Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION — JANUARY 2017

STATUS OF THE GRF

HIGHLIGHTS

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

GRF tax revenue was below estimate again in December. For the first half of FY 2017, tax revenue was $296.6 million below estimate, due to weakness in the two main sources of tax revenue (see bullets below). December saw very weak withholding revenue under the income tax; monthly withholding revenue was nearly $28 million below December 2015. Withholding rates were the same in both months, implying that Ohio payrolls were smaller this year than last. This month's "Tracking the Economy" article includes a comparison of recent economic forecasts for key variables with the forecasts on which the budget for the current biennium was based, shedding some light on revenue weakness.

Through December 2016, GRF sources totaled $17.09 billion:

- Revenue from the personal income tax was $182.9 million below estimate;
- Sales and use tax receipts were $104.9 million below estimate.

Through December 2016, GRF uses totaled $18.44 billion:

- Program expenditures were $412.2 million below estimate, due primarily to Medicaid ($404.6 million);
- Negative variances in several other spending categories were partially offset by a $75.3 million positive variance in primary and secondary education.

VOLUME 40, NUMBER 5

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

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Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of December 2016
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on January 3, 2017)

STATE SOURCES	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$106,935	$109,700	-$2,765	-2.5%
Nonauto Sales and Use	$865,217	$858,700	$6,517	0.8%
Total Sales and Use Taxes	**$972,152**	**$968,400**	**$3,752**	**0.4%**
Personal Income	$780,798	$810,300	-$29,502	-3.6%
Corporate Franchise	$471	$0	$471	---
Financial Institution	-$5,290	$200	-$5,490	-2744.9%
Public Utility	$168	$400	-$232	-58.0%
Kilowatt-Hour Excise	$22,268	$20,900	$1,368	6.5%
Natural Gas Consumption (MCF)	$490	$0	$490	---
Commercial Activity Tax	$8,059	$9,200	-$1,141	-12.4%
Petroleum Activity Tax	$1,317	$1,800	-$483	-26.8%
Foreign Insurance	$59	-$600	$659	109.8%
Domestic Insurance	$0	$0	$0	---
Business and Property	$0	$0	$0	---
Cigarette	$79,494	$87,100	-$7,606	-8.7%
Alcoholic Beverage	$5,189	$5,100	$89	1.8%
Liquor Gallonage	$3,831	$3,800	$31	0.8%
Estate	$123	$0	$123	---
Total Tax Revenue	**$1,869,129**	**$1,906,600**	**-$37,471**	**-2.0%**
NONTAX REVENUE				
Earnings on Investments	$5	$0	$5	---
Licenses and Fees	$671	$855	-$184	-21.5%
Other Revenue	$1,841	$1,998	-$157	-7.8%
Total Nontax Revenue	**$2,517**	**$2,853**	**-$336**	**-11.8%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$16,794	$0	$16,794	---
Total Transfers In	**$16,794**	**$0**	**$16,794**	**---**
TOTAL STATE SOURCES	**$1,888,439**	**$1,909,453**	**-$21,013**	**-1.1%**
Federal Grants	$1,194,908	$1,071,499	$123,408	11.5%
TOTAL GRF SOURCES	**$3,083,347**	**$2,980,952**	**$102,395**	**3.4%**

*Estimates of the Office of Budget and Management as of August 2016.
Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Actual vs. Estimate
FY 2017 as of December 31, 2016
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on January 3, 2017)

STATE SOURCES	Actual	Estimate*	Variance	Percent	FY 2016	Percent Change
TAX REVENUE						
Auto Sales	$689,237	$698,600	-$9,363	-1.3%	$675,971	2.0%
Nonauto Sales and Use	$4,642,461	$4,738,000	-$95,539	-2.0%	$4,558,527	1.8%
Total Sales and Use Taxes	**$5,331,698**	**$5,436,600**	**-$104,902**	**-1.9%**	**$5,234,498**	**1.9%**
Personal Income	$3,987,894	$4,170,800	-$182,906	-4.4%	$4,202,479	-5.1%
Corporate Franchise	-$265	$0	-$265	---	$13,070	-102.0%
Financial Institution	-$15,191	-$8,000	-$7,191	-89.9%	-$8,360	-81.7%
Public Utility	$47,555	$51,100	-$3,545	-6.9%	$51,619	-7.9%
Kilowatt-Hour Excise	$182,706	$162,800	$19,906	12.2%	$171,617	6.5%
Natural Gas Consumption (MCF)	$16,929	$17,000	-$71	-0.4%	$17,164	-1.4%
Commercial Activity Tax	$618,715	$639,700	-$20,985	-3.3%	$612,755	1.0%
Petroleum Activity Tax	$2,860	$3,000	-$140	-4.7%	$3,362	-14.9%
Foreign Insurance	$161,032	$156,100	$4,932	3.2%	$145,911	10.4%
Domestic Insurance	$53	$400	-$347	-86.7%	$344	-84.5%
Business and Property	-$678	$0	-$678	---	$42	-1723.5%
Cigarette	$438,905	$442,800	-$3,895	-0.9%	$468,091	-6.2%
Alcoholic Beverage	$30,731	$28,500	$2,231	7.8%	$28,976	6.1%
Liquor Gallonage	$23,231	$22,400	$831	3.7%	$22,407	3.7%
Estate	$457	$0	$457	---	$823	-44.5%
Total Tax Revenue	**$10,826,630**	**$11,123,200**	**-$296,570**	**-2.7%**	**$10,964,797**	**-1.3%**
NONTAX REVENUE						
Earnings on Investments	$14,199	$8,500	$5,699	67.0%	$7,932	79.0%
Licenses and Fees	$12,014	$10,830	$1,184	10.9%	$9,837	22.1%
Other Revenue	$52,887	$47,588	$5,300	11.1%	$38,099	38.8%
Total Nontax Revenue	**$79,100**	**$66,918**	**$12,182**	**18.2%**	**$55,868**	**41.6%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$32,102	$22,300	$9,802	44.0%	$182,688	-82.4%
Total Transfers In	**$32,102**	**$22,300**	**$9,802**	**44.0%**	**$182,688**	**-82.4%**
TOTAL STATE SOURCES	**$10,937,832**	**$11,212,418**	**-$274,585**	**-2.4%**	**$11,203,354**	**-2.4%**
Federal Grants	$6,147,200	$6,483,953	-$336,753	-5.2%	$6,322,788	-2.8%
TOTAL GRF SOURCES	**$17,085,032**	**$17,696,371**	**-$611,339**	**-3.5%**	**$17,526,141**	**-2.5%**

*Estimates of the Office of Budget and Management as of August 2016.
Detail may not sum to total due to rounding.

REVENUES

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Overview

GRF tax revenue was $37.5 million below estimate in December.

As shown by the underperformance of personal income and sales taxes, the two largest GRF tax sources, FY 2017 has been characterized by an apparent weakness in the Ohio economy compared to prior expectations. Through December, FY 2017 GRF sources[1] of $17.09 billion were $611.3 million below the estimate released by the Office of Budget and Management (OBM) in August 2016. In addition to a shortfall of $296.6 million from tax sources, federal grants were $336.8 million below estimate. Total GRF sources have been below estimate throughout FY 2017 due to a combination of tax revenue shortfalls and smaller than expected federal grants, primarily related to the level of spending in the Medicaid program,[2] which has generally been lower than expected. Tables 1 and 2, show GRF sources for December and for FY 2017 through December, respectively.

For the month of December, GRF sources were $102.4 million above estimate, with federal grants above estimate by $123.4 million. However, GRF tax revenue was below estimate by $37.5 million. Sales tax revenue and kilowatt-hour tax revenue were above projection by $3.8 million and $1.4 million respectively, but that was more than offset by a $29.5 million shortfall for the personal income tax (PIT). The cigarette and other tobacco products tax, the financial institutions tax (FIT), and the commercial activity tax (CAT) also fell short of estimates by $7.6 million, $5.5 million, and $1.1 million, respectively.

In the first half of FY 2017, GRF tax revenue was $296.6 million below estimate.

GRF tax revenue generally has been tracking below estimate during FY 2017. The first quarter of the fiscal year ended with a cumulative shortfall of $71.9 million (1.3%). Tax revenue performance deteriorated further in the second quarter, such that the first half of FY 2017 ended $296.6 million (2.7%) below estimate. The primary culprit was the PIT, from which revenue was $182.9 million below estimate through December. The sales and use tax was little better though:

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

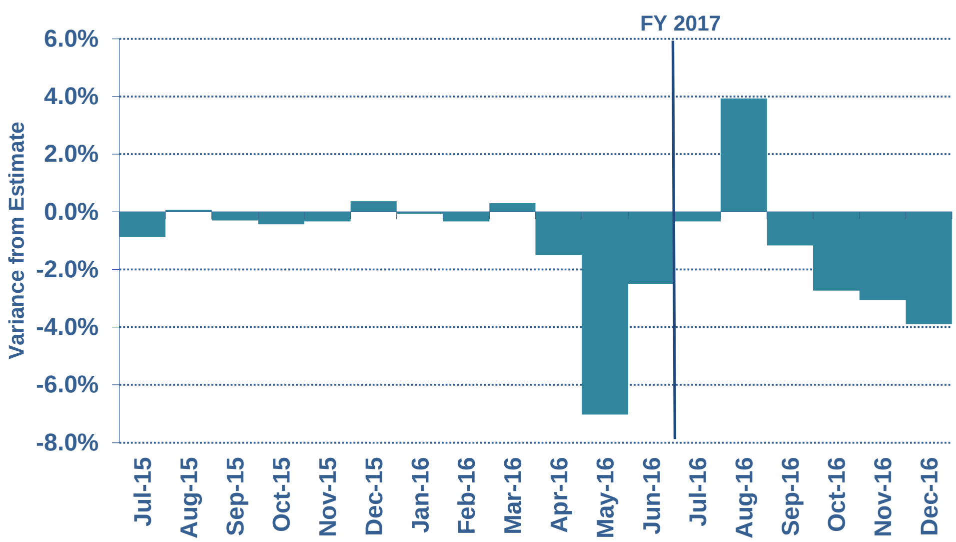
[2] Medicaid spending from the GRF was $404.6 million below estimates in the first half of FY 2017.

revenue from that tax was $104.9 million below estimate during the same period.

