Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION MAY 2016

STATUS OF THE GRF

HIGHLIGHTS

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

April GRF tax revenues were generally disappointing. The income tax was $109 million below the Office of Budget and Management (OBM) estimate, primarily due to payments accompanying tax returns having been below expectations. On the spending side of the budget, GRF program expenditures were $305 million above estimate for the month, but $253 million of that was a timing-related variance for Property Tax Reimbursements. State-source revenues, including tax revenues, were below estimate for FY 2016 through April, but the variance was not too large, and the spending side of the budget will likely enable the state to end the fiscal year with a surplus.

Through April 2016, GRF sources totaled $28.44 billion:

- Revenue from the personal income tax was $201.3 million below estimate;
- Sales and use tax receipts were $30.1 million above estimate.

Through April 2016, GRF uses totaled $30.38 billion:

- Program expenditures were $286.2 million below estimate, due primarily to Medicaid ($404.7 million) and Health and Human Services ($88.0 million);
- Those negative variances were partially offset by a timing-related positive variance in Property Tax Reimbursements ($320.0 million).

VOLUME 39, NUMBER 9

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

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

STATE SOURCES	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$117,369	$129,700	-$12,331	-9.5%
Nonauto Sales and Use	$789,154	$792,700	-$3,546	-0.4%
Total Sales and Use Taxes	**$906,522**	**$922,400**	**-$15,878**	**-1.7%**
Personal Income	$717,341	$826,700	-$109,359	-13.2%
Corporate Franchise	$2,001	$0	$2,001	---
Financial Institution	$30,341	$32,350	-$2,009	-6.2%
Public Utility	$1	$0	$1	---
Kilowatt-Hour Excise	$30,770	$34,700	-$3,930	-11.3%
Natural Gas Consumption (MCF)	$3,414	$4,300	-$886	-20.6%
Commercial Activity Tax	$37,080	$38,700	-$1,620	-4.2%
Petroleum Activity Tax	$0	$0	$0	---
Foreign Insurance	$247	-$900	$1,147	127.4%
Domestic Insurance	$51	$0	$51	---
Business and Property	$1	$0	$1	---
Cigarette	$79,012	$74,100	$4,912	6.6%
Alcoholic Beverage	$3,106	$4,700	-$1,594	-33.9%
Liquor Gallonage	$3,693	$3,600	$93	2.6%
Estate	$681	$0	$681	---
Total Tax Revenue	**$1,814,260**	**$1,940,650**	**-$126,390**	**-6.5%**
NONTAX REVENUE				
Earnings on Investments	$9,590	$5,650	$3,940	69.7%
Licenses and Fees	$1,856	$19,300	-$17,444	-90.4%
Other Revenue	$497	$327	$170	52.0%
Total Nontax Revenue	**$11,943**	**$25,277**	**-$13,334**	**-52.8%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$898	$0	$898	---
Total Transfers In	**$898**	**$0**	**$898**	**---**
TOTAL STATE SOURCES	**$1,827,101**	**$1,965,927**	**-$138,826**	**-7.1%**
Federal Grants	$1,000,855	$912,549	$88,306	9.7%
TOTAL GRF SOURCES	**$2,827,957**	**$2,878,477**	**-$50,520**	**-1.8%**

*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 April 30, 2016
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on May 2, 2016)

STATE SOURCES	Actual	Estimate*	Variance	Percent	FY 2015	Percent Change
TAX REVENUE						
Auto Sales	$1,109,618	$1,083,400	$26,218	2.4%	$1,071,082	3.6%
Nonauto Sales and Use	$7,487,296	$7,483,400	$3,896	0.1%	$7,185,395	4.2%
Total Sales and Use Taxes	**$8,596,914**	**$8,566,800**	**$30,114**	**0.4%**	**$8,256,477**	**4.1%**
Personal Income	$6,444,653	$6,646,000	-$201,347	-3.0%	$7,158,873	-10.0%
Corporate Franchise	$32,369	$0	$32,369	---	$1,721	1780.3%
Financial Institution	$159,981	$140,800	$19,181	13.6%	$128,661	24.3%
Public Utility	$75,407	$74,600	$807	1.1%	$62,760	20.2%
Kilowatt-Hour Excise	$292,467	$305,000	-$12,533	-4.1%	$259,345	12.8%
Natural Gas Consumption (MCF)	$34,061	$35,700	-$1,639	-4.6%	$40,977	-16.9%
Commercial Activity Tax	$996,871	$1,009,900	-$13,029	-1.3%	$673,125	48.1%
Petroleum Activity Tax	$5,598	$4,900	$698	14.3%	$4,436	26.2%
Foreign Insurance	$317,187	$315,400	$1,787	0.6%	$299,421	5.9%
Domestic Insurance	$565	$4,900	-$4,335	-88.5%	$7,537	-92.5%
Business and Property	$93	$0	$93	---	$42	119.1%
Cigarette	$768,021	$739,800	$28,221	3.8%	$613,681	25.1%
Alcoholic Beverage	$44,822	$45,000	-$178	-0.4%	$46,561	-3.7%
Liquor Gallonage	$37,501	$36,500	$1,001	2.7%	$35,993	4.2%
Estate	$1,613	$0	$1,613	---	$2,812	-42.6%
Total Tax Revenue	**$17,808,123**	**$17,925,300**	**-$117,177**	**-0.7%**	**$17,592,420**	**1.2%**
NONTAX REVENUE						
Earnings on Investments	$26,196	$16,650	$9,546	57.3%	$17,924	46.1%
Licenses and Fees	$55,490	$44,087	$11,403	25.9%	$56,487	-1.8%
Other Revenue	$45,737	$35,754	$9,983	27.9%	$25,487	79.5%
Total Nontax Revenue	**$127,423**	**$96,491**	**$30,932**	**32.1%**	**$99,898**	**27.6%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$195,474	$191,100	$4,374	2.3%	$24,272	705.4%
Total Transfers In	**$195,474**	**$191,100**	**$4,374**	**2.3%**	**$24,272**	**705.4%**
TOTAL STATE SOURCES	**$18,131,020**	**$18,212,891**	**-$81,871**	**-0.4%**	**$17,716,590**	**2.3%**
Federal Grants	$10,311,786	$10,534,714	-$222,928	-2.1%	$7,955,248	29.6%
TOTAL GRF SOURCES	**$28,442,806**	**$28,747,605**	**-$304,800**	**-1.1%**	**$25,671,838**	**10.8%**

*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 $81.9 million below estimate through April.

The April 2016 income tax filing season concluded with a negative variance of $109.4 million for the personal income tax (PIT). This poor performance increased the income tax's year-to-date negative variance to $201.3 million, up from $92.0 million through March 2016; and helped push the variance of GRF tax sources back into negative territory for the fiscal year to date. Year-to-date GRF tax sources were below estimate by $117.2 million at the end of April. On the other hand, federal grants in April were $88.3 million above estimate, reducing the fiscal year's shortfall for this GRF source[1] to $222.9 million, down from $311.2 million at the end of March.[2] For the fiscal year through April, total GRF sources of $28.44 billion were $304.8 million below the estimate released by the Office of Budget and Management (OBM);[3] this negative variance increased from $254.3 million after the first three fiscal quarters. Tables 1 and 2 show GRF sources for the month of April and for FY 2016 through April, respectively.

FY 2016 tax revenue was $117.2 million below estimate through April.

Total GRF sources in April were $2.83 billion, an amount that was $50.5 million (1.8%) below estimate. State sources were $138.8 million (7.1%) below estimate (including shortfalls of $126.4 million for GRF tax receipts and $17.4 million for licenses and fee revenue). That deficit was partially offset by a positive variance of $88.3 million in federal grants as mentioned above.

In addition to the PIT's shortfall in April, the sales and use tax, the kilowatt-hour excise tax, financial institutions tax (FIT), the commercial activity tax (CAT), and the alcoholic beverage tax, were below estimates, respectively, by $15.9 million, $3.9 million, $2.0 million, $1.6 million, and $1.6 million. Coming in above estimates during the month were the cigarette tax ($4.9 million), the corporate franchise tax ($2.0 million), and the foreign insurance tax ($1.1 million).

