared Services capabilities for all 88 counties upon implementation of phase three.

6% Rate Increase for Homemaker/Personal Care Services

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

On January 1, 2016, a 6% rate increase went into effect for providers of Homemaker/Personal Care services for individuals with developmental disabilities enrolled on the Individual Options (IO) or Level 1 Medicaid waivers. The rate increase includes both the wage component for direct support professionals and administrative expenses for agencies that provide these services. The wage component of the rate increase will apply to all the direct care workers employed by the 1,672 agency providers, as well as the 5,129 independent service providers. The estimated cost is $30.6 million ($11.5 million state share) in FY 2016 and $61.2 million ($23.0 million state share) in FY 2017. Homemaker/Personal Care services provided to individuals enrolled in IO or Level 1 Medicaid waivers include bathing, hair care, and help with dressing; medication assistance; light cleaning, laundry, and changing of bed linens; grocery shopping and meal preparation; and certain other errands including going to medical appointments or taking short walks.

Ohio Public Housing Authorities Receive Nearly $74 million in Federal Capital Fund Program Grants

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

On February 12, 2016, the U.S. Department of Housing and Urban Development announced the allocation of nearly $1.8 billion under the federal Capital Fund Program to public housing authorities (PHAs) in all 50 states, including $73.6 million for the 51 PHAs in the state of Ohio. The table below shows the 14 PHAs in Ohio that received a grant award exceeding $1.0 million, making up nearly $64.4 million (87.4%) of Ohio's total grant award.

Capital Fund Program Grant Awards Greater Than $1.0 million, by Public Housing Authority

Public Housing Authority	Grant Award Amount
Cuyahoga Metropolitan Housing Authority	$19,509,993
Cincinnati Metropolitan Housing Authority	$9,336,384
Akron Metropolitan Housing Authority	$6,850,386
Dayton Metropolitan Housing Authority	$5,123,489
Columbus Metropolitan Housing Authority	$4,800,315
Lucas Metropolitan Housing Authority	$4,200,668
Stark Metropolitan Housing Authority	$3,588,335
Lorain Metropolitan Housing Authority	$2,119,685
Youngstown Metropolitan Housing Authority	$2,030,627
Trumbull Metropolitan Housing Authority	$1,793,840
Butler Metropolitan Housing Authority	$1,689,978
Portsmouth Metropolitan Housing Authority	$1,190,441
Jefferson Metropolitan Housing Authority	$1,064,869
Springfield Metropolitan Housing Authority	$1,057,982
TOTAL	**$64,356,992**

The funding PHAs receive under the Capital Fund Program is awarded annually by formula and may be used to build, repair, renovate, and modernize public housing, including large-scale improvements and energy-efficient upgrades. Awards may also be used for certain management activities and project financing.

Total Liquor Sales Surpassed $1 billion in Calendar Year 2015

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

On January 26, 2016, the Department of Commerce announced that spirituous liquor sales in Ohio during calendar year (CY) 2015 exceeded $1 billion, a new record. Total dollar sales for the year were just under $1.02 billion, about 7.4% over the $948.5 million tallied in CY 2014. The total gallonage sold was approximately 13 million, 3.9% over the volume sold in CY 2014. Sizeable gains were posted on both the retail and wholesale level, with consumers buying greater amounts of higher-priced products. As has been the case in recent years, retail sales made by contract liquor agencies directly to consumers led the way, accounting for $731 million (71.8%) of total liquor sales in CY 2015, approximately 8% over the CY 2014 amount. On the wholesale level, sales to restaurants, bars, and clubs rose by 5.5% in CY 2015 to $287.1 million.

Beginning in 2013, JobsOhio, the state's nonprofit economic development corporation, leased the state's exclusive right to manage and control spirituous liquor distribution and sales and to sell spirituous liquor for 25 years. Under this arrangement, JobsOhio contracts with the Division of Liquor Control within the Department of Commerce to run the liquor merchandising operation. Consequently, the Division continues to manage the spirituous liquor inventory and to oversee the distribution of liquor to the contract liquor agencies, while the profits from spirituous liquor sales fund JobsOhio's efforts to spur job creation and capital investment in the state.

