OBM

March 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

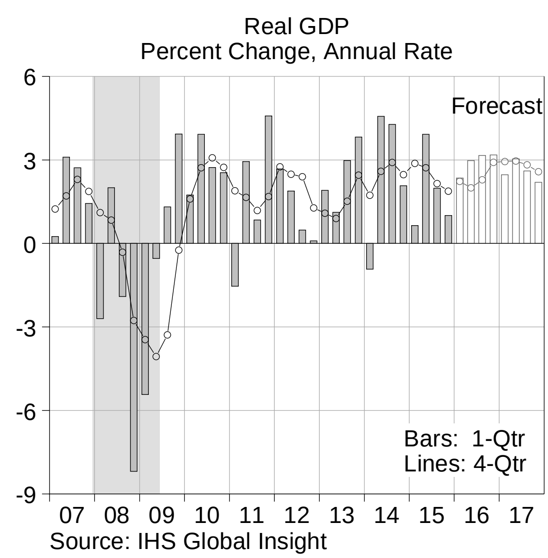
ECONOMIC SUMMARY

Economic Performance Overview

- Fourth-quarter real GDP growth was revised up to 1.0%, compared with 2.0% in the third quarter. Recent economic data indicate that economic growth has picked up but remained modest in the first quarter.
- U.S. employment increased by 242,000 jobs in February and the unemployment rate was unchanged at 4.9%. Employment growth during the two previous months was revised higher by a total of 30,000 jobs.
- Ohio nonfarm payroll employment increased by 100 jobs in January, and is up by 80,800 jobs year-to-date. The Ohio unemployment rate was 4.9% in January, up slightly from a revised 4.8% in December.
- 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

Fourth-quarter **real GDP** growth was revised up to 1.0% from the previous estimate of 0.7%, compared with 2.0% in the third quarter and up only 1.9% from the year earlier. At 1.5%, 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 essentially came all from personal consumption expenditures. Consumption contributed 1.4 percent to growth, while all other categories subtracted 0.4 percent. Exports, nonresidential fixed investment, state and local government spending, and private inventory investment all subtracted from growth during the quarter. Imports, which are automatically included in these individual categories and then subtracted as a separate category, decreased, providing a small boost to GDP growth.

Personal consumption expenditure was the main driver of growth in the third quarter, growing 2.0% while the overall economy grew only 1.0%. On the other hand, consumption growth slowed from the third quarter, dropping from 3.0%, and this deceleration was the largest factor in the deceleration of overall GDP. Exports and non-residential fixed investment not only slowed but actually turned negative in the fourth quarter, as did state and local government expenditures. The smaller decrease in private inventory investment, the downturn 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 late February, the economy in and around Ohio has expanded at a modest pace so far in 2016. Manufacturing activity has increased slowly, and favorable conditions in the nonresidential construction industry carried over into 2016. Retail businesses in the area reported mixed post-holiday shopping results, but with auto dealers reporting higher year-over-year unit sales. Credit demand increased slowly. Freight volume reversed direction, trending lower.

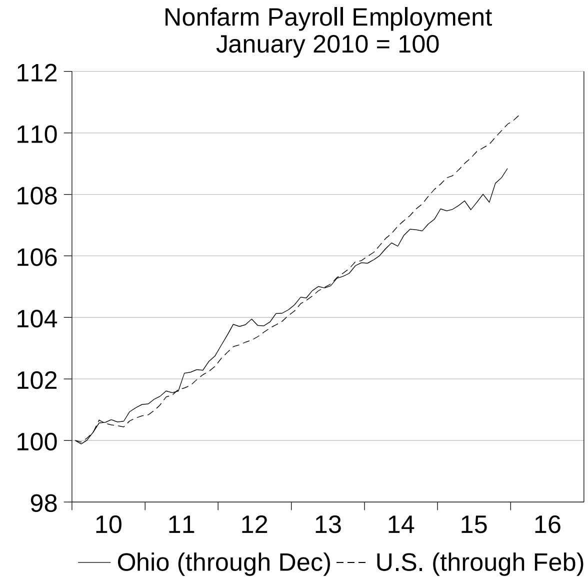
Some **leading economic indicators** have continued to deteriorate, contributing to concern about the potential for a near-term recession. Despite the recent weakness, the balance of indicators still points to uninterrupted expansion.

On the negative side, the Leading Economic Index (LEI) from the Conference Board decreased 0.2% in January for the second monthly decline in a row and the fourth in the last seven months. Only five of the ten components made positive contributions in the most recent month, led by the interest rate spread. On the other hand, manufacturing orders and average production workers' hours also made positive contributions.

On the positive side, although the year-over-year rate of change in the LEI continued to slow to 2.2%, it remained positive. In contrast, the rate of change in the index regularly has turned negative in advance of recessions in the past. The year-over-year change has declined markedly from 6.7% in July 2014, but is still consistent with continued economic expansion. 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, however, appear to be bolstering consumer income and spending.

The **consensus of forecasters** is that economic growth will proceed throughout 2016 at a modest pace that is somewhat faster than during the second half of last year. Predictions center on 2.0% for the first quarter of 2016 and 2.5% for the second quarter, according to the Survey of Professional Forecasters (SPF) conducted by the Philadelphia Federal Reserve. Many commentators recently have raised concerns about a near-term recession, but the odds of a quarter-to-quarter decline in real GDP remain comfortably below 20% through the first quarter of 2017, according to the SPF.

