Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION NOVEMBER 2016

STATUS OF THE GRF

HIGHLIGHTS

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

A shortfall of $88 million in October pushed up the fiscal year's negative variance of GRF tax sources to $160 million; and total GRF sources fell below projections by $262 million, including a shortfall of $108 million for federal grants. However, total GRF uses were also below estimates by a total of $156 million through October 2016.

In September, Ohio's total nonfarm payroll employment fell by 3,100 (0.1%) from August, and the unemployment rate was 4.8% in September, up from 4.7% in August. Nationwide, total nonfarm payroll employment rose by 161,000 (0.1%) in October, and the unemployment rate declined to 4.9%, down from 5.0% in September.

Through October 2016, GRF sources totaled $11.30 billion:

- Revenue from the personal income tax was $82.6 million below estimate;
- Sales and use tax receipts were $76.4 million below estimate.

Through October 2016, GRF uses totaled $13.24 billion:

- Program expenditures were $128.9 million below estimate, due to negative variances in most spending categories, including Medicaid ($95.1 million);
- A positive variance for Primary and Secondary Education ($68.7 million) was primarily timing related.

VOLUME 40, NUMBER 3

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

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

STATE SOURCES	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$109,927	$115,300	-$5,373	-4.7%
Nonauto Sales and Use	$747,918	$790,800	-$42,882	-5.4%
Total Sales and Use Taxes	**$857,845**	**$906,100**	**-$48,255**	**-5.3%**
Personal Income	$608,352	$617,900	-$9,548	-1.5%
Corporate Franchise	-$263	$0	-$263	---
Financial Institution	-$12,296	-$1,600	-$10,696	-668.5%
Public Utility	$2,307	$6,300	-$3,993	-63.4%
Kilowatt-Hour Excise	$34,948	$30,600	$4,348	14.2%
Natural Gas Consumption (MCF)	$494	$500	-$6	-1.3%
Commercial Activity Tax	$38,049	$45,400	-$7,351	-16.2%
Petroleum Activity Tax	$0	$0	$0	---
Foreign Insurance	$150,670	$152,000	-$1,330	-0.9%
Domestic Insurance	-$2,316	$400	-$2,716	-679.1%
Business and Property	$0	$0	$0	---
Cigarette	$84,576	$91,100	-$6,524	-7.2%
Alcoholic Beverage	$3,185	$5,500	-$2,315	-42.1%
Liquor Gallonage	$3,830	$3,500	$330	9.4%
Estate	$175	$0	$175	---
Total Tax Revenue	**$1,769,555**	**$1,857,700**	**-$88,145**	**-4.7%**
NONTAX REVENUE				
Earnings on Investments	$14,182	$8,500	$5,682	66.8%
Licenses and Fees	$1,669	$855	$814	95.2%
Other Revenue	$801	$40,420	-$39,619	-98.0%
Total Nontax Revenue	**$16,652**	**$49,775**	**-$33,123**	**-66.5%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$0	$9,800	-$9,800	-100.0%
Total Transfers In	**$0**	**$9,800**	**-$9,800**	**-100.0%**
TOTAL STATE SOURCES	**$1,786,207**	**$1,917,275**	**-$131,068**	**-6.8%**
Federal Grants	$991,355	$887,442	$103,913	11.7%
TOTAL GRF SOURCES	**$2,777,562**	**$2,804,717**	**-$27,154**	**-1.0%**

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

STATE SOURCES	Actual	Estimate*	Variance	Percent	FY 2016	Percent Change
TAX REVENUE						
Auto Sales	$475,971	$490,000	-$14,029	-2.9%	$471,963	0.8%
Nonauto Sales and Use	$3,035,584	$3,098,000	-$62,416	-2.0%	$2,999,206	1.2%
Total Sales and Use Taxes	**$3,511,554**	**$3,588,000**	**-$76,446**	**-2.1%**	**$3,471,169**	**1.2%**
Personal Income	$2,595,810	$2,678,400	-$82,590	-3.1%	$2,730,488	-4.9%
Corporate Franchise	-$760	$0	-$760	---	$5,649	-113.4%
Financial Institution	-$11,019	-$1,600	-$9,419	-588.7%	-$3,493	-215.5%
Public Utility	$25,764	$31,500	-$5,736	-18.2%	$30,448	-15.4%
Kilowatt-Hour Excise	$133,561	$118,000	$15,561	13.2%	$125,833	6.1%
Natural Gas Consumption (MCF)	$12,411	$12,600	-$189	-1.5%	$12,570	-1.3%
Commercial Activity Tax	$336,431	$346,000	-$9,569	-2.8%	$327,491	2.7%
Petroleum Activity Tax	$1,542	$1,200	$342	28.5%	$1,350	14.2%
Foreign Insurance	$160,891	$156,500	$4,391	2.8%	$154,878	3.9%
Domestic Insurance	$53	$400	-$347	-86.7%	$344	-84.5%
Business and Property	-$678	$0	-$678	---	$29	-2408.6%
Cigarette	$279,276	$277,000	$2,276	0.8%	$297,281	-6.1%
Alcoholic Beverage	$21,205	$19,200	$2,005	10.4%	$20,958	1.2%
Liquor Gallonage	$15,618	$14,800	$818	5.5%	$14,948	4.5%
Estate	$248	$0	$248	---	$475	-47.8%
Total Tax Revenue	**$7,081,909**	**$7,242,000**	**-$160,091**	**-2.2%**	**$7,190,419**	**-1.5%**
NONTAX REVENUE						
Earnings on Investments	$14,191	$8,500	$5,691	67.0%	$7,927	79.0%
Licenses and Fees	$10,796	$9,405	$1,391	14.8%	$8,754	23.3%
Other Revenue	$49,981	$43,945	$6,036	13.7%	$354,554	-85.9%
Total Nontax Revenue	**$74,968**	**$61,850**	**$13,118**	**21.2%**	**$371,234**	**-79.8%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$15,309	$22,300	-$6,991	-31.4%	$174,676	-91.2%
Total Transfers In	**$15,309**	**$22,300**	**-$6,991**	**-31.4%**	**$174,676**	**-91.2%**
TOTAL STATE SOURCES	**$7,172,186**	**$7,326,150**	**-$153,964**	**-2.1%**	**$7,736,330**	**-7.3%**
Federal Grants	$4,123,525	$4,231,717	-$108,192	-2.6%	$4,028,023	2.4%
TOTAL GRF SOURCES	**$11,295,711**	**$11,557,867**	**-$262,157**	**-2.3%**	**$11,764,352**	**-4.0%**

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

Revenues

– Thomas Kilbane, Economist, 614-728-3218

GRF tax revenue was $88.1 million (4.7%) below estimate in October.

Through the first four months of FY 2017, GRF tax receipts of $7.08 billion had a shortfall of $160.1 million.

Overview

GRF tax revenue in October was $88.1 million (4.7%) below the Office of Budget and Management's (OBM) estimate. This continued a trend that started during FY 2016, when GRF tax revenue ended the year $216.0 million under expectations. Through the first four months of FY 2017, tax receipts of $7.08 billion had a shortfall of $160.1 million (2.2%). Underperformance of the GRF's two dominant sources of tax revenue was to blame thus far in the fiscal year. In October, the sales and use tax had its worst performance relative to estimate in any month of this biennium. In FY 2017 through October, revenue from the tax was $76.4 million below expectations. The personal income tax (PIT) has also performed poorly. After ending FY 2016 with a $217.7 million deficit, revenue from the tax was $82.6 million below estimate through October of FY 2017. The trends are especially significant because FY 2017 revenue estimates for both the PIT and the sales and use tax were adjusted downward to take into account FY 2016's performance, but thus far both taxes have failed to meet those lowered expectations.[1]

Tables 1 and 2 above, show GRF sources[2] for October and for FY 2017 through October, respectively. Total GRF sources received through October were $11.30 billion, which was $262.2 million (2.3%) below estimates. In addition to the shortfall of GRF tax sources, federal grants of $4.12 billion were $108.2 million (2.6%) below expectations. Total GRF sources have been below estimate in each of the last seven months 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, which has generally been lower than expected.[3]

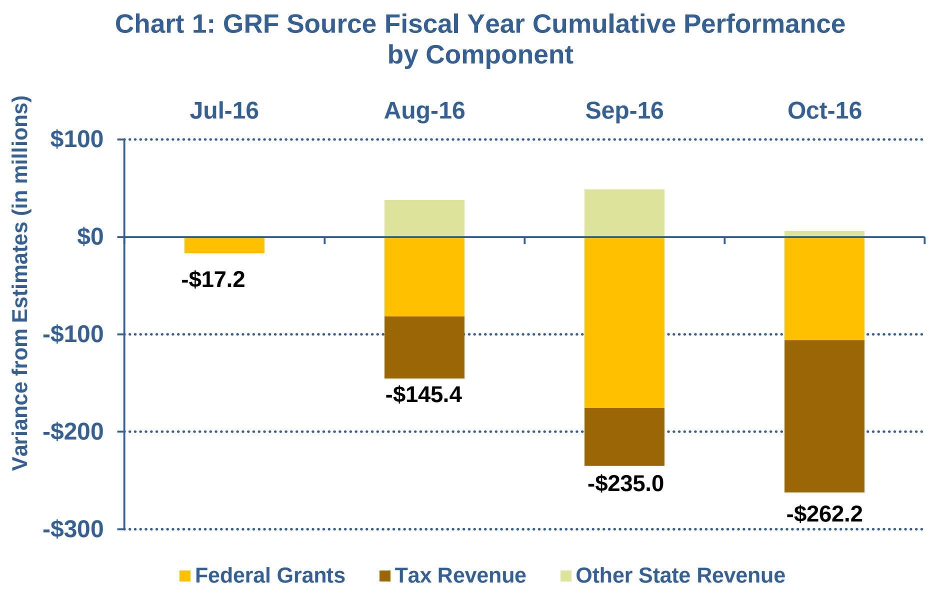
The chart below illustrates the cumulative performance of total GRF sources relative to estimates through each month of FY 2017, broken down by its largest components. Despite a small positive contribution from the "other state revenue" component (*light green* bar in the chart),

[1] Updated OBM revenue estimates for FY 2017 were released in August 2016.