Though the first half of the fiscal year was highlighted by the underperformance of the PIT and the sales and use tax, other tax sources that contributed significantly to the shortfall were the CAT, the FIT,[3] the cigarette tax, and the public utility tax. Partially offsetting those deficits were surpluses from the kilowatt-hour tax, the foreign insurance tax, and the alcoholic beverage tax.

The chart below depicts the declining performance of tax revenue on a monthly basis (smoothed with a three-month average). Significant underperformance began in the last quarter of FY 2016. OBM reduced its revenue estimates for FY 2017, as compared with the forecast for the current biennial budget, due to the FY 2016 underperformance. But though the accommodating adjustments made to OBM's estimates for FY 2017 initially limited the deficits, by this fiscal year's second quarter, tax revenue was underperforming even those lowered expectations.

Chart 1: GRF Tax Revenue Performance Relative to Estimate (Three-month Moving Average)

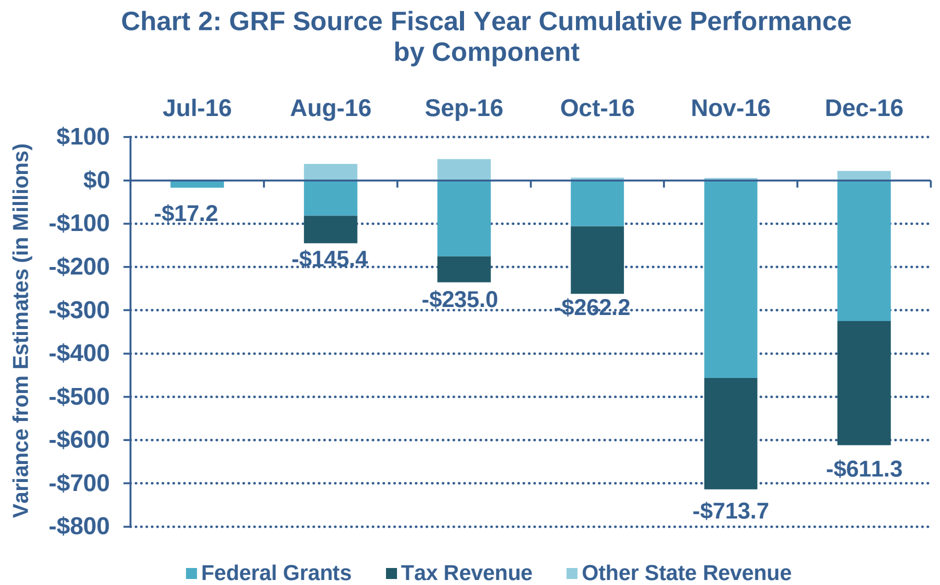


The following chart illustrates the cumulative performance of total GRF sources relative to estimates through each month of FY 2017, broken down by its largest components. Despite a small positive contribution from the "other state revenue" component (light blue bar in the online

In the first half of FY 2017, GRF sources were $611.3 million below estimate.

[3] The GRF typically pays out refunds under the FIT during the first half of a fiscal year as taxpayers make adjustments to previous tax filings. Receipts of the FIT are typically expected at the end of January, March, and May.

version of the chart), the GRF's cumulative sources were $611.3 million below estimate through the first half of FY 2017, as labeled in the far right column.



Compared to the first half of FY 2016, tax revenue in FY 2017 was $138.2 million (1.3%) lower. The majority of the decrease can be attributed to the PIT, which collected $214.6 million less thus far in FY 2017. Though sales and use tax revenue has been significantly below estimate in FY 2017, revenue was still $97.2 million higher than in the first half of FY 2016.

Sales and Use Tax

Sales and use tax receipts were $104.9 million below estimates in the first half of FY 2017.

The sales and use tax in December was above estimate for the first time in FY 2017. A slight positive variance from the nonauto sales tax was partially offset by a smaller negative variance from the auto portion of the tax. Overall, GRF monthly sales and use tax revenue of $972.2 million was $3.8 million (0.4%) above estimate, and $49.0 million (5.3%) above revenue in the same month last year. For the fiscal year to date, GRF sales and use tax receipts of $5.33 billion were $104.9 million (1.9%) below projections (with both sources below estimates), but $97.2 million (1.9%) above receipts in FY 2016 through December. The sales and use tax is the largest state sourced revenue stream to the GRF.

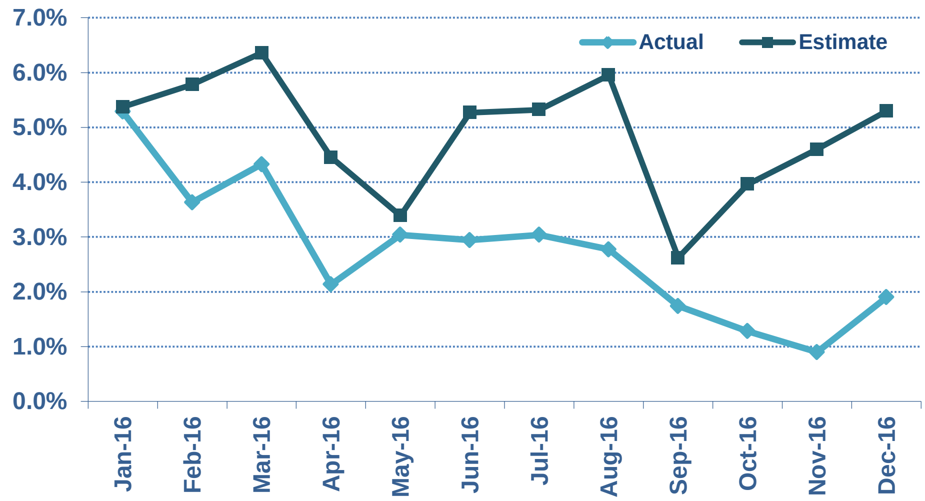
For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections generally arise from the sale of motor vehicles, but auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax instead of the auto tax.[4]

Nonauto Sales and Use Tax

Nonauto sales and use tax revenue to the GRF was $865.2 million in December, which was $6.5 million (0.8%) above estimate. Collections from this segment of the tax had been below estimate in the first five months of this fiscal year. Comparing revenue, month by month, to revenue from the same month a year ago reveals growth, but growth that was steadily declining until this month. For FY 2017 through December, nonauto sales and use tax revenue of $4.64 billion was $95.5 million (2.0%) below expectations, though receipts were $83.9 million (1.8%) above receipts in the first half of FY 2016. The chart below illustrates the year-over-year growth of nonauto sales and use tax collections and its failure to meet estimates in the last 12 months. December nonauto sales and use tax revenue experienced a boost from receipts attributed to Medicaid health insuring corporations (MHICs). Through November in FY 2017, revenue from these corporations had declined 0.4% compared to receipts in the corresponding period in FY 2016. However, at the end of December, total MHIC receipts ended up 5.1% above receipts in the first half of FY 2016. This portion of sales tax collections is generally correlated to Medicaid spending, not necessarily broader consumer spending trends. Collections from these corporations have made up less than 9% of nonauto sales and use tax revenue in FY 2017.

Nonauto sales and use tax revenue was $95.5 million below estimate through December in FY 2017.

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



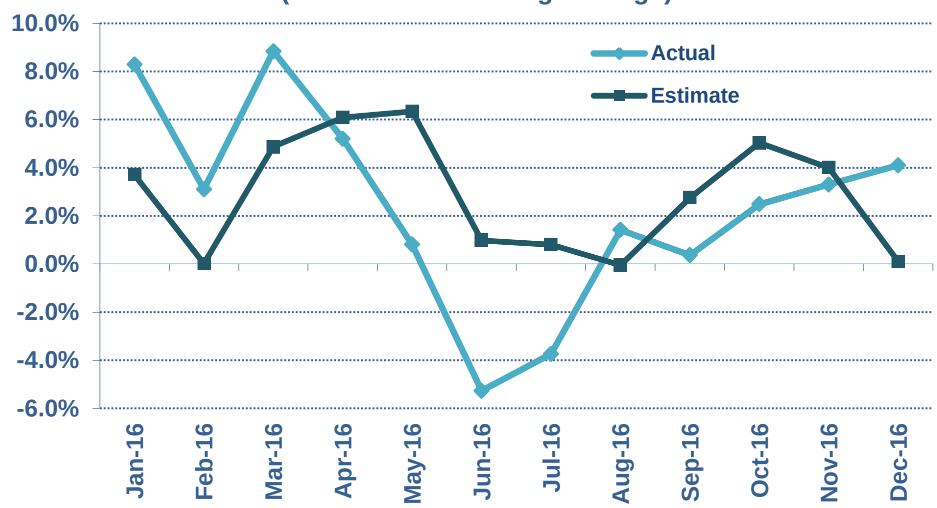
[4] Taxes arising from leases are paid immediately upon the lease signing. The clerks of court generally make auto sales and use tax payments on Mondays for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled. Therefore, auto sales and use tax receipts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

Auto Sales and Use Tax

First-half auto sales and use tax revenue was $9.4 million below estimate in FY 2017.

First-half receipts from the auto sales and use tax in FY 2017 of $689.2 million were $9.4 million (1.3%) below estimate, but $13.3 million (2.0%) above revenue in the corresponding period in FY 2016. For the month of December, the GRF received $106.9 million from this tax. This amount was $2.8 million (2.5%) below expectations, and $1.8 million (1.6%) below receipts in the same month in 2015. As the chart below illustrates, the pace of collections growth fell off sharply in the spring of 2016, and year-over-year growth in FY 2017 has picked up in recent months, but not as much as anticipated.