ODE Releases Report Card Results for 2014-2015 School Year

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

On February 25, 2016, ODE released report cards for public schools and districts for the 2014-2015 school year. These report cards represent the third year that A-F letter grades have been used to gauge academic performance on a variety of measures. Overall letter grades will be issued on the report cards beginning with the 2017-2018 school year. Due to recent changes to state tests, the General Assembly has suspended many sanctions related to state test results for the 2014-2015, 2015-2016, and 2016-2017 school years. The table below summarizes how the 609 school districts receiving report cards fared this past school year on the ten performance measures with letter grades. As the "No Rating" column indicates, some districts did not have enough qualifying students to receive a letter grade for some performance measures. In the case of the K-3 Literacy Improvement measure, districts had to have at least 5% of kindergarten students identified as reading below grade level on diagnostic assessments in order to receive a grade.

School District Report Card Results, 2014-2015 School Year						
Component	**A**	**B**	**C**	**D**	**F**	**No Rating**
Performance Indicators	35%	16%	12%	20%	17%	0%
Performance Index	1%	29%	56%	14%	0%	0%
Four-Year Cohort Graduation Rate	55%	22%	15%	4%	4%	0%
Five-Year Cohort Graduation Rate	49%	34%	12%	3%	3%	0%
Annual Measurable Objectives	2%	28%	17%	18%	34%	0%
Value-Added Progress Dimension - Overall	36%	4%	11%	4%	44%	0%
Value-Added Progress Dimension - Gifted	25%	8%	21%	14%	22%	10%
Value-Added Progress Dimension - Disabled	18%	8%	20%	10%	41%	4%
Value-Added Progress Dimension - Lowest 20%	17%	9%	23%	11%	37%	3%
K-3 Literacy Improvement	2%	11%	28%	29%	5%	26%

The percentage of schools earning As or Bs on the performance index measure decreased from 77% in 2013-2014 to 30% in 2014-2015. This drop is due in part to the use of new, more rigorous state assessments. As measured by the total percentage of As and Bs, school districts fared the best on graduation rates. Based on the percentage of Ds and Fs, school districts struggled most with meeting annual measurable objectives for closing achievement gaps between certain federally designated groups and all students and the value-added dimensions designed to measure progress for certain groups.

For the 2014-2015 school year report cards, ODE also released data on what it refers to as the modified achievement measure, which is similar to the performance index but excludes students who did not participate in state tests. These students are counted as zero for the performance index, so not counting them results in higher ratings for the modified achievement measure. These higher ratings result in higher letter grades in 52 (8.5%) districts, many of which are rural or in small town areas. Of these, three improved by two letter grades (all from Ds to Bs). Most districts moved from a C to a B.

Ohio to Receive Portion of Multi-jurisdictional Settlement Agreements with HSBC and MoneyGram

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

In February 2016, the Ohio Attorney General's Office announced that the state will receive a portion of the multi-jurisdictional settlement agreements with HSBC (a mortgage lending and servicing business) and MoneyGram (a money transfer business). The settlements resolve the investigation and allegations that HSBC's past mortgage servicing and foreclosure practices and MoneyGram's anti-wire transfer fraud practices violated various state and federal consumer protection laws.

The HSBC settlement, announced on February 8, totaled $470 million and will be distributed between the attorneys general of 49 participating states (including Ohio), the District of Columbia, the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the federal Consumer Financial Protection Bureau. Of this total, $370 million is designated as relief to consumers to remediate harm caused by HSBC's alleged unlawful conduct; $59.5 million is designated for payments to foreclosed borrowers nationwide, including approximately 1,574 Ohio borrowers; and the remaining $40.5 million is to be paid to the federal government.

The MoneyGram settlement, announced on February 11, totaled $13 million and will be distributed between the attorneys general of 49 participating states (including Ohio) and the District of Columbia. Ohio will use its share of the settlement for a consumer restitution program. As part of the settlement, MoneyGram also agreed to reform its practices to more actively protect customers against wire transfer fraud.