[2] 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.

[3] GRF Medicaid expenditures were $925.9 million below estimate in FY 2016 and were $95.1 million below estimate through the first four months of FY 2017.

FY 2017's cumulative sources through October were $262.2 million below estimate, as labeled in the far right column.



Total tax revenue was within 0.5% of estimates in the months of July and September, but in August and October, it fell short of estimates by 4.0% and 4.7%, respectively. While the PIT and the sales and use tax are by far the main culprits, other tax sources that have contributed to the deficit thus far in FY 2017 were the commercial activity tax (CAT) which was $9.6 million below estimate, the financial institutions tax (FIT) which was $9.4 million below estimate (negative net revenue expected through October), and the public utility tax which was $5.7 million below estimate. Partially offsetting these deficits were surpluses from the kilowatt-hour excise tax of $15.6 million, the foreign insurance tax[4] of $4.4 million, the cigarette tax of $2.3 million, and the alcoholic beverage tax of $2.0 million.

FY 2017 tax revenue through October was $108.5 million (1.5%) lower than the first four months of FY 2016.

Compared to the first four months in FY 2016, FY 2017 tax revenue through October was $108.5 million (1.5%) lower. Nearly all of the decrease can be attributed to the PIT which has collected $134.7 million less in FY 2017 than through the corresponding period one year ago. Legislative policy changes can explain less than a quarter of

[4] Ohio insurance taxes apply to premiums received for policies covering Ohio risks; if the company receiving the premium is organized under Ohio law, they pay the domestic insurance tax, otherwise, they pay the foreign insurance tax.

Sales and use tax receipts in October were further below estimates than any other month this biennium.

that decrease.[5] Partially offsetting that decline was sales and use tax revenue, which despite poor performance thus far in FY 2017 relative to estimates, has increased by $40.4 million from one year ago. Revenue also grew noticeably for the kilowatt-hour tax ($7.7 million), the CAT ($8.9 million), and the foreign insurance tax ($6.0 million). On the other hand, year-over-year receipts fell for the cigarette tax ($18.0 million), the FIT ($7.5 million), the corporate franchise tax ($6.4 million),[6] and the public utility tax ($4.7 million).

Sales and Use Tax

Sales and use tax receipts in October missed estimates by more than any other month this biennium, magnifying a trend of underperformance that began in the second half of FY 2016. Revenue from the tax was $48.3 million (5.3%) below estimate in October, bringing fiscal year-to-date receipts to $76.4 million (2.1%) below expectations. October marked the seventh straight month that sales and use tax receipts were below estimate. Over the last nine months going back to February, sales and use tax revenue was $180.0 million (2.3%) below expectations. 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.[7] Thus far in FY 2017, the nonauto portion accounted for 86% of the total sales and use tax collected, while auto collections were just 14%.

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[5] H.B. 64 reduced income tax rates by 6.3%, leading to a 3.1% reduction in the PIT withholding rate, which did not take effect until August 2015. Based on this, July 2016's PIT withholdings would be expected to be 3.1% lower than in July 2015, though growth in wages would typically offset at least part of that decrease.

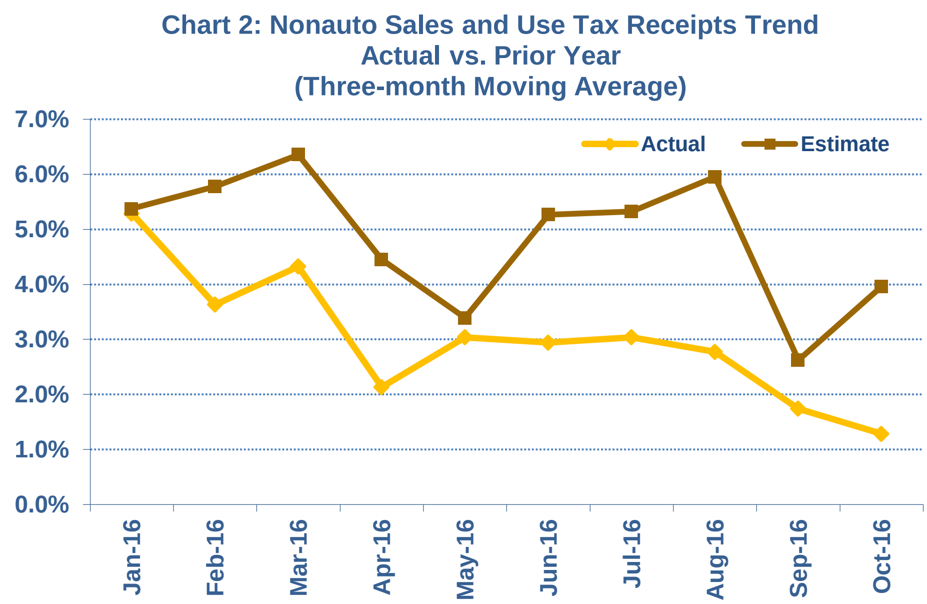
[6] The corporate franchise tax was eliminated at the end of FY 2013, however adjustments to previous year's tax filings resulted in additional receipts in subsequent years, including $33.2 million in FY 2016.

[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

Nonauto sales and use tax collections were $747.9 million in October, which was $42.9 million (5.4%) less than projected, intensifying the recent string of monthly shortfalls. It was the fifth straight month, and eight out of the last nine, in which collections from this segment of the tax were below estimate. Tax receipts were also $1.6 million (0.2%) below revenue in October 2015. For FY 2017 through October, nonauto sales and use tax revenue was $62.4 million (2.0%) below expectations. The chart below illustrates the slowing year-over-year growth of nonauto sales and use tax collections and its persistent failure to meet estimates throughout the majority of calendar year 2016.

Nonauto sales and use tax revenue has been below estimate in eight of the last nine months.



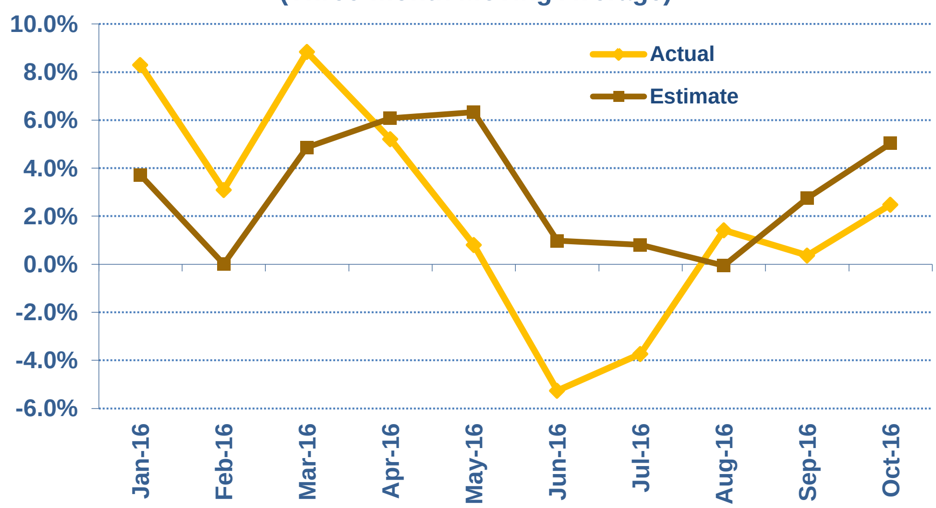
A small portion of the FY 2017 shortfall can be attributed to Medicaid health insuring corporations. Sales tax receipts from these corporations have grown at a slower pace than the rest of nonauto sales and use tax revenue in recent months. This portion of sales tax collections is generally correlated to Medicaid spending, not necessarily broader consumer spending trends. According to OBM Director Tim Keen, about one-sixth of the nonauto sales tax underage [in October] was attributable to poor collections from Medicaid health insuring corporations.[8] Collections from these corporations have made up about 8.4% of nonauto sales and use tax revenue in FY 2017.

[8] Gongwer Ohio Report, Volume 85, Report 214, Article 2, November 4, 2016.