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



In December, nationwide light vehicle (auto and light truck) sales capped off the year on a strong note, and ended 2016 with total sales of 17.5 million units, matching the record year of 2015. Most notably in calendar year (CY) 2016, low gasoline prices and rising construction spending boosted light-truck sales relative to cars, resulting in a bumper year for that category: light-truck sales were 10.6 million units, 7% above sales in 2015, and a record 61% of light vehicle sales. On the other hand, sales of cars were 6.9 million units, 9% below unit sales in the previous calendar year. For CY 2016, though the total number of light vehicles sold nationwide was roughly the same as in 2015, the mix of sales has driven the average vehicle price higher this year.

Personal Income Tax

PIT GRF revenue was $780.8 million, $29.5 million (3.6%) below estimate in December, the fifth straight month the tax has missed projections. Receipts were also $68.9 million (8.1%) below revenue in December 2015. First-half GRF revenue from the PIT of $3.99 billion was $182.9 million (4.4%) below OBM's estimate, and $214.6 million (5.1%) below PIT revenue in the corresponding period in FY 2016.

FY 2017 PIT revenue was $182.9 million below estimate through December.

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 performance of the tax is typically driven by employer withholdings, the largest component of gross collections. Similarly to previous months, this component again missed projections in December, this time by $34.3 million (4.4%), and revenue from employer withholdings fell by 3.9% compared to that of December 2015. Refunds had been another PIT component responsible for poor revenue this year, but for the month, refunds were $5.1 million (14.5%) lower than anticipated.

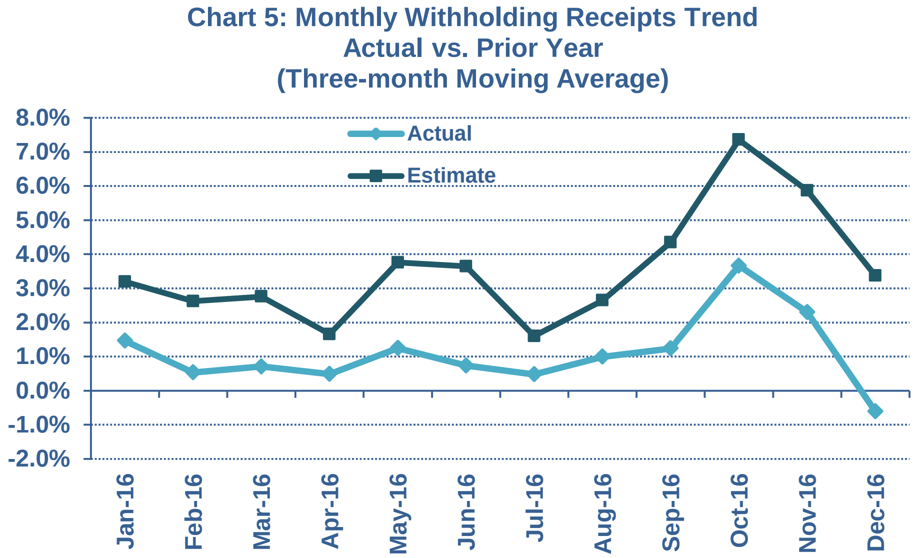
For FY 2017 through December, the PIT revenue shortfall was mostly due to a negative variance of $144.1 million (3.4%) in employer withholdings. Refunds were $43.9 million (17.1%) higher than expected, thereby also contributing to the negative variance. In addition to the shortfall in employer withholding, collections from miscellaneous payments and trusts were also below anticipated revenue, by $12.6 million and $3.8 million, respectively. On the other hand, revenue was higher than expected for quarterly estimated payments ($6.5 million) and annual returns ($10.0 million).

Revenue from employer withholding was $144.1 million below estimate in FY 2017 through December.

Payrolls continue to grow year over year. Policy changes, which led to reduced withholding rates, took effect in August 2015 and limited year-over-year growth of employer withholdings throughout FY 2016. The chart below illustrates the growth of monthly employer withholdings relative to one year ago. The pace of growth increased early in FY 2017 as the effects of policy changes were phased out of the year-over-year calculations. However, growth remains sluggish and below OBM's

[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.

FY 2017 estimates. Through December, FY 2017 withholding growth was almost flat.



FY 2017 revenues through December from each component of the PIT relative to estimates and to revenue received in the corresponding period of FY 2016 are detailed in the table below.

FY 2017 Year-to-Date Personal Income Tax Revenue Estimate Variances and Year-over-Year Changes by Component				
Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2016	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	-$144.1	-3.4%	$6.1	0.1%
Quarterly Estimated Payments	$6.5	2.3%	-$133.8	-31.9%
Trust Payments	-$3.8	-23.8%	-$7.5	-38.0%
Annual Return Payments	$10.0	12.9%	-$23.2	-20.9%
Miscellaneous Payments	-$12.6	-31.5%	-$7.9	-22.3%
Gross Collections	-$144.0	-3.1%	-$166.4	-3.6%
Less Refunds	$43.9	17.1%	$44.9	17.6%
Less LGF Distribution	-$5.0	-2.6%	$3.3	1.8%
GRF PIT Revenue	-$182.9	-4.4%	-$214.6	-5.1%

Cigarette and Other Tobacco Products Tax

For the first time in the fiscal year, year-to-date cigarette and other tobacco products tax fell below estimate. December GRF revenue from the cigarette and other tobacco products tax of $79.5 million was $7.6 million (8.7%) below estimate and $11.7 million (12.9%) below revenue in December 2015. The size of the underperformance suggests it is likely timing-related. For the first half of FY 2017, receipts from the tax were $438.9 million, $3.9 million (0.9%) below estimate. Of the total revenue, $407.3 million was from sales of cigarettes and $31.6 million was from sales of other tobacco products. Compared to the first six months of FY 2016, receipts in FY 2017 were $29.2 million (6.2%) lower. Generally, cigarette tax receipts are trending downward long-term; however, legislative changes[6] led to increased receipts in the early months of FY 2016. Thus, the year-over-year decline in FY 2017 revenue is larger in percentage terms than the trend rate of decline.

FY 2017 revenue from the cigarette tax was $3.9 million below estimate.

Commercial Activity Tax

December GRF revenue of $8.1 million from the CAT was $1.1 million (12.4%) below estimate, and $2.3 million (22.1%) below revenue in December 2015. For the fiscal year to date, GRF receipts of $618.7 million were $21.0 million (3.3%) below estimate, and $6.0 million (1.0%) above receipts in the corresponding period last year, but only because refunds claims were $22.5 million less this fiscal year.

The performance of the CAT has been lackluster in recent fiscal quarters, and due to poor performance in FY 2016, OBM reduced its estimate of yearly revenue growth for FY 2017 for this tax. The CAT was below estimates in FY 2016, and actual all-funds revenue was slightly below FY 2015's total. Weakness in collections has continued this fiscal year. According to OAKS, first-half gross collections were about 1.7% below those in the corresponding period in FY 2016. The CAT is the third largest GRF tax revenue source.

FY 2017 revenue from the CAT was $21.0 million below estimate.

Other Taxes

The foreign insurance tax generated $161.0 million during the first half of FY 2017, $4.9 million (3.2%) above estimate. This tax is paid by insurance companies headquartered in other states, based on premiums they receive to provide insurance covering risks located in Ohio. The revenue experience so far this year, while positive, reveals little about the full fiscal year experience from the tax: payments received so far represent advance payments based on previous year tax liabilities before credits. Similarly, a very slight negative variance for the domestic insurance tax (paid by insurance companies headquartered in Ohio) says little about the

[6] H.B. 64 increased the cigarette tax from $1.25 to $1.60 per pack of 20 cigarettes, effective July 1, 2015. This led to the payment of a "floor tax" for cigarettes in inventory at the time the new tax rate went into effect. Excluding the effect of the floor tax, the year-over-year decline in tax revenue was about 0.6%.

FY 2017 revenue from the kilowatt-hour tax was $19.9 million above estimate.

full year experience: virtually all revenue from the tax is received in May and June each fiscal year.

The kilowatt-hour tax generated $182.7 million during the first six months of the year. This was $19.9 million (12.2%) above estimate, and 6.5% higher than revenue during the comparable months of FY 2016. The tax base generally is kilowatt hours of electricity used, i.e., it generally does not depend on the price of electricity. A small part of the positive variance, about $2 million to $3 million, is due to the overall poor performance of GRF taxes overall this year. Half of the allocation of GRF tax revenue to the Public Library Fund is debited against this tax for accounting purposes, thus poor revenue performance overall makes this tax look good. The remaining positive variance is likely due to the warm autumn months, which may have increased household use of air conditioning.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of December 2016
($ in thousands)
(Actual based on OAKS reports run January 9, 2017)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary and Secondary Education	$619,072	$605,606	$13,466	2.2%
Higher Education	$185,083	$185,054	$29	0.0%
Other Education	$7,968	$4,604	$3,365	73.1%
Total Education	$812,123	$795,263	$16,859	2.1%
Medicaid	$1,646,073	$1,565,872	$80,201	5.1%
Health and Human Services	$105,419	$120,053	-$14,635	-12.2%
Total Welfare and Human Services	$1,751,492	$1,685,925	$65,567	3.9%
Justice and Public Protection	$212,975	$187,227	$25,748	13.8%
General Government	$31,984	$32,307	-$323	-1.0%
Total Government Operations	$244,959	$219,534	$25,425	11.6%
Property Tax Reimbursements	$2,101	$36,417	-$34,317	-94.2%
Debt Service	$16,747	$16,924	-$177	-1.0%
Total Other Expenditures	$18,848	$53,341	-$34,493	-64.7%
Total Program Expenditures	**$2,827,421**	**$2,754,063**	**$73,358**	**2.7%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$0	$0	$0	---
Total Transfers Out	$0	$0	$0	---
TOTAL GRF USES	**$2,827,421**	**$2,754,063**	**$73,358**	**2.7%**

