OBM

January 11, 2016

MEMORANDUM TO: The Honorable John R. Kasich, Governor
The Honorable Mary Taylor, Lt. Governor

FROM: Timothy S. Keen, Director TK

SUBJECT: Monthly Financial Report

**ECONOMIC SUMMARY**

**Economic Performance Overview**

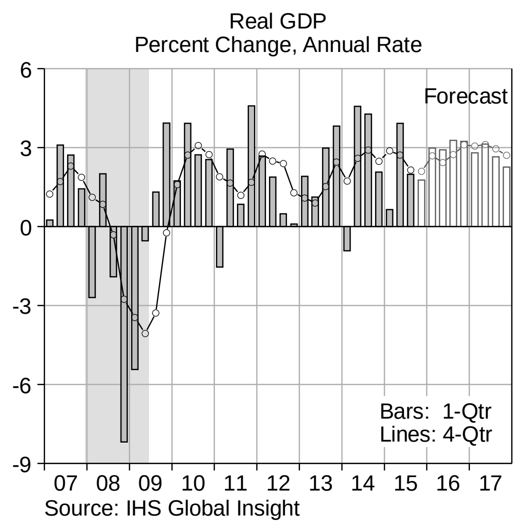
- Real GDP increased at an annual rate of 2.0% in the third quarter and was 2.1% higher than a year earlier.
- U.S. employment increased by 292,000 jobs in December. Prior month job gain estimates were revised upward. The unemployment rate was unchanged at 5.0%.
- Ohio nonfarm payroll employment increased by 9,900 jobs in November, and is up by 68,200 jobs year-to-date. The Ohio unemployment rate was essentially unchanged for the month, edging higher by 0.1 percentage point to 4.5%.
- Leading economic indicators continue to point toward uninterrupted economic expansion. Recent data indicate that growth is continuing in the fourth quarter at a slower pace than over the summer.

## Economic Growth

**Real GDP** increased at an annual rate of 2.0% in the third quarter – little changed from the previous estimate, and down from 3.9% in the second quarter. Third-quarter growth was in line with the average from the beginning of the current expansion, which has been the weakest of the four post-war expansions that have lasted at least as long as the current one.

The **increase in third-quarter** real GDP primarily reflected increases in personal consumption expenditures, nonresidential fixed investment, state and local government expenditures, residential fixed investment, and exports. Private inventory investment subtracted from growth during the quarter, and imports, which are first automatically included in these individual categories and then subtracted as a separate category, increased (increases in imports subtract from overall domestic growth).

The **deceleration during the third quarter** reflected the downturn in private inventory investment and decelerations in exports, personal consumption expenditures, nonresidential fixed investment, and state and local government expenditures. The deceleration in imports partly offset these negative factors.



According to a **survey of businesses** by the Federal Reserve Bank of Cleveland during the six weeks ending in early December, the economy in and around Ohio expanded at a modest pace into the fall. Factory output was reported as stable, the housing market as improving, and nonresidential construction as strong. Retail businesses in the area reported increases in revenues from a year earlier, and credit demand from both consumers and businesses grew slowly. Energy exploration and production activity continued to decline, although investment in midstream and downstream projects for processing natural gas and associated products expanded. Freight volume was reported as trending lower.

The **Ohio Coincident Economic Index**, compiled by the Federal Reserve Bank of Philadelphia, increased 0.1% in November and the October increase was revised down from 0.3% to 0.2%. Compared with a year ago, the index was up 3.2% – down from a recent peak of 6.6% in September 2014 but still strong enough to be consistent with moderate economic growth in the state. The index is comprised solely of labor market indicators, but historically has closely tracked major turning points in the overall Ohio economy.

Despite a further weakening in some leading economic indicators, the balance of the evidence still points to modest growth in real GDP. The **Leading Economic Index** from the Conference Board increased 0.4% in November after a 0.6% increase in October that was preceded by a 3-month pause in July-September. Five of the ten components made positive contributions during November, led by building permits. Three components subtracted, led by the ISM New Orders sub-index. The year-over-year rate of change has slowed during the past year, but remains at 3.4%, which is consistent with continued economic expansion. In contrast, the rate of change in the index regularly has turned negative in advance of recessions in the past.


The diffusion of changes in the **Coincident Economic Index** across the states – a leading indicator at past business cycle turning points – weakened notably in November, as the number of states for which the coincident index increased from the prior month fell from 43 to 40. At the same time, however, the number of states for which the index increased from three months prior rose from 43 to 44 – the highest since April. The pattern of state increases in 2015 is the weakest since 2010, but remains consistent with continued economic expansion. However, further deterioration during the next few months would begin to raise questions about the durability of the expansion.

The **Ohio Leading Economic Index** from the Philadelphia Federal Reserve also weakened in November, declining from 0.7% to 0.2%. The index was 3.7% as recently as July. The index is designed to predict the rate of change in the coincident index during the next six months. The decline since mid-summer suggests that growth of the Ohio economy will be somewhat slower through the winter.

The number of states with a positive Leading Economic Index was unchanged at 42 in November. The October number was revised down from 45 to 42. Even so, the number of positive readings remains above the threshold that has coincided with the onset of recession in the past. For example, the number of states with positive readings fell to an average of 36 three months in advance of the most recent three recessions and to an average of 28 during the first month of those recessions.

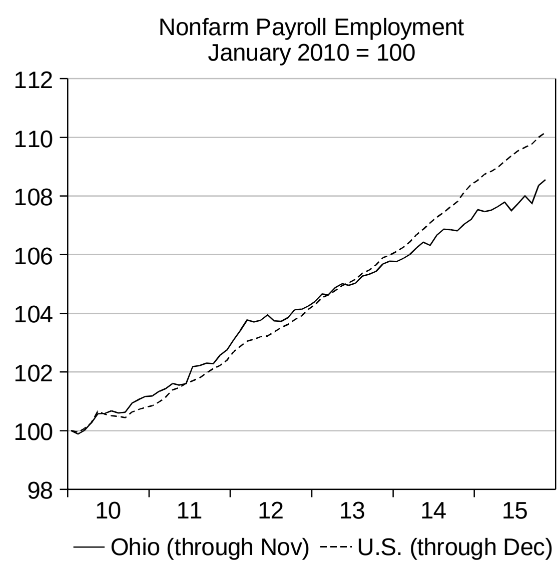
The **consensus of forecasters** is that economic growth will continue throughout 2016. For example, IHS Global Insight projects real GDP growth of approximately 3% in each quarter of 2016 after an estimated rise of only 1.2% in the fourth quarter of 2015. As reasons for the pickup, the firm cites a rebound in consumer spending, the completion of the downswing in the inventory cycle, the end to the drag from retrenchment in the energy sector on capital spending, and recently agreed to adjustments to the federal government budget.

## Employment

Labor markets continued to strengthen in December. **Nonfarm payrolls** increased by 292,000 jobs and the total change for the two previous months was revised higher by 50,000 jobs. Job growth has averaged 284,000 jobs per month during the most recent three months, up from 218,000 as of last month's report, and up from 229,000 during the most recent six months.

Employment gains were very widespread **across industries**, led by professional and business services (+73,000), education and health services (+59,000), construction (45,000), and leisure and hospitality (+29,000). Within these areas, pockets of strength included health care (+39,400), and food services and drinking places (+36,900), temporary help services (+34,400), and specialty trade contractors in construction (+29,400).

The only major sector with a decrease in employment was mining and logging (-8,000). Most of the decline took place in support activities for mining (-5,500). Mining and logging employment has decreased for twelve months in a row by a total of 131,000 jobs, reflecting the downturn in the oil and gas industry brought on by the large declines in energy prices. On a more positive note, manufacturing employment increased by 8,000 in November for the third monthly gain in a row following a decline of 27,000 jobs in August and September combined.




In addition to the monthly employment report, the recent pattern in weekly **initial claims** for unemployment compensation remains consistent with sound labor market fundamentals and an expanding overall economy. The 4-week average of initial claims was 275,750 in the week ending January 2nd – up moderately from the four-decade low of 259,250 reached in late October and the 41st straight week below 300,000. The recent pattern and current level are consistent with a healthy and expanding labor market and overall economy.

The **U.S. unemployment rate** was unchanged at 5.0%, as a 485,000 person increase in the labor force was almost matched by the increase in the total number of people working. The total number of unemployed people decreased by 20,000. At 9.9%, the broadest measure of unemployment – the U-6 unemployment rate – which includes people who want to work but have stopped looking because of poor perceived prospects, has been essentially unchanged since September.

**Ohio nonfarm payroll employment** increased by 9,900 jobs in November, and is up by 68,200 jobs year-to-date. The month-over-month increase was led by leisure and hospitality (+6,000), construction (+3,900), government (+2,900), and professional and business services (+2,800). In contrast, nonfarm payroll employment declined in trade, transportation and utilities (-5,700), educational and health services (-900) and manufacturing (-600).

Compared with a year earlier, Ohio employment was higher by 75,800 jobs. The largest employment gains during the period occurred in leisure and hospitality (+17,700), education and health services (+17,500), manufacturing (+11,600), and trade, transportation, and utilities (+11,500). The only employment decline during the year ending in November occurred in mining and logging (-1,700).