Auto Sales and Use Tax

The GRF received $476.0 million in revenue from the auto portion of the sales and use tax in the first four months of FY 2017, $14.0 million (2.9%) less than expected. Auto sales tax collections finished FY 2016 1.2% above estimate as the result of record-setting sales figures in calendar year 2015. However, as the chart below illustrates, the pace of collections growth fell off steeply towards the end of the fiscal year. Year-over-year growth in early FY 2017 was slow in part due to high sales one year ago.

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



While the pace of nationwide auto sales in 2016 has fallen slightly from an all-time high in 2015, it remained at healthy levels through October. In particular, sales of light trucks have sustained a record-setting pace begun in the fall of 2015, and those sales peaked again in October at a seasonally adjusted pace (11.1 million annual rate) which had only historically been reached during months that included irregular promotional activity. In this case, low fuel prices for an extended period, as well as accommodative financing terms seem to be driving light truck sales. In contrast, sales of cars remained at a significantly slower pace than during 2015 (6.8 million seasonally adjusted annual rate in October). The changing makeup of light vehicle sales has driven average sales tax collected per purchase higher, helping to maintain revenue as the number of new vehicles sold and titled in Ohio slows.

PIT revenue was $9.5 million (1.5%) below estimate in October.

Personal Income Tax

The second largest state sourced revenue stream to the GRF has also underperformed thus far in FY 2017. PIT revenue was $9.5 million

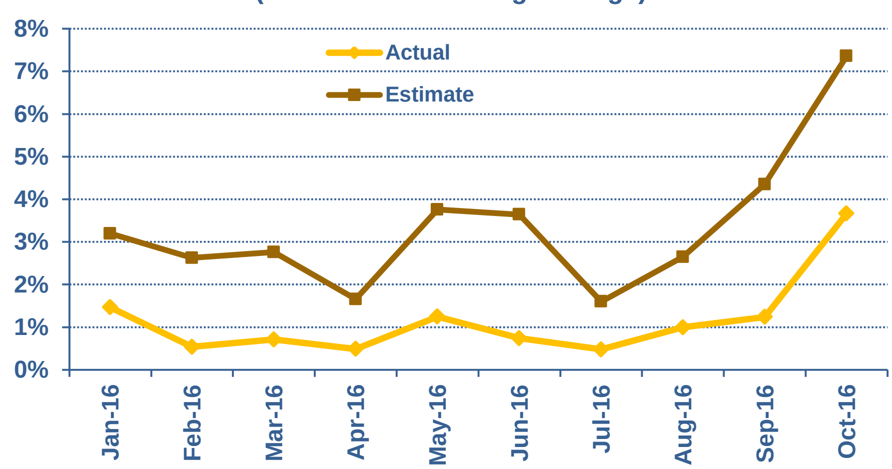
(1.5%) below estimate in October, the third straight month the tax missed expectations. Through the first four months of the fiscal year, GRF revenue from the PIT totaled $2.6 billion, which was $82.6 million (3.1%) below OBM's estimate.

PIT refunds were $38.3 million (20.8%) higher than expected through the first four months of FY 2017.

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,[9] trust payments, payments associated with annual returns, and other miscellaneous payments. The performance of the tax is typically driven by employer withholdings, which is the largest component of gross collections. Through October, the PIT revenue shortfall was led by monthly employer withholdings, which were $51.3 million (1.9%) below estimate, and refunds, which were $38.3 million (20.8%) higher than expected.

Monthly employer withholdings continue to grow year over year, but at a slower pace than expected. Policy changes, which led to reduced withholding rates, took effect in August 2015 and limited year-over-year growth throughout FY 2016. The chart below illustrates the growth of monthly employer withholdings relative to one year ago. The pace of growth has increased in FY 2017 as the effects of policy changes are phased out of the year-over-year calculations, but it remains below OBM's FY 2017 estimates.

Chart 4: Monthly Withholding Receipts Trend
Actual vs. Prior Year
(Three-month Moving Average)



[9] 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.

Not all components of gross collections underperformed expectations in the first four months of FY 2017. Revenue from quarterly estimated payments and annual returns was higher than expected, though not enough to offset the shortfall in withholding and the extra amount of refunds issued. In comparison to the first four months of FY 2016, withholding growth is 1.1%, though most of the other components of gross collections have fallen sharply, and refunds increased noticeably. FY 2017 revenues through October 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	-$50.6	-1.9%	$29.6	1.1%
Quarterly Estimated Payments	$9.4	5.1%	-$88.8	-31.6%
Trust Payments	-$2.8	-21.5%	-$5.1	-33.5%
Annual Return Payments	$3.1	4.5%	-$25.7	-26.8%
Miscellaneous Payments	-$5.0	-21.5%	-$0.6	-3.3%
Gross Collections	-$45.9	-1.5%	-$90.7	-3.0%
Less Refunds	$38.3	20.8%	$39.3	21.4%
Less LGF Distribution	-$1.7	-1.3%	$4.6	3.7%
GRF PIT Revenue	-$82.6	-3.1%	-$134.7	-4.9%

Cigarette and Other Tobacco Products Tax

FY 2017 revenue from the cigarette tax has declined by 6.1% from FY 2016.

October GRF revenue from the cigarette and other tobacco products tax of $84.6 million was $6.5 million (7.2%) below estimate, and $12.1 million (12.5%) below revenue in October 2015. For FY 2017 through October, receipts were $279.3 million, $2.3 million (0.8%) above estimate. Of the $279.3 million in revenue, $257.1 million was from cigarettes and $22.2 million was from sales of other tobacco products.

Compared to FY 2016 through October, receipts in FY 2017 were $18.0 million (6.1%) lower. Generally, cigarette tax receipts are trending downward long-term; however, legislative changes[10] led to increased receipts in the early months of FY 2016. Thus, the current year-over-year decline in FY 2017 revenue is larger than usual.

[10] 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.

Other Taxes

A number of other tax sources also fell short of estimates in October which, when aggregated, contributed significantly to the monthly deficit. Neither the FIT, nor the CAT, were expected to collect large amounts during the month, but a larger than expected amount of refunds were responsible for shortfalls of $10.7 million and $7.4 million, respectively. The CAT will have its second quarterly collection date during November, while the FIT does not expect substantial receipts until January 2017. The public utility tax (-$4.0 million)[11] and the insurance tax revenue streams (foreign: -$1.3 million, domestic: -$2.7 million) also contributed to the monthly deficit. Of these five tax revenue streams, only the foreign insurance tax has met revenue expectations for 2017 fiscal year to date.

[11] The public utility tax applies to the gross receipts of certain classes of public utilities. Typically, over 90% of the revenue from the tax comes from natural gas companies, therefore changes in natural gas prices and consumption drive its performance.

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

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary and Secondary Education	$721,635	$704,520	$17,115	2.4%
Higher Education	$194,421	$195,249	-$829	-0.4%
Other Education	$7,699	$8,526	-$826	-9.7%
Total Education	$923,755	$908,295	$15,460	1.7%
Medicaid	$1,503,520	$1,309,888	$193,632	14.8%
Health and Human Services	$163,116	$187,079	-$23,963	-12.8%
Total Welfare and Human Services	$1,666,636	$1,496,966	$169,669	11.3%
Justice and Public Protection	$140,629	$192,541	-$51,912	-27.0%
General Government	$32,850	$37,697	-$4,847	-12.9%
Total Government Operations	$173,479	$230,238	-$56,759	-24.7%
Property Tax Reimbursements	$301,837	$360,962	-$59,125	-16.4%
Debt Service	$88,808	$88,836	-$28	0.0%
Total Other Expenditures	$390,645	$449,798	-$59,153	-13.2%
Total Program Expenditures	**$3,154,514**	**$3,085,297**	**$69,217**	**2.2%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$10,256	$38,464	-$28,209	-73.3%
Total Transfers Out	$10,256	$38,464	-$28,209	-73.3%
TOTAL GRF USES	**$3,164,770**	**$3,123,761**	**$41,009**	**1.3%**

*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 October 31, 2016
($ in thousands)
(Actual based on OAKS reports run November 3, 2016)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2016**	**Percent Change**
Primary and Secondary Education	$3,093,844	$3,025,188	$68,657	2.3%	$2,603,326	18.8%
Higher Education	$763,387	$771,842	-$8,455	-1.1%	$744,342	2.6%
Other Education	$35,079	$37,006	-$1,927	-5.2%	$30,702	14.3%
Total Education	$3,892,310	$3,834,035	$58,275	1.5%	$3,378,370	15.2%
Medicaid	$6,132,338	$6,227,430	-$95,092	-1.5%	$6,199,230	-1.1%
Health and Human Services	$458,235	$506,119	-$47,885	-9.5%	$467,697	-2.0%
Total Welfare and Human Services	$6,590,572	$6,733,549	-$142,977	-2.1%	$6,666,927	-1.1%
Justice and Public Protection	$746,886	$771,741	-$24,855	-3.2%	$734,491	1.7%
General Government	$134,237	$144,679	-$10,442	-7.2%	$137,517	-2.4%
Total Government Operations	$881,122	$916,420	-$35,297	-3.9%	$872,009	1.0%
Property Tax Reimbursements	$754,261	$762,599	-$8,338	-1.1%	$836,009	-9.8%
Debt Service	$870,901	$871,443	-$542	-0.1%	$839,943	3.7%
Total Other Expenditures	$1,625,162	$1,634,042	-$8,880	-0.5%	$1,675,953	-3.0%
Total Program Expenditures	**$12,989,167**	**$13,118,046**	**-$128,879**	**-1.0%**	**$12,593,258**	**3.1%**
TRANSFERS						
Budget Stabilization	$29,483	$29,483	$0	0.0%	$425,500	-93.1%
Other Transfers Out	$223,869	$250,623	-$26,754	-10.7%	$358,700	-37.6%
Total Transfers Out	$253,352	$280,106	-$26,754	-9.6%	$784,200	-67.7%
TOTAL GRF USES	**$13,242,519**	**$13,398,152**	**-$155,633**	**-1.2%**	**$13,377,458**	**-1.0%**