*August 2016 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 2017 as of December 31, 2016
($ in thousands)
(Actual based on OAKS reports run January 9, 2017)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2016**	**Percent Change**
Primary and Secondary Education	$4,083,012	$4,007,742	$75,270	1.9%	$4,086,573	-0.1%
Higher Education	$1,145,504	$1,155,496	-$9,992	-0.9%	$1,113,119	2.9%
Other Education	$46,299	$44,956	$1,343	3.0%	$38,575	20.0%
Total Education	$5,274,814	$5,208,194	$66,620	1.3%	$5,238,267	0.7%
Medicaid	$9,110,179	$9,514,816	-$404,638	-4.3%	$9,302,506	-2.1%
Health and Human Services	$673,799	$726,487	-$52,688	-7.3%	$662,487	1.7%
Total Welfare and Human Services	$9,783,978	$10,241,303	-$457,325	-4.5%	$9,964,993	-1.8%
Justice and Public Protection	$1,108,123	$1,098,084	$10,039	0.9%	$1,017,087	9.0%
General Government	$198,523	$210,213	-$11,690	-5.6%	$184,762	7.4%
Total Government Operations	$1,306,646	$1,308,297	-$1,651	-0.1%	$1,201,849	8.7%
Property Tax Reimbursements	$900,987	$919,983	-$18,996	-2.1%	$898,795	0.2%
Debt Service	$907,140	$907,973	-$833	-0.1%	$880,798	3.0%
Total Other Expenditures	$1,808,128	$1,827,956	-$19,829	-1.1%	$1,779,593	1.6%
Total Program Expenditures	**$18,173,566**	**$18,585,751**	**-$412,185**	**-2.2%**	**$18,184,702**	**-0.1%**
TRANSFERS						
Budget Stabilization	$29,483	$29,483	$0	0.0%	$425,500	-93.1%
Other Transfers Out	$238,587	$250,623	-$12,036	-4.8%	$388,234	-38.5%
Total Transfers Out	$268,070	$280,106	-$12,036	-4.3%	$813,734	-67.1%
TOTAL GRF USES	**$18,441,635**	**$18,865,857**	**-$424,221**	**-2.2%**	**$18,998,436**	**-2.9%**

*August 2016 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

Table 5: Medicaid Expenditures by Department
Actual vs. Estimate
($ in thousands)
(Actuals based on OAKS report run on January 6, 2017)

	Month of December 2016				Year to Date Through December 2016			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid	**$2,070,765**	**$1,975,330**	**$95,435**	**4.8%**	**$10,951,304**	**$11,512,507**	**-$561,203**	**-4.9%**
GRF	$1,592,769	$1,500,325	$92,444	6.2%	$8,780,165	$9,155,097	-$374,931	-4.1%
Non-GRF	$477,996	$475,005	$2,991	0.6%	$2,171,139	$2,357,410	-$186,272	-7.9%
Developmental Disabilities	**$191,099**	**$211,275**	**-$20,176**	**-9.5%**	**$1,244,897**	**$1,315,687**	**-$70,790**	**-5.4%**
GRF	$48,040	$50,373	-$2,333	-4.6%	$285,945	$290,331	-$4,386	-1.5%
Non-GRF	$143,059	$160,903	-$17,844	-11.1%	$958,952	$1,025,357	-$66,405	-6.5%
Job and Family Services	**$15,680**	**$31,885**	**-$16,204**	**-50.8%**	**$109,741**	**$162,327**	**-$52,586**	**-32.4%**
GRF	$4,347	$14,212	-$9,865	-69.4%	$38,481	$64,094	-$25,613	-40.0%
Non-GRF	$11,333	$17,672	-$6,339	-35.9%	$71,260	$98,233	-$26,973	-27.5%
Health	**$2,443**	**$3,566**	**-$1,123**	**-31.5%**	**$14,025**	**$14,226**	**-$202**	**-1.4%**
GRF	$423	$340	$83	24.4%	$1,947	$1,704	$243	14.3%
Non-GRF	$2,021	$3,226	-$1,206	-37.4%	$12,078	$12,523	-$445	-3.5%
Aging	**$665**	**$720**	**-$55**	**-7.6%**	**$3,866**	**$4,224**	**-$358**	**-8.5%**
GRF	$365	$422	-$57	-13.6%	$1,963	$1,971	-$8	-0.4%
Non-GRF	$300	$298	$2	0.8%	$1,902	$2,252	-$350	-15.5%
Mental Health and Addiction	**$516**	**$627**	**-$112**	**-17.8%**	**$2,925**	**$2,605**	**$320**	**12.3%**
GRF	$129	$200	-$71	-35.4%	$1,677	$1,620	$57	3.5%
Non-GRF	$387	$427	-$41	-9.6%	$1,247	$985	$262	26.6%
Total GRF	**$1,646,073**	**$1,565,872**	**$80,201**	**5.1%**	**$9,110,179**	**$9,514,816**	**-$404,638**	**-4.3%**
Total Non-GRF	**$635,095**	**$657,532**	**-$22,436**	**-3.4%**	**$3,216,578**	**$3,496,759**	**-$280,181**	**-8.0%**
Total All Funds	**$2,281,168**	**$2,223,403**	**$57,765**	**2.6%**	**$12,326,757**	**$13,011,576**	**-$684,819**	**-5.3%**

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

Table 6: All-Funds Medicaid Expenditures by Payment Category
Actual vs. Estimate
($ in thousands)
(Actuals based on OAKS report run on January 6, 2017)

	December				Year to Date Through December 2016			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	$959,555	$883,299	$76,256	8.6%	$5,111,667	$5,372,293	-$260,627	-4.9%
Nursing Facilities	$126,467	$121,456	$5,011	4.1%	$748,128	$735,404	$12,724	1.7%
DDD Services	$186,511	$199,454	-$12,943	-6.5%	$1,203,613	$1,267,783	-$64,170	-5.1%
Hospitals	$243,247	$235,040	$8,207	3.5%	$761,087	$852,270	-$91,182	-10.7%
Behavioral Health	$89,658	$93,631	-$3,973	-4.2%	$559,974	$603,674	-$43,700	-7.2%
Administration	$63,648	$97,038	-$33,390	-34.4%	$454,864	$589,101	-$134,237	-22.8%
Aging Waivers	$24,766	$28,232	-$3,466	-12.3%	$169,830	$174,728	-$4,898	-2.8%
Prescription Drugs	$29,885	$34,435	-$4,550	-13.2%	$196,953	$221,977	-$25,025	-11.3%
Medicare Buy-In	$92,567	$38,660	$53,907	139.4%	$312,356	$230,564	$81,792	35.5%
Physicians	$11,107	$15,133	-$4,026	-26.6%	$87,566	$100,383	-$12,818	-12.8%
Medicare Part D	$31,267	$28,057	$3,210	11.4%	$177,001	$166,737	$10,265	6.2%
Home Care Waivers	$9,303	$13,248	-$3,945	-29.8%	$61,062	$85,208	-$24,146	-28.3%
ACA Expansion	$330,456	$363,382	-$32,926	-9.1%	$2,019,314	$2,148,660	-$129,346	-6.0%
All Other	$82,732	$72,337	$10,394	14.4%	$463,343	$462,794	$548	0.1%
Total All Funds	**$2,281,168**	**$2,223,403**	**$57,765**	**2.6%**	**$12,326,757**	**$13,011,576**	**-$684,819**	**-5.3%**

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

EXPENDITURES

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

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Overview

Through December, FY 2017 GRF uses as a whole totaled $18.44 billion, $424.2 million (2.2%) below the estimate released by OBM in August 2016. GRF uses mainly consist of program expenditures but also include transfers out. Year-to-date GRF program expenditures were $18.17 billion, $412.2 million (2.2%) below estimate, while transfers out were $268.1 million, $12.0 million (4.3%) below estimate. Tables 3 and 4 show GRF uses for the month of December and for FY 2017 through December, respectively. GRF program expenditures for the month of December were $2.83 billion, $73.4 million (2.7%) above the estimate. There were no transfers out in December.

GRF uses were $424.2 million below estimate for the first half of FY 2017.

Medicaid accounted for more than 95% of the total negative year-to-date variance in GRF uses. For the first half of FY 2017, GRF Medicaid expenditures were $404.6 million (4.3%) below estimate. Medicaid spending for December exceeded OBM's monthly estimate by $80.2 million, which helped to narrow this year-to-date variance. Details on Medicaid expenditures are provided below.

Health and Human Services had the second largest negative year-to-date variance after Medicaid at $52.7 million, of which $14.6 million occurred in the month of December. On the other hand, expenditures from the Primary and Secondary Education category were $13.5 million above estimate in December, which increased the category's positive year-to-date variance to $75.3 million. These variances are also discussed below.

Elsewhere, property tax reimbursement payments were below estimate in December, by $34.3 million. This negative monthly variance reversed the category's year-to-date variance from a positive $15.3 million at the end of November to a negative $19.0 million at the end of December. The reimbursement payments based on the August 2016 property tax settlement were largely completed by the end of November, so December's variance was expected.

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

For the first half of FY 2017, Medicaid expenditures were below estimate by $684.8 million, including $404.6 million from the GRF.

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, across all funds Medicaid expenditures of $2.28 billion in December were above estimate by $57.8 million (2.6%). GRF Medicaid expenditures of $1.65 billion were $80.2 million (5.1%) above estimate while non-GRF Medicaid expenditures of $635.1 million were $22.4 million (3.4%) below estimate. Through the first half of FY 2017, across all funds, Medicaid expenditures totaled $12.33 billion, $684.8 million (5.3%) below the year-to-date estimate. GRF Medicaid expenditures were $9.11 billion, $404.6 million (4.3%) below estimate, while non-GRF Medicaid expenditures were $3.22 billion, $280.2 million (8.0%) below 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. As seen from Table 5, ODM, the largest agency within this program category, also had the largest year-to-date variance. Through the first half of FY 2017, ODM's GRF expenditures totaled $8.78 billion, which was $374.9 million (4.1%) below estimate, and its non-GRF expenditures totaled $2.17 billion, which was $186.3 million (7.9%) below estimate. Across all funds, ODM's expenditures were $561.2 million (4.9%) below the year-to-date estimate. All-funds Medicaid expenditures from the Department of Developmental Disabilities (DDD), the second largest agency within this program category, totaled $1.24 billion through the first half of FY 2017, which was $70.8 million (5.4%) below estimate. DDD's GRF Medicaid expenditures of $285.9 million were $4.4 million (1.5%) below the year-to-date estimate while its non-GRF year-to-date expenditures of $959.0 million were $66.4 million (6.5%) below estimate. Together, ODM and DDD account for about 99% of the Medicaid expenditure total.