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

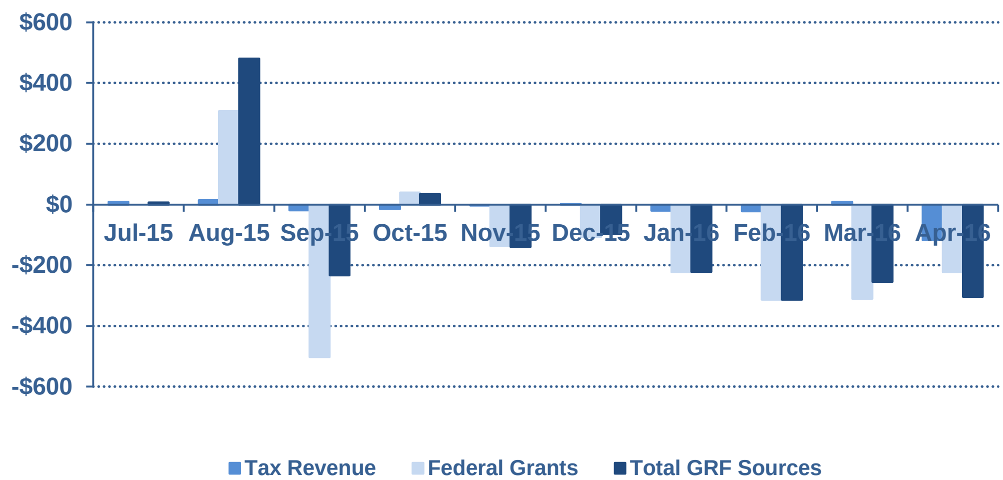
[2] Federal grants have generally been below estimate due to lower than expected Medicaid spending. GRF FY 2016 Medicaid expenditures were $404.7 million below estimate through April 2016.

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

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. Recent trends for total GRF sources and federal grants continued in April; GRF tax revenue, which has been closer to estimates in most recent months, fell to 0.7% below estimate by the end of April.

FY 2016 federal grants through April were $222.9 million below estimate.

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



Compared to the same period in FY 2015, FY 2016 sources through April were $2.77 billion (10.8%) higher, with all GRF categories showing higher revenues. Much of the total increase is due to an accounting change related to Medicaid expenditures which pushed federal grants higher in FY 2016 by $2.36 billion (29.6%). 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 transfers in also increased substantially from the previous year.[4]

FY 2016 GRF tax receipts through April were $215.7 million higher than FY 2015.

GRF tax receipts grew by $215.7 million (1.2%), from the corresponding period in FY 2015. The taxes that contributed the most to year-over-year revenue growth are the sales and use tax, the CAT, and the cigarette tax. Sales and use tax revenue growth is largely reflective of a growing state economy and strong consumer spending during most of FY 2016, while the growth in the CAT and cigarette tax revenue are more the result of policy changes. H.B. 64, the budget act, increased the share of CAT receipts credited to the GRF from 50% to 75%, and raised the

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

cigarette tax rate from $1.25 per pack of 20 cigarettes to $1.60 per pack. Despite healthy employment gains in the state during FY 2016, PIT revenue has fallen by $714.2 million from the same period in FY 2015, also due primarily to tax changes enacted in H.B. 64.

Personal Income Tax

FY 2016 PIT revenue was below estimate by $201.3 million through April.

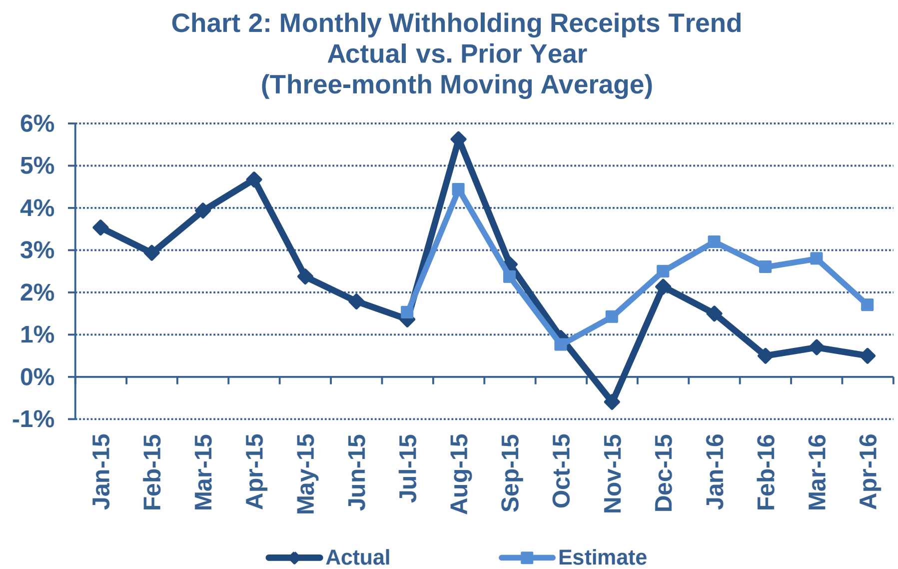
Unlike last year, the April surprise in 2016 was negative, propelled by lackluster payments due with annual returns. PIT receipts of $717.3 million to the GRF were 13.2% below estimate for the month. This result increased the year-to-date deficit for this tax to $201.3 million, up from $92.0 million at the end March 2016. Monthly PIT revenue had generally been below estimate throughout FY 2016, but the latest performance strongly suggests the tax would end the year in negative territory. April PIT revenue was also $505.0 million (41.3%) below revenue in the corresponding month last year. PIT revenue is comprised of gross collections minus refunds and distributions to the Local Government Fund (LGF). Gross collections consist of employer withholdings, quarterly estimated payments,[5] trust payments, payments associated with annual returns, and other miscellaneous payments.

The monthly performance of the income tax is typically driven by employer withholdings, which is the largest component of gross collections. However, in February, March, and April during the tax filing season, tax refunds are also a significant component of net collections. While refunds have been below estimate every month during the tax filing season (including by $5.2 million in April), a shortfall of $94.4 million in taxes due with annual returns largely drove the negative variance in April. In addition, estimated payments and monthly employer withholding were below projected levels by $22.0 million and $16.0 million, respectively. On the other hand, annual employer withholding was $28.3 million above estimate, and miscellaneous receipts were $4.2 million above their anticipated level.

For the fiscal year through April, PIT GRF receipts of $6.44 billion were 3.0% below estimate. Gross collections fell short of expected revenues by $188.7 million. Though all PIT components were below estimates, payments due with annual returns contributed the most, $122.1 million, to that deficit.

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

The budget act reduced income tax rates for all brackets by 6.3%, for taxable years beginning in 2015. As expected, the effects of the changes enacted in H.B. 64 and S.B. 208[6] have reduced yearly revenue from the income tax. Year-to-date PIT receipts were $714.2 million (10.0%) below revenue in FY 2015, including a large decline of $328.4 million (34.8%) from taxes due with annual tax returns. Though PIT revenues have declined, Ohio payrolls have continued to expand. However, the chart below illustrates the slowing growth of monthly employer withholdings as well as the shortfalls to estimates in recent months (actual figures in the chart are not adjusted for the August change in withholding rates).



FY 2016 revenues through April from each component of the PIT relative to estimates and to the corresponding period in FY 2015 are detailed in the table below.

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

FY 2016 employer withholding revenue was $23.4 million below estimate through April.

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	-$23.4	-0.3%	$82.9	1.2%
Quarterly Estimated Payments	-$25.5	-3.1%	-$71.7	-8.1%
Trust Payments	-$11.3	-21.6%	-$9.6	-19.0%
Annual Return Payments	-$122.1	-16.6%	-$328.4	-34.8%
Miscellaneous Payments	-$6.5	-7.2%	-$4.4	-5.0%
Gross Collections	-$188.7	-2.2%	-$331.1	-3.8%
Less Refunds	$13.4	0.8%	$368.7	27.2%
Less LGF Distribution	-$0.8	-0.3%	$14.3	4.9%
Income Tax Revenue	-$201.3	-3.0%	-$714.2	-10.0%

Sales and Use Tax

The bounce back in March sales and use tax receipts from disappointing results in February was short-lived as this GRF tax source again fell below estimate in April. After a shortfall of $35.9 million in February and a positive variance of $3.6 million last month, GRF sales and use tax receipts in April were $906.5 million, $15.9 million (1.7%) below estimate, with deficits of $12.3 million and $3.5 million, respectively, for the auto tax and nonauto tax. However, for the fiscal year-to-date through April, sales and use tax revenues were $30.1 million (0.4%) above estimate, and $340.4 million (4.1%) higher than revenues through the same period in FY 2015. Strong collections from the auto tax have supported this tax source, particularly in the first half of the fiscal year.