*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 November 7, 2016)

	Month of October 2016				Year to Date Through October 2016			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid	**$1,813,009**	**$1,932,041**	**-$119,032**	**-6.2%**	**$6,931,853**	**$7,586,974**	**-$655,122**	**-8.6%**
GRF	$1,450,672	$1,254,986	$195,685	15.6%	$5,911,343	$5,989,634	-$78,291	-1.3%
Non-GRF	$362,338	$677,055	-$314,717	-46.5%	$1,020,510	$1,597,341	-$576,831	-36.1%
Developmental Disabilities	**$217,104**	**$228,475**	**-$11,371**	**-5.0%**	**$850,457**	**$907,518**	**-$57,060**	**-6.3%**
GRF	$47,273	$47,394	-$121	-0.3%	$189,780	$192,596	-$2,816	-1.5%
Non-GRF	$169,832	$181,081	-$11,250	-6.2%	$660,678	$714,922	-$54,244	-7.6%
Job and Family Services	**$11,909**	**$19,389**	**-$7,480**	**-38.6%**	**$65,990**	**$99,697**	**-$33,707**	**-33.8%**
GRF	$4,400	$6,824	-$2,423	-35.5%	$27,322	$41,543	-$14,221	-34.2%
Non-GRF	$7,509	$12,566	-$5,057	-40.2%	$38,667	$58,154	-$19,486	-33.5%
Health	**$1,437**	**$1,807**	**-$370**	**-20.5%**	**$8,584**	**$9,275**	**-$691**	**-7.5%**
GRF	$287	$263	$24	9.2%	$1,231	$1,110	$121	10.9%
Non-GRF	$1,150	$1,544	-$394	-25.5%	$7,353	$8,165	-$812	-10.0%
Aging	**$564**	**$579**	**-$15**	**-2.5%**	**$2,685**	**$2,990**	**-$304**	**-10.2%**
GRF	$307	$282	$26	9.1%	$1,289	$1,267	$22	1.7%
Non-GRF	$257	$297	-$40	-13.5%	$1,396	$1,722	-$326	-19.0%
Mental Health and Addiction	**$703**	**$140**	**$563**	**402.1%**	**$1,942**	**$1,580**	**$362**	**22.9%**
GRF	$581	$140	$441	315.2%	$1,372	$1,280	$92	7.2%
Non-GRF	$122	$0	$122	---	$570	$300	$270	89.9%
Total GRF	**$1,503,520**	**$1,309,888**	**$193,632**	**14.8%**	**$6,132,338**	**$6,227,430**	**-$95,092**	**-1.5%**
Total Non-GRF	**$541,207**	**$872,543**	**-$331,336**	**-38.0%**	**$1,729,173**	**$2,380,604**	**-$651,430**	**-27.4%**
Total All Funds	**$2,044,727**	**$2,182,431**	**-$137,704**	**-6.3%**	**$7,861,511**	**$8,608,034**	**-$746,523**	**-8.7%**

*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 November 7, 2016)

	October				Year to Date Through October 2016			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	$847,655	$899,130	-$51,475	-5.7%	$3,236,464	$3,532,136	-$295,673	-8.4%
Nursing Facilities	$124,194	$121,152	$3,042	2.5%	$493,694	$487,963	$5,732	1.2%
DDD Services	$211,691	$223,761	-$12,069	-5.4%	$824,595	$876,150	-$51,554	-5.9%
Hospitals	$82,281	$95,124	-$12,843	-13.5%	$317,275	$501,665	-$184,390	-36.8%
Behavioral Health	$110,709	$117,697	-$6,988	-5.9%	$382,980	$414,042	-$31,062	-7.5%
Administration	$76,907	$102,396	-$25,489	-24.9%	$308,259	$392,725	-$84,467	-21.5%
Aging Waivers	$25,835	$29,288	-$3,453	-11.8%	$114,727	$116,149	-$1,422	-1.2%
Prescription Drugs	$38,047	$42,262	-$4,215	-10.0%	$136,347	$153,263	-$16,915	-11.0%
Medicare Buy-In	$48,503	$38,474	$10,029	26.1%	$175,993	$153,337	$22,657	14.8%
Physicians	$17,014	$19,304	-$2,291	-11.9%	$65,706	$69,762	-$4,056	-5.8%
Medicare Part D	$30,630	$27,743	$2,887	10.4%	$115,008	$110,668	$4,341	3.9%
Home Care Waivers	$12,189	$16,419	-$4,230	-25.8%	$42,551	$58,765	-$16,214	-27.6%
ACA Expansion	$333,582	$359,681	-$26,100	-7.3%	$1,339,891	$1,423,722	-$83,831	-5.9%
All Other	$85,489	$89,999	-$4,510	-5.0%	$308,020	$317,687	-$9,668	-3.0%
Total All Funds	**$2,044,727**	**$2,182,431**	**-$137,704**	**-6.3%**	**$7,861,511**	**$8,608,034**	**-$746,523**	**-8.7%**

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

For the first four months of FY 2017, GRF uses were $155.6 million below estimate.

EXPENDITURES

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

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Overview

Tables 3 and 4 show GRF uses for the month of October and for FY 2017 through October, respectively. GRF uses were $3.16 billion in October, $41.0 million above the estimate released by OBM in August 2016. GRF uses mainly consist of program expenditures but also include transfers out. Through October, FY 2017 GRF program expenditures totaled $12.99 billion, $128.9 million below estimate; GRF transfers out totaled $253.4 million, $26.8 million below estimate; and GRF uses as a whole totaled $13.24 billion, $155.6 million below their year-to-date estimate.

Among the nine program categories, Medicaid had the largest positive variance, $193.6 million, in the month of October, which was partially offset by negative monthly variances in seven other categories. Medicaid also had the largest negative variance, $95.1 million, in the fiscal year through October. Other program categories with notable year-to-date negative variances include Health and Human Services ($47.9 million) and Justice and Public Protection ($24.9 million). Cumulative expenditures from Primary and Secondary Education were $68.7 million above the year-to-date estimate, which partially offset these negative variances. The variances for these four categories and GRF transfers out are discussed below.

Medicaid

A positive GRF variance for Medicaid in October of $193.6 million was offset by a negative non-GRF variance of $331.3 million.

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, across all funds Medicaid expenditures of $2.04 billion in October were below estimate by $137.7 million (6.3%). GRF Medicaid expenditures of $1.5 billion were $193.6 million (14.8%) above estimate while non-GRF Medicaid expenditures of $541.2 million were $331.3 million (38.0%) below estimate. Both the overspending of GRF and underspending of non-GRF in October were the result of hospital assessment revenue not being collected in October as planned. Hospital assessment revenue is used to make Hospital Upper Payment

Limit (UPL) payments as well as to offset GRF spending. Without the assessment revenue, the Ohio Department of Medicaid (ODM) had to use more GRF than had been planned to make October Medicaid payments. This imbalance between GRF and non-GRF spending should be corrected when the assessment revenue is collected.

Through the first four months of FY 2017, across all funds, Medicaid expenditures totaled $7.86 billion, $746.5 million (8.7%) below the year-to-date estimate. GRF Medicaid expenditures were $6.13 billion, $95.1 million (1.5%) below estimate, while non-GRF Medicaid expenditures were $1.73 billion, $651.4 million (27.4%) below estimate.

For the first four months of FY 2017, all-funds Medicaid expenditures had a negative variance of $746.5 million, including $95.1 million GRF and $651.4 million non-GRF.

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. Across all funds, ODM's expenditures were $655.1 million (8.6%) below the year-to-date estimate. Through the first four months of FY 2017, ODM's GRF expenditures totaled $5.91 billion, which was $78.3 million (1.3%) below estimate, and its non-GRF expenditures totaled $1.02 billion, which was $576.8 million (36.1%) below estimate. GRF and non-GRF Medicaid expenditures from the Department of Developmental Disabilities (DDD), the second largest agency within this program category, totaled $850.5 million through the first four months of FY 2017, which was $57.1 million (6.3%) 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 $295.7 million (8.4%), which grew as a result of consistent underspending due to new Managed Care rates for 2016, effective January 1. These rates were lower than projected, particularly those for the MyCare program, which provides managed care services for Ohioans who receive both Medicaid and Medicare benefits. The rates will continue through the end of the calendar year, meaning the Managed Care category will likely continue to have a negative variance through at least the first half of FY 2017. However, this variance was partially offset by approximately $50 million of pay-for-performance payments made during the month that were expected to be paid in September; approximately $24 million in payments are still outstanding.