Tracking the Economy

– Thomas Kilbane, Economist, 614-728-3218

Ohio gained 51,000 jobs in October through January.

Overview

The economy continues to grow in Ohio and at the national level. The pace of national employment growth picked up in February after a dip in January. Nationwide industrial production increased in January after contracting in three straight months prior. Consumer spending remains strong. Energy prices fell again in January, but other data show consumer prices picking up elsewhere, with core CPI (consumer price index less food and energy) reaching its highest year-over-year growth since 2012.

Ohio employment was virtually flat in January but was up 51,000 in the last four months. Ohio home sales continued a strong winter season in January, with sales 11% higher than January 2015. New data showed that Ohio's economic growth during the third quarter of 2015 was ranked 21st among U.S. states.

The National Economy

Employment and Unemployment

The national unemployment rate stayed at 4.9% in February.

In February, nonfarm payroll employment nationwide increased 242,000 according to initial estimates from the Bureau of Labor Statistics (BLS). BLS also revised job growth estimates from December and January upward by a total of 30,000. The unemployment rate stayed at 4.9%, sustaining a post-recession low. Average private, nonfarm hourly earnings dropped a bit from January but remain 2.2% higher than one year ago. Overall, the report was a signal that employment continues to grow at a healthy rate, after slowed growth in January had some concerned that softening in other areas of the economy had begun to spread to the labor market.

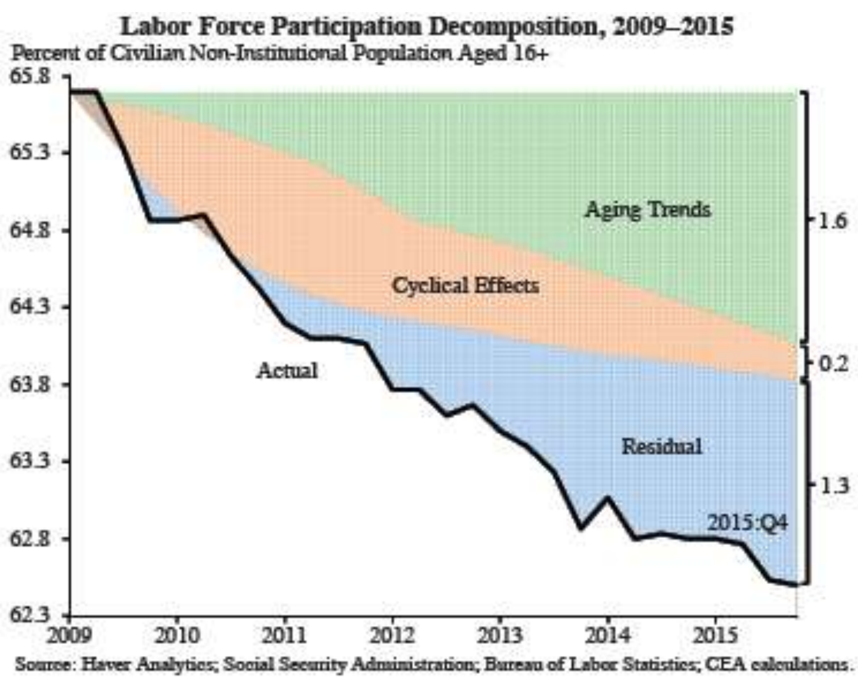
Other encouraging data include big growth in the nation's labor force,[15] which has increased substantially each of the last five months. Through February, the nationwide labor force increased by more workers during the prior 12 months than in any other 12-month period since the end of the recession in 2009. The labor force participation rate

[15] 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.

(the percent of civilian population included in the labor force) has received attention recently due to long-term declines since the turn of the century, an issue that economists have had a hard time explaining in full. A large portion of the decline is a result of the U.S.'s aging population. Some portion is still due to cyclical effects of the Great Recession, which we would expect to continue to shrink with time. Yet, there is still an additional portion of the participation rate decline that remains unexplained by demographic and historical business cycle factors.