Among the **contiguous states**, year-over-year employment growth was strongest in Indiana (+2.0%), followed by Kentucky (+1.8%), Michigan (+1.7%), Ohio (+1.4%), and Pennsylvania (+0.7%). Employment declined from a year earlier in West Virginia (-1.4%). Year-over-year growth in manufacturing employment was 1.7% in Ohio. Among the contiguous states, manufacturing employment increased 3.4% in Michigan, 3.3% in Kentucky, 1.6% in Indiana, was unchanged in West Virginia, and decreased 0.6% in Pennsylvania.

The **Ohio unemployment rate** was essentially unchanged in November, edging higher by 0.1 percentage point to 4.5%. The number of unemployed people increased by 6,165 in November, while the number of employed people increased by 3,394, and the labor force increased by 9,559 people. Compared with a year ago, unemployment is down by 40,889 people and the number of employed people is up by 24,237, while 16,652 people have left the labor force. (The employment change numbers are different from those cited above because they come from a completely different survey, one based on households rather than employers.) The unemployment rate is down 0.7 percentage points from a year ago, and is less than one-half its peak level of 11.0% reached in January 2010.

Across the country in November, the unemployment rate decreased by a statistically significant amount in seven states and was not statistically different from the month before in 41 states. The only significant month-over-month increases occurred in Illinois and Texas. The unemployment rate was lower than a year earlier by a statistically significant margin in 24 states and higher only in New Mexico.

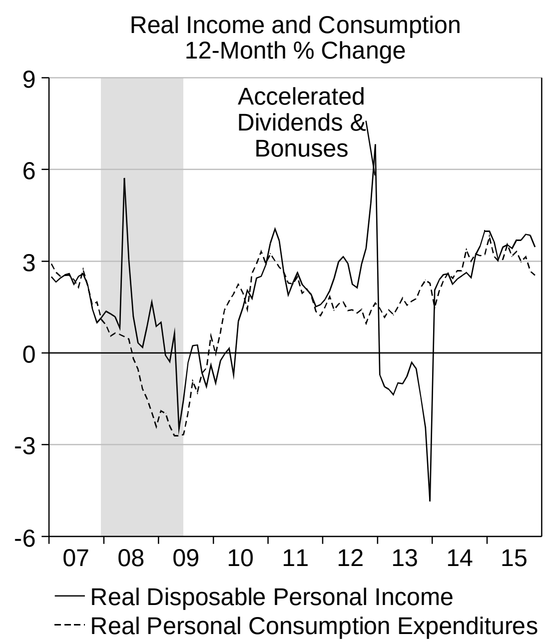
## Consumer Income and Consumption

Income growth continued at about the recent pace in November, and spending growth resumed after a flat October. **Personal income** increased 0.3% in November after a 0.4% increase in October. **Wage and salary disbursements** – the largest single component of personal income – increased 0.5% on top of a 0.6% increase the previous month.

**Ohio personal** income increased by 5.5% at an annual rate in the third quarter, and the second-quarter growth rate was revised upward from 3.7% to 5.0%. Growth in wage and salary disbursements in Ohio followed a similar pattern. Compared with a year earlier, Ohio personal income was higher by 3.5% and wage and salary disbursements were higher by 3.8%. Nationally, personal income grew 5.3% in the second quarter and 5.1% in the third quarter, with the third quarter amount being 4.7% above the year earlier level.

Inflation remains low, which should be providing some support to consumer spending. The **Consumer Price Index** (CPI) was flat in November after essentially no change on balance during the previous three months. At 0.4%, the year-over-year change in the CPI remained negligible, although is likely to move higher in coming months as the steep decrease in energy prices that started more than a year ago drops out of year-over-year comparisons.

Excluding the volatile food and energy categories as a means of assessing the underlying inflation trend, the "core" CPI increased 0.2% in November to 2.0% above its year earlier level. The Median CPI from the Federal Reserve Bank of Cleveland, which some analysts believe is a better measure of the inflation trend, continued to track even higher than the core at 2.5% year-over-year. The measure of inflation that is most closely watched by the Federal Reserve, the "core" personal consumption expenditure (PCE) deflator, was unchanged in November and 1.3% above its year earlier level.



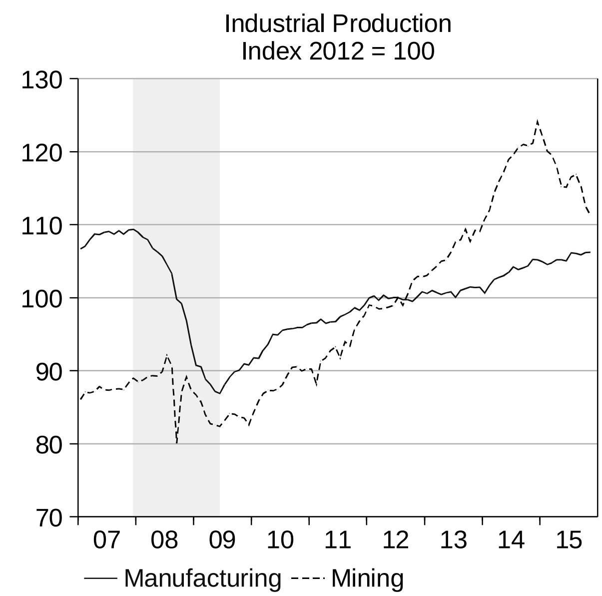

**Personal consumption expenditures** in-creased by 0.3% in November after posting no change in October. The modest gain in spending was broad-based, with spending on durable goods rising 0.7%, spending on nondurable goods rising 0.5%, and spending on services rising 0.2%. Compared with a year earlier, spending on durable goods was higher by 3.0%, spending on nondurable goods was down slightly, and spending on services was higher by 3.9%.

Durable goods spending reflected flat sales of light motor vehicles at a historically high level. In December, sales of **light motor vehicles** slowed to an annual rate of 17.2 million units, down from an average of more than 18.0 million units during the previous three months. For the year, sales totaled a record 17.3 million units, up from 16.4 million units in 2014 and just barely exceeding the previous peak in 2000.

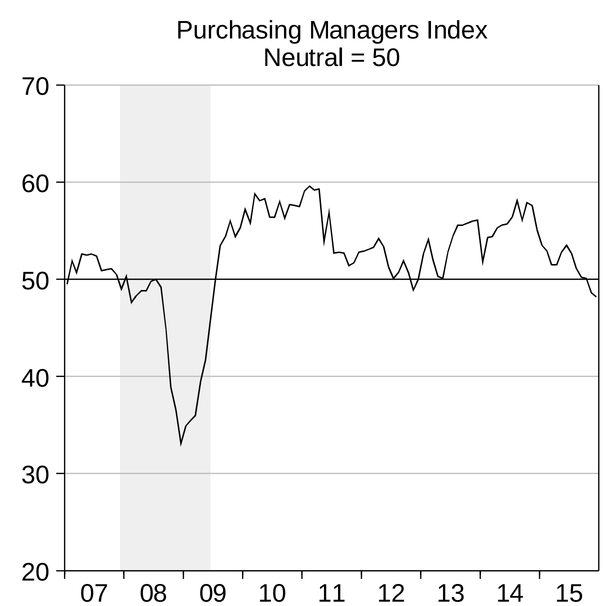
**Consumer confidence** improved in December, as both the Conference Board and Reuters/University of Michigan indexes increased. Most of the improvement came from brighter assessments of current conditions, but the Conference Board expectations index also increased. In general, consumer confidence indexes are at relatively high levels that are consistent with sustained growth in consumer spending in the months ahead.

## Manufacturing

Manufacturing deteriorated further as 2015 came to a close, reflecting the strengthening in the dollar and its effects on trade, weakness in the energy and commodity sectors, and the weakening in foreign demand. With business cycle indicators still pointing to overall economic expansion, however, these headwinds appear most likely to prove temporary, possibly being followed by a strengthening in activity later this year.




**Industrial production** decreased 0.6% in November and the October decline was revised down from -0.2% to -0.4%. The November decrease was the third in a row. Production also fell for the five straight months ending last May. However, the most recent two declines were entirely the result of decreases in mining and utility output. **Manufacturing** output was unchanged in November, and the October increase was revised down from 0.4% to 0.3%. The manufacturing index is only 0.9% above its year earlier level. **Mining** output decreased 1.1% on top of decreases in September and October to 8.2% below its year earlier level, an ongoing casualty of the decrease in energy prices, which has led to cutbacks in employment, investment, and production in that sector. **Utility** output decreased 4.8% due to milder-than-normal weather again during November.




Reports from **purchasing managers** dimmed further in November. The PMI® fell 0.4 points to 48.2, creating the first back-to-back readings below 50 since the 2007-09 recession. The New Orders and Production sub-indexes both increased, but remained below 50 for a second month. The Employment sub-index slipped back below 50, while the Imports sub-index fell 3.5 points to 45.5 and the New Exports sub-index improved by 3.5 points to 51.0, its first reading above 50 since last April.

Demand for manufactured products in and around Ohio has been flat in recent months, according to the Cleveland Fed survey. Respondents cited the strengthening in the foreign exchange value of the dollar, the contraction in the energy sector, and weaker demand in some overseas economies as the main sources. Businesses in the motor vehicle, construction, and aerospace industries reported strong demand, but the steel industry remains under pressure. Steel makers have taken measures to cut costs and preserve cash, in response to continued declines in steel prices resulting from the stronger dollar and low-cost imports.