Other payment categories that had significant negative year-to-date variances were Hospitals, Administration, and ACA Expansion. The negative variance for Hospitals ($184.4 million, 36.8%) was almost entirely due to $162.2 million in UPL payments not going out as planned. UPL allows the state to direct supplemental payments, up to the difference between the Medicare and the Medicaid amounts, to providers. These payments will likely be made during November.

The negative variance in Administration ($84.5 million, 21.5%) resulted from a mix of underspending by ODM and the other five agencies that administer Medicaid. ODM is waiting on invoices from the current year related to the administration of the Ohio Benefits system totaling approximately $10 million to $11 million. The negative variance for ACA expansion ($83.8 million, 5.9%) is driven by the previously described lower than anticipated managed care rates, which are also applicable to this group. The rate changes are enough to offset higher than expected caseloads; ACA expansion enrollments in managed care are about 1,600 above estimate and in fee-for-service are about 14,300 above estimate.

The Medicare Buy-In category had a significant positive variance. All funds expenditures in the Medicare Buy-In category totaled $176.0 million, which was $22.7 million (14.8%) above estimate. This positive variance was driven by a larger than anticipated increase in Medicare Part B premiums for 2016. These rates will be in effect through the end of the calendar year, likely resulting in a positive variance for Medicare Buy-In through at least the first half of FY 2017. The Medicare Buy-in Program pays Medicare premiums, deductibles, and coinsurance for certain low-income Ohioans. Additionally, the Nursing Facilities and Medicare Part D categories had nominal positive variances.

Health and Human Services

FY 2017 expenditures for Health and Human Services were below estimate by $47.9 million at the end of October.

GRF expenditures for Health and Human Services were $458.2 million through October, $47.9 million (9.5%) below estimate. This negative variance widened from the previous month because October spending was $24.0 million below OBM's estimate. The Ohio Department of Mental Health and Addiction Services (ODMHAS) had the largest negative variance in October and for the year to date at $15.3 million and $16.9 million, respectively. Elsewhere, the Ohio Department of Job and Family Services (ODJFS) and the Ohio Department of Health (DOH) accounted for $14.8 million and $8.9 million, respectively, of the category's total negative year-to-date variance.

Expenditures for two ODMHAS line items were significantly below their monthly and year-to-date estimates. Item 336421, Continuum of Care Services, was below by $7.2 million for the month and $12.2 million for the year. Item 336423, Addiction Services Partnership with Corrections, was below by $4.5 million for the month and $9.8 million for the year. Both of these items rely on coordination with other governmental entities, so timing issues are not uncommon.

October expenditures for ODJFS were on par with their OBM estimate, so the agency maintained the negative year-to-date variance of $14.8 million as reported in last month's issue of *Budget Footnotes*. This negative variance, however, would have grown this month except for a positive offsetting October variance of $5.3 million in item 600413, Child Care State/Maintenance of Effort. Item 600413 provides payments for publicly funded child care and is necessary to draw down federal child care grants. Most of the other items in the agency's budget had negative monthly and year-to-date variances.

An October negative variance of $4.5 million in DOH spending increased the agency's negative year-to-date variance to $8.9 million. This negative variance continues to be widespread as 16 of the agency's 22 line items were below their FY 2017 estimate. The largest such variance ($2.4 million) was for item 440459, Help Me Grow, which promotes the optimal development of infants and toddlers. Funds from item 440459 are distributed to counties through contracts, grants, or subsidies.

Transfers Out

GRF transfers out totaled $10.3 million during October, which was $28.2 million (73.3%) below the OBM estimate. This monthly transfer activity also created a $26.8 million (10.7%) negative year-to-date variance. OBM expected four transfers to occur in October, but only one, a transfer of $10.2 million to the Development Services Agency's TourismOhio Fund (Fund 5MJ0), materialized.

Transfers out of the GRF contributed $26.8 million to the year-to-date negative variance in GRF uses.

Among the planned transfers that did not occur, the largest was Medicaid related. OBM estimated that $17.7 million would be transferred from the GRF to the Managed Care Performance Payment Fund (Fund 5KW0) pursuant to section 327.80 of H.B. 64, which requires ODM to provide performance payments to Medicaid managed care organizations providing care and services to participants of MyCare, a program that is designed to improve access to and quality of care and services for individuals who are eligible for both Medicare and Medicaid. ODM withholds a percentage of each premium payment it pays to a managed care organization for a program participant. The withheld funds are then transferred from the GRF to Fund 5KW0 for performance payments.

Smaller transfers of $8.3 million for an upgrade of the Ohio Administrative Knowledge System (OAKS), the state's accounting system, and of $2.0 million for administration of the Multi-Agency Radio

Communication System (MARCS), were also not completed as expected in October.

Justice and Public Protection

Expenditures from the Justice and Public Protection program category were $140.6 million in October, $51.9 million (27.0%) below estimate. This negative monthly variance changed the category's year-to-date variance from a positive $27.1 million (4.7%) at the end of September to a negative $24.9 million (3.2%) at the end of October. The negative variance in October was caused by a timing-related negative variance of $49.8 million from the Department of Rehabilitation and Correction (DRC) which offset a positive monthly variance of $47.4 million in September. DRC was left with a negative year-to-date variance of $18.7 million. DRC line item 505321, Institution Medical Services, was largely responsible for the agency's year-to-date variance as it was $17.4 million below estimate. In addition to DRC, the Department of Youth Services ($3.9 million) and the Judiciary/Supreme Court ($3.1 million) had significant negative variances which were partially offset by a positive variance of $2.4 million for the Attorney General.

Primary and Secondary Education

The only positive year-to-date variance in GRF uses at the end of October was in Primary and Secondary Education. Expenditures were $68.7 million above estimate largely due to timing.

GRF expenditures from the Primary and Secondary Education program category were $721.6 million for the month of October, $17.1 million (2.4%) above estimate. Through October, Primary and Secondary Education expenditures totaled $3.09 billion, $68.7 million (2.3%) above estimate. These variances were largely due to timing.

The Ohio Department of Education (ODE) is the only agency that is included in this program category. Expenditures from ODE's GRF appropriation item 200511, Auxiliary Services, were $36.8 million above estimate in October, yielding a positive year-to-date variance of $34.3 million. A subsidy payment from this item, which supports secular services provided to chartered nonpublic schools, occurred in October rather than November as anticipated by the OBM estimate.

GRF expenditures from item 200550, Foundation Funding, totaled $2.66 billion through October, which was $54.1 million above its FY 2017 estimate. Item 200550 is the main funding source for school foundation payments. It is not unusual to see variances from month to month in school foundation payments as such payments for a given fiscal year are often not finalized until the following fiscal year. In fact, this item has a negative variance of $6.7 million in October, partially offsetting positive variances in previous months.

Issue Updates

Over 52,000 Students Participate in First Year of the College Credit Plus Program

– Alexandra Vitale, Budget Analyst, 614-466-6582

On September 19, 2016, the Ohio Department of Higher Education (ODHE) announced that over 52,000 high school students participated in the College Credit Plus (CCP) program in the 2015-2016 school year. More than 90% of those students passed their CCP courses and, thus, received college credit. Most students took between one and three college courses through the program. CCP courses were taken mainly through the two-year college sector. According to ODHE, a total of 78% of students took CCP classes offered through community colleges (66%) or university branches (12%). The remainder of students took courses offered through public four-year universities (11%) and independent or private colleges (11%).

The CCP program replaced the former Post-Secondary Enrollment Options Program (PSEO). The program allows qualified public, nonpublic, and home-instructed students in grades 7-12 to take college courses at state expense for both college and high school credit. Under CCP, funding for public students is deducted from the state aid allocated to the educating district or school. Funding for nonpublic and home-instructed students is paid directly by the state through certain GRF and non-GRF appropriations. Additional details on the CCP program are available on ODHE's website at http://www.ohiohighered.org/ccp.

ODHE Awards Over $120,000 to Nine Higher Education Institutions to Prevent Sexual Violence on Campus

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

In September, ODHE awarded more than $120,000 to nine colleges and universities for the second round of grants aimed at preventing sexual violence on campus. The awards are part of ODHE's Changing Campus Culture (CCC) initiative, which intends to strengthen the ability of colleges and universities to prevent and better respond to sexual assault on their campuses. Recipients use their awards to implement the best practices laid out in CCC's *Changing Campus Culture Report*, which include developing sexual violence prevention and response models and increasing awareness and understanding of the issue on campus.[12] Last March, ODHE awarded 22 colleges

[12] The 2015 CCC report can be found at: https://www.ohiohighered.org/ccc/report.

and universities more than $212,000 in the first round of CCC grants. The grants are funded by GRF line item 235492, Campus Safety and Training. The institutions receiving a second round award, the award amount, and a brief description of each project are listed below.