Table 6 details all-funds Medicaid expenditures by payment category. As seen from the table, Managed Care had the largest negative variance for the year to date at $260.6 million (4.9%), shrinking notably from the end of the previous month due to a positive variance of $76.3 million in December. The positive variance in December was caused by an expenditure of $138.8 million for health insurer fees. These fees had been estimated to total only $83.3 million and were originally planned for November. Continued lower-than-expected spending in other Managed Care areas offset much of this overage. As reported in previous issues of *Budget Footnotes*, the negative year-to-date variance in

Managed Care has persisted through the first half of FY 2017 as actual managed care rates that ran through CY 2016 were lower than expected. The lower than forecasted managed care rates have also been the main driving force behind the negative variance in the ACA Expansion category ($129.3 million, 6.0%). New rates took affect for CY 2017 on January 1.

The negative year-to-date variance in Administration ($134.2 million, 22.8%) continues to grow with a negative variance of $33.4 million in December. Approximately $8.0 million of the December variance was due to ODM caseload driven contracts that have not been billing as frequently as anticipated. Notably, billing for ODM's 1915(i) home and community-based services plan contract has been late. Most of the remaining December variance in this category was from lower than expected spending by the Department of Job and Family Services ($16.2 million) and the Department of Developmental Disabilities ($7.0 million).

The negative year-to-date variance for Hospitals ($91.2 million, 10.7%) persisted through the first half of the year, but shrank slightly from November. During December, $134.3 million in hospital upper payment limit (UPL) payments and $37.2 million in physician UPL payments went out, $9.3 million more than planned. However, the payments remain under estimate year to date by $60.7 million. Hospital UPL allows the state to direct supplemental payments, up to the difference between the Medicare and the Medicaid amounts, to providers. Similarly, physician UPL provides direct supplemental payments to hospital-based physicians.

The positive year-to-date variance in the Medicare Buy-In category ($81.8 million, 35.5%) more than doubled due to a positive variance of $53.9 million (139.4%) in December. The category's positive variance initially resulted from a larger than anticipated increase in Medicare Part B premiums for CY 2016. However, the large variance in December was mostly due to two payments being posted that month. The payment is due on the first of the month with a ten-day grace period. Whereas payments have been posting in the month due, ODM has begun making the payments a few days earlier, which causes them to post in the prior month. This new payment schedule may result in 13 payments being made during FY 2017. The Medicare Buy-in Program pays Medicare premiums, deductibles, and coinsurance for certain low-income Ohioans.

Health and Human Services

Through December, expenditures from the Health and Human Services program category totaled $673.8 million. These expenditures were below estimate by $52.7 million (7.3%), of which $14.6 million occurred in the month of December. The Ohio Department of Job and Family Services (ODJFS) was the principal source for this variance as its year-to-date spending was $34.0 million below estimate. The Ohio Department of Health (ODH) and Ohio Department of Mental Health and Addiction Services (OMHAS) accounted for $9.4 million and $3.5 million, respectively, of the category's total negative year-to-date variance.

Expenditures in the Health and Human Services category were below estimate by $52.7 million year to date.

ODJFS expenditures were below estimate in 16 of 20 line items, led by item 600535, Early Care and Education ($7.4 million). Prior to December, this item had positive variances each month totaling $1.3 million, but a negative variance of $8.7 million in December reversed that trend. This item is used in conjunction with other GRF and federal appropriation items for publicly funded child care. Also having significant negative year-to-date variances were item 600321, Program Support ($5.6 million), item 600416, Information Technology Projects ($5.4 million), and item 600410, TANF/State Maintenance of Effort ($3.9 million). According to OBM, items 600321 and 600416 were below estimate due to timing issues, whereas disbursements from item 600410 were below estimate due to lower than estimated program costs and a decrease in Ohio Works First caseloads.

Year-to-date negative variances for ODH were widespread as 19 of 21 line items were below the OBM estimate. The most prominent occurrences were for item 440418, Immunizations ($1.8 million), item 440416, Mothers and Children Safety Net Services ($1.7 million), item 440459, Help Me Grow ($1.6 million), and item 440473, Tobacco Prevention, Cessation, and Enforcement ($1.3 million).

The principal source for lower than anticipated spending within the OMHAS budget was item 336423, Addiction Services Partnership with Corrections ($10.4 million), which was followed by item 336504, Community Innovations ($2.9 million), and item 336421, Continuum of Care Services ($2.2 million). The agency's negative variance was partially offset by a positive variance in item 336412, Hospital Services ($8.5 million).

Primary and Secondary Education

GRF expenditures for Primary and Secondary Education were $619.1 million in December, $13.5 million (2.2%) above estimate. For the first six months of FY 2017, program expenditures were $4.08 billion, $75.3 million (1.9%) above the OBM estimate. The Ohio Department of Education (ODE) is the only agency in this program category. Both the monthly and year-to-date variances are largely attributable to item 200550, Foundation Funding, and to a lesser degree, item 200502, Pupil Transportation. Item 200550 was above estimate by $5.0 million in December and $72.4 million year to date. Item 200502 was above estimate by $7.1 million in December and $10.8 million year to date. Both line items disburse money based on a formula, and the expenditures often vary from estimate as data inputs (e.g., school district enrollment and property valuations) are received throughout the year. The positive year-to-date variances in items 200550 and 200502 were offset somewhat by the overall negative variance from ODE's other line items.

The positive variance in Primary and Secondary Education continued to increase reaching $75.3 million by the end of December.

ISSUE UPDATES

CMS Releases Medicare Part D Clawback Payment Amounts for January through September 2017

– Ivy Chen, Principal Economist, 614-644-7764

On October 28, 2016, the Centers for Medicare & Medicaid Services (CMS) released the January-September 2017 monthly Medicare Part D clawback payments per beneficiary for each state. Ohio's payment is to be $149.75. This is $8.72 higher than the $141.03 assumed in H.B. 64. Based on a projected 208,483 beneficiaries each month subject to the clawback, Ohio's total clawback payments will be $10.9 million higher for the last two quarters of FY 2017 than what was anticipated ($8.72 per beneficiary per month x 208,483 beneficiaries x 6 months).

The federal Medicare Prescription Drug Improvement and Modernization Act of 2003 (MMA) requires states to share the cost of Medicare prescription drug coverage (Medicare Part D) for individuals eligible for both Medicare and Medicaid (dual eligibles). Prior to MMA, state Medicaid programs covered these costs. The states' share of the costs that must be paid to the federal government is known as the "clawback." Clawback payments are made monthly to the federal Medicare Program. A state's monthly clawback amount is equal to the product of a three-part formula: (1) a state's monthly count of dual eligibles, (2) CMS's estimate of the state's share of its per capita expenditure (PCE) for Medicaid covered drugs, and (3) the phase-down percentage. Each state's PCE is estimated by first increasing the state's 2003 PCE amount by the estimated annual national growth in per capita prescription drug spending, and then multiplying that result by the state's federal reimbursement rate for the year. The phase-down percentage decreased from 90% in 2006 to 75% in 2015 and thereafter.

ODE Began Using Current Year Student Count Data for State Foundation Payments to School Districts in November

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

In the latter part of November 2016, the Ohio Department of Education (ODE) began using current year K-12 student count data in the calculation of FY 2017 state foundation payments to school districts. This marks the earliest point in the fiscal year that current year data has been used for funding purposes since the state transitioned to a student count based on annualized full-time equivalent (FTE) enrollment in FY 2015.[7] In FY 2015 and FY 2016, current year data was not used for funding purposes until the latter parts of March and February, respectively. Until current year student count data is ready for use, ODE uses data from the prior year to calculate state foundation payments.

In general, ODE attributed the earlier use of current year data to process improvements that have come about as the new student count reporting system has matured. For example, the student count process is now mostly automated. In the two previous years, as implementation issues were being resolved, manual data processing was required to a much greater degree. In addition, ODE implemented a system of nightly error reports that allow a district to receive immediate feedback if there are problems with the student count data it submits. Finally, ODE indicated that school districts have gained familiarity with the new reporting process and format, leading to quicker data reporting turnaround times.

Statewide, there are approximately 1.7 million FTE students in the state funding system. In FY 2017, public districts and schools are slated to receive a total of $8.07 billion in state foundation aid. State foundation payments are primarily funded through GRF revenues. A smaller portion is supported by lottery profits.

State Debuts Online Workforce Supply Tool for In-Demand Jobs

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

In December, a new online tool to help businesses gauge the number of newly trained workers in in-demand fields debuted on the OhioMeansJobs website.[8] The Workforce Supply Tool (WST) provides businesses with historical data on and a two-year projection for the number of graduates by education level for certain in-demand occupations in Ohio, as well as background data on the occupation, including actual earnings and the number of unemployment claims. WST users can select occupation information on a statewide basis or from any one of the six JobsOhio regions. WST currently includes information on 25 in-demand occupations, but, according to the Ohio Department of Higher Education (ODHE), will expand to include approximately 200 occupations early in 2017.

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[7] Under the current methodology, students are counted based on the portion of the year they are enrolled in public education and residing in the district. For example, a full-time student who moves from one district to another one-quarter of the way through the school year will be counted as 0.25 FTE in the first district and 0.75 FTE in the second district. Prior to FY 2015, districts counted their students over a single week in October and then calculated the daily average.

[8] To access the tool, go to OhioMeansJobs.com, click on the "Get Started" links under either the "Individuals" or "Employers" sections and then click on the "Supply Tool" link or access the tool directly at https://workforcesupply.chrr.ohio-state.edu/.