Of the 18 industries tracked by the Manufacturing ISM *Report on Business*, only six reported growth in November. According to purchasing managers, the primary metals, fabricated metal products, machinery, and transportation equipment industries, which account for a large share of Ohio manufacturing employment, contracted in November.

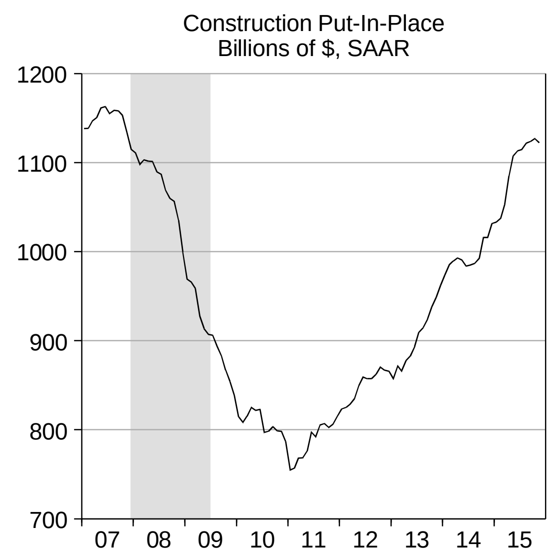
## Construction

**Construction put-in-place** decreased 0.4% in November, as both private and public activity retreated modestly. The correction of an unexplained processing error at the U.S. Census Bureau resulted in some large revisions to historical data dating back to 2005. The net result of the revisions was to raise the level of reported activity. Compared with a year ago, construction put-in-place was up 10.5% in November.

**Private construction** decreased 0.2% after a 0.7% increase in October. Private residential construction put-in-place increased 0.3%, as a 0.6% increase in single-family construction more than offset a 0.7% decrease in multi-family construction. Private nonresidential construction decreased 0.7%, although the October gain was revised up from 0.6% to 1.1%. The decrease in November was more than accounted for by a large drop in manufacturing. Office and communication construction made the largest positive contributions.

In and around Ohio, nonresidential contractors reported continued strong activity, with most experiencing rising inquiries and backlogs. Even so, growth is reported as somewhat slower than a year earlier due to the weakness in the manufacturing sector and seasonal factors.

**Public construction** decreased 1.0% in November for the third consecutive decline and the fourth decline in the last five months. Public residential construction fell 1.2% in November, also the third decline in a row. Public nonresidential construction decreased 1.0% for its third straight decline. Highway and street, sewage and waste disposal, and water supply categories posted the largest declines. Public education construction made the largest positive contribution.




Housing construction picked up in recent months although sales slowed. **Housing starts** increased 1.7% in November on a 3-month moving average basis, as both single-family and multi-family starts increased.

The pattern was the same across the Midwest, as increases in both single-family and multi-family starts lifted total starts by 6.1%. Compared with a year earlier, housing starts were higher by 10.6% across the country, but still were down by 3.6% in the Midwest.

The more forward-looking **housing permits** were just as strong. Total permits increased 3.5% across the country on a 3-month moving average basis, after a small gain in October that was preceded by three straight declines. Permits increased by 5.4% in the Midwest, primarily reflecting a 12.0% gain in multi-family permits. Compared with a year earlier, permits were up 9.1% across the country and were up 17.5% in the Midwest.

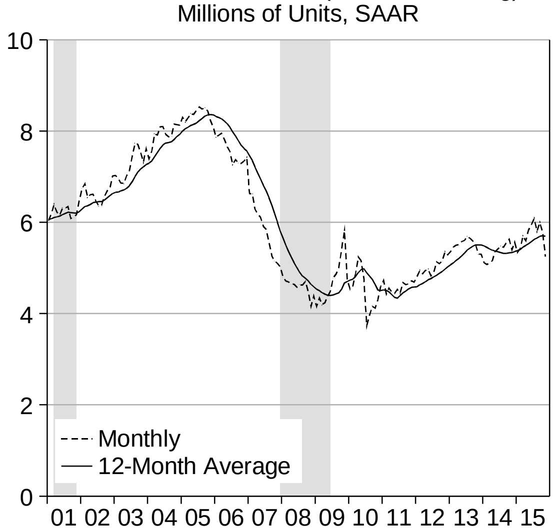
Home sales will register large increases for the year relative to 2014, but the recent slowdown in the pace of sales continued. **Sales of newly built homes** deteriorated in November, falling 1.2% across the country and 2.9% in the Midwest on a 3-month moving average basis. The inventory of new homes for sale rose again, but the number of months of supply at the current sales pace dipped to 5.7. New home sales were 4.1% higher than a year earlier across the country but were 5.1% lower than a year earlier in the Midwest. During the first eleven months of the year, new home sales were higher by 13.9% from the year earlier period across the country, but only 0.8% higher in the Midwest.

**Sales of existing houses** across the country fell 3.3% in November on a 3-month moving average basis. Inventories of existing homes for sale nationally edged down again in November in absolute terms, but increased slightly relative to the pace of sales. Midwest existing home sales followed suit, falling 4.6% on the month. Compared with a year earlier, sales across the country were higher by 2.8%, and sales in the Midwest were higher by 6.0%. During the first eleven months of the year, new home homes were higher by 6.2% from the year earlier period across the country and 8.1% higher in the Midwest.

The **Pending Homes Sales Index** again offered no sign of near-term improvement. The index fell 0.7% on a 3-month moving average basis across the country in November and fell 0.8% in the Midwest. In both cases, the declines were the fifth in a row. The Index measures housing contract activity for single-family homes, condos and co-ops, and usually leads existing home sales by a month or two.

**Home prices** across the country posted their 17th consecutive increase in October, rising by 0.9%, according to the Case-Shiller index. Home prices increased 8.5% across the country from December 2013 to October 2015 to stand 28.2% above the cycle low reached in January 2012, but remained 5.1% below the all-time high set in February 2007. Prices increased by more than 4% in and around Ohio, according to the Cleveland Fed survey, reflecting reduced supply and continued low interest rates.

Total U.S. Home Sales (New and Existing)
Millions of Units, SAAR



## *REVENUES*

*Note: For this month's report, as for the December report, estimated monthly and year-to-date revenues are still those adopted by the conference committee on HB 64, the biennial operating budget. However, estimates for fiscal year 2016 as a whole have been updated in Table 5, which presents the derivation of the estimated fiscal year 2016 GRF fund balance, due to reductions in income tax and commercial activity tax revenues made by SB 208, signed by Governor Kasich on November 15. There are also small increases in financial institutions tax revenue that will result from the repeal of a credit in HB 340, signed by Governor Kasich on December 22. Beginning with the February issue of this report, monthly and year-to-date revenue estimates will be changed, since the first impacts of both SB 208 and HB 340 are expected to be felt in January.*

December GRF receipts totaled $3,002.0 million and were $42.2 million (1.4%) above the estimate. The majority of the overage is accounted for by the federal grants category. The pattern of monthly overages and shortfalls in federal grants in fiscal year 2016 discussed in previous monthly reports continued in December, although the variance was smaller than in previous months. Positive variances in most tax revenue categories and transfers added to the overall positive variance for the month.

Monthly tax receipts totaled $1,900.0 million and were $5.7 million (0.3%) above the estimate and non-tax receipts totaled $1,094.5 million and were $29.0 million (2.7%) above the estimate. Below estimate collections in the license and fee category partially offset the overage in federal grants. The positive variance in tax receipts is a function of overages in the personal income tax and auto sales and use tax that were partially offset by a shortfall in the non-auto sales and use tax. Due to an accounting change that corrects an October deposit to the GRF and instead credits the payments to the tax refund fund, there is a large negative variance in the foreign insurance tax collections for December ($9.2 million).

Monthly variances by category are summarized in the table below (data are shown as $ in millions).

| **Individual Revenue Sources Above Estimate** | | **Individual Revenue Sources Below Estimate** | |
|---|---|---|---|
| Federal Grants | $29.8 | Non-Auto Sales and Use Tax | ($10.6) |
| Personal Income Tax | $8.8 | Foreign Insurance | ($9.2) |
| Transfers In - Other | $7.5 | Kilowatt Hour | ($1.5) |
| Cigarette and Other Tobacco Tax | $6.6 | Alcoholic Beverage | ($1.4) |
| Auto Sales and Use Tax | $6.5 | License and Fees | ($1.2) |
| Corporate Franchise Tax | $3.2 | Liquor Gallonage | ($0.1) |
| Commercial Activity Tax | $1.3 | | |
| Financial Institutions Tax | $1.2 | | |
| | | | |
| Other Sources Above Estimate | $1.2 | | |
| | | | |
| **Total above** | **$66.1** | **Total below** | **($24.0)** |