- **Case Western Reserve University** ($15,000). Funds will establish university measures against sexual misconduct and personal violence, develop a common language around sexual violence prevention, and align training efforts with prevention values and the university's strategic plan.
- **Defiance College** ($15,000). Funds will expand efforts under its Sexual Violence Prevention Project, which, among other goals, seeks to address personal and community responsibility toward situations and victims of sexual violence.
- **Hocking College** ($15,000). Funds will support the Prevention Education and Application through Collaborative Effort (PEACE) initiative, which aims to work in collaboration with local advocacy groups to increase response to and prevention of sexual violence on campus.
- **Wittenburg University** ($15,000). Funds will create the Wittenburg Campus Violence Prevention Programming initiative, which seeks to reduce power-based violence through education and awareness among faculty, staff, and students.
- **Kent State University** ($14,965). Funds will support a program to educate students about sexual violence prevention. The program will be woven into orientation programs, interactive workshops, community-wide events, and future online curriculum offerings.
- **Mount St. Joseph University** ($14,860). Funds will establish a comprehensive online training course to address alcohol and drug issues, gender-based violence, and bystander intervention.
- **Bowling Green State University** ($14,810). Funds will support the university's efforts to transform its Health, Wellness, and You Academic Learning Community into a sustainable, trauma-informed, residential community that will help support students who enter campus having already experienced trauma.
- **Ashland University** ($8,000). Funds will support the university's Healthy Ashland: Changing Campus Culture program, which aims to promote sexual violence prevention through training programs for new employees, a campus-wide marketing program, and a gender-based violence program for faculty, staff, and students.
- **Wright State University** ($7,900). Funds will be used to help promote and support peer education and to develop materials to assist trainers under Wright State's new bystander empowerment program, Got a Minute?.

Development Services Agency Awards $6.8 million to Regional Partners Under the Manufacturing Extension Partnership Program

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

On September 26, 2016, the Controlling Board approved seven grants totaling almost $6.8 million in GRF funding to be distributed by the Development Services Agency (DSA) under the Ohio Manufacturing Extension Partnership (MEP) program. These grants constitute the state's share of funding under this federal public-private partnership overseen by the National Institute of Standards and Technology (NIST). The goal of the program is to leverage federal, state, and private dollars to support the manufacturing industry. Under the program, funding is awarded to regional MEP service partners to provide technical and business assistance in support of small- and medium-sized manufacturers. The seven Ohio award recipients are shown in the table below, along with the FY 2017 funding allocations.

Ohio MEP Grant Awards, FY 2017			
Regional Partner	**Region**	**State Funding**	**Total Funding**
Manufacturing Advocacy & Growth Network (MAGNET)	Northeast	$2,750,000	$7,248,880
TechSolve	Southwest	$1,500,000	$3,899,546
Center for Innovative Food Technology (CIFT)	Northwest	$740,000	$2,229,546
University of Dayton Research Institute (UDRI)	West	$700,000	2,099,576
PolymerOhio	Central	$450,000	$1,199,697
Center for Design and Manufacturing Excellence (CDME) – The Ohio State University	Central	$350,000	$950,000
Appalachian Partnership for Economic Growth (APEG)	Southeast	$300,000	$1,199,667
	TOTAL	**$6,790,000**	**$18,826,912**

The state funding is provided under GRF line item 195453, Technology Programs and Grants. Federal funding for the MEP is not subject to Controlling Board approval, and flows through Federal Fund 3080, appropriation item 195672, Manufacturing Extension Partnership. NIST has committed $5.25 million in annual funding for MEP through FY 2021. In combination with state funding and the private sector, DSA estimates that over $80 million in funding will be available to Ohio regional MEP service partners over the FY 2017-FY 2021 period.

OHFA Awards $54.2 million Under the Neighborhood Initiative Program

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

On October 19, 2016, the Ohio Housing Finance Agency (OHFA) awarded $54.2 million to 35 counties under the Neighborhood Initiative Program (NIP). Of this amount, $26.9 million was awarded to 16 newly established county land reutilization corporations (CLRCs). The remaining $27.3 million was awarded to 19 previously participating CLRCs. NIP is designed to stabilize local property values through the demolition and greening of vacant blighted homes. This money comes from the fifth round of funding under the U.S. Treasury's Hardest-Hit Fund, a program started in 2010 to help struggling homeowners avoid foreclosure and communities tackle blight in areas particularly affected by the housing crisis.

Counties must have established a CLRC to be eligible for funding under NIP. Awards are based on each county's request for demolition funds and track record in using previous awards under earlier rounds of NIP funding. The maximum amount of assistance per property under NIP is $25,000, with the average award amount being $14,000. Since 2010, the U.S. Treasury has provided a total of $762.3 million in Hardest-Hit Fund allocations to OHFA to administer the state's foreclosure prevention and neighborhood stabilization programs. Of this amount, $238.0 million has been allocated for the demolition of blighted residential properties under NIP and 4,000 blighted properties have been removed. The list of CLRCs receiving awards and the total award amount under the September award announcement can be found at: http://ohiohome.org/news/releases/2016/hhf-round5-2.aspx.

Federal Medicaid Reimbursement Rates Are Estimated to Increase for Ohio

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

On September 29, 2016, Federal Funds Information for States (FFIS) released estimates showing that the federal reimbursement rate for Medicaid services, known as the regular Federal Medical Assistance Percentage (FMAP) as well as the related enhanced FMAP (eFMAP), will increase for Ohio in federal fiscal year (FFY) 2018.[13] The FMAP for Ohio is estimated to increase by 0.46 percentage point, from 62.32% in FFY 2017 to 62.78% in FFY 2018. The eFMAP for Ohio is estimated to increase by 0.32 percentage point, from 96.62% in FFY 2017 to 96.94% in FFY 2018.

This increase in the regular FMAP will decrease Ohio's share of many Medicaid expenditures. For example, state fiscal year (FY) 2017 Ohio Medicaid expenditures that are subject to the regular FMAP are estimated to be approximately $18.8 billion. At that level of expenditure, an increase in the FMAP of 0.46 percentage point would lower Ohio's share of Medicaid costs by approximately $86 million ($18.8 billion x 0.46%). Likewise, FY 2017 expenditures for Ohio's Children's Health Insurance Program (SCHIP), which is subject to eFMAP, are estimated to be

[13] The FFY 2018 FMAP will apply to the last three quarters of FY 2018 and the first quarter of FY 2019. These changes in the FMAP do not affect the federal reimbursement rate for individuals newly eligible for Medicaid under the ACA expansion. This rate is uniform for all states that adopt the expansion and falls from 95% in 2017 to 94% in 2018.

approximately $353.7 million. At that level of expenditure, an increase in the eFMAP of 0.32 percentage point would lower Ohio's share of SCHIP costs by approximately $1 million ($353.7 million x 0.32%).

The regular FMAP for each state is based on a formula that provides higher reimbursement to states with lower per capita incomes relative to the national average. The 2015 and updated 2014 personal income data released by the U.S. Bureau of Economic Analysis (BEA) on September 28, 2016, allow calculation of FFY 2018 FMAPs, which are based on per capita personal incomes for calendar years 2013 through 2015. Although Ohio's per capita personal income rose 3.3% to $46,566 in 2015, after increasing 3.6% in 2014, Ohio remains below the national average. The national average growth rates were higher than in Ohio at 4.4% in 2014 and 3.7% in 2015. The national average for per capita personal incomes was $48,112 in 2015. Ohio's per capita personal income ranks 31st among the 50 states and the District of Columbia. In addition to Ohio, FFIS estimates that regular FMAPs will increase in 24 other states and decline in 12 states.

Ohio Receives $400,000 in Child Support Demonstration Project Grants

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

On October 5, 2016, Ohio received two federal grants totaling $400,000 from the U.S. Department of Health and Human Services' Administration for Children and Families to incorporate procedural justice principles into child support business practices. The grants were awarded through the Procedural Justice-Informed Alternatives to Contempt (PJAC) Demonstration Project. One grant was awarded to the Ohio Department of Job and Family Services' Office of Child Support Enforcement and the other to the Stark County Department of Job and Family Services. Each grantee received $200,000. Grantees may receive additional funding up to $581,000 over the next four years, depending on the grantee's performance and the availability of funds. Each grant project will last five years: year one will consist of program design and testing, years two through four will provide program enrollment and services, and year five will continue the provision of services to previously enrolled individuals as well as project evaluation.

The PJAC Demonstration Project seeks to enhance participants' confidence and trust in the child support program, in order to increase compliance with child support orders, increase reliable payments, reduce arrears, and minimize the need for continued enforcement actions and sanctions. The project's targeted population will be parents who owe child support arrears and would normally be scheduled for a contempt action in court. Each grantee is required to identify at least 3,000 noncustodial parents within this targeted population. Of these parents, 1,500 will receive grant project services and 1,500 will be placed into a control group and be subject to current child support processes and actions. Available grant project services include enhanced child support, case management, dispute resolution, and employment services. Grantees may also provide additional services such as housing assistance, financial literacy, substance abuse assistance, and General Educational Development (GED) classes.