The chart below was included in the annual report from the President's Council of Economic Advisors (CEA) in February and visually represents these three portions of the labor force participation rate decline. CEA called the unexplained portion "residual," estimated it accounts for approximately 40% of the decline, and described it as likely reflecting "the longstanding downward trend in participation among prime-age workers and other cyclical factors such as the high levels of long-term unemployment . . . that are not fully captured in the unemployment rate." Allocation between the three portions of the 3.1 percentage point decline in labor force participation rate since 2009 is depicted in the right margin of the chart. The 40% attributed to "residual" corresponds to 1.3 percentage points of decline

The President's Council of Economic Advisors estimates 40% of the decline in labor force participation rate since 2009 is unexplained.



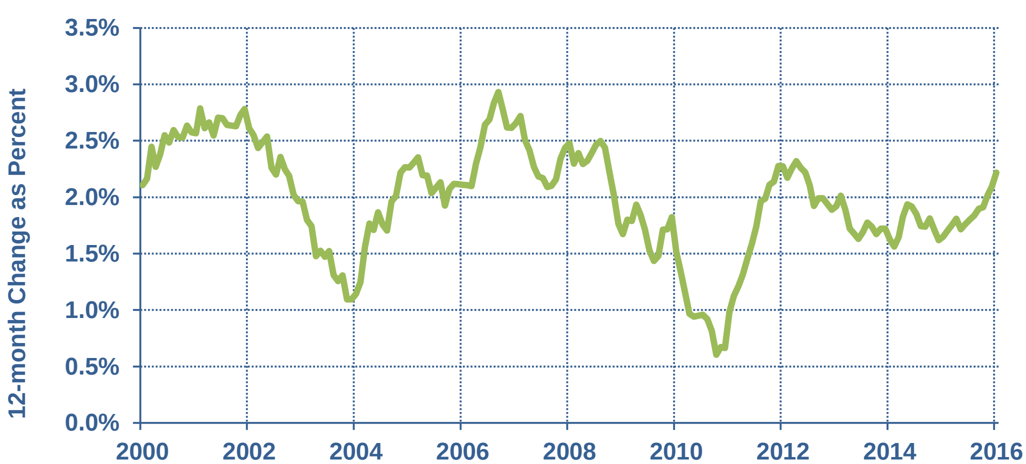
The labor force participation rate increased from 62.4% in October to 62.9% in February. Given that aging trends have not changed much during that time, the increase likely represents decreases in some combination of cyclical and "residual" effects.

Inflation

Energy prices were down again in January. It was the fourth out of the last six months that prices dropped significantly. The Bureau of Economic Analysis' (BEA's) index for consumer prices of energy goods and services dropped 5.2% over the last 12 months ending in January, a much smaller year over year drop than in recent months, illustrating that it has been just over a year now since the energy markets completed a steep and shocking tumble. Since then, consumer energy prices briefly found some support in the first half of 2015 before falling further in late summer and again in December and January.

Large price declines in the energy industry during the last 18 months have dominated inflation news. As the Federal Reserve has wrestled with appropriate monetary policy, much has been made of stubbornly low inflation, and whether it can still be expected to return to the Federal Reserve's goal of 2% in the medium term. Price indices that exclude food and energy are often thought of as a more reliable indicator of underlying inflation. One such index, the personal consumption expenditures price index less food and energy, increased more in January than in any prior month since the energy markets began tumbling. Another index, the CPI less food and energy, rose by 0.3% in January, and is now up 2.2% over the previous 12 months (chart below). Price increases have been driven by the service sector. The CPI for services excluding energy was up 3.0% year over year. These data are likely to be a hot topic at the Federal Reserve's next policy meeting on March 15-16.

Chart 5: U.S. Consumer Price Index Less Food and Energy



Production

New reports in the last 30 days on U.S. production were generally very positive. The Institute for Supply Management's (ISM's) manufacturing index improved in February as a result of production increases and a slowdown in employment contraction. The BEA revised its estimate of U.S. fourth quarter inflation-adjusted gross domestic product (real GDP) growth upward to 1.0% (from an initial estimate of 0.7%) at a seasonally adjusted annual rate, improving the picture of production at the end of 2015 (slightly). Encouragingly, the Federal Reserve's measure of total industrial production rose 0.9% from December to January due in part to a jump in utility output held down through December by mild weather. It was the largest monthly increase since November 2014.