WST is supported by a $180,000 State Workforce Education Alignment Project (SWEAP) grant from the National Skills Coalition. In August 2015, the Controlling Board established appropriation for ODHE for that same amount under Fund 5FR0 line item 235697, Workforce and Education Alignment Project, to fund the project. The project is a joint effort of ODHE, the Ohio Department of Job and Family Services, the Ohio Department of Education, and the Governor's Office of Workforce Transformation.

Attorney General Releases Economic Development Compliance Report

– Jessica Murphy, Budget Analyst, 614-466-9108

On November 22, 2016, the Ohio Attorney General's Office released its 2016 Economic Development Compliance Report,[9] a required annual review of recipient compliance with the terms and conditions of state awards for economic development administered by the Ohio Development Services Agency (DSA). The report examined 329 awards with a performance period ending in calendar year 2015. Of those recipients, 279 were determined to be substantially compliant, having met at least 90% of the performance metrics set forth in their award agreement. The remaining 50 recipients were determined to be noncompliant. The performance metrics used to determine compliance included the degree to which a recipient met, as applicable, their commitments for creating or retaining jobs, training workers, or maintaining a certain hourly wage. The overall compliance rate was 84.8%.

The report provides a breakdown of compliance rates for four main award categories: workforce training grants (100.0%), project grants (86.3%), tax credits (80.0%), and project loans (82.8%). The report also provides information on remedial actions taken by DSA, which includes seeking grant reimbursements totaling $643,570 from eight recipients, reducing the tax credit rate or term for 15 recipients, and increasing the loan interest rate for five recipients.

The table below shows the overall and award category compliance rates reported in the 2011-2015 reviews. Except for 2012, the rates have trended upward with the workforce training grant category consistently showing the highest compliance rate.

Economic Development Award Recipient Compliance Rates, 2011-2015

Award Category	2011	2012	2013	2014	2015
Workforce Training Grant	89.9%	100.0%	100.0%	100.0%	100.0%
Project Grant	48.6%	49.5%	74.4%	76.3%	86.3%
Tax Credit	59.5%	53.8%	62.4%	73.4%	80.0%
Project Loan	42.0%	55.8%	57.1%	81.3%	82.8%
OVERALL	63.5%	54.9%	70.6%	78.9%	84.8%

[9] The full report is available at: http://www.ohioattorneygeneral.gov/Files/Publications-Files/Publications-for-Business/2016-Economic-Development-Accountability-Report.

OOD Vocational Rehabilitation Program Results in Over 6,300 Employment Outcomes in FFY 2016

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

In October 2016, the Opportunities for Ohioans with Disabilities (OOD) agency announced that over 6,300 individuals secured employment (and therefore have been rehabilitated) through its Vocational Rehabilitation (VR) services in federal fiscal year (FFY) 2016. VR services were provided that year to nearly 30,000 individuals, a 3.9% increase from FFY 2015. OOD saw the average cost per rehabilitation fall from $8,800 in FFY 2015 to $7,500 in FFY 2016 and the average time to rehabilitation drop from 22.8 months to 19.4 months. On average, a rehabilitated worker earned approximately $11 per hour and worked about 27 hours per week in FFY 2016. The table below reflects a trend for OOD of rehabilitating more workers over shorter periods of time, in part reducing the cost per rehabilitation.

Vocational Rehabilitation Results, FFY 2013–FFY 2016

FFY	Rehabilitated Workers	Months to Rehabilitation	Cost Per Employment Outcome	Average Hourly Wage	Average Hours Per Week
2013	3,714	27.3	$10,152	$10.27	27.4
2014	4,580	25.3	$9,773	$10.07	27.0
2015	5,413	22.8	$8,772	$10.34	27.0
2016	6,365	19.4	$7,480	$11.03	27.1

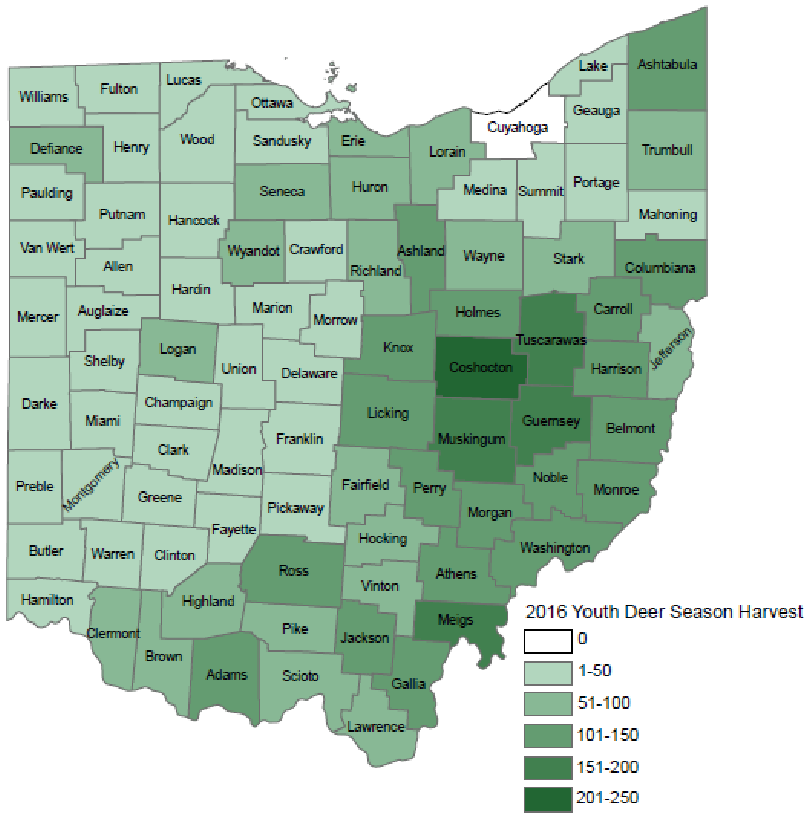
The state's VR program provides individuals with disabilities services and supports to help them obtain and maintain employment. Disabilities may include physical, intellectual, mental health, or sensory. VR services are available in all 88 counties and are customized for each individual through assessments and one-on-one meetings with professional VR counselors. VR services are paid for by a mix of state and federal funds, with $3.69 in federal match for every $1 in state spending. In FY 2016, Ohio spent $27.5 million in state funds and $101.6 million in federal funds for this purpose.

Young Hunters Tag Nearly 6,000 Deer During Ohio's Youth Deer Season

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

Young hunters harvested a total of 5,930 deer during Ohio's two-day youth deer hunting season on November 19 and 20. The number of deer harvested was down 17.9% compared to 2015's youth deer season, when 7,223 deer were tagged. Coshocton County had the most successful youth hunters with 222 deer being harvested. This was followed by Guernsey County (197), Tuscarawas County (178), Muskingum County (162), and Meigs County (152). Hamilton County had 18 deer harvested during the youth hunt, highest among the state's more urban counties. The map below shows the number of deer harvested in each of Ohio's 88 counties during the youth deer season.

2016 Youth Deer Season Harvest by County



Ohio's youth deer hunting season is open to anyone 17 years old and younger who possesses a valid youth hunting license and valid youth deer permit and who is accompanied by a nonhunting adult. Typically held the weekend prior to the Thanksgiving holiday, the youth deer hunting season gives young hunters an opportunity in the field prior to the statewide deer gun season beginning the Monday after Thanksgiving. Youth hunting licenses and deer permits cost $10 and $12, respectively. These fees are deposited to the credit of the Wildlife Fund (Fund 7015) and used by the Department of Natural Resources to support the Division of Wildlife. As of December 20, 2016, a total of 48,561 youth licenses and 51,591 youth deer permits had been issued for the 2016-2017 hunting license year.

Ohio Department of Transportation Announces Major/New Highway Construction Projects Up for Approval in 2017

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

On December 15, 2016, the Ohio Department of Transportation (ODOT) announced that just over $466 million in highway project funding is proposed and up for approval for calendar year (CY) 2017.[10] This funding represents the Major/New Construction Program component of ODOT's overall construction budget and must be approved by the Department's Transportation Review Advisory Council (TRAC). The Major/New Construction Program consists of highway projects that add capacity to the state's network of roads and cost over $12 million.

The types of construction projects overseen by TRAC typically require several years of planning and construction before they are completed. Thus, for this current review period, TRAC is proposing commitments beyond the $466 million for CY 2017. Approximately $841 million is proposed for Major/New projects over the CY 2018-CY 2026 period. The Major/New projects under the draft list announced in mid-December are subject to public comment before the final list is approved in January.

All state funding of Major/New Construction projects are financed out of the Highway Operating Fund (Fund 7002). The fund is comprised of three main sources of revenue: (1) federal highway trust fund distributions, (2) ODOT's portion of revenue from the 28-cent per gallon Ohio motor fuel tax, and (3) proceeds from bonds issued by the state and backed by future federal highway and Ohio motor fuel tax revenues, as well as some toll revenue collected on the Ohio Turnpike.

Criminal Justice Services Awards $4.0 million in Federal Edward Byrne Memorial Justice Assistance Grants

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On November 14, 2016, the Department of Public Safety's Office of Criminal Justice Services announced the award of $4.0 million in federal grants from the Edward Byrne Memorial Justice Assistance Grant (JAG) Program to 128 projects in 56 counties.[11] Under the JAG program, units of local government, state agencies, state-supported universities, statewide and local nonprofit or faith-based associations, and law enforcement agencies may apply for new or renewal funding to support a broad range of crime prevention and control activities in five program areas.

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[10] The draft project list can be found on ODOT's website: www.dot.state.oh.us/trac.

[11] A complete list of funded programs by county can be found at http://publicsafety.ohio.gov/links/FY2016_JAG_Recommended_for_Funding.pdf.

Funding for the projects ranged from $3,291 for a crime prevention program in Logan County to three awards of $100,000 each for an offender reentry program in Portage County, a multi-jurisdictional drug task force in Richland County, and a heroin partnership project in Ross County. The following table lists, for each program area, the number of projects funded and the total amount of funding awarded. All JAG program awards are for 12 months of funding, beginning January 1, 2017. The required match (cash or in-kind) is either 25%, 50%, or 75% depending on the number of years a project has been funded, but may be waived under certain circumstances.

