OBM

February 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

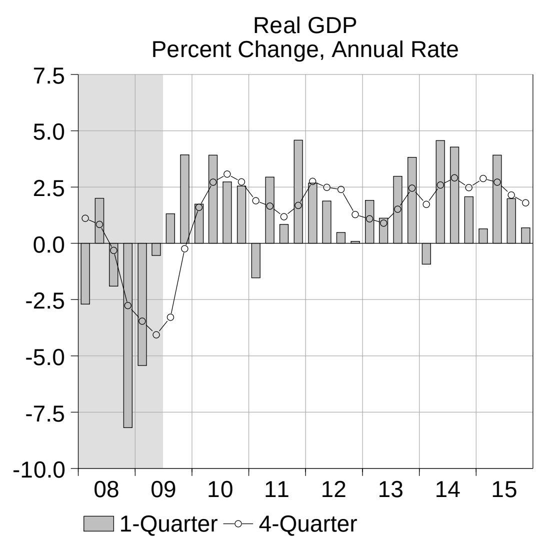
ECONOMIC SUMMARY

Economic Performance Overview

- Real GDP growth slowed to 0.7% in the fourth quarter, down from 2.0% in the third quarter. Real GDP was only 1.8% higher than a year earlier.
- U.S. employment increased by 151,000 jobs in January. The unemployment rate decreased 0.1 percentage point to 4.9%. The labor force participation rate increased to 62.7%.
- Ohio nonfarm payroll employment increased by 15,200 jobs in December, and is up by 82,700 jobs year-to-date. The Ohio unemployment rate increased to 4.7% in December, up from the low for the expansion of 4.4% in October.
- Leading economic indicators weakened further, but continue to point toward uninterrupted economic expansion. Recent data indicate that growth is continuing at a slow pace in the first quarter.

Economic Growth

Real GDP growth slowed to 0.7% in the fourth quarter, down from 2.0% in the third quarter and up only 1.8% from the year earlier. At 1.3%, second-half growth was below the average of 2.1% 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.



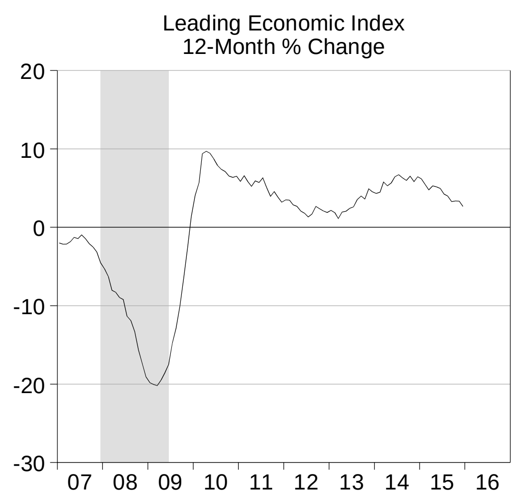
The **increase in fourth-quarter** real GDP primarily reflected increases in personal consumption expenditures, residential fixed investment, and federal local government expenditures. Private inventory investment, exports, and nonresidential fixed investment subtracted from growth during the quarter, and imports, which are automatically included in these individual categories and then subtracted as a separate category, increased, thus acting as a negative for GDP.

The **deceleration during the third quarter** reflected the slowdown in personal consumption expenditures and decreases in nonresidential fixed investment and exports.

The smaller decrease in private inventory investment, the deceleration in imports, and the acceleration in federal government spending partly offset these negative factors.

According to a **survey of businesses** by the Federal Reserve Bank of Cleveland during the six weeks ending in mid-January, the economy in and around Ohio expanded at a modest pace into the new year. Manufacturing activity increased at a modest rate, nonresidential construction grew stronger, and housing construction was stable. Retail businesses in the area reported a slightly better holiday shopping season than a year ago. Coal production was reported up slightly from a year ago, and shale gas activity remained at a high level. Freight volume was reported as strong, but with capacity constraints limiting growth.

The **Ohio Coincident Economic Index**, compiled by the Federal Reserve Bank of Philadelphia, was essentially unchanged in December, down from a solid pace last summer. Compared with a year ago, the index still was up 3.1%. The 12 month change in the index has slowed throughout 2015, declining from 5.4% in the first quarter to 3.4% in the fourth quarter, but is still strong enough to be consistent with moderate economic growth in the state. The index is comprised solely of labor market indicators and so is not as broad as some other measures, but historically has closely tracked major turning points in the overall Ohio economy.



Source: The Conference Board

Leading economic indicators have continued to deteriorate, prompting concern in some quarters about the potential for a near-term recession. Despite the deterioration, the balance of indicators still point to uninterrupted expansion. The Leading Economic Index (LEI) from the Conference Board decreased 0.2% in December following back-to-back monthly gains of 0.5%. Only four of the ten components made positive contributions during December, led by the interest rate spread. Five components subtracted from overall performance, led by stock prices and ISM New Orders.

The year-over-year rate of change in the LEI continued to slow to 2.7%, a marked decline from 6.7% in July 2014 but still 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 weakness so far appears to be related to manufacturing activity, which has been affected by the strength of the dollar, weaker demand growth overseas, and the sharp pullback in the energy industry. Strength in labor markets and benefits from lower energy costs appear to be bolstering consumer income and spending.

The diffusion of changes in the **Coincident Economic Index** across the states – a leading indicator at past business cycle turning points – weakened in December, with the number of states with positive changes falling from 41 to 39. The number of states for which the index increased from three months prior fell from 43 to 41. The pattern is the weakest since 2010 and has lasted longer than in that slowdown, but still points to economic growth. 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 stalled in the fall, slipping to a revised -0.3% in November and +0.3% in December from 3.9% in July. The index is designed to predict the rate of change in the coincident index during the next six months. The decline through the fall suggests that growth of the Ohio economy will be somewhat slower through the winter and into spring.

The number of states with a negative Leading Economic Index edged lower to 8 from an upwardly revised 10 in the previous month (compared with a peak of 9 during the 2010 slowdown). Even so, the number of negative readings remains well below the threshold that has coincided with the onset of recession in the past. For example, the number of states with negative readings increased to an average of 14 three months in advance of the most recent three recessions and to an average of 23 during the first month of those recessions.

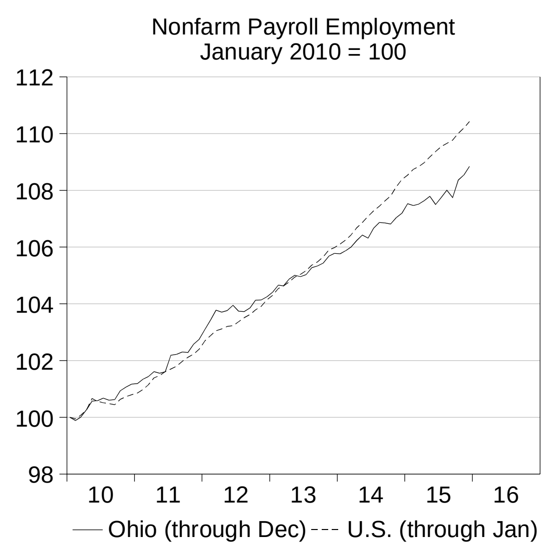
The **consensus of forecasters** is that economic growth will proceed throughout 2016 at a somewhat faster but still modest pace. As reasons for the pickup, the forecasters point to a rebound in consumer spending, the completion of the downswing in the inventory cycle, the end to the drag from retrenchment in the energy sector on capital spending, and recently agreed to adjustments to the federal government budget.