Even with the good news, there is still some reason for caution. The increase in the Federal Reserve's measure of industrial production ended a streak of three straight months of declines. November and December had been the biggest two-month decline since the end of the recession in 2009. While the ISM's manufacturing index was up from January to February, it still indicated an overall contraction of economic activity during the month. Finally, while fourth quarter GDP was revised upward, growth was still low overall and private nonresidential fixed investment was particularly poor.

Consumer Spending

Strong consumer spending continued unabated through January. After recording its strongest year in 2015 in a decade (3.1% growth), inflation-adjusted consumer spending grew more in January (4.9% annual rate) than in any month since May. Real (inflation-adjusted) personal spending has increased in 24 straight months. The University of Michigan Consumer Sentiment Index, a widely reported measure of consumer confidence, remained healthy through February, similar to levels seen prior to the Great Recession.

Personal spending has increased in 24 straight months (adjusted for inflation).

Approximately 17.4 million cars and light trucks sold in 2015, an all-time record. Seasonally adjusted sales in the first two months of 2016 have maintained that pace according to the BEA. While the pace of car sales has slowed slightly in 2016, light truck sales remain particularly high.

Real Estate

Housing starts and sales of new homes slowed in January, but sales of existing homes, which are the bulk of the market, were strong when adjusted for the season. Sales of existing homes were up by 11.0% compared to last January. Year-over-year sales growth in the winter months was led by the Northeast and Midwest regions of the country, suggesting the mild winter temperatures as a significant factor driving the market.

Supply of existing homes for sale has dipped according to the National Association of Realtors, which could create a tough market for buyers in the coming months. However, mortgage rates, which have fallen since the beginning of 2016, may help to offset that. The average 30-year fixed mortgage rate was 3.64% the week of March 3, according to Freddie Mac's Primary Mortgage Market Survey.

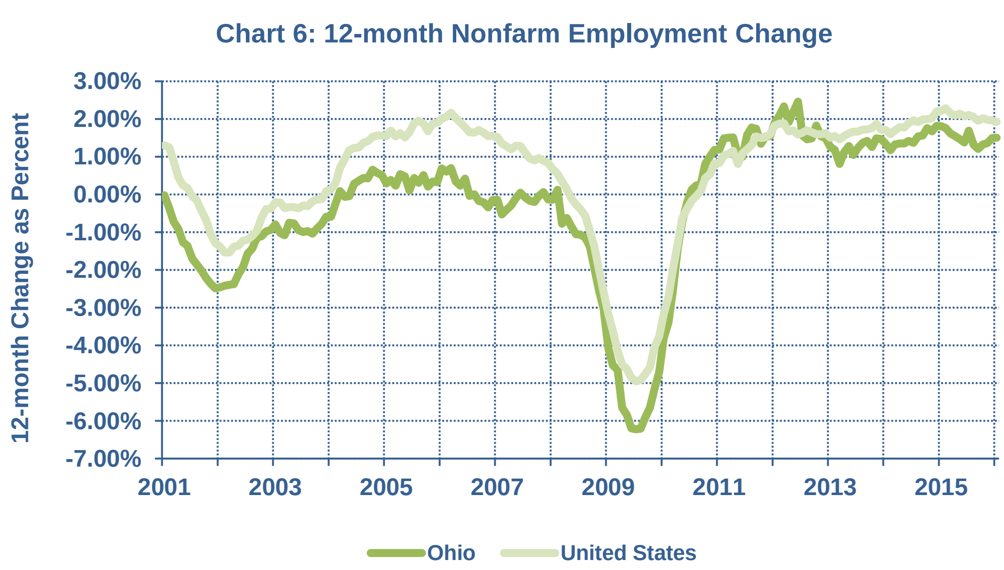
The Ohio Economy

Employment and Unemployment

Ohio's nonfarm payroll employment had virtually no change in January, gaining just 100 jobs from December. This comes on the heels of a three-month stretch at the end of 2015 that saw Ohio add over 50,000 jobs. Ohio's unemployment rate was 4.9% in January. The new data included annual revisions made by the BLS to account for updated population estimates, seasonal adjustments and their annual benchmarking process. The results of the revisions included nonfarm employment 24,000 higher than previously thought but also the unemployment rate a tick higher as well.