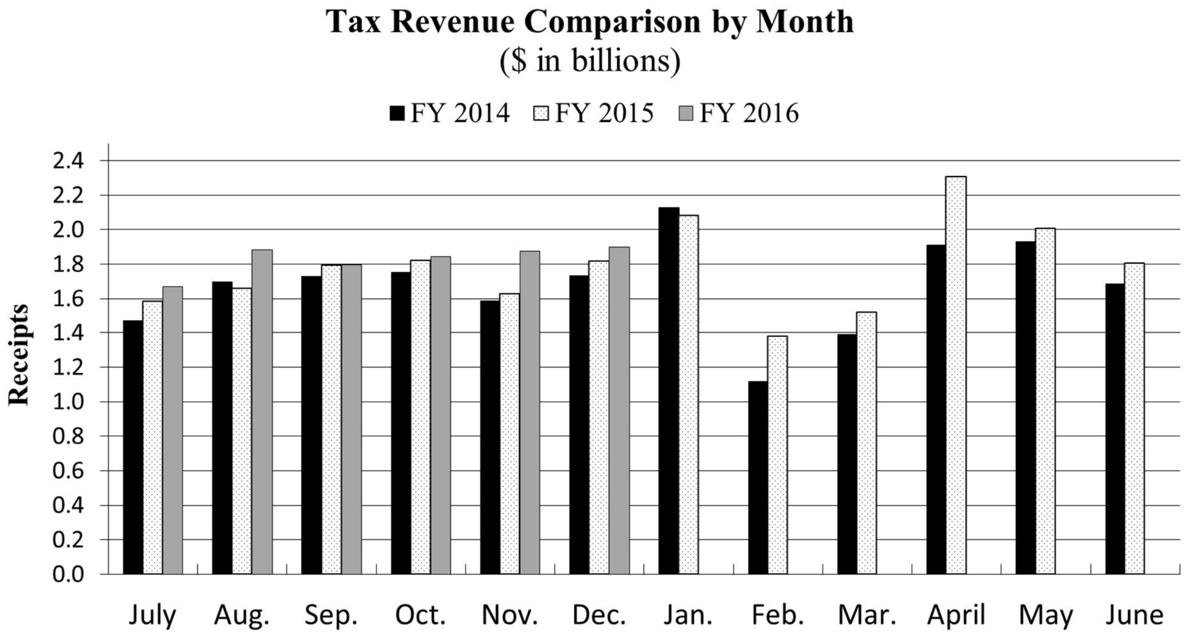
For the fiscal year, tax revenues are now almost exactly at the estimate, with an overage of $1.8 million, which rounds to 0.0%. Non tax revenues are $105.5 million (1.6%) below estimate, with slightly more than the entire shortfall arising from federal grants, which are $107.9 million (1.7%) below estimate.

Revenue variances for the fiscal year-to-date by category are provided in the following table (data are shown as $ in millions).

| Category | Includes: | YTD Variance | % Variance |
|---|---|---|---|
| Tax receipts | Sales & use, personal income, corporate franchise, financial institutions, commercial activity, MCF, public utility, kilowatt hour, foreign & domestic insurance, other business & property taxes, cigarette, alcoholic beverage, liquor gallonage, & estate | $1.8 million | 0.0% |
| Non-tax receipts | Federal grants, earnings on investments, licenses & fees, other income, intrastate transfers | ($105.5 million) | -1.6% |
| Transfers | Budget stabilization, liquor transfers, capital reserve, other | $4.9 million | 2.7% |
| **TOTAL REVENUE VARIANCE:** | | **($98.8 million)** | **-0.6%** |

On a year-over-year basis, monthly receipts were $392.4 (15.0%) higher than in December of the previous fiscal year, mainly due to the non-tax receipts, which account for about 77% of the overage. Federal grants represented the majority of this growth. Nearly all of the tax revenue categories showed growth from December 2014 with the personal income tax ($33.1 million or 4.1%), non-auto sales and use tax ($36.4 million or 4.7%), and the cigarette and other tobacco products tax ($13.7 million or 17.6%) accounting for slightly more than the entire amount of growth. The commercial activity tax ($4.4 million or 73.0%) also grew from the December 2014 collections. Foreign insurance collections declined ($9.0 million or 1,272.6%) compared to December 2014 as a result of the previously mentioned accounting change.

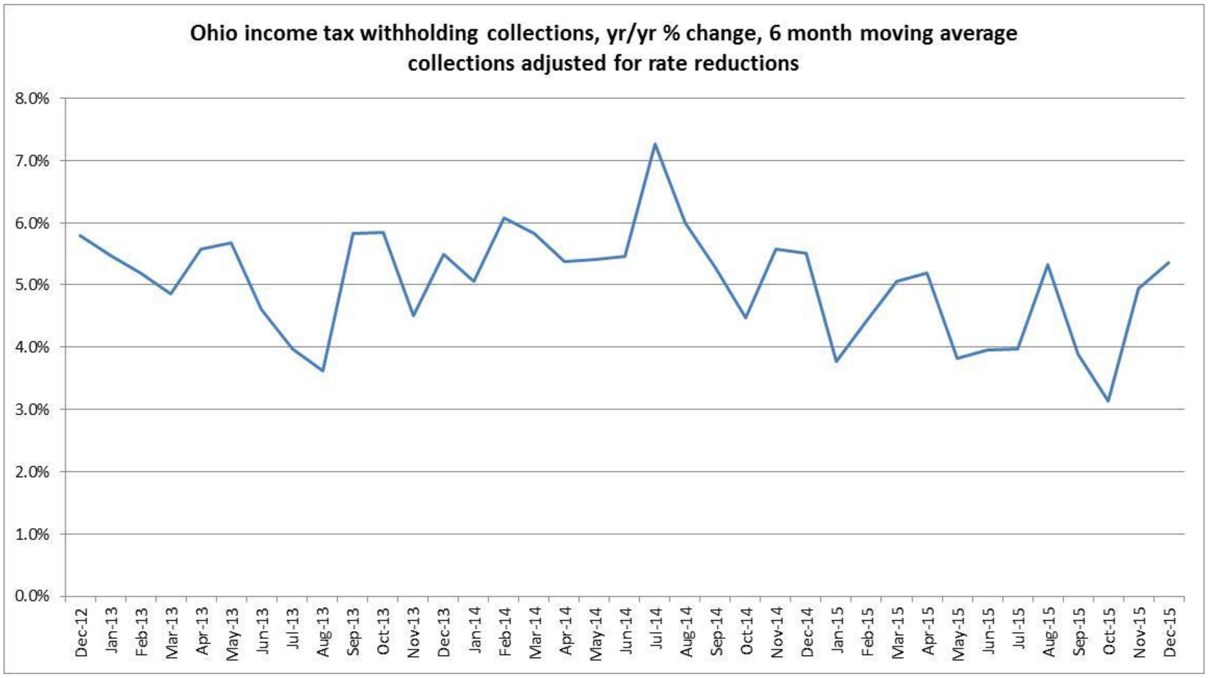
The increases in the CAT and cigarette and other tobacco taxes are both primarily due to law changes in HB 64, the biennial operating budget. Specifically, the commercial activity tax (CAT) increase is due to the increase to 75% from 50% in the share of CAT receipts going to the GRF. The cigarette tax change is due to the tax rate increase enacted in the biennial budget and the payment of “floor stocks tax” for cigarettes held in inventory prior to the rate increase.




**Personal Income Tax**

December personal income tax receipts totaled $849.7 million and were $8.8 million or 1.0% above the estimate. Higher than expected collections in withholding ($19.1 million or 2.6%) and trust payments ($2.2 million or 116.1%) were partially offset by shortfalls in quarterly estimated payments ($13.1 million or 9.4%) and payments associated with annual returns ($2.7 million or 23.6%). Lower than expected refunds ($2.7 million or 7.2%) also contributed to the positive monthly variance, reversing the trend of higher refunds for much of the fiscal year. The miscellaneous category was also above the estimate ($0.6 million or 7.6%).

The December overage caused the year-to-date shortfall to shrink somewhat. Year-to-date personal income tax collections totaled $4,202.5 million and were $79.5 million or 1.9% below the estimate. Slightly more than the entire shortfall is the result of the combined shortfall in quarterly estimated payments ($13.4 million or 3.1%) and higher than expected refunds ($66.7 million or 35.4%). Variances in other categories are small and essentially offset each other. The December overage in withholding put year-to-date withholding collections back above the estimate ($3.5 million or 0.1%).




As one can see in the chart above, the six month moving average of withholding collections, adjusted for rate decreases, has begun increasing again and is back up in the 5 percent range. Although even the smoothed, moving average series is subject to ups and downs and one cannot rule out a deceleration in the near future, this performance is surprisingly strong given the stagnation in the manufacturing sector of the economy.