Employment

Labor markets continued to strengthen in January. **U. S. nonfarm payrolls** increased by 151,000 jobs. Revisions for the two previous months were essentially offsetting (November was revised upward by 28,000 jobs, but December was revised downward by 30,000 jobs). The December increase was below the expectations for an increase of about 185,000 jobs, but there was an increase in the average workweek and an acceleration in average hourly earnings growth to 2.5%. Job growth averaged 231,000 jobs per month during the previous three months, including January. The average job gain per month has been 222,000 for the most recent twelve months, including January.

Employment gains were very widespread **across industries**, led by retail trade (+57,700), where the seasonal decline in jobs was smaller than usual, food service and drinking places (+46,700), health care (+36,800), manufacturing (+29,000), and construction (+18,000).

The only major sectors with a decrease in employment were mining and logging (-7,000) and government (-7,000), although information posted a gain of only 1,000 jobs. Once again, most of the decline in mining took place in support activities for mining (-5,000). Mining and logging employment has decreased for sixteen months in a row by a total of 147,000 jobs, reflecting the downturn in the oil and gas industry brought on by the large declines in energy prices. The gain in manufacturing employment was the fourth in a row, following a decline of 35,000 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 283,000 in the week ending January 23 – up moderately from the four-decade low of 259,250 reached in late October and the 43rd straight week below 300,000. The recent pattern and current level are both consistent with a healthy and expanding labor market and overall economy.

The **unemployment rate** edged down to 4.9%, as a 502,000 person increase in the labor force was exceeded by the increase in the total number of people employed (these are household survey numbers and thus differ from the establishment survey numbers cited earlier). The total number of unemployed people decreased by 113,000. 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, or who would prefer full time work but are only working part time, was unchanged for the third straight month.

Ohio nonfarm payroll employment increased by 15,200 jobs in December, and is up by 82,700 jobs year-to-date. The month-over-month increase was led by trade, transportation, and utilities (+6,300), educational and health services (+4,900), and manufacturing (+3,200). Nonfarm payroll employment decreased significantly only in financial activities (-1,600) and leisure and hospitality (-1,200).

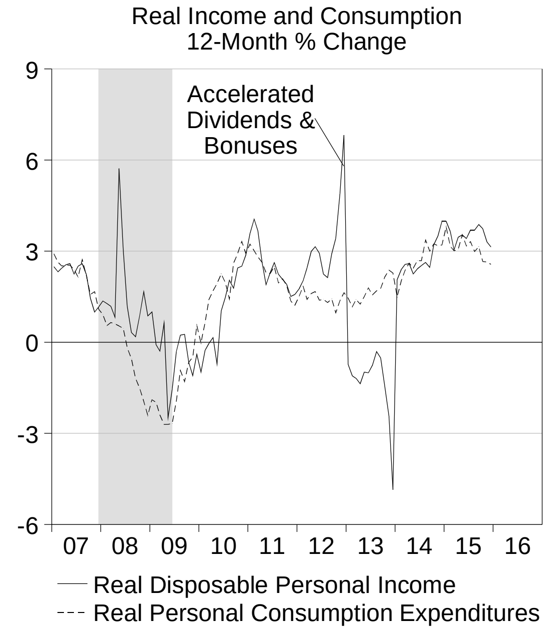
The largest employment gains during 2015 occurred in education and health services (+23,900), trade, transportation, and utilities (+19,500), manufacturing (+14,500), and leisure and hospitality (+10,200). The only employment decline during the year occurred in mining and logging (-1,800).

Among the **contiguous states**, year-over-year employment growth was strongest in Kentucky (+2.1%), followed by Indiana and Michigan (+1.9%), Ohio (+1.5%), and Pennsylvania (+0.7%). Employment declined from a year earlier in West Virginia (-1.5%). Year-over-year growth in manufacturing employment was 2.1% in Ohio. Among the contiguous states, manufacturing employment increased 3.3% in Kentucky, 3.2% in Michigan, 1.0% in Indiana, and 0.2% in West Virginia, and decreased 0.6% in Pennsylvania.

The **Ohio unemployment rate** increased to 4.7% in December, up from the low for the expansion of 4.4% in October. The number of unemployed people increased by 14,201 in December, while the number of employed people increased by 1,678, and the labor force increased by 15,879 people. Compared with a year ago, unemployment is down by 23,463 people and the number of employed people is up by 24,253, while 790 people joined the labor force. The unemployment rate is down 0.4 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 December, the unemployment rate decreased by a statistically significant amount in four states, increased in six states, and was not statistically different from the month before in 40 states. 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 December, and spending growth resumed after a flat November. **Personal income** increased 0.3% for the second month in a row in December after a 0.4% increase in November. **Wage and salary disbursements** – the largest single component of personal income – slowed to a 0.2% increase from a 0.5% increase in November. Compared with a year earlier, personal income was higher by 4.2% and wage and salary disbursements were up 4.5%.

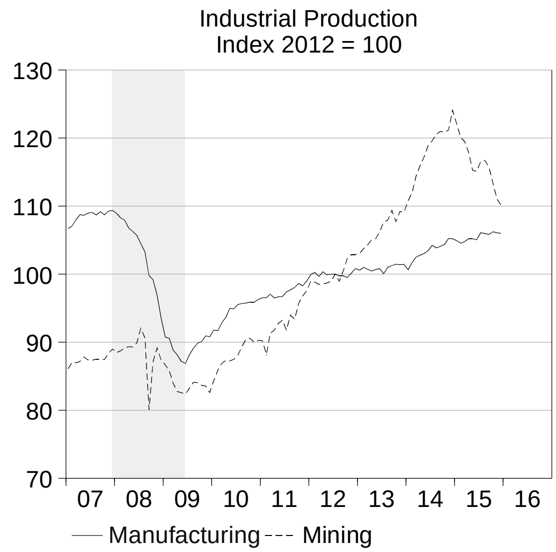
Inflation remains low, which appears to be providing some support to consumer spending. The **Consumer Price Index** (CPI) decreased 0.1% to close the year after essentially no change on balance during the previous four months. At 0.7%, the year-over-year change in the CPI remained negligible, although is likely to move higher in coming months as the steep decrease in energy prices that started more than a year ago begins to drop out of year-over-year comparisons.

Excluding the volatile food and energy categories as a means of assessing the underlying trend, the index increased 0.1% in December to 2.1% above its year earlier level. The Median CPI from the Federal Reserve Bank of Cleveland – an alternative measure of the trend in inflation – continued to track even higher at 2.4% year-over-year. The measure of inflation that is most closely watched by the Federal Reserve, the personal consumption expenditure (PCE) deflator, excluding food and energy, was unchanged in December and is 1.4% above its year earlier level.

Personal consumption expenditures were unchanged in December. Spending on services increased 0.4%, but spending on durable goods and non-durable goods each decreased by 0.9%. The drop in spending on durable goods reflected the 4.7% decline in unit sales of light motor vehicles. Purchases of durable goods might have rebounded a bit in January, as unit sales of **light motor vehicles** increased 1.7% to 17.5 million units. The drop in spending on non-durable goods reflected the lower prices for food and fuel and the effect of mild weather on heating bills. Consumers elected to save a greater share of their income, lifting the saving rate to 5.5%, up from a recent low of 4.5% in October 2014. Compared with a year earlier, personal consumption expenditures were higher by 3.2%.