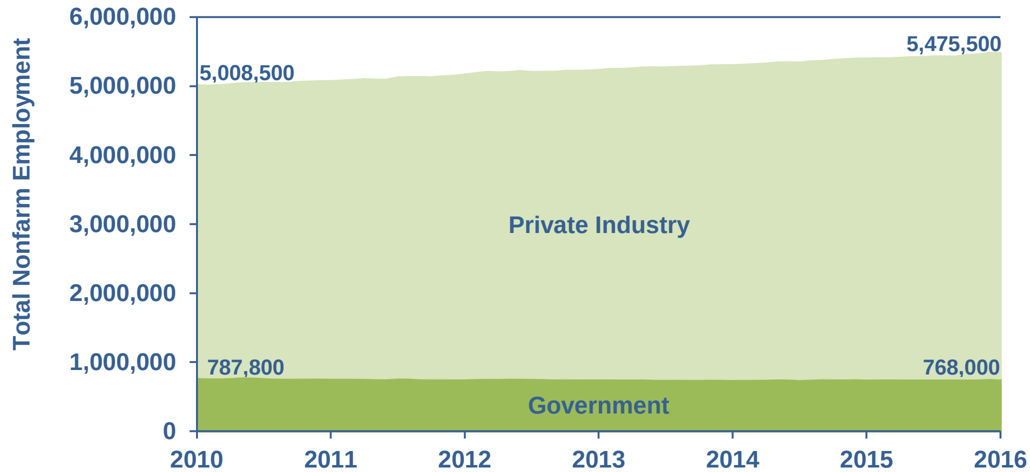
Overall, the revisions did not change the core narrative of sustained job growth in Ohio. The chart below shows Ohio's year-over-year nonfarm employment change going back to 2001, to provide some historical context to the current period of growth. The figures are presented as a percent of total employment to allow for comparison to the U.S. over the same period. While Ohio has trailed the U.S. since the beginning of 2013, the same period also exhibits higher sustained rates of job growth than Ohio has experienced at any point since the turn of the century.

Ohio has sustained job growth since 2010.



In the 12 months ended January 2016, Ohio's private industry jobs grew at a rate of 1.7%, while government jobs grew only 0.2%. The chart below illustrates the makeup of job growth in Ohio between public and private industry during the sustained period of growth since 2010. From January 2010 to January 2016, Ohio private industry jobs increased by 487,000, while government jobs decreased by 20,000.

Chart 7: Ohio Job Growth, Public vs. Private



State Production

Ohio's real GDP grew at a seasonally adjusted annual rate of 2.3% in the third quarter of 2015. Growth was only about half as fast as in the second quarter (4.5%), a drop very similar to that of the national average during the same period, according to the BEA. Ohio's third quarter GDP growth was 21st among the states but behind neighbors Indiana (3.7%), Michigan (2.9%), and Pennsylvania (2.5%). Industries that contributed the most to Ohio's production growth during the third quarter were health care and social assistance, nondurable goods manufacturing, and retail trade. Ohio failed to match Indiana and Michigan's growth during the period in the industries of finance and insurance, and, especially, durable goods manufacturing.

Ohio's 2015 third quarter GDP growth was 21st among states.

Home Sales

Ohio home sales remained hot in January, hitting a new record number of sales for the month. During the historically slow month for real estate, 8,013 homes sold, 11.2% more than in January 2015. Sales prices during the month were strong as well, averaging $143,562, up 4.4% from January 2015. It was the highest average sales price during January since 2006. Between January and the prior month of December, which saw similarly strong year-over-year growth, Ohio's real estate market is shaping up to post a strong winter season.