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.[7]

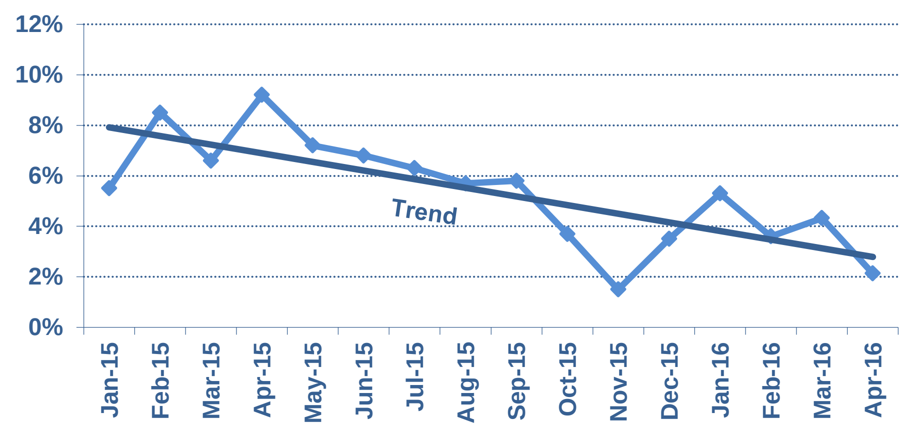
[7] Taxes arising from leases are paid immediately upon the lease signing. The clerks of court generally make auto sales and use tax payments on Mondays for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled. Therefore, auto sales and use tax receipts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

Nonauto Sales and Use Tax

Including December 2015, the nonauto sales and use tax has posted a combined negative variance of $51.2 million in the last five months. Though part of the poor performance can be explained by lower than expected Medicaid spending and associated sales tax revenue paid by Medicaid health insuring corporations, this GRF source has been generally weak in recent months. April GRF receipts of $789.2 million were $3.5 million (0.4%) below estimate, but $6.7 million (0.9%) above revenue in the same month last year. For FY 2016 through April, nonauto sales and use tax revenues remained above estimate by $3.9 million (0.1%) and were $301.9 million (4.2%) higher than the same period in FY 2015. This year-to-date positive variance was accumulated in the early months of 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 nonauto sales tax revenues still growing, but at a much slower pace than at the start of the fiscal year. Average growth over the most recent three months was 2.1%.

FY 2016 nonauto sales and use tax revenues were $3.9 million above estimate through April.

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



Auto Sales and Use Tax

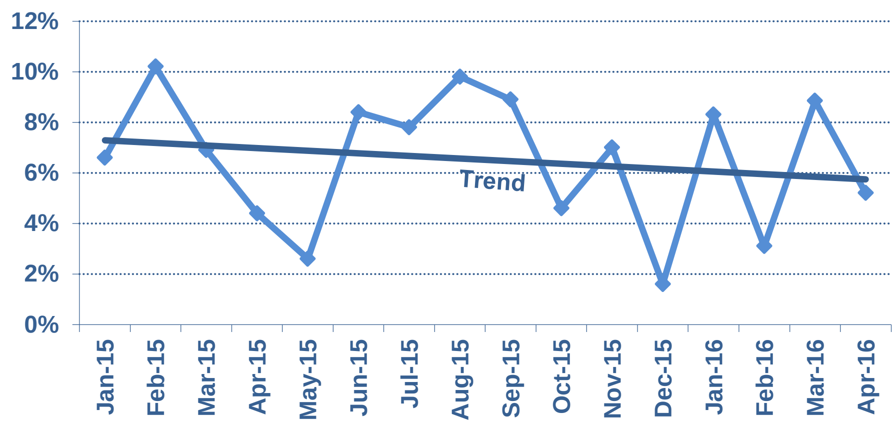
The GRF received $117.4 million from the auto portion of the sales and use tax in April. That amount was $12.3 million (9.5%) less than estimated and $10.9 million (8.5%) below receipts in April 2015.

Despite the latest performance, for the fiscal year through April, revenue from this tax is $26.2 million (2.4%) above estimate, and $38.5 million (3.6%) higher than receipts 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

FY 2016 auto sales and use tax revenue was $26.2 million above estimate through April.

illustrates revenues growing at an uneven pace in FY 2016, but with growth generally slowly trending downward (though remaining positive). Average growth over the most recent three months was 5.2%.

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



Nationwide vehicle sales rebounded in April. The pace moved up to 17.3 million units on a seasonally adjusted annualized basis, higher than the 16.6 million unit pace in March, and 4% higher than a year earlier. Light-truck sales were again a main driver for the increase in total sales, and the same factors that have supported sales over the past year remain in place: incentives, longer loan terms, and still relatively low gasoline prices.

FY 2016 CAT GRF revenue tax was $13.0 million below estimate through April.

Commercial Activity and Petroleum Activity Taxes

The CAT provided GRF receipts of $37.1 million in April. This revenue was $1.6 million (4.2%) below estimate, but $11.3 million (44.1%) above revenue in the same month last year. For the fiscal year through April, CAT revenues to the GRF totaled $996.9 million, $13.0 million (1.3%) below estimate, and $323.7 million (48.1%) 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. The last fiscal year payment for calendar quarter CAT taxpayers is due in May.

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 April. Through April, PAT GRF revenue of $5.6 million was $0.7 million (14.3%) above estimate and $1.2 million (26.2%) above revenue in the corresponding period in FY 2015.

Cigarette and Other Tobacco Products Tax

GRF receipts from the cigarette and other tobacco products (OTP) tax were $79.0 million in April, $4.9 million (6.6%) above estimate. Through April, total FY 2016 tax receipts of $768.0 million were $28.2 million (3.8%) above OBM estimates, and $154.3 million (25.1%) above revenue from the same period in FY 2015. For the the fiscal year, cigarette receipts were $699.4 million, revenue from OTP was $51.4 million, and revenue from the "floor tax"[8] was $17.2 million.

FY 2016 cigarette tax revenue was $28.2 million above estimate through April.

Generally, cigarette tax receipts have experienced a long-term downward trend; 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. On the other hand, revenue from OTP generally increase each year. In contrast, with two months left in the fiscal year, that source of revenue has experienced a decline of $0.5 million through April.

[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 April 2016
($ in thousands)
(Actual based on OAKS reports run May 3, 2016)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary and Secondary Education	$882,737	$904,441	-$21,705	-2.4%
Higher Education	$179,428	$184,240	-$4,812	-2.6%
Other Education	$3,230	$6,750	-$3,520	-52.1%
Total Education	$1,065,394	$1,095,431	-$30,037	-2.7%
Medicaid	$1,436,072	$1,289,826	$146,246	11.3%
Health and Human Services	$111,743	$145,251	-$33,507	-23.1%
Total Welfare and Human Services	$1,547,815	$1,435,076	$112,739	7.9%
Justice and Public Protection	$169,101	$193,176	-$24,075	-12.5%
General Government	$34,443	$37,830	-$3,387	-9.0%
Total Government Operations	$203,544	$231,006	-$27,462	-11.9%
Property Tax Reimbursements	$420,034	$167,177	$252,857	151.3%
Capital Outlay	$0	$0	$0	---
Debt Service	$78,876	$82,148	-$3,272	-4.0%
Total Other Expenditures	$498,911	$249,325	$249,586	100.1%
Total Program Expenditures	**$3,315,664**	**$3,010,838**	**$304,826**	**10.1%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$24	$4,400	-$4,376	-99.5%
Total Transfers Out	$24	$4,400	-$4,376	-99.5%
TOTAL GRF USES	**$3,315,688**	**$3,015,238**	**$300,450**	**10.0%**

*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 April 30, 2016
($ in thousands)
(Actual based on OAKS reports run May 3, 2016)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2015**	**Percent Change**
Primary and Secondary Education	$6,666,459	$6,712,254	-$45,795	-0.7%	$6,225,762	7.1%
Higher Education	$1,856,055	$1,875,696	-$19,641	-1.0%	$1,789,960	3.7%
Other Education	$62,120	$60,422	$1,698	2.8%	$48,579	27.9%
Total Education	$8,584,634	$8,648,371	-$63,737	-0.7%	$8,064,301	6.5%
Medicaid	$15,103,585	$15,508,260	-$404,675	-2.6%	$12,935,620	16.8%
Health and Human Services	$1,136,605	$1,224,608	-$88,003	-7.2%	$1,121,172	1.4%
Total Welfare and Human Services	$16,240,190	$16,732,868	-$492,678	-2.9%	$14,056,792	15.5%
Justice and Public Protection	$1,709,427	$1,704,804	$4,623	0.3%	$1,594,780	7.2%
General Government	$304,318	$333,186	-$28,868	-8.7%	$295,944	2.8%
Total Government Operations	$2,013,745	$2,037,991	-$24,245	-1.2%	$1,890,724	6.5%
Property Tax Reimbursements	$1,447,966	$1,127,928	$320,038	28.4%	$1,127,955	28.4%
Capital Outlay	$0	$0	$0	---	$0	---
Debt Service	$1,265,492	$1,291,107	-$25,616	-2.0%	$1,227,179	3.1%
Total Other Expenditures	$2,713,457	$2,419,035	$294,422	12.2%	$2,355,134	15.2%
Total Program Expenditures	**$29,552,027**	**$29,838,265**	**-$286,238**	**-1.0%**	**$26,366,951**	**12.1%**
TRANSFERS						
Budget Stabilization	$425,500	$425,500	$0	0.0%	$0	---
Other Transfers Out	$406,027	$382,431	$23,596	6.2%	$587,846	-30.9%
Total Transfers Out	$831,527	$807,931	$23,596	2.9%	$587,846	41.5%
TOTAL GRF USES	**$30,383,554**	**$30,646,196**	**-$262,642**	**-0.9%**	**$26,954,798**	**12.7%**