Consumer confidence was mixed but somewhat stronger in January. The Conference Board index rose due to increases in assessments of both current and expected conditions. The Reuters/University of Michigan index fell slightly as a deterioration in the assessment of current conditions more than offset stable expectations. 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 2016 opened, reflecting the effect of the stronger dollar and slower growth in foreign economies on trade and the effect of lower energy prices on employment and investment in the energy sector. With business cycle indicators still pointing to overall economic expansion, however, these headwinds appear likely to prove temporary, possibly being followed by a strengthening in activity during the year ahead.

Industrial production decreased 0.2% in December and the November decline was revised down from -0.6% to -0.9%. The weakness has been concentrated in mining and utility output, which declined 0.8% and 2.0%, respectively. The weakness in **mining output** reflects cutbacks in exploration and production in the energy sector arising from the drop in the price of oil. The weakness in **utility output** reflects milder-than-usual weather. **Manufacturing output** decreased 0.1% in December, and November was revised from no change to -0.1%. The manufacturing index is only 0.8% above its year earlier level.

Reports from **purchasing managers** remained dim in January. The PMI® managed a 0.2 point gain, but remained modestly below 50 for the fourth consecutive month. On the other hand, the New Orders and Production sub-indexes both increased to above 50 after being marginally below 50 for two months. The Employment sub-index fell to 45.9 – its lowest level since the end of the 2007-09 recession. The New Export Orders sub-index reversed the one-month jump above 50 in December, while the Imports sub-index bobbed back above 50 after three months below the neutral level. The Supplier Deliveries sub-index remained relatively stable, but the Backlog of Orders sub-index remained well below neutral.

Demand for manufactured products in and around Ohio has been stable-to-moderately-improved in recent months, according to the Cleveland Fed survey. Respondents cited seasonal factors for recent weakness in orders, and said that growth in construction, shale gas, and the auto industries were responsible for higher revenues. Reports were generally positive regarding the outlook.

Of the 18 industries tracked by the Manufacturing ISM® *Report on Business*, eight reported growth in January. According to purchasing managers, the primary metals, fabricated metal products, and transportation equipment industries, which account for a large share of Ohio manufacturing employment, contracted in January. However, the machinery industry, which also has a large effect on manufacturing in Ohio, reported growth in January.

Construction

Construction put-in-place edged higher by 0.1% in December, as a 1.9% increase in public sector construction offset a 0.6% decrease in private sector construction. Compared with a year ago, total construction put-in-place was up 8.2% in December.

Private nonresidential construction put-in-place across the country dropped by 2.1% after a small decline in the prior month. A large cutback in manufacturing accounted for most of the decline in nonresidential building activity. Among major categories, only communication and power posted increases. However, in and around Ohio, nonresidential contractors reported to the Cleveland Fed that activity ranged from moderate to robust during the six weeks ending in mid-January. Demand is reportedly broad-based, with strength emanating from manufacturing, health care, and higher education.

Private residential construction put-in-place across the country accelerated to a 0.9% increase from 0.3% in the prior month. Both the single-family and multi-family categories contributed to the increase, with the single-family contribution being about twice as large. In and around Ohio during the six weeks ending in mid-January, residential builders reported slightly lower single-family starts and modestly higher single-family and multi-family permits. Respondents to the Cleveland Fed survey cited a scarcity of building lots and more stringent mortgage requirements as factors restraining activity.

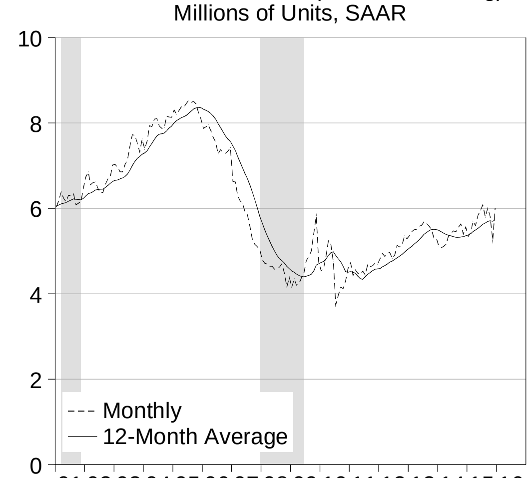
Across the country in December, **housing starts** decreased on a 3-month moving average basis, caused by a large decline in multi-family starts that overwhelmed the increase in single-family starts. Midwest starts followed the opposite pattern, rising 2.3% Compared with a year earlier, housing permits were 12.2% higher nationally and 15.5% higher in the Midwest on a 3-month moving average basis.

Existing home sales decreased by 0.6% across the country and decreased 2.4% in the Midwest in December. **New home sales** jumped by 6.1% nationally, while Midwest sales increased 10.4%, all on a 3-month moving average basis. Inventories of existing homes for sale tightened sharply in December, as the number of homes on the market fell by 12.3% to its lowest level relative to the pace of sales since January 2005. The inventory of newly constructed homes for sale rose modestly in absolute terms and fell relative to the pace of sales.

The **Pending Homes Sales Index** again offered no sign of near-term improvement. The index fell 0.2% on a 3-month moving average basis across the country in December and fell 0.4% in the Midwest. In both cases, the declines were the sixth 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 18th consecutive increase in November, rising by 0.9% for the second month in a row, according to the Case-Shiller index. Home prices increased 9.4% across the country from December 2013 to November 2015.

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



REVENUES

Note: For this month's report, monthly and year-to-date revenue estimates have been changed to reflect the first impacts of S.B. 208 and H.B. 340, which began with January revenue collections. S.B. 208, signed by Governor Kasich on November 15, included reductions in income tax and commercial activity tax revenues. There are also small increases in financial institutions tax revenue that will result from the repeal of a credit in H.B. 340, signed by Governor Kasich on December 22.

January GRF receipts totaled $3,028.9 million and were $124.9 million (4.0%) below the estimate. Federal grants account for over 93% of the January shortfall. Federal reimbursement for Medicaid in January drove this negative variance, as Medicaid spending was $163 million below the estimate. The federal grants revenue shortfall is free of the accounting issues described in previous monthly reports. Positive variances in the remaining non-tax receipt categories and transfers helped to partially offset a $22.3 million shortfall in tax receipts.

Monthly tax receipts totaled $2,096.8 million and were $22.3 million (1.1%) below the estimate. Non-tax receipts totaled $925.0 million and were $109.8 million (10.6%) below the estimate, and transfers totaled $7.2 million. More than the entire amount of the shortfall in tax receipts was due to the negative variance in the personal income tax ($37.0 million or 3.9%), which was the result of a $38.0 million (5.0%) negative variance in withholding. Settlements from the corporate franchise tax continue and were $17.4 million in January. Both the auto sales tax ($4.6 million or 5.1%) and the non-auto sales tax ($3.3 million or 0.4%) were above the estimate, while the commercial activity tax ($4.3 million or 8.9%) was below the estimate.