On a year-over-year basis, December 2015 GRF income tax collections were $33.1 million (4.1%) above December 2014 collections. The majority of the growth is in withholding ($41.5 million or 5.7%), which is partially offset by the decline in quarterly estimated payments ($9.1 million or 6.7%). Growth in trust payments ($1.6 million or 60.7%) was counterbalanced by a decline in the miscellaneous category ($1.2 million or 12.2%). Refunds ($7.0 million or 16.5%) also contributed to the year-over-year growth in December.

| FY2016 PERSONAL INCOME TAX RECEIPTS BY COMPONENT ($ in millions) | | | | | | |
|---|---|---|---|---|---|---|
| | ESTIMATE DEC | ACTUAL DEC | $ VAR DEC | ESTIMATE Y-T-D | ACTUAL Y-T-D | $ VAR Y-T-D |
| Withholding | $750.3 | $769.4 | $19.1 | $4,055.1 | $4,058.6 | $3.5 |
| Quarterly Est. | $139.7 | $126.6 | ($13.1) | $432.7 | $419.3 | ($13.4) |
| Trust Payments | $1.9 | $4.1 | $2.2 | $13.0 | $19.7 | $6.7 |
| Annual Returns & 40 P | $11.3 | $8.6 | ($2.7) | $114.2 | $111.0 | ($3.2) |
| Other | $7.8 | $8.4 | $0.6 | $43.7 | $35.5 | ($8.2) |
| Less: Refunds | ($38.0) | ($35.3) | $2.7 | ($188.1) | ($254.8) | ($66.7) |
| Local Distr. | ($32.1) | ($32.2) | ($0.1) | ($188.6) | ($186.8) | $1.8 |
| **Net to GRF** | **$840.9** | **$849.6** | **$8.7** | **$4,282.0** | **$4,202.5** | **($79.5)** |

Through December, year-to-date personal income tax collections were $60.6 million (1.5%) above the same point of the previous fiscal year. Growth in withholding is again the largest factor ($98.1 million or 2.5%). There was growth in trust payments ($5.7 million or 41.1%), and payments associated with annual returns ($1.9 million or 1.7%). These growing categories were partially offset by higher refunds ($22.7 million or 9.8%) and declines in the miscellaneous category ($9.6 million or 21.4%) and quarterly estimated payments ($0.9 million or 0.2%).

Income tax growth is expected to be muted relative to last year because of the HB 64, the biennial budget bill, reductions in withholding tax rates and overall tax rates, and the increase in the small business (pass-through entity) deduction. The impact of the withholding rate reduction has already been felt for the last five months, since it went into effect on August 1. The impact of the 6.3% reduction in tax rates and the increase in the small business deduction is expected to be felt beginning in January, when taxpayers begin to file income tax returns for tax year 2015. In fact, by year's end, once the impact of all the HB 64 income tax reductions is felt, GRF income tax revenues are expected to be about $414.0 million, or 4.9%, below fiscal year 2015 collections. When the impacts of the recent SB 208 income tax reductions are also added to the HB 64 impacts, GRF income tax revenues are expected to be about $490.0 million, or 5.8%, below fiscal year 2015 collections.

**Non-Auto Sales and Use Tax**

December non-auto sales and use tax collections totaled $814.5 million and were $10.6 million (1.3%) below the estimate. Although this was the third small shortfall in the past four months, OBM believes that the December shortfall was the result of one-time factors and is not in itself a cause for concern.

To be more specific, the portion of the state sales tax that is derived from Medicaid managed care organizations (also known as MHICs) was $12 million below its average in December, due primarily to some one-time adjustments for overpayments in prior years. If MHIC collections had instead been at their monthly average, non-auto collections would have been slightly over the estimate, and that in turn would have meant that collections for the past four months would have been slightly over the estimate.

That being said, the information about holiday sales is not complete, so there is still some uncertainty about non-auto collections going forward. December non-auto tax collections are based on a mix of December and November activity, with the larger taxpayers by dollar volume being required to estimate tax for the current month, as well as to reconcile estimated payments and amount owed for the prior month. Smaller taxpayers pay only on the prior month's activity. Therefore, January collections will be based in part on December activity.

In fact, holiday sales have some impact even on February non-auto tax collections. For example, the sales tax applies to gift cards upon their redemption, not their purchase, so holiday gift cards that are redeemed in January give rise to both January and February sales tax collections.

For the year, non-auto tax collections are $44.8 million (1.0%) above the estimate. As stated last month, although the non-auto sales tax has just kept pace with the estimates over the past four months, with most of the year-to-date overage coming from July and August, economic conditions – specifically strong labor market fundamentals, improvement in wage growth, and low energy costs and overall inflation – should tend to support continued growth in consumer spending.

Growth in non-auto collections remains in the 4% to 5% range. December collections were $36.4 million (4.7%) above the same month of the previous fiscal year. For the year, non-auto sales collections are up by $201.5 million (4.6%) from the year before.

**Auto Sales Tax**

December auto sales tax collections exceeded the estimate by $6.5 million, or 6.4%. The overage was expected given continued strong auto sales. As mentioned in last month's report, national light vehicle sales were 18.1 million units (annualized basis) in November, marking the first time that unit sales had exceeded 18 million for three months in a row.

For the year, auto sales tax collections were $25.5 million (3.9%) above the estimate. Again, this overage is tied to strong light vehicle sales. Year-to-date collections are up by $22.1 million (3.4%) from a year ago. This pace of growth is a little below the 6.3% increase in national vehicle sales for the fiscal year.

Light vehicle sales actually slowed somewhat in December, falling below the 18 million unit pace to 17.3 million units, which is still a relatively strong number. For the calendar year, sales were 17.4 million units, an increase of 5.5% from the 16.5 million units sold in 2014.

While the near term outlook for autos remains fairly strong, there are analysts, such as those at Moody's, who believe that the trend rate for U.S. vehicle sales – based on such factors as population growth, income growth, and household wealth – is about 16.5 million units per year. If so, then sales may trend back down toward 16.5 million units in coming years as the pent-up demand from the Great Recession is eventually satisfied. This is far from a consensus view, though. As a counterexample, IHS Global Insight projects that vehicle sales will rise to 17.8 million units in calendar year 2016 and 18.2 million units in calendar year 2017.

**Commercial Activity Tax**

December commercial activity tax (CAT) collections are mostly from late payments, since the second of four quarterly payments for the year is due in November. Following on the November overage, CAT December receipts deposited in the GRF were again over the estimate, although the dollar amount of the overage was small.

December GRF deposits were $10.3 million, or $1.3 million (14.9%) above the estimate. This further narrowed the year-to-date shortfall to $20.0 million (3.2%).

OBM still feels that the most likely explanation for the early shortfall and subsequent turnaround in CAT collections is that after very high amounts of credits claimed against the CAT in the first quarter, that pace slowed substantially in the second quarter. In the next month or two, OBM will receive further data about taxable receipts and credits that one hopes will provide greater insight into what has happened and the outlook for the remainder of fiscal year 2016.

Despite the shortfall compared to estimate, year-to-date GRF CAT revenues have increased substantially from fiscal year 2015. Year-to-date collections are up by $190.8 million (45.2%) from the same point in the previous fiscal year. This increase is due to the law change in HB 64 (the biennial budget bill) that increased the GRF share of total CAT receipts from 50 to 75 percent.

All funds CAT collections for the first six months of the year are $26.8 million (3.1%) below estimate, and are down by $27.4 million (3.2%) from last year.

**Cigarette and Other Tobacco Tax**

The cigarette and other tobacco product (OTP) tax collections exceeded the December estimate by $6.6 million (7.8%). For the year, collections are above estimate by $22.1 million (5.0%).

The overage in this tax category is surprising given that the “floor stocks” tax has brought in only $16.1 million so far (and the due date is already past) while the estimate was $36.0 million. The revenue from the other tobacco products (OTP) tax (levied on such products as cigars, snuff, etc.) has dropped by $0.4 million (1.4%) from fiscal year 2015, so the OTP tax is not contributing to the overage either.

Revenues from the cigarette tax excluding the floor tax have increased by 26.3 % relative to last year, while the tax rate increased by 28.0% due to the law change in HB 64 (the tax went from $1.25/pack to $1.60/pack).

**GRF Non-Tax Receipts**

GRF non-tax receipts totaled $1,094.5 million in December and were $29.0 million (2.7%) above the estimate. As usual, the variance was driven by what happened in federal grants.

Federal grants were $29.8 million (2.8%) above estimate. For a change, this corresponds fairly closely to what one would expect given that GRF Medicaid spending was about $71 million above estimate in December. The $29.8 million variance is by far the smallest of the fiscal year since July, as accounting issues and adjustments from prior years have led to large alternating overages and shortfalls in prior months. With those episodes past, OBM expects federal grants to more closely track Medicaid spending for the remainder of the year.

Transfers in to the GRF were $7.5 million above estimate in December, and are now $4.9 million (2.7%) over for the year. The December overage was due to the receipt of a transfer from a Medicaid fund (support and recoveries) that was expected earlier in the year but not received until December.