*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 May 3, 2016)

	Month of April 2016				Year to Date Through April 2016			
Department	Actual	Estimate*	Variance	Percent	Actual	Estimate*	Variance	Percent
Medicaid	**$1,697,755**	**$1,966,757**	**-$269,002**	**-13.7%**	**$17,927,261**	**$19,766,120**	**-$1,838,859**	**-9.3%**
GRF	$1,386,416	$1,244,210	$142,206	11.4%	$14,609,503	$15,023,767	-$414,264	-2.8%
Non-GRF	$311,339	$722,547	-$411,208	-56.9%	$3,317,758	$4,742,353	-$1,424,595	-30.0%
Developmental Disabilities	**$192,570**	**$216,132**	**-$23,562**	**-10.9%**	**$1,984,804**	**$2,108,994**	**-$124,190**	**-5.9%**
GRF	$44,031	$40,311	$3,719	9.2%	$423,252	$413,602	$9,650	2.3%
Non-GRF	$148,539	$175,821	-$27,282	-15.5%	$1,561,552	$1,695,392	-$133,840	-7.9%
Job and Family Services	**$14,306**	**$18,336**	**-$4,031**	**-22.0%**	**$173,017**	**$171,197**	**$1,820**	**1.1%**
GRF	$4,880	$4,722	$158	3.3%	$63,150	$63,668	-$519	-0.8%
Non-GRF	$9,426	$13,614	-$4,189	-30.8%	$109,867	$107,529	$2,338	2.2%
Health	**$529**	**$679**	**-$150**	**-22.0%**	**$5,233**	**$6,122**	**-$888**	**-14.5%**
GRF	$302	$263	$39	15.0%	$2,905	$2,860	$45	1.6%
Non-GRF	$228	$416	-$189	-45.4%	$2,328	$3,262	-$934	-28.6%
Aging	**$1,270**	**$2,123**	**-$853**	**-40.2%**	**$20,119**	**$21,796**	**-$1,677**	**-7.7%**
GRF	$304	$255	$48	19.0%	$3,239	$2,756	$483	17.5%
Non-GRF	$967	$1,868	-$901	-48.3%	$16,880	$19,040	-$2,160	-11.3%
Mental Health and Addiction	**$307**	**$415**	**-$108**	**-26.0%**	**$3,739**	**$4,881**	**-$1,142**	**-23.4%**
GRF	$140	$65	$75	115.1%	$1,536	$1,607	-$70	-4.4%
Non-GRF	$167	$350	-$183	-52.2%	$2,203	$3,274	-$1,071	-32.7%
Total GRF	**$1,436,072**	**$1,289,826**	**$146,246**	**11.3%**	**$15,103,585**	**$15,508,260**	**-$404,675**	**-2.6%**
Total Non-GRF	**$470,665**	**$914,616**	**-$443,951**	**-48.5%**	**$5,010,588**	**$6,570,850**	**-$1,560,261**	**-23.7%**
Total All Funds	**$1,906,737**	**$2,204,442**	**-$297,705**	**-13.5%**	**$20,114,173**	**$22,079,110**	**-$1,964,936**	**-8.9%**

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

Table 6: All-Funds Medicaid Expenditures by Payment Category
Actual vs. Estimate
($ in thousands)
(Actuals based on OAKS report run on May 3, 2016)

	April				Year to Date Through April 2016			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	$805,289	$871,972	-$66,683	-7.6%	$8,314,637	$8,790,170	-$475,533	-5.4%
Nursing Facilities	$119,744	$120,223	-$479	-0.4%	$1,162,087	$1,182,008	-$19,921	-1.7%
DDD Services	$182,558	$212,447	-$29,889	-14.1%	$1,929,585	$2,041,736	-$112,151	-5.5%
Hospitals	$72,023	$252,180	-$180,157	-71.4%	$1,461,241	$2,638,466	-$1,177,225	-44.6%
Behavioral Health	$85,433	$91,324	-$5,891	-6.5%	$882,741	$936,129	-$53,388	-5.7%
Administration	$76,288	$74,383	$1,905	2.6%	$675,261	$943,237	-$267,976	-28.4%
Aging Waivers	$28,391	$25,312	$3,080	12.2%	$266,521	$270,526	-$4,005	-1.5%
Prescription Drugs	$35,900	$36,033	-$133	-0.4%	$385,246	$387,005	-$1,759	-0.5%
Medicare Buy-In	$42,111	$37,915	$4,196	11.1%	$387,627	$371,517	$16,109	4.3%
Physicians	$16,970	$16,882	$88	0.5%	$221,793	$229,717	-$7,924	-3.4%
Medicare Part D	$27,313	$27,494	-$181	-0.7%	$251,200	$253,169	-$1,969	-0.8%
Home Care Waivers	$9,486	$12,826	-$3,340	-26.0%	$104,611	$138,379	-$33,768	-24.4%
ACA Expansion	$325,737	$339,086	-$13,349	-3.9%	$3,164,360	$2,980,373	$183,988	6.2%
All Other	$79,494	$86,364	-$6,871	-8.0%	$907,265	$916,678	-$9,413	-1.0%
Total All Funds	**$1,906,737**	**$2,204,442**	**-$297,705**	**-13.5%**	**$20,114,173**	**$22,079,110**	**-$1,964,936**	**-8.9%**

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

In April, GRF uses were $300.5 million above estimate; year-to-date GRF uses remained below estimate by $262.6 million.

EXPENDITURES

– Russ Keller, Economist, 614-644-1751

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

Overview

Through April, GRF program expenditures were $29.55 billion, $286.2 million (1.0%) below the estimate released by OBM in October 2015. GRF transfers out were $831.5 million, $23.6 million (2.9%) above their year-to-date estimate. Including both program expenditures and transfers out, GRF uses totaled $30.38 billion for the first ten months of FY 2016, $262.6 million (0.9%) below estimate.

April program expenditures were $3.32 billion, $304.8 million (10.1%) above estimate. A large part of this positive variance was due to the Property Tax Reimbursements category, which was $252.9 million above its April spending estimate. This outcome was purely a timing issue as county auditors and treasurers sent in reimbursement requests earlier than anticipated by OBM. In addition, GRF Medicaid expenditures were $146.2 million above estimate in April, which partially offsets the spending patterns in prior months. All other program categories were below their April estimate, of which the largest negative variances were for Health and Human Services ($33.5 million), Justice and Public Protection ($24.1 million), and Primary and Secondary Education ($21.7 million). The monthly variance in Justice and Public Protection brought this program category's year-to-date expenditures within 0.3% of its ten-month estimate, but the other categories had larger year-to-date variances. The variances in Medicaid, Property Tax Reimbursements, Health and Human Services, and Primary and Secondary Education are discussed in greater detail below.

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.

Table 5 provides GRF and non-GRF Medicaid expenditures by agency. As seen from the table, for the month of April, GRF Medicaid expenditures of $1.44 billion were $146.2 million (11.3%) above estimate while non-GRF Medicaid expenditures of $470.7 million were $444.0 million (48.5%) below estimate. Across all funds, Medicaid expenditures of $1.91 billion in April were below estimate by

$297.7 million (13.5%). The majority of the all funds negative monthly variance was related to Upper Payment Limit (UPL) payment timing. UPL allows the state to direct supplemental payments from non-GRF funds – up to the difference between the Medicare and Medicaid amounts – to providers. The UPL payment of $154.9 million for April will likely now be made near the end of the fiscal year due to a delay from the federal Centers for Medicare and Medicaid Services (CMS) in processing a state plan amendment.

Through April, GRF Medicaid expenditures were $404.7 million below estimate; non-GRF Medicaid expenditures were $1.56 billion below estimate.

For the first ten months of FY 2016, GRF Medicaid expenditures were $15.10 billion, $404.7 million (2.6%) below estimate, while non-GRF Medicaid expenditures were $5.01 billion, $1.56 billion (23.7%) below estimate. Across all funds, Medicaid expenditures totaled $20.11 billion, $1.96 billion (8.9%) below their year-to-date estimate. A large portion of this negative year-to-date variance was related to timing of certain payments for hospitals (see below for more details).