Ohio Attorney General's Task Force on Criminal Justice and Mental Illness Releases Annual Report

– Joseph Rogers, Senior Budget Analyst, 614-644-9099

On October 3, 2016, the Ohio Attorney General's Task Force on Criminal Justice and Mental Illness released its annual report detailing its work to reduce the number of people with mental illnesses in the state's criminal and juvenile justice systems.[14] This work can be summarized in three broad areas as follows:

- **Stepping Up Initiative**. This is a national initiative to prevent those with mental illnesses from ending up in jails. It generally seeks to strengthen the coordination of criminal justice actors, such as jails, courts, and probation departments, to better screen and identify offenders with mental illnesses and determine appropriate and available treatment options.
- **Supportive housing services**. These services provide offenders in need with access to various rental subsidy programs that help secure stable housing. Under these types of programs, if an offender appears before a mental health court and is identified as homeless, the judge can refer that person to a mental health provider and other participants in the subsidy program to locate housing and provide for rental payments. The goal of these housing services is to keep offenders off the streets, better enable them to maintain treatment services, and reduce the likelihood they will reoffend.
- **Crisis Intervention Team (CIT) training**. CIT training programs help ensure that officers are educated on techniques of de-escalation such that persons with mental illnesses who are in crisis can be diverted from jails and into treatment whenever possible. In FY 2016, 942 full-time law enforcement officers from 345 Ohio law enforcement agencies attended CIT courses. Additionally, 126 court personnel, 125 correction officers, 41 fire and EMS personnel, 24 probation and parole officers, and 22 dispatchers attended. The Ohio Attorney General provided about $250,000 in grant funding over the past several years to cover the cost of sending peace officers for first-time training. To date, more than 8,800 individuals have received CIT training.

[14] http://www.ohioattorneygeneral.gov/Files/Briefing-Room/News-Releases/Task-Force-on-Criminal-Justice-and-Mental-Illness.

Ohio EPA Awards $16.8 million in Below-Market Interest Rate Loans for Public Wastewater Projects

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

In September and October 2016, the Ohio Environmental Protection Agency (Ohio EPA) awarded below-market interest rate loans totaling $16.8 million for seven public wastewater projects. The loans are backed with money drawn from the Ohio Water Pollution Control Loan Fund (WPCLF), which is managed by the Ohio EPA with assistance from the Ohio Water Development Authority. The loans, including zero interest rate loans and principal forgiveness loans,[15] will save recipients a total of $3.4 million relative to the cost of going to the open market for a similar loan. The table below summarizes these loans in terms of the recipient, loan type, project description, loan amount, and estimated savings.

Created in 1989, the WPCLF generally provides low-interest financing and incentives to public entities (municipalities, counties, and sewer districts) for the planning, design, and construction of projects to protect or improve the quality of Ohio's water resources. The fund consists of federal capitalization grants, loan repayments, and bond proceeds. In FY 2016, loans totaling $879 million were awarded from the fund to finance 153 wastewater infrastructure and water quality improvement projects.

Ohio EPA Public Wastewater Treatment System Loans

Recipient	Loan Type	Project Description	Loan Amount	Savings
Hamilton County	Below-Market Interest Rate	Indian Creek wastewater treatment plant upgrades	$7,345,000	$1,200,000
Hamilton County	Below-Market Interest Rate	White Street area sewer separation	$4,500,000	$643,000
City of Columbus	Below-Market Interest Rate	Big Walnut augmentation/Rickenbacker interceptor component rehabilitation	$3,600,000	$532,000
Village of Butler	Zero Interest Rate	New wastewater treatment plant design	$643,800	$53,750
Stark County	Principal Forgiveness	Home sewage treatment system repair and replacement	$300,000	$401,000
Ottawa County	Principal Forgiveness	Home sewage treatment system repair and replacement	$300,000	$401,000
Warren County	Principal Forgiveness	Home sewage treatment system repair and replacement	$150,000	$201,000
		TOTAL	**$16,838,800**	**$3,431,750**

[15] Principal forgiveness loans are loans in which eligible capital costs of a project are reduced by the principal forgiveness amount, thereby eliminating a portion of the principal (and interest) that the borrower must repay.

TRACKING THE ECONOMY

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Overview

The nation's economy continues to expand in this year's fourth quarter. Nonfarm payroll employment rose again in October, and the unemployment rate fell slightly to 4.9%. In the third quarter, inflation-adjusted gross domestic product (real GDP), the total output of the economy, rose at the most rapid rate in two years but due in part to one-time factors. Industrial output advanced in the third quarter and likely also into the fourth quarter, after earlier declines. Consumer spending continues to grow but more slowly than earlier. Residential investment fell in the latest two quarters and nonresidential investment grew slowly.

Economic activity in this region continues to trend upward, though employment in Ohio fell in the latest two months. Service-sector activity and construction are expanding. The unemployment rate remains low.

Price and wage inflation both have increased this year, but not by much and both are still low in historical perspective. The upturn in broad price measures is related in part to higher energy prices, after declines in 2014 and 2015. Rising wage pressures have been reported for types of labor in short supply in some industries and regions.[16]

As widely expected, the central bank held monetary policy, including its short-term interest rate target, unchanged at the November meeting of its Federal Open Market Committee. Two committee members dissented in favor of an immediate interest rate increase.

The National Economy

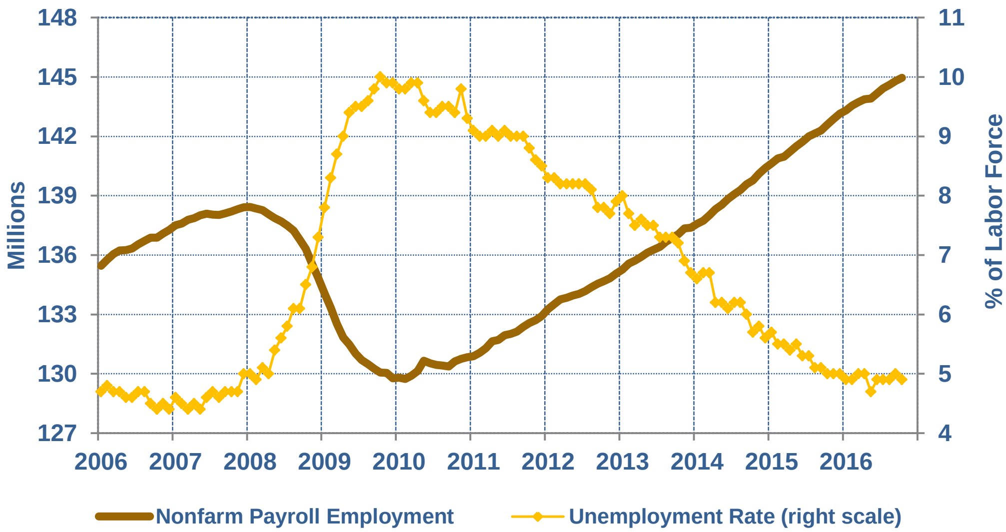
Employment and Unemployment

Total payroll employment in the nation rose 161,000 in October.

Total nonfarm payroll employment in the nation rose by 161,000 (0.1%) in October to 145.0 million. The number of persons unemployed declined to 7.8 million, 4.9% of the country's labor force, down from 5.0% in September. Trends in employment and unemployment are shown in Chart 5.

[16] The latter report is from the Beige Book, a compendium of commentary on economic and business conditions gathered from outside contacts and published by the Federal Reserve, most recently in October.

Chart 5: U.S. Employment and Unemployment



Employment increases in this year's first ten months averaged 181,000, down a little from the average earlier in the current expansion, 192,000. In October, employment rose in health care, professional and business services, and financial activities, continuing uptrends in these industries. Employment changes in other industries were small.

The unemployment rate in October was in the range in which it has fluctuated since August 2015. The recent low was 4.7% in May of this year. Other measures of labor utilization show less tightness. The labor force participation rate[17] was 62.8% in October, up from a low of 62.4% last year but well below the peak of 67.3% in 2000. The employment-population ratio[18] of 59.7% in October was up from a low of 58.2% in 2010 and 2011, but below the peak, 64.7% in 2000.

Production, Shipments, and Inventories

Real GDP rose at a 2.9% annual rate in the third quarter, the strongest rise in two years in this broad measure of U.S. output. In the first half of 2016, increases in real GDP averaged 1.1% at an annual rate, following a 1.9% rise in the four quarters of 2015. Higher growth reflects a jump in exports that the U.S. Bureau of Economic Analysis, the source agency for the GDP figures, attributed particularly to higher exports of soybeans. An end to inventory liquidation also added to demand. On the other hand, consumer spending growth slowed. Residential fixed

Real GDP rose at a 2.9% annual rate in the third quarter.

[17] The labor force participation rate is the ratio of civilians either working or looking for work, to the population age 16 and over.

[18] The employment-population ratio also includes only civilians age 16 and over.

Industrial production rose at a 1.8% annual rate in the third quarter.

investment declined for the second consecutive quarter after sizable gains in the previous two years. Nonresidential fixed investment in equipment fell for the fourth consecutive quarter, on lower investment in large trucks, aircraft, and railroad equipment and in machinery used in construction, mining including oil and gas, and agriculture.

Industrial production rose 0.1% in September, and rose at a 1.8% annual rate in the third quarter after declines in four of the previous five quarters. Factory output rose 0.2% in September and at a 0.9% rate in the third quarter, but was unchanged from a year earlier following declines in previous months. Mining production rose 0.4% in September and at a 3.7% annual rate in the third quarter, after six consecutive quarterly declines. The rise in September resulted from increased oil and gas well drilling, coal mining, and nonmetallic mineral mining and quarrying.

The count of active U.S. oil and gas drilling rigs continued to climb in early November and was up by more than 40% from lows in May.[19] The recovery in drilling activity will be reflected in future reports on industrial activity and GDP.