Table 1

GENERAL REVENUE FUND RECEIPTS
ACTUAL FY 2016 VS ESTIMATE FY 2016
($ in thousands)

| REVENUE SOURCE | MONTH ACTUAL DECEMBER | MONTH ESTIMATE DECEMBER | MONTH $ VAR | MONTH % VAR | YEAR-TO-DATE ACTUAL Y-T-D | YEAR-TO-DATE ESTIMATE Y-T-D | YEAR-TO-DATE $ VAR | YEAR-TO-DATE % VAR |
|---|---|---|---|---|---|---|---|---|
| TAX RECEIPTS | | | | | | | | |
| Non-Auto Sales & Use | 814,469 | 825,100 | (10,631) | -1.3% | 4,558,527 | 4,513,700 | 44,827 | 1.0% |
| Auto Sales & Use | 108,704 | 102,200 | 6,504 | 6.4% | 675,971 | 650,500 | 25,471 | 3.9% |
| Subtotal Sales & Use | 923,173 | 927,300 | (4,127) | -0.4% | 5,234,498 | 5,164,200 | 70,298 | 1.4% |
| Personal Income | 849,668 | 840,900 | 8,768 | 1.0% | 4,202,479 | 4,282,000 | (79,521) | -1.9% |
| Corporate Franchise | 3,216 | 0 | 3,216 | N/A | 13,070 | 0 | 13,070 | N/A |
| Financial Institutions Tax | 783 | (400) | 1,183 | 295.9% | (8,360) | (13,400) | 5,040 | 37.6% |
| Commercial Activity Tax | 10,339 | 9,000 | 1,339 | 14.9% | 612,755 | 632,800 | (20,045) | -3.2% |
| Petroleum Activity Tax | 2,012 | 1,500 | 512 | 34.1% | 3,362 | 3,000 | 362 | 12.1% |
| Public Utility | 520 | 300 | 220 | 73.4% | 51,619 | 50,500 | 1,119 | 2.2% |
| Kilowatt Hour | 21,094 | 22,600 | (1,506) | -6.7% | 171,617 | 170,000 | 1,617 | 1.0% |
| Natural Gas Distribution | 0 | 0 | 0 | N/A | 17,164 | 17,100 | 64 | 0.4% |
| Foreign Insurance | (9,682) | (500) | (9,182) | -1836.4% | 145,911 | 155,900 | (9,989) | -6.4% |
| Domestic Insurance | 0 | (100) | 100 | N/A | 344 | 4,800 | (4,456) | -92.8% |
| Other Business & Property | 12 | 0 | 12 | N/A | 42 | 0 | 42 | N/A |
| Cigarette and Other Tobacco | 91,218 | 84,600 | 6,618 | 7.8% | 468,091 | 446,000 | 22,091 | 5.0% |
| Alcoholic Beverage | 4,021 | 5,400 | (1,379) | -25.5% | 28,976 | 28,100 | 876 | 3.1% |
| Liquor Gallonage | 3,593 | 3,700 | (107) | -2.9% | 22,407 | 22,000 | 407 | 1.9% |
| Estate | 37 | 0 | 37 | N/A | 823 | 0 | 823 | N/A |
| Total Tax Receipts | 1,900,003 | 1,894,300 | 5,703 | 0.3% | 10,964,797 | 10,963,000 | 1,797 | 0.0% |
| NON-TAX RECEIPTS | | | | | | | | |
| Federal Grants | 1,092,033 | 1,062,192 | 29,841 | 2.8% | 6,322,788 | 6,430,690 | (107,902) | -1.7% |
| Earnings on Investments | 0 | 0 | 0 | N/A | 7,916 | 5,450 | 2,466 | 45.2% |
| License & Fees | 652 | 1,850 | (1,198) | -64.8% | 9,837 | 14,639 | (4,801) | -32.8% |
| Other Income | 1,817 | 1,502 | 315 | 21.0% | 37,257 | 23,969 | 13,289 | 55.4% |
| ISTV'S | 2 | 0 | 2 | N/A | 858 | 9,400 | (8,542) | -90.9% |
| Total Non-Tax Receipts | 1,094,503 | 1,065,544 | 28,960 | 2.7% | 6,378,656 | 6,484,147 | (105,491) | -1.6% |
| TOTAL REVENUES | 2,994,507 | 2,959,844 | 34,663 | 1.2% | 17,343,453 | 17,447,147 | (103,694) | -0.6% |
| TRANSFERS | | | | | | | | |
| Budget Stabilization | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| Liquor Transfers | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| Transfers In - Other | 7,512 | 0 | 7,512 | N/A | 182,688 | 177,800 | 4,888 | 2.7% |
| Temporary Transfers In | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| Total Transfers | 7,512 | 0 | 7,512 | N/A | 182,688 | 177,800 | 4,888 | 2.7% |
| TOTAL SOURCES | 3,002,019 | 2,959,844 | 42,175 | 1.4% | 17,526,141 | 17,624,947 | (98,806) | -0.6% |

## Table 2

### GENERAL REVENUE FUND RECEIPTS
### ACTUAL FY 2016 VS ACTUAL FY 2015
### ($ in thousands)

| | MONTH | | | | YEAR-TO-DATE | | | |
|---|---|---|---|---|---|---|---|---|
| REVENUE SOURCE | DECEMBER FY 2016 | DECEMBER FY 2015 | $ VAR | % VAR | ACTUAL FY 2016 | ACTUAL FY 2015 | $ VAR | % VAR |
| TAX RECEIPTS | | | | | | | | |
| Non-Auto Sales & Use | 814,469 | 778,031 | 36,438 | 4.7% | 4,558,527 | 4,357,013 | 201,513 | 4.6% |
| Auto Sales & Use | 108,704 | 108,685 | 18 | 0.0% | 675,971 | 653,917 | 22,054 | 3.4% |
| Subtotal Sales & Use | 923,173 | 886,716 | 36,456 | 4.1% | 5,234,498 | 5,010,930 | 223,567 | 4.5% |
| Personal Income | 849,668 | 816,532 | 33,136 | 4.1% | 4,202,479 | 4,141,908 | 60,571 | 1.5% |
| Corporate Franchise | 3,216 | 1,534 | 1,682 | 109.7% | 13,070 | (25,738) | 38,808 | 150.8% |
| Financial Institutions Tax | 783 | (335) | 1,118 | 334.2% | (8,360) | (22,826) | 14,466 | 63.4% |
| Commercial Activity Tax | 10,339 | 5,975 | 4,363 | 73.0% | 612,755 | 421,936 | 190,819 | 45.2% |
| Petroleum Activity Tax | 2,012 | 1,944 | 68 | N/A | 3,362 | 1,944 | 1,418 | 73.0% |
| Public Utility | 520 | 952 | (432) | -45.4% | 51,619 | 36,837 | 14,782 | 40.1% |
| Kilowatt Hour | 21,094 | 20,493 | 601 | 2.9% | 171,617 | 144,330 | 27,287 | 18.9% |
| Natural Gas Distribution | 0 | 2 | (2) | N/A | 17,164 | 18,427 | (1,263) | -6.9% |
| Foreign Insurance | (9,682) | (705) | (8,977) | -1272.6% | 145,911 | 153,834 | (7,922) | -5.2% |
| Domestic Insurance | 0 | 0 | 0 | N/A | 344 | 7,638 | (7,294) | -95.5% |
| Other Business & Property | 12 | 0 | 12 | N/A | 42 | 20 | 22 | 111.0% |
| Cigarette and Other Tobacco | 91,218 | 77,536 | 13,682 | 17.6% | 468,091 | 365,138 | 102,953 | 28.2% |
| Alcoholic Beverage | 4,021 | 4,403 | (382) | -8.7% | 28,976 | 28,924 | 52 | 0.2% |
| Liquor Gallonage | 3,593 | 3,526 | 67 | 1.9% | 22,407 | 21,576 | 832 | 3.9% |
| Estate | 37 | 95 | (58) | -60.8% | 823 | 2,186 | (1,363) | -62.4% |
| Total Tax Receipts | 1,900,003 | 1,818,669 | 81,335 | 4.5% | 10,964,797 | 10,307,063 | 657,734 | 6.4% |
| NON-TAX RECEIPTS | | | | | | | | |
| Federal Grants | 1,092,033 | 788,181 | 303,851 | 38.6% | 6,322,788 | 4,908,483 | 1,414,305 | 28.8% |
| Earnings on Investments | 0 | 0 | 0 | N/A | 7,916 | 5,053 | 2,863 | 56.7% |
| License & Fee | 652 | 520 | 132 | 25.4% | 9,837 | 9,267 | 570 | 6.1% |
| Other Income | 1,817 | 2,238 | (421) | -18.8% | 37,257 | 21,489 | 15,768 | 73.4% |
| ISTV'S | 2 | (5) | 7 | 130.4% | 858 | 260 | 598 | 230.5% |
| Total Non-Tax Receipts | 1,094,503 | 790,934 | 303,569 | 38.4% | 6,378,656 | 4,944,552 | 1,434,104 | 29.0% |
| TOTAL REVENUES | 2,994,507 | 2,609,603 | 384,904 | 14.7% | 17,343,453 | 15,251,615 | 2,091,838 | 13.7% |
| TRANSFERS | | | | | | | | |
| Budget Stabilization | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| Liquor Transfers | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| Transfers In - Other | 7,512 | 0 | 7,512 | N/A | 182,688 | 11,785 | 170,903 | 1450.2% |
| Temporary Transfers In | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| Total Transfers | 7,512 | 0 | 7,512 | N/A | 182,688 | 11,785 | 170,903 | 1450.2% |
| TOTAL SOURCES | 3,002,019 | 2,609,603 | 392,416 | 15.0% | 17,526,141 | 15,263,400 | 2,262,741 | 14.8% |

## *DISBURSEMENTS*

December GRF disbursements, across all uses, totaled $2,639.2 million and were $22.1 million (0.8%) above estimate. This was primarily attributable to higher than estimated disbursements in the Medicaid category being partially offset by lower than estimated disbursements in the Property Tax Reimbursements category. On a year-over-year basis, December total uses were $471.4 million (21.7%) higher than those of the same month in the previous fiscal year, with the Primary and Secondary Education and Medicaid categories largely responsible for the increase. Year-to-date variances by category are provided in the table below.

| Category | Description | YTD Variance | % Variance |
|---|---|---|---|
| Expenditures and transfers between agencies (ISTVs) | State agency operations, subsidies, tax relief, debt service payments, and pending payroll (if applicable) | ($337.5 million) | -1.8% |
| Transfers | Temporary or permanent transfers out of the GRF that are not agency expenditures | $13.2 million | 1.6% |
| **TOTAL DISBURSEMENTS VARIANCE:** | | **($324.3 million)** | **-1.7%** |

GRF disbursements are reported according to functional categories. This section contains information describing GRF spending and variances within each of these categories.