The Ohio Department of Medicaid (ODM) is primarily responsible for administering Medicaid, with the assistance of five other state agencies – Developmental Disabilities, Job and Family Services, Health, Aging, and Mental Health and Addiction Services. As seen from Table 5, ODM, the largest agency within this program category, also had the largest year-to-date variance. For the first ten months of FY 2016, ODM's GRF expenditures totaled $14.6 billion, which was $414.3 million (2.8%) below estimate, and its non-GRF expenditures totaled $3.32 billion, which was $1.42 billion (30.0%) below estimate. Across all funds, ODM's expenditures were $1.84 billion (9.3%) 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 $1.98 billion for the first ten months of FY 2016, which was $124.2 million (5.9%) below estimate. Together, ODM and DDD account for about 99% of the Medicaid expenditures total.

Through April, all-funds Medicaid expenditures were $1.96 billion below estimate.

Table 6 details all-funds Medicaid expenditures by payment category. As seen from the table, Hospitals had the largest negative year-to-date variance at $1.18 billion (44.6%), of which $920.2 million is due to UPL and the Hospital Care Assurance Program (HCAP), $309.8 million and $610.4 million, respectively. The UPL and HCAP payments originally scheduled between February and April will not be made until the end of FY 2016. UPL is described above. 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.

Two other payment categories that had significant negative year-to-date variances were Managed Care ($475.5 million, 5.4%) and Administration ($268.0 million, 28.4%). The negative variance for Managed Care is mainly due to new managed care rates, effective January 1st. These rates were lower than projected, particularly those for the MyCare program. MyCare provides managed care services for Ohioans who receive both Medicaid and Medicare benefits. As a result of the new managed care rates, the negative variance in the Managed Care category is expected to grow through the end of the fiscal year. In addition to the new rates, there have been lower than estimated Aged, Blind, and Disabled (ABD) caseloads in managed care all 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 are being completed later than originally planned.

The only two year-to-date positive variances are in the ACA Expansion and Medicare Buy-In categories. All-funds expenditures from ACA Expansion totaled $3.16 billion for the first ten months of FY 2016, which was $184.0 million (6.2%) above estimate. This positive variance is driven by caseloads that are 4.2% higher than anticipated. However, this caseload-driven positive variance is being offset to some extent due to the lower managed care rates described above that are also applicable to individuals enrolled in the ACA expansion. As a result, this variance will likely continue to shrink through the end of the fiscal year. 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 the future. All-funds expenditures in the Medicare Buy-In category for the first ten months of FY 2016 totaled $387.6 million, which was $16.1 million (4.3%) 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 continue growing through the end of the fiscal year. The Medicare Buy-in program pays Medicare premiums, deductibles, and coinsurance for certain low-income Ohioans.

Property Tax Reimbursements

GRF expenditures in the Property Tax Reimbursements program category were $420.0 million in April, $252.9 million (151.3%) above the monthly estimate. The April variance increased the program category's positive year-to-date variance from $67.2 million to $320.0 million (28.4%) through the first ten months of FY 2016. Funds provided under this program category are used to reimburse school districts and other local governments for losses incurred as a result of the 10% and 2.5% "rollback" reductions in real property taxes and as a result of the "homestead exemption" reduction in real property taxes. The reimbursement payments are made twice per year, one based on the February property tax settlement and one based on the August property tax settlement. The payments based on the February 2016 property tax settlement are made in the latter six months of FY 2016. Funds are disbursed when county auditors request the payments. Approximately 61 of 88 counties had received their semiannual reimbursements by the end of April, more than OBM had originally anticipated.

Health and Human Services

GRF expenditures from the Health and Human Services program category were $111.7 million in April, $33.5 million (23.1%) below estimate. Through April, this program category's expenditures were $1.14 billion, $88.0 million (7.2%) below estimate. The Ohio Department of Mental Health and Addiction Services (ODMHAS) accounted for the largest share ($44.0 million) of the category's negative year-to-date variance, followed by the Ohio Department of Job and Family Services (ODJFS) at $20.2 million and the Ohio Department of Health (ODH) at $16.1 million.

Expenditures from the majority of ODMHAS line items were below their year-to-date estimates. The largest negative year-to-date variance ($15.4 million) within the ODMHAS budget occurred in item 336421, Continuum of Care Services. During the month of April, the OBM estimate anticipated that item 336421 would make a $17.2 million quarterly disbursement, of which only $3.9 million materialized. Item 336421 distributes funds to local boards for mental health and alcohol, drug, and gambling addiction services, and this negative variance will likely reverse itself in May or June. Other notable negative variances were from item 336423, Addiction Services Partnership with Corrections ($14.5 million); item 336504, Community Innovations ($5.1 million); and item 336422, Criminal Justice Services ($5.0 million).

Within the ODJFS budget, item 600445, Unemployment Insurance Administration, had the largest negative year-to-date variance. Expenditures from this item were $7.6 million below estimate. About half of this negative variance ($3.4 million) occurred in April. Expenditures from item 600416, Information Technology Projects, and item 600321, Program Support, were also below their year-to-date estimate by $6.2 million and $4.4 million, respectively. In general, the timing of expenditures from many ODJFS line items is based on the drawdown of funding by counties, which can vary significantly from estimates.

Although ODH's expenditures were above estimate by $1.3 million in April, year-to-date expenditures continued to trail estimates. All but two of ODH's line items were below estimates year-to-date. The largest negative variance ($3.9 million) occurred in item 440459, Help Me Grow.

Primary and Secondary Education

GRF expenditures from the Primary and Secondary Education program category were $6.67 billion through April, $45.8 million (0.7%) below estimate. The Ohio Department of Education (ODE) is the only agency that is included in this program category. Due mainly to timing, expenditures from several line items were either above or below their year-to-date estimates. Item 200437, Student Assessments, had the largest negative year-to-date variance at $36.7 million. ODE authorized payment for student assessment invoices at the end of April, so this negative variance should narrow as payments are disbursed in May.

Item 200550, Foundation Funding, was $14.9 million below its monthly estimate in April, which reduced its positive year-to-date variance to $15.4 million. Item 200550 is the main funding source of school foundation payments. It is not unusual to see variances in this item as individual school foundation payments are based on a variety of data that may not be finalized until late in the fiscal year.

ISSUE UPDATES

Ohio Sea Grant Issues Report on Harmful Algal Bloom Research Initiative

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

In late March, Ohio Sea Grant issued a progress report covering the first year of the Harmful Algal Bloom Research Initiative (HABRI). Projects covered in the report focus on four areas: developing an early warning system for bloom hazards in Lake Erie, treating drinking water to remove toxins, gaining a better understanding of the effects of human exposure to toxins from fish and fresh produce, and improving the dissemination of information through networks of farmers and other stakeholders. The program is funded by the Department of Higher Education (DHE) from Fund 7011 appropriation item 235634, Research Incentive Third Frontier Fund, and by a 100% match from the grantees. In FY 2015, DHE provided $2.0 million and this annual funding is continued for FY 2016 and FY 2017 through an earmark in H.B. 64.

HABRI, which is jointly managed by the Ohio State University and the University of Toledo, was established after the algal bloom and subsequent water issues in the Toledo area in 2014. Generally, awards made under HABRI are approved by DHE based on the recommendations of a proposal review board that includes representatives from the state's Environmental Protection Agency; the departments of Agriculture, Health, and Natural Resources; the National Wildlife Federation; and the Ottawa County Sanitary Engineering Department.

The second round of funding for the program was announced in late February. This funding will support 13 collaborative research projects that will continue to study the harmful algal blooms that affect Lake Erie, Grand Lake St. Mary's, Buckeye Lake, and other fresh water bodies. The projects will focus on bloom sources and movement, safeguarding drinking water, and protecting public health. Each of the projects funded by HABRI consists of multiple university partners and collaborators.[9]

[9] The 13 researchers leading the second round projects are from the following universities: Akron, Bowling Green, Cincinnati, Heidelberg, Ohio State, or Toledo. Collaborators include individuals from Central State University and Sinclair Community College and other nonuniversity institutions such as the city of Akron, the University of Amsterdam, the Charles River Laboratory, and the U.S. Geological Survey.

DNR Awards More than $576,000 to Support Marine Patrols

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

On April 11, 2016, the Department of Natural Resources (DNR) announced that 24 communities across 21 counties will receive a total of $576,154 to support marine patrol units under the Marine Patrol Assistance Grant Program. The amounts awarded range from approximately $7,500 to $32,000. The recipients and the amounts they were awarded are listed in the table below.