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**	
Corporate Franchise	$17.4	Federal Grants	($116.7)
Transfers In – Other	$7.2	Personal Income Tax	($37.0)
Auto Sales & Use Tax	$4.6	Commercial Activity Tax	($4.3)
Other Income	$3.4	Kilowatt Hour Tax	($2.2)
Non-Auto Sales & Use Tax	$3.3	Financial Institutions Tax	($1.9)
Earnings on Investments	$3.1		
Other Sources Above Estimate	$1.0	Other Sources Below Estimate	($2.8)
Total above	**$40.0**	**Total below**	**($164.9)**

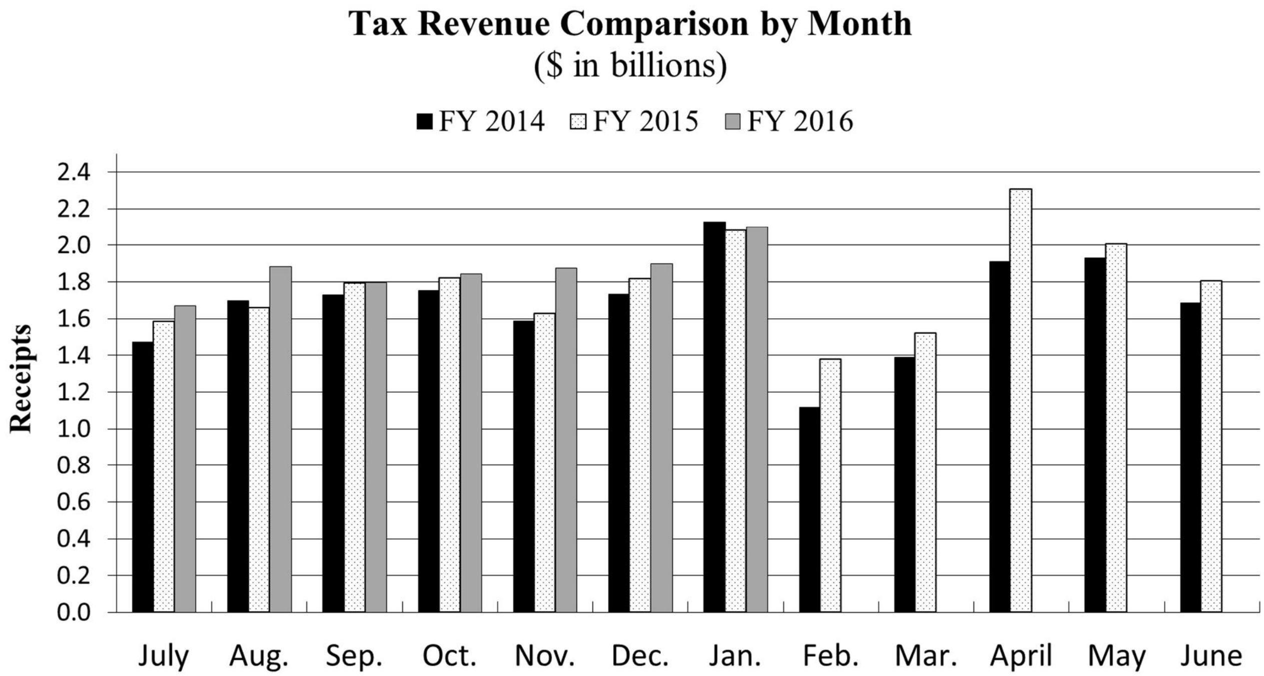
For the fiscal year, tax revenues slipped slightly below the estimate, with a shortfall of $20.5 million (0.2%). Non tax revenues are $215.2 million (2.9%) below estimate, with slightly more than the entire shortfall arising from federal grants, which are $224.6 million (3.0%) below estimate.

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	($20.5 million)	-0.2%
Non-tax receipts	Federal grants, earnings on investments, licenses & fees, other income, intrastate transfers	($215.2 million)	-2.9%
Transfers	Budget stabilization, liquor transfers, capital reserve, other	$12.1 million	6.8%
TOTAL REVENUE VARIANCE:		**($223.7 million)**	**-1.1%**

On a year-over-year basis, monthly receipts were $183.0 million (6.4%) higher than in January of the previous fiscal year, mainly due to the non-tax receipts, which account for $174.2 million, or about 95% of the increase. Federal grants represented the majority of this growth, at $167.7 million. January 2016 tax receipts grew $13.5 million (0.7%) compared to the previous January. Growth in the non-auto sales tax ($59.9 million or 7.4%), corporate franchise tax ($19.0 million or 1,169.5%), the commercial activity tax ($12.0 million or 37.0%), and the cigarette and other tobacco tax ($7.5 million or 11.8%) was partially offset by the year-over-year decline in the personal income tax ($85.0 million or 8.4%).

The increases in the CAT and cigarette and other tobacco taxes are both primarily due to law changes in H.B. 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

January personal income tax receipts totaled $923.6 million and were $37.0 million or 3.9% below the estimate. More than the entirety of the negative variance is due to below estimate collections in withholding ($38.0 million or 5.0%). Payments associated with annual returns ($7.2 million or 38.9%), trust payments ($2.8 million or 18.6%), and the miscellaneous category ($0.2 million or 2.7%) also presented shortfalls in January. An overage in quarterly estimated payments ($8.3 million or 3.0%) and lower than expected refunds ($2.8 million or 3.2%) offset part of the negative variance.

The January calendar contributed in part to the withholding shortfall, with the first business day of this January falling on a Monday, compared to Friday the previous year, since New Year's Day was a Thursday. Thursdays tend to be a larger day for withholding collections than others, as large employers remit withholding taxes for payroll accumulated from Monday to Wednesday. Last year that partial weekly withholding payment was made at the beginning of January, while this year it was made at the end of December. In retrospect, December withholding may have been somewhat weaker than it seemed, while January withholding is not as bad as the unadjusted numbers make it seem. It may be more useful to look at combined December and January withholding. Collections for the two months were $18.8 million, or 1.2%, below estimate, having grown about 3.2% from last year, after adjusting for the withholding rate cut in fiscal year 2016.

The January shortfall increased the year-to-date shortfall of personal income tax collections. Year-to-date receipts totaled $5,126.0 million and were $116.6 million or 2.2% below the estimate. A negative variance in withholding ($34.5 million or 0.7%) and higher than anticipated refunds ($63.9 million or 23.2%) account for approximately 84% of the year-to-date shortfall.

FY2016 PERSONAL INCOME TAX RECEIPTS BY COMPONENT ($ in millions)						
	ESTIMATE JAN	**ACTUAL JAN**	**$ VAR JAN**	**ESTIMATE Y-T-D**	**ACTUAL Y-T-D**	**$ VAR Y-T-D**
Withholding	$765.1	$727.1	($38.0)	$4,820.2	$4,785.7	($34.5)
Quarterly Est.	$276.3	$284.6	$8.3	$709.0	$703.9	($5.1)
Trust Payments	$15.1	$12.3	($2.8)	$28.1	$32.0	$3.9
Annual Returns & 40 P	$18.4	$11.2	($7.2)	$132.6	$122.3	($10.3)
Other	$5.7	$5.5	($0.2)	$49.4	$41.0	($8.4)
Less: Refunds	($87.4)	($84.6)	$2.8	($275.5)	($339.4)	($63.9)
Local Distr.	($32.6)	($32.6)	$0.0	($221.2)	($219.4)	$1.8
Net to GRF	**$960.6**	**$923.5**	**($37.1)**	**$5,242.6**	**$5,126.1**	**($116.5)**

On a year-over-year basis, January 2016 GRF income tax collections were $85.0 million or 8.4% below January 2015 collections. Over 75% of the decline is attributable to the combination of lower withholding ($41.2 million or 5.4%) and quarterly estimated payments ($24.3 million or 7.9%).