### Primary and Secondary Education

This category contains GRF spending for the Ohio Department of Education, minus property tax reimbursements. December disbursements for this category totaled $600.6 million and were $6.3 million (1.0%) below estimate. Expenditures for the school foundation program were closely in line with estimates totaling $588.7 million and were $3.7 million (0.6%) below estimate. Year-to-date disbursements were $4,086.6 million, which was $30.7 million (0.7%) below estimate.

On a year-over-year basis, disbursements in this category were $294.8 million (96.4%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $396.2 million (10.7%) higher than at the same point in fiscal year 2015.

### Higher Education

December disbursements for the Higher Education category, which includes non-debt service GRF spending by the Department of Higher Education, totaled $179.8 million and were $1.2 million (0.6%) below estimate. The majority of the monthly variance was attributable to disbursements in the National Guard Tuition Grant Program being below the monthly estimate by $3.4 million as a result of lower than expected requests for reimbursement from higher education institutions.

Year-to-date disbursements were $1,113.1 million, which was $8.3 million (0.7%) below estimate. On a year-over-year basis, disbursements in this category were $7.9 million (4.6%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $40.4 million (3.8%) higher than at the same point in fiscal year 2015.

**Other Education**

This category includes non-debt service GRF expenditures made by the Broadcast Education Media Commission, the Ohio Facilities Construction Commission, the Ohio State School for the Blind, the Ohio School for the Deaf, as well as disbursements made to libraries, cultural, and arts organizations.

December disbursements in this category totaled $4.6 million and were $0.1 million (1.5%) below estimate. Year-to-date disbursements were $38.6 million, which was $0.2 million (0.5%) below estimate. On a year-over-year basis, disbursements in this category were $1.9 million (70.0%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $7.0 million (22.1%) higher than at the same point in fiscal year 2015.

**Medicaid**

This category includes all Medicaid spending on services and program support by the following six agencies: the Department of Medicaid, the Department of Mental Health and Addiction Services, the Department of Developmental Disabilities, the Department of Health, the Department of Job and Family Services, and the Department of Aging.

Please note that beginning in fiscal year 2016 Medicaid GRF disbursements include expenditures related to persons enrolled under the “Group 8” expansion program, which were previously funded from non-GRF sources. Although these persons will be 100% federally-funded during fiscal year 2016, during the last six months of the biennium the state will be required to assume five percent of their costs. For this reason the costs and related federal reimbursement for these persons was shifted into the GRF for the biennium.

<u>Expenditures</u>
December GRF disbursements for the Medicaid Program totaled $1,551.8 million and were $70.9 million (4.8%) above the estimate, and $162.9 million (11.7%) above disbursements for the same month in the previous fiscal year. Year-to-date GRF disbursements totaled $9,302.5 million and were $226.4 million (2.4%) below the estimate, and $1,278.7 million (15.9%) above disbursements for the same point in the previous fiscal year. This year-over-year increase is largely attributed to the shifting of expenditures for persons enrolled under the “Group 8” expansion program to the GRF.

December all funds disbursements for the Medicaid Program totaled $2,008.6 million and were $1.7 million (0.1%) below the estimate, and $31.1 million (1.6%) above disbursements for the same month in the previous fiscal year. Year-to-date all funds disbursements totaled $12,390.7 million and were $522.9 million (4.0%) below the estimate, and $905.0 million (7.9%) above disbursements for the same point in the previous fiscal year.

The December all funds variance was due to lower than anticipated costs in the fee-for-service and program administration categories. This variance was partially offset by greater than anticipated costs in the managed care program category. Although service expenses in the managed care program were slightly below the estimate, due to enrollment in this category being 0.5 percent below estimate, this category was above estimate for the month due to an administrative payment to the managed care firms which occurred in December instead of November as estimated. Below estimate spending in the fee-for-service categories, which includes inpatient and outpatient hospital, behavioral health, developmental disability services, and nursing facilities, was driven by enrollment in these programs being 12.4 percent below estimate for the month. Finally, prior year encumbrances for program administration, primarily related to an information technology improvement project, were disbursed in an amount below that which was estimated for the month.

The year-to-date all funds variance results from the fee-for-service and program administration variances described above being partially offset by spending in the managed care program category.

The chart below shows the current month's disbursement variance by funding source.

*(in millions, totals may not add due to rounding)*

| | December Actual | December Projection | Variance | Variance % |
|---|---|---|---|---|
| GRF | $ 1,551.8 | $ 1,480.9 | $ 70.9 | 4.8% |
| Non-GRF | $ 456.8 | $ 529.4 | $ (72.6) | -13.7% |
| All Funds | $ 2,008.6 | $ 2,010.3 | $ (1.7) | -0.1% |

Enrollment

Total December enrollment across all categories was 2.98 million. The most significant components are the Covered Families and Children/Modified Adjusted Gross Income (CFC/MAGI) category, which decreased by 10,932 persons to a December total of 2.42 million persons, and the Aged, Blind and Disabled/Dual Eligible (ABD/Dual) category, which decreased by 3,912 persons to a December total of 384,792 covered lives.

Total enrollment across all categories for the same period last year was 2.96 million covered persons, including 2.33 million persons in the CFC/MAGI category and 423,973 people in the ABD/Dual category.

Please note that these data are subject to revision.

**Health and Human Services**

This category includes non-debt service GRF expenditures for the following state agencies: Job and Family Services, Health, Aging, Developmental Disabilities, Mental Health and Addiction Services, and others. Examples of expenditures in this category include: child care, TANF, administration of the state's psychiatric hospitals, operating subsidies to county boards of developmental disabilities, various immunization programs, and Ohio's long term care ombudsman program. To the extent that these agencies spend GRF to support Medicaid services, that spending is reflected in the Medicaid category.

December disbursements in this category totaled $110.6 million and were $0.7 million (0.6%) below estimate for the month. Year-to-date disbursements were $662.5 million, which was $61.0 million (8.4%) below estimate. On a year-over-year basis, disbursements in this category were $1.9 million (1.8%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $35.7 million (5.1%) lower than at the same point in fiscal year 2015.

Department of Job and Family Services
December disbursements for the Department of Job and Family Services totaled $79.1 million and were $1.0 million (1.3%) above estimate. This positive variance was primarily attributable to several lines. First, Early Care and Education disbursements were $2.0 million (6.7%) above estimate due to higher than estimated payments to providers during the holiday season. Second, Family Assistance-Local disbursements were $1.4 million (32.3%) above estimate due to the timing of county draws. Third, Adult Protective Services disbursements were $1.3 million (200.3%) above estimate due to a one-time payment that was provided to counties in order to meet core program requirements by June 2016. Offsetting this above estimate spending, Unemployment Insurance Administration disbursements were $2.0 million (62.7%) below estimate due to the timing of release of federal administrative funding and TANF State/Maintenance of Effort disbursements were $1.5 million (6.7%) below estimate due to shifting the source of funding for cash assistance from GRF to federal.

Department of Mental Health and Addiction Services
December disbursements for the Department of Mental Health and Addiction Services totaled $21.4 million and were $0.4 million (2.1%) above estimate. This variance was primarily attributable to $2.0 million (12.6%) in higher than estimated disbursements for Hospital Services due to disbursements estimated for January being made in December instead. This was partially offset by $0.8 million (35.8%) in lower than estimated disbursements for Central Administration.

**Justice and Public Protection**

This category includes non-debt service GRF expenditures by the Department of Rehabilitation & Correction, the Department of Youth Services, the Attorney General, judicial agencies, and other justice-related entities.

December disbursements in this category totaled $151.1 million and were $18.2 million (13.7%) above estimate for the month. Year-to-date disbursements were $1,017.1 million, which was $11.9 million (1.2%) above estimate. On a year-over-year basis, disbursements in this category were $3.2 million (2.0%) lower than for the same month in the previous fiscal year while year-to-date expenditures were $61.3 million (6.4%) higher than at the same point in fiscal year 2015.

Department of Rehabilitation and Correction
December disbursements for the Department of Rehabilitation and Correction totaled $122.5 million and were $16.8 million (15.9%) above estimate. This variance was primarily attributable to disbursements for Institutional Operations estimated for November, and disbursements for Halfway Houses estimated for January, both being made in December.

Department of Youth Services
December disbursements for the Department of Youth Services totaled $11.2 million and were $2.7 million (31.7%) above estimate. This variance was primarily attributable to disbursements for Community Corrections Facilities estimated for January being made in December.

**General Government**

This category includes non-debt service GRF expenditures by the Department of Natural Resources, Development Services Agency, Department of Agriculture, Department of Taxation, Office of Budget and Management, non-judicial statewide elected officials, legislative agencies, and others.

December disbursements in this category totaled $23.1 million and were $3.7 million (13.7%) below estimate for the month. Year-to-date disbursements were $184.8 million, which was $14.4 million (7.2%) below estimate. On a year-over-year basis, disbursements in this category were $1.7 million (7.0%) lower than for the same month in the previous fiscal year while year-to-date expenditures were $7.0 million (3.9%) higher than at the same point in fiscal year 2015.