Federal JAG Awards by Program Area

Program Area	Number of Projects	Total Funding
Multi-Jurisdictional Task Forces and Law Enforcement	59	$1,753,150
Adult and Juvenile Corrections, Community Corrections, and Reentry	19	$786,528
Courts, Defense, Prosecution, and Victim Services	23	$689,207
Crime Prevention	24	$624,285
Cross-agency and Cross-system Collaboration, Training, and Research	3	$189,531
TOTAL	**128**	**$4,042,702**

Note: Numbers may not add to total due to rounding.

TRACKING THE ECONOMY

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Overview

U.S. economic growth continued through late 2016. Indicators for Ohio's economy also show continued expansion, though growth has slowed. U.S. inflation-adjusted gross domestic product (real GDP), the total output of the economy, rose at a 3.5% annual rate in the third quarter, strongest in two years. The current business cycle expansion, following the 2007-2009 recession, is one of the longest on record but has been exceptionally slow, with real GDP growth averaging only 2.1% per year.[12] In 2015 and 2016, growth was predominantly in the service sector, as industrial output fell reflecting in part weakness in mining including oil and gas. The mining sector began to turn around last year. Also, a strong dollar in foreign exchange markets has been an impediment for U.S. manufacturing exports. Total employment nationwide continued to grow through December, though less rapidly than in 2013-2015, and the unemployment rate remained low. The nation's central bank in December raised its short-term interest rate target by one-quarter percentage point, its second monetary tightening after seven years of holding interest rates at ultra-low levels.

Total nonfarm payroll employment in the U.S. rose 156,000 in December.

An economic forecast summary is appended at the end of this article. It compares the outlook in December 2016, for a few broad measures of activity, with expectations in May 2015 ahead of the Conference Committee on the current biennium's operating budget. The projections, from forecasting firm IHS Economics, [13] show slower growth in Ohio incomes than previously anticipated, and zero growth in the state's industrial output during both years of the biennium.

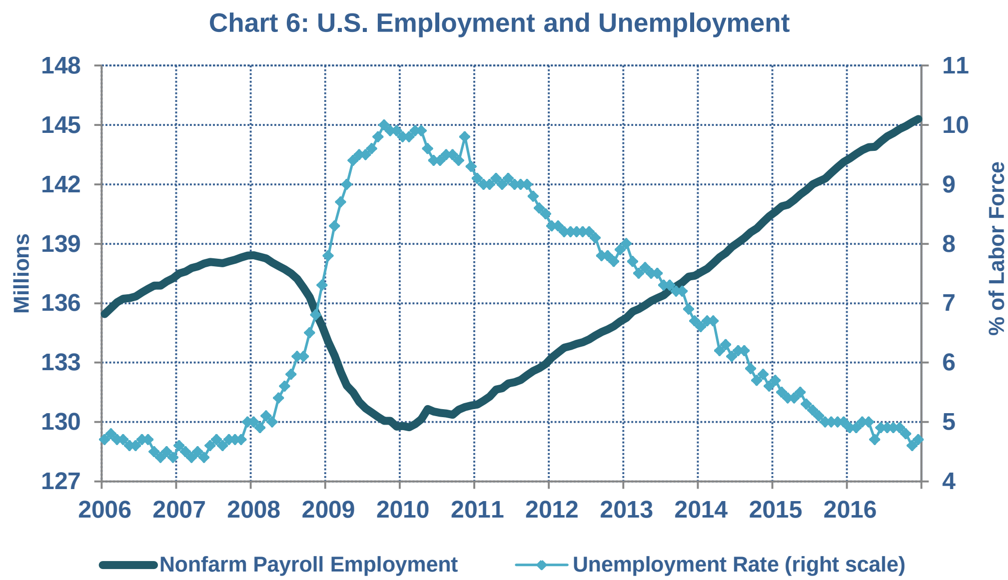
[12] Real GDP growth in all earlier post-World War II expansions was more rapid than in the current expansion, and the median growth rate, 4.3% per year, was more than twice as rapid. Business cycle turning points underlying this analysis are as defined by the National Bureau of Economic Research, posted at http://www.nber.org/cycles/cyclesmain.html.

[13] Formerly Global Insight.

The National Economy

Employment and Unemployment

Total nonfarm payroll employment in the U.S. rose 156,000 in December and the unemployment rate edged up to 4.7%. Trends in employment and unemployment are shown in Chart 6.



Employment growth in December was mostly in the service sector, particularly in health care, social assistance, and restaurants and bars. In all of 2016, employment growth averaged 180,000 per month, down from 224,000 per month on average during the previous three years. Factory employment rose 17,000 in December but remained 63,000 below the peak in January 2016, highest in nearly seven years.

The nationwide unemployment rate in December was 4.7%.

Nationwide unemployment in December, persons without jobs who had actively looked for work in the previous four weeks, totaled about 7.5 million. Unemployment as a share of the labor force in December was 4.7%, up from 4.6% in November, the lowest U.S. unemployment rate since 2007.

A survey of hiring plans for the 2017 first quarter showed 19% of U.S. employers plan to increase staff, and 6% expect to reduce employment.[14] These hiring projections are broadly in line with those one and two years earlier, and stronger than earlier in the economic recovery.

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[14] ManpowerGroup Employment Outlook Survey, Q1:2017, published December 13, 2016.

Production, Shipments, and Inventories

Real GDP grew at a 3.5% annual rate in the 2016 third quarter, strongest since a 5.0% rate of growth in the 2014 third quarter. Growth averaged only a 1.1% rate in last year's first half, and was 2.6% in 2015. The upturn in third quarter growth resulted in part from a swing to modest inventory building from liquidation in the second quarter, along with an exceptional jump reported for soybean exports. Consumer spending grew at a 3.0% annual rate, with particular strength in durable goods. Residential fixed investment fell for the second straight quarter, after a strong 2015. Business fixed investment grew slowly, but with strength in construction of office buildings and factories.

Real GDP grew at a 3.5% annual rate in the 2016 third quarter, strongest in two years.

Total industrial production fell 0.4% in November mainly reflecting reduced utility output, as unseasonably warm weather cut demand for heating. The index for total industrial production was 0.6% lower in November than a year earlier, and nearly 3% below the all-time peak two years ago mainly due to sharply lower output in the mining sector including oil and gas. Mining output bottomed out in April 2016 and recovered more than 4% since then. Manufacturing output through November fluctuated in a narrow range below its recent peak two years ago, 6% short of the highest level on record reached in 2007.

Manufacturers that reported growth of production and new orders in December were more widespread than the month before, in a survey of purchasing managers by the Institute for Supply Management (ISM), along with more frequent reports of higher prices paid for inputs. A comparable ISM report for nonmanufacturing sectors of the economy also showed expansion.

Consumer Spending and Incomes

Real consumer spending rose only 0.1% in November after a similar increase in October, but appears to have strengthened in December. Durable goods sales slowed in November, after large increases in October and September, on lower light truck sales. Income gains continued in 2016 through November but were smaller than in 2015, particularly after adjustment for the modest uptick in inflation.

Sales of light vehicles were particularly strong during December, boosted by heavy promotional activity according to a posting on the WardsAuto website.[15] Sales of light motor vehicles rose in all of 2016 to 17.5 million units, highest on record for the second consecutive year. Sales of light trucks rose 7% in 2016. Car sales fell 9%.

[15] http://wardsauto.com.

Construction and Real Estate

Housing starts for 11 months were 5% higher than a year earlier.

Housing starts and issuance of building permits for new residential units slowed in November, seasonally adjusted. Year-to-date housing starts for 11 months were 5% higher than a year earlier, consisting of a 10% increase in starts on new homes and a 4% decline in starts on apartments. Apartment construction rose in the previous six years. At a rate this year of fewer than 1.2 million units annually, starts on new housing units have doubled since the recession low in 2009 but remain short of building rates typical in years past.

Total construction activity, in dollars of current purchasing power, was 4% higher in January-November than a year earlier, as private residential construction rose 5%, private nonresidential construction rose 8%, and public construction fell 1%. Office buildings accounted for nearly half of the rise in private nonresidential construction.

Home sales rose in 2016. New home unit sales rose in November, particularly in the Midwest, and year-to-date unit sales were 13% higher than a year earlier. In 2015, new home sales rose 15%. Unit sales of homes reported by the National Association of Realtors (NAR), generally previously occupied homes, were 4% higher in January through November of 2016 than a year earlier. This follows an increase in sales of 6% in all of 2015. Listings of homes with realtors were described by NAR as low relative to demand.

House prices in the U.S. averaged 6% higher in October than a year earlier.[16] The average house price in the nation rose in 2016 for the fifth consecutive year, after four years of declining prices.

Mortgage interest rates have climbed sharply since the election, with the rate on 30-year fixed-rate mortgages averaging 4.20% in the January 5 week, higher by two-thirds of a percentage point in the past nine weeks.[17] More costly mortgage financing can be expected to erode the ability of marginal borrowers to qualify for home purchases.

Inflation

The consumer price index (CPI) for all items rose 0.2% in November to 1.7% above its level a year earlier, the largest year-over-year increase in the all-items index in two years. More rapid increases in this inflation measure reflect in part an upturn in energy prices this year. Food prices, in contrast, have fallen over the past year, specifically food

[16] Federal Housing Finance Agency index.

[17] Freddie Mac weekly survey.

consumed at home. The CPI excluding food and energy rose 2.1% in the year to November, the same rate of rise as in 2015.

Inflation has also picked up at the wholesale and manufacturing levels. The producer price index (PPI) for final demand rose 1.3% in the year to November, also largest in two years, and also due partly to higher energy prices this year. Food prices at wholesale have generally declined since 2014. The PPI for final demand excluding food and energy rose 1.6% in the year to November, up from only 0.2% in 2015.