Through January, year-to-date income tax receipts were $24.4 million or 0.5% below the same point of the previous fiscal year. More than the entirety of the decline resulted from quarterly estimated payments ($25.2 million or 3.5%). Growth in withholding ($56.9 million or 1.2%) and trust payments ($8.3 million or 35.0%) was partially offset by declines in miscellaneous collections ($10.1 million or 19.8%) and annual return payments ($4.9 million or 3.9%), and an increase in refunds ($36.0 million or 11.9%).

Just as for withholding, it is likely more revealing to look at combined December and January estimated payments than to examine each month in isolation. Estimated payments for the two months combined were very close to the mark, finishing at $411.2 million, or $4.8 million (1.2%) below estimate. Fourth quarter estimated payments are significant to state revenue forecasters because they have a fairly good track record of predicting income tax filing season results. The theoretical reason for this is that the first three estimated payments of the year (in April, June, and September) are often not scrutinized closely by taxpayers, but are generated by a simple rule from last year's payments. However, the December-January payment often functions as a reconciliation payment, since the taxpayer now has some idea of his or her liability for the year. Taxpayers who have lower liability than they expected (because of lower income or bigger savings from law changes) often reduce their fourth quarter payment, whereas taxpayers with greater liability than expected often increase their fourth quarter payment. Often, but not always, large negative variances in the fourth quarter payment foretell weak filing season results, whereas conversely, large positive variances foretell strong filing season results (again, this is often, but not always the case). The small variance in this year's fourth quarter estimated payment, in contrast, cannot be taken as a predictor one way or the other of filing season results, particularly because the analysis is complicated by the income tax rate cuts and expansion of the small business deduction that began in tax year 2015 (see below).

Income tax growth is expected to be muted relative to last year because of the reductions in withholding tax rates and overall tax rates, and the increase in the small business (pass-through entity) deduction adopted by H.B. 64, the biennial budget bill. The impact of the withholding rate reduction has already been felt for the last six 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 began to be felt in January, as taxpayers made their fourth quarter estimated payments and also began to file income tax returns for tax year 2015. As previously noted, income tax collections are now $24.4 million, or 0.5%, below last year's level. That decrease from fiscal year 2015 is expected to get much larger over the next five months. By year's end, once the impact of all the H.B. 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 S.B. 208 income tax reductions are also added to the H.B. 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

January non-auto sales and use tax collections totaled $864.4 million and were $3.3 million (0.4%) above the estimate. Over the last five months combined, the non-auto sales tax has been almost exactly at the estimate, with a variance of -$3.9 million, or -0.1%. As pointed out in last month's report, if not for the December shortfall in the sales tax on premiums of Medicaid managed care organizations due to one-time adjustments, the variance since August would be a small positive number rather than a small negative amount.

For the year, driven by overages in July and August, non-auto tax collections are $48.2 million, or 0.9% above estimate. The outlook for the remainder of fiscal year 2016 is so far unchanged, since 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 has moved slightly above the 4% to 5% range where it has been for much of the fiscal year. January collections were $59.9 million (7.4%) above the same month of the previous fiscal year. For the year, non-auto collections are up by $261.4 million (5.1%) from the year before.

Auto Sales Tax

January auto sales tax collections exceeded the estimate by $4.6 million, or 5.1%. The overage was expected given continued strong auto sales. After a dip in December, national light vehicle sales rebounded to 17.6 million units at an annualized pace. This was well above expectations, given that a major East Coast snowstorm reduced the number of car shopping days. Sales were 5.0% above last January's pace.

Although there is considerable uncertainty and disagreement about whether lower gasoline prices have boosted non-auto consumer spending and state non-auto sales tax revenues, the anecdotal evidence seems to support the hypothesis that lower gasoline prices have boosted auto sales and auto sales taxes. The stimulus to auto sales tax collections comes through two channels. First, as mentioned above, unit sales of new vehicles have increased. Second, the mix of vehicles being bought has shifted back toward larger and more expensive light trucks and sedans, and away from cheaper and more fuel efficient vehicles.

For the year, auto sales tax collections were $30.1 million (4.1%) above the estimate. Again, this overage is tied to strong light vehicle sales. Year-to-date tax collections are up by $24.3 million (3.2%) from the same point in the previous fiscal year. This pace of growth is a little below the 6.2% increase in national vehicle sales for the fiscal year. This may be due to reductions in used vehicle sales, as consumers have shifted toward buying new vehicles.

Commercial Activity Tax

January commercial activity tax (CAT) collections are mostly from early payments of the quarterly tax due in February, since the third of four quarterly payments for the year is due on February 10. January collections were slightly below estimate, falling short by $4.3 million (8.9%). The relatively short history of the CAT suggests that January revenues are not a reliable predictor of February results, so one cannot tell the likely outcome for February based on the January shortfall. The January shortfall increased the year-to-date negative variance to $24.4 million, or 3.6%

OBM still feels that the most likely explanation for the early fiscal year 2016 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. The evidence that OBM has so far is that CAT credits have stayed at a slower pace in the third quarter, so that February results will be determined more by what happened to October – December taxable receipts than by tax credits.

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 $202.8 million (44.6%) from the same point in the previous fiscal year. This increase is due to the law change in H.B. 64 (the biennial budget bill) that increased the GRF share of total CAT receipts from 50 to 75 percent.

All funds CAT revenues were $5.8 million below estimate in January (-8.9%, the same percentage as for the GRF). For the year, all funds CAT revenues are $32.6 million below estimate. Again, the percentage shortfall is the same as for the GRF, -3.6%.

Growth in all funds CAT revenues is negative for the year, at -3.6%. This is the same percentage as the year-to-date variance, which logically follows from the fact that the estimate for all funds revenues was essentially unchanged from fiscal year 2015 (for the year as a whole, estimated CAT revenues are 0.1% above fiscal year 2015 actual collections).

Cigarette and Other Tobacco Tax

The cigarette and other tobacco product (OTP) tax collections fell slightly short in January, finishing $0.6 million (0.9%) below the estimate. On the other hand, for the year-to-date, collections are above estimate by $21.5 million (4.1%).

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 $1.9 million (5.0%) 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 $96.3 million, or 24.7%, relative to last year. The tax rate increased by 28.0% due to the law change in H.B. 64 (the tax went from $1.25/pack to $1.60/pack).

GRF Non-Tax Receipts

GRF non-tax receipts totaled $925.0 million in January and were $109.8 million (10.6%) below the estimate. As usual, the variance was driven by what happened in federal grants. Federal grants were $116.7 million (11.4%) below estimate. As in December, this revenue variance corresponds fairly closely to what one would expect based on GRF Medicaid spending, which was about $163 million below estimate in January.

Transfers in to the GRF were $7.2 million above estimate in January, and are now $12.1 million (6.8%) over estimate for the year. The January overage was due to a reimbursement to the GRF from the Highway Safety Fund for MARCS radio expenses that was expected later in the fiscal year.