2016 Marine Patrol Assistance Grant Recipients

County	Recipient	Amount
Butler	Butler County Sheriff's Office	$24,964
Cuyahoga	Rocky River Police Department	$30,000
Erie	Huron Police Department	$26,218
	Kelleys Island Police Department	$7,531
	Vermillion Police Department	$32,000
Franklin	Columbus Division of Police	$26,500
Hamilton	Hamilton County Sheriff's Office	$29,572
Knox	Knox County Sheriff's Office	$23,915
Lake	Lake County Sheriff's Office	$28,996
Lawrence	Lawrence County Sheriff's Office	$14,625
Lorain	Lorain Port Authority	$32,000
Mahoning	Mahoning County Sheriff's Office	$28,036
Montgomery	Five Rivers MetroParks	$16,960
Ottawa	Ottawa County Sheriff's Office	$32,000
	Port Clinton Police Department	$18,511
Pickaway	Pickaway County Sheriff's Office	$13,518
Portage	Portage County Sheriff's Office	$17,399
Richland	City of Mansfield, Clear Fork Reservoir Police	$19,369
Ross	Ross County Sheriff's Office	$18,992
Sandusky	Sandusky County Sheriff's Office	$22,852
Scioto	Scioto County Sheriff's Office	$19,396
Summit	Summit County Sheriff's Office	$32,000
Trumbull	Trumbull County Sheriff's Office	$28,773
Tuscarawas	Muskingum Watershed Conservancy District	$32,000
	TOTAL	**$576,154**

Marine Patrol Assistance Grants are awarded annually to political subdivisions, conservancy districts, and state departments to support local marine patrol units. Grants awarded under the program may total up to $35,000 and require recipients to provide at least 25% of the costs of their marine patrol programs. Grants may be used to (1) buy, maintain, and operate vessels and marine equipment, (2) pay the salaries of employees responsible for enforcing Ohio's boating laws, or (3) support the cost of marine emergency response. Funding for the program is provided from the Waterways Safety Fund (Fund 7086), which receives revenue from a portion of the state gasoline tax, fees collected for boat registration and title services, and funding from the U.S. Coast Guard.

Trauma-Informed Care Initiative Launched

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

On March 28, 2016, the Ohio Department of Mental Health and Addiction Services (ODMHAS) and the Ohio Department of Developmental Disabilities (ODODD) announced a new partnership to implement the Trauma-Informed Care (TIC) Initiative. TIC is an evidence-based practice that teaches service providers to both recognize the symptoms of trauma and to treat survivors using the most effective interventions. Six regional collaboratives will identify strengths and weaknesses in TIC provided in each region, develop shared resources, offer training, and develop implementation strategies for groups such as children, older adults, and individuals with developmental disabilities or behavioral health issues. A total of $200,000 in GRF funding over the biennium was set aside in H.B. 64 in ODMHAS' budget to support the TIC Initiative.

Comprehensive Suicide Prevention Initiative Announced

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

On April 14, 2016, the departments of Mental Health and Addiction Services, Health, and Medicaid announced a comprehensive suicide prevention initiative. The initiative was developed with the guidance of the Suicide Prevention Advisory Committee, whose membership includes state officials and healthcare, professional, and trade organizations. The initiative will focus on prevention and treatment as well as support for families and friends of individuals who died by suicide. Specific efforts include increasing suicide awareness and reducing the stigmas that surround mental illness and addiction, training clinicians working with at-risk individuals, and providing assistance to local volunteer support teams for suicide survivors. A total of $2 million over the biennium was set aside in H.B. 64 in the ODMHAS's budget to support these efforts.

In 2012, the last year for which data is available, 1,510 Ohioans committed suicide. Of these, nearly half were diagnosed with a mental illness. The suicide rates were highest for males age 85 and older. Suicide rates for white males were four times higher than white females and two times higher than black males.

Local Homelessness Assistance and Prevention Programs in Ohio Receive $78.1 million in Federal Continuum of Care Program Grants

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

On March 8, 2016, the U.S. Department of Housing and Urban Development (HUD) awarded $1.6 billion under the Continuum of Care (CoC) Program to local homeless housing and services programs in all 50 states. Of this amount, $78.1 million will support 258 projects in the state of Ohio. Funding is awarded to designated CoC planning bodies. In turn, these entities distribute funding to local homeless housing and services programs. The table below shows the total funding that was awarded to each CoC in Ohio and the number of projects the awards will support.

Continuum of Care Program Grant Awards

Continuum of Care	Number of Projects	Award Amount
Akron/Summit County	27	$3,583,606
Canton, Massillon, Alliance/Stark County	15	$1,891,347
Cincinnati/Hamilton County	35	$14,704,685
Columbus/Franklin County	32	$9,716,981
Cleveland/Cuyahoga County	20	$21,689,317
Dayton, Kettering/Montgomery County	18	$6,902,097
Ohio Balance of State*	80	$14,169,034
Toledo/Lucas County	20	$3,674,715
Youngstown/Mahoning County	11	$1,756,659
TOTAL	**258**	**$78,088,441**

*Ohio Balance of State CoC recipients are those within Ohio's 80 rural counties whose federal funding for homelessness is coordinated regionally and by the Development Services Agency.

The CoC Program is a competitive grant program with annual grant awards. The funding may be used for permanent housing, transitional housing, supportive services, Homeless Management Information Systems (HMIS), and homelessness prevention. The projects that received HUD awards can be found at http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/homeless/budget/2015.

ODE Awards Grants for Secondary Transition Services for Students with Disabilities

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

On March 23, 2016, the Ohio Department of Education (ODE) announced the recipients of the Innovative Strategies for Improving College and Career Readiness for Students with Disabilities grants. These grants will assist traditional and joint vocational school districts in using evidence-based predictors and practices to improve the coordination and delivery of secondary transition services for students with disabilities ages 14 to 21 in order to better prepare students for successful post-school outcomes in the areas of competitive, integrated employment, education and training, and independent living.

ODE selected 20 proposals for funding under this initiative: one from each of the 16 state support team regions and four from large urban districts. Each recipient will receive up to $125,000 per fiscal year in FY 2016 and FY 2017. The grants are funded through a set-aside in H.B. 64 of $2.5 million each fiscal year for secondary transition services from GRF line item 200540, Special Education Enhancements. Additional information about the grants is available on ODE's website by searching for the term "Secondary Transition Services Grant."

Ohio Awarded Over $26 million in Additional Federal Funds to Support Manufacturing

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

On April 5, 2016, the Development Services Agency (DSA) announced that Ohio was awarded approximately $26.2 million in federal funding from the U.S. Department of Commerce to continue to support the Manufacturing Extension Partnership (MEP) program for the next five years (FY 2017-FY 2021). The program supports small- and medium-sized manufacturers by providing products, training, and consulting services to increase their productivity, growth, and global competitiveness. These functions are carried out by regional economic development organizations selected by DSA.

The federal MEP funding flows to DSA through Fund 3080, line item 195672, Manufacturing Extension Partnership. Federal funding for the MEP program was $5.4 million in FY 2016. The newly awarded funding is expected to be distributed in equal amounts of approximately $5.25 million per year. The program requires a 2:1 federal to state and local match. The state match is provided through GRF line item 195453, Technology Programs and Grants. The local matching dollars are provided by the designated regional economic development organizations.

DSA currently administers the MEP program through six regional economic development organizations. These include the (1) Appalachian Partnership for Economic Growth – Athens, (2) Center for Innovative Food Technology – Toledo, (3) FastLane for Growth Solutions – Dayton, (4) Manufacturing Advocacy and Growth Network (MAGNET) – Cleveland, (5) PolymerOhio – Columbus, and (6) TechSolve – Cincinnati. DSA will competitively select the regional partners that will be responsible for overseeing MEP initiatives under this new funding round in September 2016.

Controlling Board Approves $2.5 million for Easements at Fernald Preserve

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

On April 4, 2016, the Controlling Board approved a request by the Ohio Environmental Protection Agency (Ohio EPA) to increase funding by $1.5 million in FY 2016 and $1.0 million in FY 2017 to purchase properties and conservation easements near the Fernald Preserve. Fernald is the site of a formerly contaminated federal uranium processing facility located within Crosby Township (Hamilton County) and Ross Township (Butler County). The site was remediated by the federal Department of Energy (DOE) in 2006, with the Ohio EPA having ongoing regulatory oversight.

The additional funding will be disbursed to the Three Valley Conservation Trust[10] for the acquisition of two properties (totaling $410,000) and seven conservation easements[11] (totaling $2.1 million) as part of the Paddys Run Conservation Project. The project's purpose is to protect and improve water quality in Paddys Run and the Great Miami Aquifer. The money is being appropriated from the Federal Natural Resources Damages Settlement Fund (Fund 3CS0, line item 715688). This fund received $13.75 million paid by DOE to the state of Ohio under a 2008 claim settlement for contaminating the area's groundwater. It is used to restore, replace, or acquire the equivalent of injured natural resources at and in the vicinity of Fernald. With the Controlling Board's approval of this latest request, a total of $10.2 million has been appropriated from the fund for property acquisition and conservation easements totaling nearly 10,000 acres in the Fernald area since 2012. The fund's cash balance as of March 2016 was $6.2 million, including investment earnings.