Department of Administrative Services
December disbursements for the Department of Administrative Services (DAS) totaled $2.6 million and were $1.9 million (317.0%) above estimate. This variance was primarily attributable to the timing of quarterly rent payments for certain GRF-supported agencies in state buildings, which occurred in December instead of October as estimated.

Department of Transportation
December disbursements for the Department of Transportation totaled $0.8 million and were $0.8 million (49.1%) below estimate. This variance was primarily attributable to Public Transportation-State disbursements being $1.0 million (75.8%) below estimate due to grant payments estimated for December being moved to January.

**Property Tax Reimbursements**

Payments from the property tax reimbursement category are made to local governments and school districts to reimburse these entities for revenues foregone as a result of the 10.0 percent and 2.5 percent rollback, as well as the homestead exemption. December property tax reimbursements totaled $0.9 million and were $41.7 million (98.0%) below the estimate. Year-to-date disbursements totaled $898.8 million and were $6.1 million (0.7%) below estimate. The monthly variance is due to reimbursement requests being received from counties in a different pattern than anticipated.

**Debt Service**

December payments for debt service totaled $16.6 million and were $0.5 million (2.7%) below estimate. Year-to-date debt service payments were $880.8 million, which was $2.2 million (0.2%) below estimate.

**Transfers Out**

December transfers out totaled $0.0 million and were $13.0 million below estimate. This variance was expected as the anticipated December Managed Care Performance Payment Fund transfer occurred in November. Year-to-date transfers out were $813.7 million, which was $13.2 million (1.6%) above estimate.

## Table 3

GENERAL REVENUE FUND DISBURSEMENTS
ACTUAL FY 2016 VS ESTIMATE FY 2016
($ in thousands)

| | MONTH | | | | YEAR-TO-DATE | | | |
|---|---|---|---|---|---|---|---|---|
| Functional Reporting Categories Description | ACTUAL DECEMBER | ESTIMATED DECEMBER | $ VAR | % VAR | YTD ACTUAL | YTD ESTIMATE | $ VAR | % VAR |
| Primary and Secondary Education | 600,631 | 606,888 | (6,257) | -1.0% | 4,086,573 | 4,117,299 | (30,726) | -0.7% |
| Higher Education | 179,831 | 180,996 | (1,165) | -0.6% | 1,113,119 | 1,121,465 | (8,346) | -0.7% |
| Other Education | 4,638 | 4,711 | (73) | -1.5% | 38,575 | 38,779 | (204) | -0.5% |
| Medicaid | 1,551,827 | 1,480,930 | 70,896 | 4.8% | 9,302,506 | 9,528,917 | (226,411) | -2.4% |
| Health and Human Services | 110,609 | 111,322 | (713) | -0.6% | 662,487 | 723,511 | (61,024) | -8.4% |
| Justice and Public Protection | 151,129 | 132,898 | 18,231 | 13.7% | 1,017,087 | 1,005,155 | 11,932 | 1.2% |
| General Government | 23,065 | 26,729 | (3,665) | -13.7% | 184,762 | 199,175 | (14,413) | -7.2% |
| Property Tax Reimbursements | 864 | 42,527 | (41,663) | -98.0% | 898,795 | 904,910 | (6,115) | -0.7% |
| Capital Outlay | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| Debt Service | 16,617 | 17,073 | (456) | -2.7% | 880,798 | 882,974 | (2,177) | -0.2% |
| Total Expenditures & ISTV's | 2,639,210 | 2,604,075 | 35,135 | 1.3% | 18,184,702 | 18,522,185 | (337,484) | -1.8% |
| Transfers Out: | | | | | | | | |
| BSF Transfer Out | 0 | 0 | 0 | N/A | 425,500 | 425,500 | 0 | 0.0% |
| Operating Transfer Out | 0 | 13,000 | (13,000) | N/A | 388,234 | 375,031 | 13,203 | 3.5% |
| Temporary Transfer Out | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| Total Transfers Out | 0 | 13,000 | (13,000) | N/A | 813,734 | 800,531 | 13,203 | 1.6% |
| Total Fund Uses | 2,639,210 | 2,617,075 | 22,135 | 0.8% | 18,998,436 | 19,322,717 | (324,281) | -1.7% |

## Table 4

GENERAL REVENUE FUND DISBURSEMENTS

ACTUAL FY 2016 VS ACTUAL FY 2015

($ in thousands)

| Functional Reporting Categories Description | MONTH DECEMBER FY 2016 | MONTH DECEMBER FY 2015 | MONTH $ VAR | MONTH % VAR | YEAR-TO-DATE ACTUAL FY 2016 | YEAR-TO-DATE ACTUAL FY 2015 | YEAR-TO-DATE $ VAR | YEAR-TO-DATE % VAR |
|---|---|---|---|---|---|---|---|---|
| Primary and Secondary Education | 600,631 | 305,855 | 294,776 | 96.4% | 4,086,573 | 3,690,330 | 396,244 | 10.7% |
| Higher Education | 179,831 | 171,905 | 7,925 | 4.6% | 1,113,119 | 1,072,684 | 40,435 | 3.8% |
| Other Education | 4,638 | 2,729 | 1,910 | 70.0% | 38,575 | 31,587 | 6,987 | 22.1% |
| Medicaid | 1,551,827 | 1,388,917 | 162,909 | 11.7% | 9,302,506 | 8,023,849 | 1,278,657 | 15.9% |
| Health and Human Services | 110,609 | 108,674 | 1,934 | 1.8% | 662,487 | 698,158 | (35,671) | -5.1% |
| Justice and Public Protection | 151,129 | 154,284 | (3,155) | -2.0% | 1,017,087 | 955,782 | 61,305 | 6.4% |
| General Government | 23,065 | 24,793 | (1,728) | -7.0% | 184,762 | 177,759 | 7,003 | 3.9% |
| Property Tax Reimbursements | 864 | 750 | 114 | 15.2% | 898,795 | 907,658 | (8,863) | -1.0% |
| Capital Outlay | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| Debt Service | 16,617 | 9,906 | 6,710 | 67.7% | 880,798 | 854,938 | 25,860 | 3.0% |
| Total Expenditures & ISTV's | 2,639,210 | 2,167,814 | 471,396 | 21.7% | 18,184,702 | 16,412,744 | 1,771,957 | 10.8% |
| Transfers Out: | | | | | | | | |
| BSF Transfer | 0 | 0 | 0 | N/A | 425,500 | 0 | 425,500 | N/A |
| Operating Transfer Out | 0 | 0 | 0 | N/A | 388,234 | 582,809 | (194,575) | -33.4% |
| Temporary Transfer Out | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| Total Transfers Out | 0 | 0 | 0 | N/A | 813,734 | 582,809 | 230,925 | 39.6% |
| Total Fund Uses | 2,639,210 | 2,167,814 | 471,396 | 21.7% | 18,998,436 | 16,995,553 | 2,002,883 | 11.8% |

## *FUND BALANCE*

Table 5 describes the estimated General Revenue Fund (GRF) unencumbered ending fund balance for FY 2016. Based on the estimated revenue sources for FY 2016 and the estimated FY 2016 disbursements, transfers, and encumbrances, the GRF unencumbered ending fund balance for FY 2016 is an estimated $469.8 million.

The GRF unencumbered ending fund balance should not be considered as a balance available for expenditure in FY 2016 nor should it be considered as equivalent to the FY 2016 surplus calculation as defined in Section 131.44 of the Ohio Revised Code.

It is important to note that the GRF unencumbered ending fund balance will be impacted by any GRF expenditures or transfers that may be authorized by the General Assembly or by the Controlling Board during the course of the fiscal year.

In December 2015, fiscal year 2016 estimated revenues were reduced by $75.9 million to reflect the passage of SB 208. Estimated transfers to the GRF and estimated disbursements increased by $500 thousand to reflect a transfer from Fund 5KM0 (Controlling Board Emergency Purposes) to the Department of Agriculture.

In January 2016, fiscal year 2016 estimated revenues were increased by $6.0 million and estimated disbursements were increased by $545 thousand to reflect the passage of HB 340.

Table 5
FUND BALANCE
GENERAL REVENUE FUND
FISCAL YEAR 2016
($ in thousands)

| | |
|---|---|
| **July 1, 2015 Beginning Cash Balance*** | **$ 1,711,679** |
| Plus FY 2016 Estimated Revenues | 22,153,700 |
| Plus FY 2016 Estimated Federal Revenues | 12,232,485 |
| Plus FY 2016 Estimated Transfers to GRF | 334,500 |
| **Total Sources Available for Expenditures & Transfers** | **36,432,364** |
| Less FY 2016 Estimated Disbursements** | 34,812,585 |
| Less FY 2016 Estimated Total Encumbrances as of June 30, 2016 | 339,059 |
| Less FY 2016 Estimated Transfers Out | 810,931 |
| **Total Estimated Uses** | **35,962,575** |
| **FY 2016 ESTIMATED UNENCUMBERED ENDING FUND BALANCE** | **469,789** |

* Includes reservations of $425.2 million for prior year encumbrances and $736.1 million for transfers from the fiscal year 2015 ending balance executed during fiscal year 2016. After accounting for these amounts, the estimated unencumbered beginning fund balance for fiscal year 2016 is $550.4 million.

** Disbursements include estimated spending against current year appropriations and prior year encumbrances.

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