In October, factory production increases were more widespread than the month before, in an Institute for Supply Management (ISM) survey of purchasing managers. Survey respondents reporting increases outnumbered those noting decreases for new orders, employment, and prices paid. Decreases were more widespread for inventories and unfilled orders. An October ISM survey of organizations other than manufacturers showed continued expansion in most industries.

Consumer Spending and Incomes

Real consumer spending rose 0.3% in September, and increased at a 2.1% annual rate in the third quarter, down from 2.9% on average in the first two quarters of the year and 3.2% in 2015. The third quarter slowdown mainly reflects weakness in nondurable goods buying, including purchases of gasoline and other energy goods, clothing and footwear, and other nondurables. Consumer spending continues to be supported by wage and salary growth outpacing price increases, though by less than last year. Nonfarm proprietors' incomes also are growing but farm income is weak. Payments are expanding to beneficiaries of most government transfer programs, except unemployment insurance. Social Security benefits will rise 0.3% in 2017.

Consumer spending may grow more strongly in the current quarter than in the third quarter, based on motor vehicle sales in

[19] Data cited are from Baker Hughes' North America Rotary Rig Count.

October. Light vehicle sales were at a 17.9 million unit annual rate, seasonally adjusted, the strongest monthly sales this year though below exceptionally strong year-earlier sales. The sales mix has continued to shift toward vehicles classified as trucks. Year-to-date light truck sales were 7% higher than a year earlier while auto sales were 9% lower.

Construction and Real Estate

Housing starts in the U.S. fell 9% from August to September, as construction commenced on fewer apartments while starts on homes rose. So far in 2016, construction was started on 4% more housing units than a year earlier, reflecting a 9% rise in home starts, and a 5% fall in starts on multifamily units after five years of booming apartment construction. Overall, the pace of residential building has more than doubled from lows in 2009 but remains short of levels typical in the past, particularly for new home construction.

Housing starts in the U.S. so far in 2016 were 4% more than a year earlier.

New home sales rose 3% in September to 30% higher than a year earlier. Year-to-date sales were 13% higher than a year earlier, at the highest rate since 2007, and 84% above the low point in 2011 when sales were the lowest on records kept since 1963. Even with the current vigorous upturn, new home sales in January-September were well below the pace in boom years 1997-2005, and somewhat below sales rates typical before then. The shortfall is most pronounced in Northeastern states, followed by the Midwest.

Home sales reported by the National Association of Realtors (NAR), generally previously occupied homes, rose 3% in September. Year-to-date sales were 3% higher than a year earlier, following a 6% rise in all of 2015. NAR said 34% of sales were to first-time buyers, highest in over four years, and also noted that listings of homes for sale remain low relative to demand.

The value of construction put in place nationwide in September fell 0.4%, to 0.2% below the year-earlier value.[20] In the first nine months of 2016, total construction rose 4%, including a 6% rise in private residential construction and an 8% increase in nonresidential construction, but a 2% decline in public construction. The decline in public-sector building follows two years of increases, and is concentrated in power projects, sewage and waste disposal, and public transportation.

Housing prices on average nationwide rose 0.7% in August to 6.4% higher than a year earlier, as indicated by the Federal Housing Finance

[20] Construction put in place estimates, from the U.S. Department of Commerce, are in dollars of current purchasing power, not adjusted for inflation.

The consumer price index in September was 1.5% higher than a year earlier, the largest rise in nearly two years.

Agency's House Price Index. The index had recovered by 33% from a low point in 2011, and was 5% higher than the prior peak in 2007, with considerable variation among regions of the country.

Inflation

The consumer price index (CPI) for all items rose 0.3% in September, its largest increase since April. Compared with a year earlier, the all-items index was 1.5% higher, the largest year-over-year rise in nearly two years. The more rapid rise largely reflects changes in consumer energy prices. The CPI for consumer energy has risen from the month before in most months this year, after declining precipitously in 2014 and 2015. In contrast, consumer food and beverage prices have been about flat, overall, since early 2016, after increasing for several years. Prices of consumer goods and services other than food and energy have risen somewhat more rapidly this year. The CPI excluding food and energy was 2.2% above a year earlier in September, up from year-over-year increases averaging 1.8% in 2015 and 1.7% in 2014.

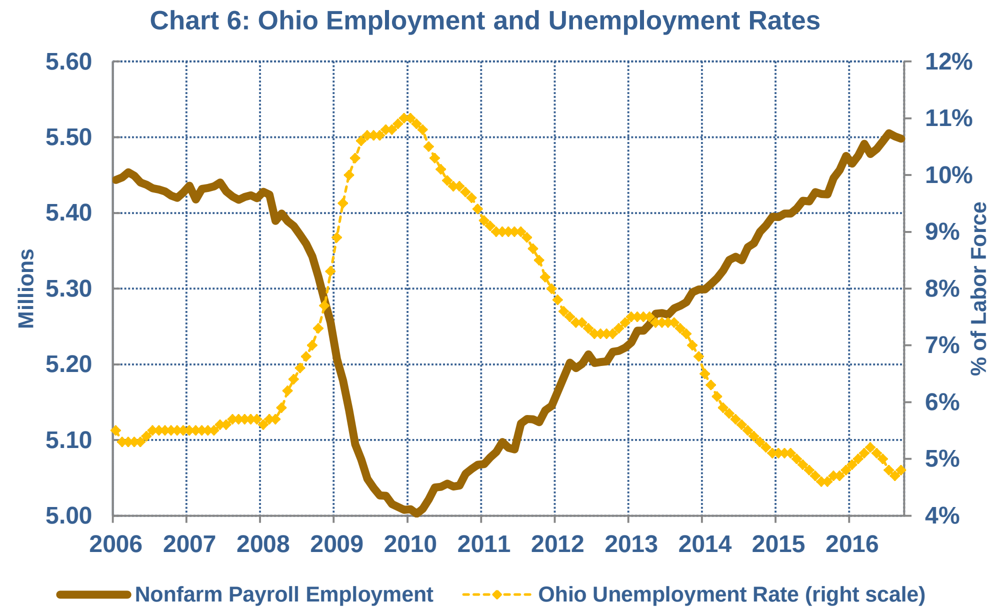
The producer price index for final demand, a measure of inflation at the factory or wholesale level, rose 0.3% in September to 0.7% higher than a year earlier, its largest year-over-year increase since 2014.

Wage inflation has been edging higher this year. Wages and salaries in private industry, in the employment cost index report from the U.S. Bureau of Labor Statistics, rose 1.8% in the first nine months of 2016, about 2.4% at an annual rate, after increasing 2.1% in the 12 months of 2015 and 2.2% in 2014, the largest increase since 2008. State and local government wages and salaries rose at a 2.0% annual rate in the first nine months of 2016 and 1.8% in the 12 months of 2015, the most since 2009.

The Ohio Economy

Employment and Unemployment

In September, Ohio's total nonfarm payroll employment, seasonally adjusted, fell by 3,100 or 0.1% from August's revised figure, a decline for the second consecutive month. Job losses in construction, manufacturing, and state government exceeded gains in private service-providing sectors. Ohio's unemployment rate was 4.8% in September, up from 4.7% in August. Chart 6 shows Ohio employment and unemployment rates over the last ten years.



The state's unemployment rate in September remained below the U.S. unemployment rate of 5.0%. The number of persons classified as unemployed in the state was 275,000 in September, 4,000 more than in August and 12,000 higher than in September of last year.

Ohio's unemployment rate was 4.8% in September.

The state's payroll employment in September was 73,400 or 1.4% higher than in September of last year. Year to date, job gains averaged 2,500 per month compared to 6,708 per month in 2015. Over the year, job gains occurred in educational and health services, leisure and hospitality, trade, transportation, and utilities, other services, financial activities, state government, local government, and construction.

Ohio Home Sales

The number of existing homes sold in Ohio rose by 3.6% in September compared to September 2015, according to the Ohio Association of Realtors. From January through September of this year, unit home sales increased by 4.8% compared to the same period in 2015. The statewide sales price of homes sold in January through September 2016 averaged $164,142, or 4.4% higher than the corresponding months a year earlier.

Economic activity in the region grew at a modest pace.

Regional Economy

Economic activity in the Federal Reserve Bank of Cleveland's district grew at a modest pace, according to the Beige Book report covering the period from late August to early October.[21] Manufacturing production changed little since late August. Steel industry contacts reported lower demand for steel. Housing markets in the region remained strong. Retailers indicated that sales were essentially flat. Sales of cold-weather clothing were adversely affected by the unseasonably warm weather, but health-and-wellness and personal items were selling well. Sales of new motor vehicles were down compared to a year earlier. Sales of light trucks, including SUVs and crossovers, remained strong. Commercial and retail lending growth was stable, at a slow pace. Contacts reported an uptrend in permit issuance and drilling activity in the Marcellus and Utica Shales, as wellhead prices rose slowly. Coal production rose in the past two months as demand for electricity increased due to warm weather and inventory drawdowns at coal-fired power plants.

[21] These comments are based on the Beige Book section written by the Federal Reserve Bank of Cleveland, with a district that includes Ohio and parts of Kentucky, Pennsylvania, and West Virginia.