Ohio EPA Announces $15.2 million in Diesel Emission Reduction Grants

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

On April 19, 2016, the Ohio EPA announced the award of Diesel Emission Reduction Grants (DERG) totaling $15.2 million for 26 public and private sector diesel vehicle fleet projects[12] (see table below). The grant awards will be used for projects that refurbish or replace aging diesel engines in the recipient's fleet with newer, cleaner diesel technology or alternative fuel technology. The Ohio EPA estimates these projects

[10] The Three Valley Conservation Trust is a nonprofit land trust that serves as the subcontractor to develop conservation easements on eligible lands in the Fernald Preserve area.

[11] A conservation easement is a customized legal agreement that permanently limits certain uses of the land, or a portion of the land, in order to protect its natural and agricultural values.

[12] Private sector fleets are required to apply through a public sector partner such as a metropolitan planning organization, local government, or state agency.

will reduce air pollutants (fine particulates and nitrogen oxides) by an estimated 745 tons annually. Each recipient's equipment is operated, for at least 65% of the time, in areas of Ohio that are eligible for the Congestion Mitigation and Air Quality Program (CMAQ).[13] These areas include 38 counties (or parts of counties), largely in Central, Southwest, and Northeast Ohio.

DERG is administered jointly by the Ohio EPA and the Ohio Department of Transportation and is supported with federal CMAQ funds allocated to Ohio by the Federal Highway Administration. Grants awarded as part of the DERG program cover up to 80% of an eligible project's total cost. Recipients are required to provide a minimum 20% in matching funds, which cannot be sourced from other federal funds or from in-kind services. Projects selected for funding are then reimbursed up to the amount authorized for that project.

Diesel Emission Reduction Grant Recipients ($15,194,957 Total Statewide)

Private Sector Recipient (Project Location)	Grant Amount	Public Sector Recipient (Project Location)	Grant Amount
Advanced Drainage (Statewide)	$254,251	Brunswick City School District (Medina)	$531,811
AK Steel (Butler)	$1,000,000	Central Ohio Transit Authority (Franklin)	$984,880
Bellaire Harbor Service (Belmont)	$373,994	Champion Township (Trumbull)	$58,541
Convoy Solutions/Idle Aire (Clark, Hamilton, Montgomery)	$336,000	Greater Cleveland Regional Transit Authority (Cuyahoga)	$796,000
McGinnis (Lawrence)	$323,576	Greater Dayton Regional Transit Authority (Montgomery)	$999,075
MightyFruit Trucking (Richland)	$87,894	LakeTran (Lake)	$996,576
Mondelez Global (Lucas)	$156,480	Licking County Commissioners (Licking)	$81,097
R&L Transfer (29 counties statewide)	$996,403	Portage Area Regional Transportation Authority (Portage)	$830,000
Railserve (Montgomery)	$568,443	Rocky River City School District (Cuyahoga)	$111,084
Republic Services (Stark)	$936,255	Southwest Ohio Regional Transit Authority (Hamilton)	$729,504
Superior Marine Ways (Lawrence)	$728,536	Stark Area Regional Transit Authority (Stark)	$1,000,000
Sysco Corporation (19 counties statewide)	$501,271	Toledo Regional Transit Authority (Lucas)	$796,000
United Dairy Farmers (9 counties in Central and Southwest Ohio	$338,745	Western Reserve Transit Agency (Mahoning)	$678,541

[13] CMAQ is a federal program which provides funding to areas in nonattainment, or maintenance, for ozone, carbon monoxide, and/or particulate matter.

TRACKING THE ECONOMY

– Thomas Kilbane, Economist, 614-728-3218

Overview

Growth of employment and total economic output has slowed thus far in 2016, though both remain positive. Inflation-adjusted gross domestic product (real GDP) grew just 0.5% (seasonally adjusted annual rate) in the first quarter. Consumer spending growth has also slowed nationwide after a strong 2015.

Despite this, Ohio employment growth through March has not slowed at all. Over the past six months, Ohio has seen significant job gains and record setting labor force growth. Job gains have been highest in the Columbus metropolitan area. Zillow recently named Columbus, Ohio the hottest apartment market in America.

The National Economy

Employment and Unemployment

Employment growth nationally has slowed slightly in 2016. In April, nonfarm payroll employment increased by just 160,000 according to the Bureau of Labor Statistics (BLS). BLS also revised its estimates of job growth in February and March downward by 19,000. Overall, job gains have averaged 192,000 per month in 2016, down from 229,000 in 2015. The mining industry continues to be the biggest drag, employing 130,000 fewer people than one year ago. Health care, and food services and drinking places continued to see big employment gains.

It was not all bad news for employment in April though. The unemployment rate stayed steady at 5.0% and the number of discouraged workers continued to drop. In April, 17,000 fewer workers were classified as discouraged compared to March, and an encouraging 188,000 fewer than April of last year. Workers are classified as discouraged if they are unemployed and want work but are not currently looking because they believe it is not available.[14] Since they are not currently looking, they are not counted as part of the labor force, and therefore do not count as part of the unemployment rate. The number of discouraged workers in the U.S. has remained high compared to levels preceding the last recession.

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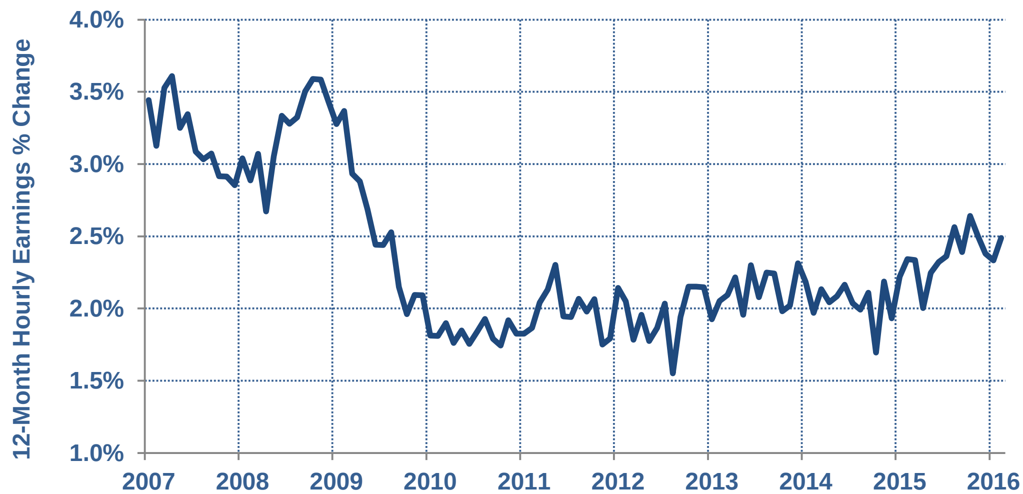
[14] Specifically, discouraged workers must be currently available to work, have looked for work sometime in the past 12 months, but not looked in the last four weeks because they believe no work is available for them.

Pay growth also continued its recent trend in April. Average hourly earnings[15] were up 2.5% from one year ago. The chart below shows year-over-year employee earnings growth in the private sector since 2007. Beginning in the fourth quarter of 2015, pay began to rise more substantially than any time since the recession, however, growth remains below prerecession levels.

Average earnings in the private sector are up 2.5% over the past year.