Table 1

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

REVENUE SOURCE	MONTH ACTUAL JANUARY	MONTH ESTIMATE JANUARY	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	864,441	861,100	3,341	0.4%	5,422,968	5,374,800	48,168	0.9%
Auto Sales & Use	96,131	91,500	4,631	5.1%	772,102	742,000	30,102	4.1%
Subtotal Sales & Use	960,571	952,600	7,971	0.8%	6,195,069	6,116,800	78,269	1.3%
Personal Income	923,559	960,600	(37,041)	-3.9%	5,126,037	5,242,600	(116,563)	-2.2%
Corporate Franchise	17,405	0	17,405	N/A	30,475	0	30,475	N/A
Financial Institutions Tax	43,672	45,550	(1,878)	-4.1%	35,312	32,150	3,162	9.8%
Commercial Activity Tax	44,376	48,700	(4,324)	-8.9%	657,132	681,500	(24,368)	-3.6%
Petroleum Activity Tax	0	0	0	N/A	3,362	3,000	362	12.1%
Public Utility	(322)	400	(722)	-180.4%	51,297	50,900	397	0.8%
Kilowatt Hour	26,927	29,100	(2,173)	-7.5%	198,544	199,100	(556)	-0.3%
Natural Gas Distribution	1,402	1,900	(498)	-26.2%	18,566	19,000	(434)	-2.3%
Foreign Insurance	255	200	55	27.4%	146,166	156,100	(9,934)	-6.4%
Domestic Insurance	0	(100)	100	N/A	344	4,700	(4,356)	-92.7%
Other Business & Property	0	0	0	N/A	42	0	42	N/A
Cigarette and Other Tobacco	71,059	71,700	(641)	-0.9%	539,150	517,700	21,450	4.1%
Alcoholic Beverage	3,011	3,900	(889)	-22.8%	31,986	32,000	(14)	0.0%
Liquor Gallonage	4,754	4,500	254	5.6%	27,161	26,500	661	2.5%
Estate	95	0	95	N/A	918	0	918	N/A
Total Tax Receipts	2,096,764	2,119,050	(22,286)	-1.1%	13,061,561	13,082,050	(20,489)	-0.2%
NON-TAX RECEIPTS								
Federal Grants	908,607	1,025,292	(116,685)	-11.4%	7,231,395	7,455,982	(224,587)	-3.0%
Earnings on Investments	8,665	5,550	3,115	56.1%	16,580	11,000	5,580	50.7%
License & Fees	2,995	2,556	439	17.2%	12,832	17,195	(4,363)	-25.4%
Other Income	4,742	1,365	3,377	247.4%	41,999	25,334	16,665	65.8%
ISTV'S	4	0	4	N/A	862	9,400	(8,538)	-90.8%
Total Non-Tax Receipts	925,012	1,034,763	(109,751)	-10.6%	7,303,668	7,518,910	(215,242)	-2.9%
TOTAL REVENUES	3,021,776	3,153,813	(132,037)	-4.2%	20,365,229	20,600,960	(235,731)	-1.1%
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	7,172	0	7,172	N/A	189,860	177,800	12,060	6.8%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	7,172	0	7,172	N/A	189,860	177,800	12,060	6.8%
TOTAL SOURCES	3,028,948	3,153,813	(124,865)	-4.0%	20,555,089	20,778,760	(223,671)	-1.1%

Table 2

GENERAL REVENUE FUND RECEIPTS

ACTUAL FY 2016 VS ACTUAL FY 2015

($ in thousands)

	MONTH				YEAR-TO-DATE			
REVENUE SOURCE	JANUARY FY 2016	JANUARY FY 2015	$ VAR	% VAR	ACTUAL FY 2016	ACTUAL FY 2015	$ VAR	% VAR
TAX RECEIPTS								
Non-Auto Sales & Use	864,441	804,583	59,858	7.4%	5,422,968	5,161,596	261,371	5.1%
Auto Sales & Use	96,131	93,890	2,241	2.4%	772,102	747,807	24,295	3.2%
Subtotal Sales & Use	960,571	898,473	62,099	6.9%	6,195,069	5,909,403	285,666	4.8%
Personal Income	923,559	1,008,532	(84,974)	-8.4%	5,126,037	5,150,440	(24,403)	-0.5%
Corporate Franchise	17,405	(1,627)	19,032	1169.5%	30,475	(27,365)	57,840	211.4%
Financial Institutions Tax	43,672	44,957	(1,285)	-2.9%	35,312	22,131	13,181	59.6%
Commercial Activity Tax	44,376	32,393	11,983	37.0%	657,132	454,329	202,803	44.6%
Petroleum Activity Tax	0	0	0	N/A	3,362	1,944	1,418	73.0%
Public Utility	(322)	1	(323)	-40928.2%	51,297	36,838	14,459	39.3%
Kilowatt Hour	26,927	26,127	800	3.1%	198,544	170,457	28,087	16.5%
Natural Gas Distribution	1,402	2,034	(632)	-31.1%	18,566	20,461	(1,896)	-9.3%
Foreign Insurance	255	(15)	270	1793.7%	146,166	153,819	(7,653)	-5.0%
Domestic Insurance	0	(276)	276	N/A	344	7,362	(7,018)	-95.3%
Other Business & Property	0	0	0	N/A	42	20	22	111.0%
Cigarette and Other Tobacco	71,059	63,542	7,516	11.8%	539,150	428,680	110,470	25.8%
Alcoholic Beverage	3,011	4,370	(1,359)	-31.1%	31,986	33,294	(1,307)	-3.9%
Liquor Gallonage	4,754	4,537	217	4.8%	27,161	26,112	1,049	4.0%
Estate	95	171	(76)	-44.5%	918	2,356	(1,439)	-61.1%
Total Tax Receipts	2,096,764	2,083,218	13,545	0.7%	13,061,561	12,390,281	671,280	5.4%
NON-TAX RECEIPTS								
Federal Grants	908,607	740,951	167,656	22.6%	7,231,395	5,649,435	1,581,961	28.0%
Earnings on Investments	8,665	6,340	2,325	36.7%	16,580	11,393	5,188	45.5%
License & Fee	2,995	2,675	320	12.0%	12,832	11,942	889	7.4%
Other Income	4,742	884	3,857	436.2%	41,999	22,373	19,626	87.7%
ISTV'S	4	2	2	123.9%	862	261	600	229.8%
Total Non-Tax Receipts	925,012	750,852	174,160	23.2%	7,303,668	5,695,404	1,608,264	28.2%
TOTAL REVENUES	3,021,776	2,834,070	187,706	6.6%	20,365,229	18,085,685	2,279,544	12.6%
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	7,172	11,915	(4,743)	-39.8%	189,860	23,700	166,160	701.1%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	7,172	11,915	(4,743)	-39.8%	189,860	23,700	166,160	701.1%
TOTAL SOURCES	3,028,948	2,845,985	182,963	6.4%	20,555,089	18,109,385	2,445,704	13.5%

DISBURSEMENTS

January GRF disbursements, across all uses, totaled $2,680.0 million and were $205.3 million (7.1%) below estimate. This was primarily attributable to lower than estimated disbursements in the Medicaid and Health and Human Services categories. On a year-over-year basis, January total uses were $143.5 million (5.7%) higher than those of the same month in the previous fiscal year, with the Medicaid and Primary and Secondary Education categories largely responsible for the increase. Year-to-date variances from estimate 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)	($542.8 million)	-2.5%
Transfers	Temporary or permanent transfers out of the GRF that are not agency expenditures	$13.2 million	1.7%
TOTAL DISBURSEMENTS VARIANCE:		**($529.6 million)**	**-2.4%**

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. January disbursements for this category totaled $661.8 million and were $2.9 million (0.4%) above estimate. Expenditures for the school foundation program totaled $636.5 million and were $15.1 million (2.4%) above estimate. This variance was primarily attributable to the high school graduation performance bonus payment within the school foundation program being disbursed in January instead of February as estimated. Year-to-date disbursements were $4,748.3 million, which was $27.8 million (0.6%) below estimate.