The CPI in November was 1.7% above its level a year earlier, the largest year-over-year increase in two years.

Financial Markets

Longer-term U.S. interest rates rose in the second half of 2016 and broad stock market measures climbed to new highs. Ten-year Treasury note yields rose more than a percentage point from lows in July, and rose particularly sharply around the time of and following the November election. Markets appear to expect more expansionary fiscal policy to result from the election outcome, including some combination of tax cuts, spending increases, or both. Such a fiscal boost could add to economic activity as well as raise inflation.

As widely expected, the Federal Reserve's Open Market Committee (FOMC) raised its target for short-term interest rates by one-quarter percentage point at its meeting in December. The central bank set the target range for federal funds, overnight loans between banks, at 0.5% to 0.75%. It previously raised its target in December 2015, from a range of zero to 0.25% where it had been held since December 2008. The FOMC reported that committee members expect to increase the short-term interest rate target during 2017 by 0.75 percentage point, up from a 0.50 percentage point rise anticipated at the September FOMC meeting, as indicated by the committee members' median forecasts.

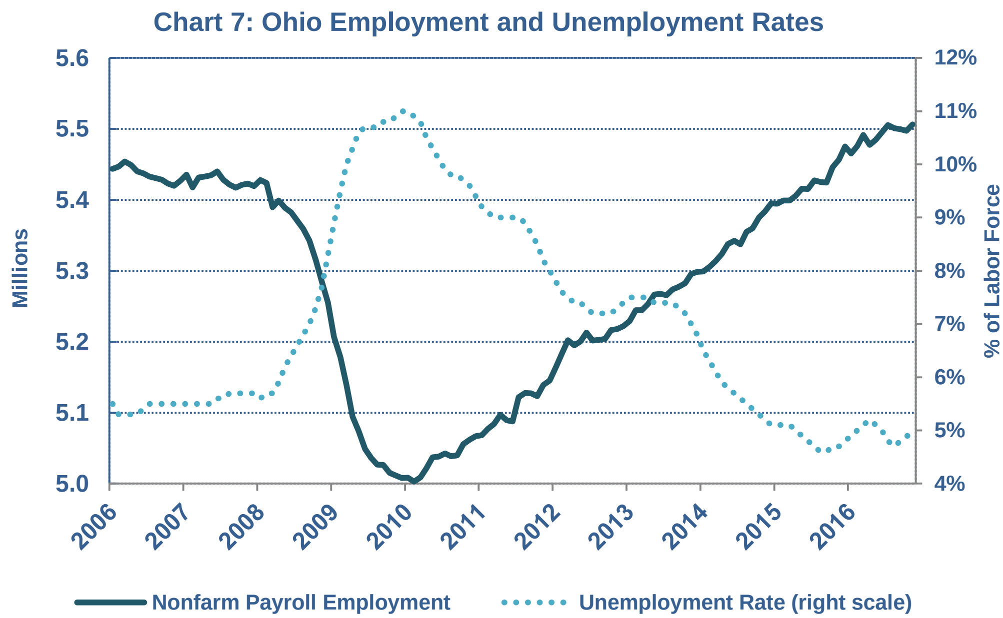
The Ohio Economy

Employment and Unemployment

Total nonfarm payroll employment in Ohio, seasonally adjusted, rose by 9,100 (0.2%) in November from the revised total in October, following a decrease of 2,100 jobs from September to October. In November, the state's nonfarm payroll employment was 49,800, or 0.9% higher than in November 2015. So far in 2016, employment gain averaged 2,800 per month compared to 6,700 per month in 2015. The state's unemployment rate was 4.9% in November, same as in October, but was slightly higher than in November 2015. Chart 7 below shows Ohio's trends in employment and the unemployment rate over the last ten years.

Total nonfarm payroll employment in Ohio rose 9,100 in November to 49,800 higher than in November 2015.

The state's unemployment rate in November was 0.3 percentage point higher than the U.S. unemployment rate of 4.6%. In November, unemployment rates in 18 states were significantly lower than in October while unemployment rates in 32 states and the District of Columbia remained stable.[18] The number of unemployed workers in Ohio was 278,000 in November, 2,000 fewer than in October, but 9,000 more than in November 2015.



Ohio Personal Income

In the third quarter of 2016, Ohio's personal income, seasonally adjusted, grew 1.2% from the previous quarter, following 1.2% growth in the second quarter and a 0.4% decline in the first quarter.[19] Ohio's growth from the second to the third quarter was led by increased earnings in the health care and social assistance industry and in state and local government. Nationwide, state personal income growth averaged 1.1% in the third quarter of 2016, down from 1.2% in the second quarter. Ohio's personal income growth ranked 15th among states in the nation

[18] Rates deemed stable by the Bureau of Labor Statistics include both those that were unchanged and statistically insignificant changes of -0.2 to +0.2 percentage point.

[19] Corresponding annual rates of change are +4.8% in the third quarter, +5.0% in the second quarter, and -1.7% in the first quarter.

(from highest growth to lowest). In the first three quarters of 2016, Ohio's personal income grew 2.0%, less than nationwide growth for the period of 2.6%.

Ohio Home Sales

In November, the number of existing homes sold in the state increased by 16.5% compared to November 2015, according to the Ohio Association of Realtors. Existing home unit sales rose by 5.3% in the first 11 months of this year compared with the corresponding months of 2015. The statewide sales price of homes sold in the first 11 months of 2016 averaged $163,899, 5.2% higher than the corresponding months a year earlier.

The number of unemployed workers in Ohio was 278,000 in November, 2,000 fewer than in October, but 9,000 more than in November 2015.

Ohio Population

Ohio's population was 11,614,373 as of July 1, 2016, an increase of 0.1% from July 1, 2015, according to U.S. Census Bureau estimates. Ohio's population remained the seventh largest among the 50 states and the District of Columbia with 3.6% of the nation's total population. The fastest growing state was Utah, followed by Nevada, Idaho, and Florida. Eight states, including West Virginia, Pennsylvania, and Connecticut, lost population with Illinois losing the largest number of people.

Economic Forecasts

The tables below compare the December baseline economic forecasts from IHS Economics with that organization's forecasts released in May 2015. The earlier predictions were used by LSC in projecting FY 2016-FY 2017 state revenues for the Conference Committee hearings on the operating budget in June 2015. The updated forecasts generally show slower growth of Ohio's economy than did the earlier predictions. Economic forecasting is inevitably an uncertain process, and consequently forecasts for state tax revenues are also uncertain.

Years shown in the tables are calendar years. Quarterly changes, the first and third lines in each table, are from the preceding quarter, and are stated at annual rates. Changes shown in the second and fourth lines compare average values for the four quarters ending in the second calendar quarter, coinciding with Ohio's fiscal year, with average values for the four quarters one year earlier. The fifth and sixth lines in each table show the change in expectations for each quarter and year between the May 2015 and December 2016 forecasts.

Ohio Personal Income

IHS Economics predicts that personal income in the state will continue to grow through the end of 2017 but not as rapidly as projected earlier. In the current fiscal year, personal income is expected to increase 3.4%, revised down from 4.3% growth anticipated in May 2015.

Ohio Personal Income Growth

	2015				2016				2017			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----------------------------------percent change at annual rate-----------------------------------											
Conference	4.4	3.7	2.9	3.1	4.7	3.9	4.0	4.4	5.7	4.7	4.7	4.5
Committee		4.2				3.6				4.3		
December	-0.9	5.7	3.8	5.2	-1.7	4.2	3.8	4.2	3.8	4.5	4.3	4.3
2016		4.1				3.2				3.4		
Change	-5.3	2.0	0.9	2.1	-6.4	0.3	-0.2	-0.2	-1.9	-0.2	-0.4	-0.2
(pct. pts.)		-0.1				-0.4				-0.9		

Ohio Wages and Salaries

Wages and salaries in Ohio, a key driver of predictions for withholding tax revenue, are also expected to increase more slowly in the current economic forecast than predicted earlier. In the current fiscal year, wages and salaries in the state are expected to grow 3.5%, revised from 4.2% in the IHS Economics baseline forecast released in May 2015.

Ohio Wage & Salary Growth

	2015				2016				2017			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	-----------------------------------percent change at annual rate-----------------------------------											
Conference	4.5	4.6	4.4	4.0	4.1	4.2	4.3	4.2	4.6	4.2	4.4	4.3
Committee		4.7				4.3				4.2		
December	-1.1	6.6	3.6	9.8	-4.1	4.8	4.6	2.8	4.3	4.8	4.6	4.5
2016		4.5				3.9				3.5		
Change	-5.6	2.0	-0.8	5.8	-8.2	0.6	0.3	-1.4	-0.3	0.6	0.2	0.2
(pct. pts.)		-0.2				-0.4				-0.7		

Ohio Industrial Production

Industrial production, the total of manufacturing, mining, and utility output, is estimated monthly for the nation by the Federal Reserve, the nation's central bank. At the state level, an approximation to industrial production is constructed by IHS Economics using the national index values and employment in each industry at the state and national levels. As is evident in the following table, industrial production in Ohio is thought to have been unchanged in FY 2016 and is projected to be flat again in the current fiscal year. Both projections are sharp downward revisions from the predictions in May 2015, ahead of the Conference Committee on the budget for the current biennium. LSC uses forecasts of industrial production primarily in forecasting revenue from the CAT.

Ohio Industrial Production Growth

	2015				2016				2017			
Forecast	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	percent change at annual rate											
Conference Committee	1.5	-1.4	3.6	3.5	3.9	3.8	4.7	4.6	4.0	2.9	2.8	2.9
		3.8				2.4				4.1		
December 2016	-0.8	-2.0	2.0	0.4	-1.9	-2.8	3.6	-2.3	1.7	1.8	3.1	2.6
		3.4				0.0				0.0		
Change (pct. pts.)	-2.3	-0.6	-1.6	-3.1	-5.8	-6.6	-1.1	-6.9	-2.3	-1.1	0.3	-0.3
		-0.4				-2.4				-4.1		