Chart 5: U.S. Private Nonfarm Employee Earnings Growth



Production

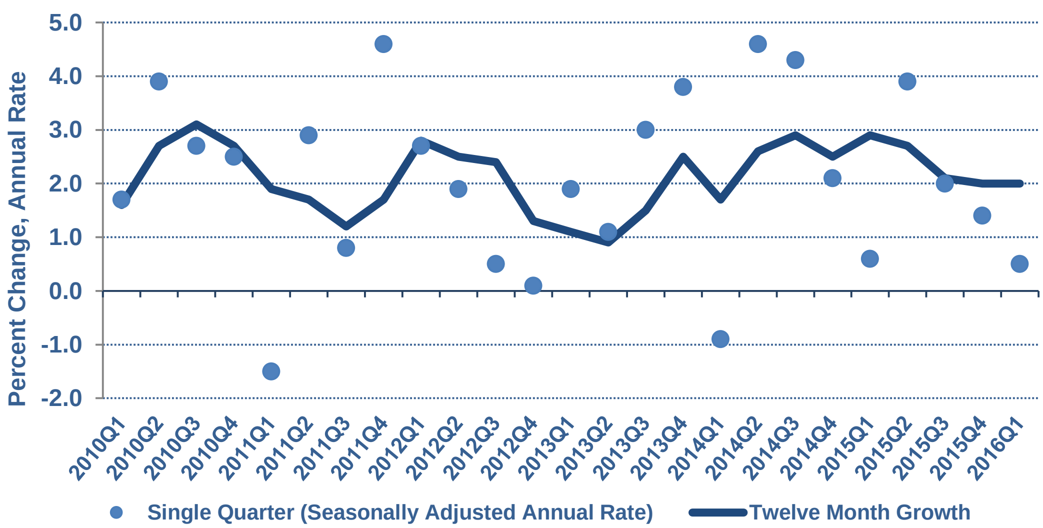
Growth of economic output continued to slow in the first quarter of 2016. Real GDP grew 0.5% during the quarter, after 1.4% growth in the fourth quarter of 2015, according to the Bureau of Economic Analysis.[16] A decline in nonresidential fixed investment was the main culprit for the slowdown so far in 2016. Economic growth has slowed in three straight quarters, but year-over-year 12-month growth has remained steady at about 2.0% (see chart below). Production growth in the second quarter of 2016 will need to be strong to remain at that 12-month rate.

Real GDP grew only 0.5% (annual rate) in the first quarter of 2016.

[15] On private, nonfarm payrolls.

[16] Seasonally adjusted annual rates.

Chart 6: United States Real GDP Growth



Industrial production decreased in March for the sixth out of the last seven months, according to the Federal Reserve. The drop in production continued to be led by mining and utilities, however, manufacturing production declined for the second straight month as well.

Consumer Spending

"Growth in household spending has moderated," the Federal Open Market Committee (FOMC) said at the conclusion of its meeting at the end of April.[17] After driving economic growth through much of 2015, consumer spending is beginning to slow a bit. Inflation-neutral spending in March was virtually flat from February, and over the first quarter of 2016 grew at a seasonally adjusted annual rate of 1.9%. The rate of growth in 2015 was 3.1%. A slowdown in spending on motor vehicles in March was a large factor. Consumer sentiment surveys show slight decreases in recent months, but overall sentiment remains near prerecession levels.

Consumer sentiment remains near prerecession levels.

Sales of motor vehicles rebounded to a strong level[18] in April after dipping in March, temporarily allaying fears that demand had peaked. Sales of cars and light trucks set an all-time record in 2015. Early warning signs for the industry remain present though, as the percentage of nonperforming auto loans is on the rise.[19]

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[17] The FOMC is the body within the Federal Reserve that sets monetary policy.

[18] Car and light truck sales in April were a seasonally adjusted annual rate of 17.3 million units.

[19] http://blogs.wsj.com/moneybeat/2016/04/07/more-warning-signs-in-subprime-car-loan-market/.

Real Estate

Existing home sales, which represent the bulk of the residential real estate market, rebounded in March from a weak February. Sales volume was up 1.5% from one year ago. Housing starts and sales of newly built homes were down in March however. Overall, the housing market still seems to be growing, but like much of the economy, at a slowing pace.

Home prices continue to rise faster than the pace of income growth. The median existing home price was up 5.7% from March 2015, the 49th consecutive month with year-over-year price gains. Inventories remain tight, keeping upward pressure on home prices. Homes are selling quickly, with 42% of properties on the market for less than a month. Mortgage rates have remained low in 2016 as well however, helping to offset long-term costs for buyers. The average 30-year fixed rate mortgage was 3.61% the week of May 5, according to Freddie Mac's Primary Mortgage Market Survey.

42% of properties put on the market are selling in less than a month.

Inflation

These days, monitoring topline U.S. inflation has become an exercise in tracking volatile oil and gas prices. The price index of energy goods and services rose in March, and thus, so did overall consumer price levels in the U.S. economy. The energy price index had dropped in each of December, January, and February. The more stable measure of consumer prices, the price index of personal consumption expenditures (PCE) less food and energy, has increased steadily in each month since December of 2008. For the 12 months ended in March, it was up 1.6%. Prices for producers were down slightly overall, likely due to cheaper energy inputs.

The Ohio Economy

Employment and Unemployment

Ohio added 18,300 jobs[20] in March, continuing a recent period of strong job growth for the state. During the six months ended in March, only five other states added more jobs than Ohio's total of 69,300.[21] The job gains are drawing people off the sidelines of the job market as well. Ohio's labor force increased during the first quarter of 2016 (seasonally adjusted) by more than any other three-month period since the BLS began tracking the data in 1976. In the three months ended in March, Ohio's labor force added 96,000 people, approximately equivalent to the combined population of the Ohio cities of Canton and Athens.

[20] Nonfarm payroll employment, seasonally adjusted.

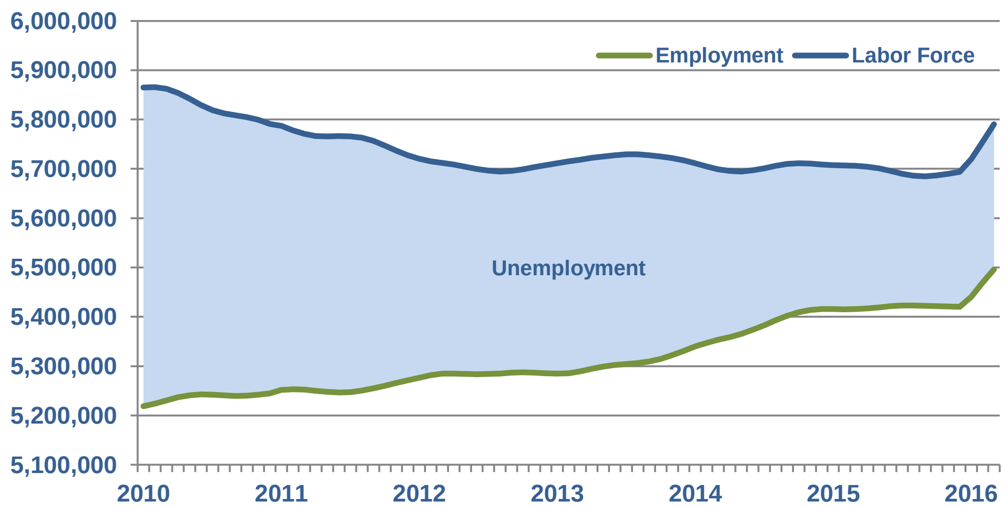
[21] The five states to top Ohio were California (151,000), Florida (97,100), Texas (81,000), Georgia (74,400), and Michigan (73,900).

96,000 people joined Ohio's labor force in the 1st quarter of 2016. Equivalent to the combined population of Canton and Athens, it was the largest three-month gain on record.

The labor force includes individuals who are employed or are actively looking for work.[22] Many people left the labor force during the last recession for early retirement, school enrollment, or after losing a job and becoming discouraged trying to find a new one, all common events during economic downturns. However, labor force participation has struggled to bounce back during the recovery as expected, especially in Ohio. As people enter (or re-enter) the labor force, some immediately find jobs but others do not, sometimes leading to a rise in the unemployment rate (if they were not previously looking for work, they were not counted as unemployed). During the six months ended in March, Ohio added over 69,000 jobs, but its unemployment rate also rose from 4.6% to 5.1%. Because this was largely a product of the surge in labor force, it is generally regarded as a positive for the state.

The chart below shows the change in Ohio's labor force and total employment since 2010 and illustrates the steep rise in both over the last three months. The distance between total labor force and aggregate employment represents Ohioans who are counted as unemployed.

Chart 7: Ohio Labor Force Composition



Zillow named Columbus, Ohio its hottest apartment market in America.

Housing

Ohio home sales remained healthy in March. Through the first quarter of the calendar year, total sales were up 9.3% from the same period in 2015. The average sale price this year was $147,190, 4.1% higher than the first quarter of 2015, according to the Ohio Association of Realtors.

[22] Specifically, the labor force is determined to be the number of civilians aged 16 and over who are either currently employed or unemployed but looked for work in the last four weeks.

The market for multiunit buildings is particularly strong in central Ohio. Zillow, an online real estate database company, named Columbus, Ohio its hottest apartment market in America.[23] The rating was based on the share of rental apartments built in 2011 or after, the percent of new apartment units built in the last year that rented within three months of being built, and the rent appreciation of apartments over the past year. Apartment rents in the Columbus metro area are up 6% over the past year according to the site. Following Columbus in the rankings were metro areas that have experienced high growth over the last decade such as Seattle, Denver, and San Jose.

[23] http://www.zillow.com/blog/columbus-hottest-rental-market-195204/.