On a year-over-year basis, disbursements in this category were $42.2 million (6.8%) higher than the same month in the previous fiscal year while year-to-date expenditures were $438.4 million (10.2%) higher than at the same point in fiscal year 2015. The year-to-date variance was primarily attributable to timing of payments in the foundation funding line items.

Higher Education

January disbursements for the Higher Education category, which includes non-debt service GRF spending by the Department of Higher Education, totaled $181.3 million and were $1.1 million (0.6%) below estimate. This variance was primarily attributable to National Guard Tuition Grant Program and Ohio College Opportunity Grant Scholarship disbursements being $2.5 million below estimate due to lower than estimated requests for reimbursement from higher education institutions. This variance was partially offset by $1.2 million in higher than estimated spending for eStudent Services due to disbursements estimated from prior months being delayed until January.

Year-to-date disbursements were $1,294.5 million, which was $9.5 million (0.7%) below estimate. On a year-over-year basis, disbursements in this category were $11.0 million (6.4%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $51.4 million (4.1%) 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.

January disbursements in this category totaled $10.2 million and were $3.0 million (42.4%) above estimate. Year-to-date disbursements were $48.8 million, which was $2.8 million (6.2%) above estimate. On a year-over-year basis, disbursements in this category were $3.5 million (52.0%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $10.5 million (27.4%) higher than at the same point in fiscal year 2015.

<u>Broadcast Education Media Commission</u>
January disbursements for the Broadcast Education Media Commission totaled $2.7 million and were $2.4 million above estimate. This variance was primarily attributable to the timing of payments for Content Development, Acquisition, and Distribution.

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>
January GRF disbursements for the Medicaid Program totaled $1,325.9 million and were $162.0 million (10.9%) below the estimate, and $89.9 million (7.3%) above disbursements for the same month in the previous fiscal year. Year-to-date GRF disbursements totaled $10,628.5 million and were $388.4 million (3.5%) below the estimate, and $1,368.6 million (14.8%) 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.

January all funds disbursements for the Medicaid Program totaled $1,819.1 million and were $211.4 million (10.4%) below the estimate, and $87.2 million (4.6%) below disbursements for the same month in the previous fiscal year. Year-to-date all funds disbursements totaled $14,209.8 million and were $734.4 million (4.9%) below the estimate, and $817.8 million (6.1%) above disbursements for the same point in the previous fiscal year.

The January all funds variance was due to lower than anticipated costs in the managed care, fee-for-service, and program administration categories. Managed care spending was below estimate for the month due to both lower enrollment and lower monthly capitation rates which went into effect in January. 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 9.5 percent below estimate for the month. Spending in program administration, primarily related to information technology improvement projects, was less than estimated for the month. These savings were slightly offset by greater than anticipated spending for the Medicare Buy-In program due to higher premium rates which became effective in January. These higher rates were not set by the federal government until after the passage of H.B. 64, the state biennial budget bill.

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

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

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

	January Actual	January Projection	Variance	Variance %
GRF	$ 1,325.9	$ 1,488.0	$ (162.0)	-10.9%
Non-GRF	$ 493.2	$ 542.6	$ (49.4)	-9.1%
All Funds	$ 1,819.1	$ 2,030.5	$ (211.4)	-10.4%

Enrollment

Total January enrollment across all categories was 2.96 million. The most significant components are the Covered Families and Children/Modified Adjusted Gross Income (CFC/MAGI) category, which decreased by 7,728 persons to a January total of 2.42 million persons, and the Aged, Blind and Disabled/Dual Eligible (ABD/Dual) category, which decreased by 3,167 persons to a January total of 381,625 covered lives.

Total enrollment across all categories for the same period last year was 3.00 million covered persons, including 2.37 million persons in the CFC/MAGI category and 421,499 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.

January disbursements in this category totaled $142.6 million and were $21.1 million (12.9%) below estimate for the month. Year-to-date disbursements were $805.1 million, which was $82.1 million (9.3%) below estimate. On a year-over-year basis, disbursements in this category were $0.3 million (0.2%) lower than for the same month in the previous fiscal year while year-to-date expenditures were $36.0 million (4.3%) lower than at the same point in fiscal year 2015.

Department of Health
January disbursements for the Department of Health totaled $4.5 million and were $2.5 million (35.9%) below estimate. This variance was primarily attributable to Help Me Grow disbursements being $1.3 million (46.8%) below estimate due to subsidy payments estimated for January being moved to future months.

Department of Job and Family Services
January disbursements for the Department of Job and Family Services totaled $63.3 million and were $6.5 million (9.4%) below estimate. This variance was primarily attributable to several lines. First, Child Care State/Maintenance of Effort disbursements were $6.5 million (100.2%) below estimate due to a change in the child care disbursement schedule resulting from the delayed receipt of the federal quarterly award. Second, Family and Children Services disbursements were $1.5 million (12.6%) below estimate due to shifting payments from the State Child Protective Allocation to county incentive payments. These variances were partially offset by Early Care and Education disbursements being $2.2 million (11.8%) above estimate due to higher than estimated disbursements to child care providers during the holiday season.

Department of Mental Health and Addiction Services
January disbursements for the Department of Mental Health and Addiction Services totaled $50.7 million and were $10.6 million (17.2%) below estimate. This variance was primarily attributable to several lines. First, Addiction Services Partnership with DRC disbursements were $4.9 million (77.0%) below estimate due to slow hiring and disbursements estimated for January being moved to future months. Second, Criminal Justice Services disbursements were $2.7 million (64.9%) below estimate, while Community Innovations disbursements were $1.3 million (67.6%) below estimate, both due to disbursements estimated for January being moved to future months. Finally, Hospital Services disbursements were $2.4 million (9.4%) below estimate due to disbursements estimated for January being shifted to February.

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.

January disbursements in this category totaled $224.3 million and were $10.6 million (4.5%) below estimate for the month. Year-to-date disbursements were $1,241.4 million, which was $1.3 million (0.1%) above estimate. On a year-over-year basis, disbursements in this category were $6.8 million (3.1%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $68.1 million (5.8%) higher than at the same point in fiscal year 2015.

<u>Department of Rehabilitation and Correction</u>

January disbursements for the Department of Rehabilitation and Correction totaled $170.7 million and were $2.6 million (1.5%) below estimate. This variance was primarily attributable to disbursements for Halfway Houses occurring in December instead of January as estimated, and lower than estimated disbursements for Institution Medical Services. These variances were partially offset by higher than estimated disbursements for Institutional Operations.

<u>Department of Youth Services</u>

January disbursements for the Department of Youth Services totaled $28.2 million and were $4.9 million (14.8%) below estimate. This variance was primarily attributable to disbursements for Community Corrections Facilities and other county subsidies estimated for January being made partially in December and partially in future months.

<u>Public Defender Commission</u>

January disbursements for the Public Defender Commission totaled $0.8 million and were $4.6 million (85.8%) below estimate. This variance was primarily attributable to County Reimbursement disbursements estimated for January being shifted to February.

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.

January disbursements in this category totaled $38.5 million and were $7.5 million (16.2%) below estimate for the month. Year-to-date disbursements were $223.3 million, which was $21.9 million (8.9%) below estimate. On a year-over-year basis, disbursements in this category were equal to the same month in the previous fiscal year while year-to-date expenditures were $7.0 million (3.2%) higher than at the same point in fiscal year 2015.

Department of Administrative Services
January disbursements for the Department of Administrative Services totaled $0.9 million and were $3.7 million (81.1%) below estimate. As with last month, this variance was primarily attributable to the timing of quarterly rent payments for certain GRF-supported agencies. These payments will occur in February instead of January as estimated.

Department of Natural Resources
January disbursements for the Department of Natural Resources totaled $6.1 million and were $1.0 million (20.0%) above estimate. This variance was primarily attributable to Parks and Recreation disbursements being shifted to restore balance between GRF and non-GRF funded spending. Year-to-date disbursements were $32.9 million, which was $0.9 million (2.7%) below estimate.

Development Services Agency
January disbursements for the Development Services Agency totaled $2.6 million and were $3.9 million (60.7%) below estimate. This variance was primarily attributable to the timing of the Port Authority Assistance disbursement, which will occur in future months instead of January as estimated.

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. January property tax reimbursements totaled ($1.6 million) and were $1.7 million below the estimate. This negative monthly disbursement was due to voided warrants and the amount will likely be re-disbursed in a future month. Year-to-date disbursements totaled $897.2 million and were $7.8 million (0.9%) below estimate.

Debt Service

January payments for debt service totaled $96.9 million and were $7.3 million (7.0%) below estimate. This variance was primarily attributable to the use of a bond premium to cover a portion of January's debt service payment. Year-to-date debt service payments were $977.7 million, which was $9.5 million (1.0%) below estimate.

Transfers Out

January transfers out totaled $0.0 million and were at estimate. Year-to-date transfers out were $813.8 million, which was $13.2 million (1.7%) above estimate.

Table 3

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

Functional Reporting Categories Description	MONTH ACTUAL JANUARY	MONTH ESTIMATED JANUARY	MONTH $ VAR	MONTH % VAR	YEAR-TO-DATE YTD ACTUAL	YEAR-TO-DATE YTD ESTIMATE	YEAR-TO-DATE $ VAR	YEAR-TO-DATE % VAR
Primary and Secondary Education	661,762	658,839	2,923	0.4%	4,748,335	4,776,138	(27,803)	-0.6%
Higher Education	181,341	182,471	(1,130)	-0.6%	1,294,460	1,303,936	(9,476)	-0.7%
Other Education	10,212	7,172	3,040	42.4%	48,786	45,950	2,836	6.2%
Medicaid	1,325,944	1,487,956	(162,013)	-10.9%	10,628,450	11,016,873	(388,423)	-3.5%
Health and Human Services	142,576	163,660	(21,085)	-12.9%	805,063	887,172	(82,109)	-9.3%
Justice and Public Protection	224,324	234,913	(10,588)	-4.5%	1,241,411	1,240,067	1,344	0.1%
General Government	38,530	45,980	(7,450)	-16.2%	223,291	245,155	(21,864)	-8.9%
Property Tax Reimbursements	(1,614)	76	(1,690)	-2218.1%	897,181	904,987	(7,806)	-0.9%
Capital Outlay	0	0	0	N/A	0	0	0	N/A
Debt Service	96,871	104,214	(7,344)	-7.0%	977,669	987,189	(9,520)	-1.0%
Total Expenditures & ISTV's	2,679,944	2,885,281	(205,336)	-7.1%	20,864,646	21,407,466	(542,820)	-2.5%
Transfers Out:								
BSF Transfer Out	0	0	0	N/A	425,500	425,500	0	0.0%
Operating Transfer Out	26	0	26	N/A	388,260	375,031	13,229	3.5%
Temporary Transfer Out	0	0	0	N/A	0	0	0	N/A
Total Transfers Out	26	0	26	N/A	813,760	800,531	13,229	1.7%
Total Fund Uses	2,679,970	2,885,281	(205,310)	-7.1%	21,678,406	22,207,997	(529,591)	-2.4%

Table 4

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

	MONTH				YEAR-TO-DATE			
Functional Reporting Categories Description	JANUARY FY 2016	JANUARY FY 2015	$ VAR	% VAR	ACTUAL FY 2016	ACTUAL FY 2015	$ VAR	% VAR
Primary and Secondary Education	661,762	619,558	42,204	6.8%	4,748,335	4,309,887	438,448	10.2%
Higher Education	181,341	170,375	10,966	6.4%	1,294,460	1,243,059	51,401	4.1%
Other Education	10,212	6,717	3,495	52.0%	48,786	38,304	10,482	27.4%
Medicaid	1,325,944	1,236,004	89,940	7.3%	10,628,450	9,259,853	1,368,597	14.8%
Health and Human Services	142,576	142,869	(293)	-0.2%	805,063	841,027	(35,964)	-4.3%
Justice and Public Protection	224,324	217,538	6,786	3.1%	1,241,411	1,173,320	68,091	5.8%
General Government	38,530	38,526	3	0.0%	223,291	216,285	7,006	3.2%
Property Tax Reimbursements	(1,614)	477	(2,091)	-438.3%	897,181	908,135	(10,954)	-1.2%
Capital Outlay	0	0	0	N/A	0	0	0	N/A
Debt Service	96,871	98,449	(1,578)	-1.6%	977,669	953,387	24,282	2.5%
Total Expenditures & ISTV's	2,679,944	2,530,512	149,433	5.9%	20,864,646	18,943,256	1,921,390	10.1%
Transfers Out:								
BSF Transfer	0	0	0	N/A	425,500	0	425,500	N/A
Operating Transfer Out	26	5,979	(5,953)	-99.6%	388,260	588,788	(200,528)	-34.1%
Temporary Transfer Out	0	0	0	N/A	0	0	0	N/A
Total Transfers Out	26	5,979	(5,953)	-99.6%	813,760	588,788	224,972	38.2%
Total Fund Uses	2,679,970	2,536,491	143,480	5.7%	21,678,406	19,532,044	2,146,363	11.0%

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 S.B. 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 H.B. 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.

OBM staff that contributed to the development of this report are:

Jason Akbar, Ben Boettcher, Frederick Church, Jim Coons, Adam Damin, Paul DiNapoli, Catherine Hookway, Kurt Kauffman, Sári Klepacz, Matthew Martin, Ashley Nelson, Katherine Nickey, Steven Peishel, Jordan Peters, Ben Phillips, Craig Rethman, Katja Ryabtseva, Tara Schuler, Travis Shaul, Dex Stanger, and Andrew White.