Employment



Labor markets continued to strengthen in February. **U.S. nonfarm payrolls** increased by 242,000 jobs during the month, and employment growth during the two previous months was revised higher by a total of 30,000 jobs. The increase exceeded expectations for an increase of about 200,000 jobs and prompted a positive initial response by financial markets. Job growth has actually accelerated recently, averaging 241,000 jobs per month during the previous three months, whereas the average monthly gain for the most recent twelve months was 223,000.

Employment gains were very widespread **across industries**, led by education and health services (+86,000), where health care and social assistance contributed 57,400 jobs. Also making significant contributions to the increase were retail trade (+54,900) and leisure and hospitality (+48,000). Notably, construction added 19,000 jobs, marking its sixth consecutive monthly gain of at least 10,000 jobs.

The only major month-over-month declines in employment occurred in mining and logging (-19,000) and manufacturing (-16,000). The mining and logging sector, in which employment has declined in each of the most recent seventeen months, continues to be buffeted by the steep decline and low level of energy prices. The decline in manufacturing employment reversed much of the 23,000 job gain the month before, reflecting the many headwinds faced by the sector.

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 has turned down in recent weeks to 270,250 toward the end of February – still up moderately from the four-decade low of 259,250 reached in late October but the 49th straight week below 300,000. (Initial claims in Ohio are down 1.8% from last January.) The recent pattern and current level are consistent with a healthy and expanding labor market and overall economy.

The **unemployment rate** was unchanged at 4.9% in February, as a 555,000 person increase in the labor force was almost matched by a 530,000 person increase in the total number of people employed. The total number of unemployed people increased by 24,000. The broadest measure of unemployment, the U-6 unemployment rate, decreased to 9.7%, which was the lowest level since April 2008. The U-6 unemployment rate includes those who want to work but have stopped looking because they believe they cannot find a job, and those who are involuntarily working part time rather than full time.

Ohio nonfarm payroll employment increased by 100 jobs in January, and is up by 80,800 jobs year-to-date. Although the month-to-month change in overall employment was very small, private employment had a fairly strong gain of 7,700 jobs. Government employment declined by 7,600 jobs, with losses at the federal, state, and local levels. The largest losses were in local government (-5,500).

The month-over-month increase in private employment was led by services, where employment increased by 6,600, while goods producing employment increased by 1,100. Manufacturing and construction both gained, while mining continued its string of job losses. The professional and business services category had a fairly large employment decrease (-6,500).

For the prior 12 months, goods-producing employment increased by 14,500 jobs, while services employment increased by 64,500 jobs, for an overall private sector employment increase of 79,000 jobs. Government employment increased by 1,800 jobs over the same time frame. In goods production, construction and manufacturing gained 9,900 and 7,700 jobs, respectively, while mining lost 3,100 jobs. In the services sector, job gains were led by educational and health services (+21,900), leisure and hospitality (+21,300), and trade transportation and utilities (+14,000). Professional and business services lost 2,500 jobs, mostly because of the January decline.

The Ohio unemployment rate increased to 4.9% in January, up from a revised 4.8% in December. The Ohio rate has increased by 0.5% from the low for the expansion of 4.4% in October. The number of unemployed people increased by 6,000 in January, going from 273,000 to 279,000, but has decreased by 12,000 from January last year. The labor force increased by 28,000 persons, and the number of employed increased by 21,000.

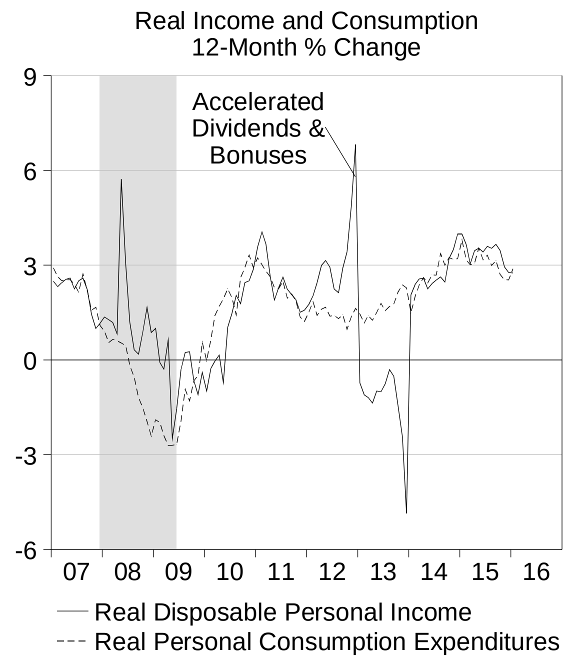
Compared with a year ago, persons employed are up by 26,000, the labor force has increased by 15,000, and as mentioned above, unemployment is down by 12,000. The unemployment rate is down by 0.2 percentage points from a year ago, and is less than one-half its peak level of 11.0% reached in January 2010.

Consumer Income and Consumption

Personal income picked up in January and consumer spending followed along. **Personal income** increased 0.5% in January after climbing 0.3% in each month of the fourth quarter. **Wage and salary disbursements –** the largest single component of personal income – increased by 0.6%. Compared with a year earlier, personal income was higher by 4.3% 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) was unchanged in January and has increased at an annual rate of only 0.3% during the most recent six months. At 1.3%, the year-over-year change in the CPI remained low, although it increased from 0.7% the month before and 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.

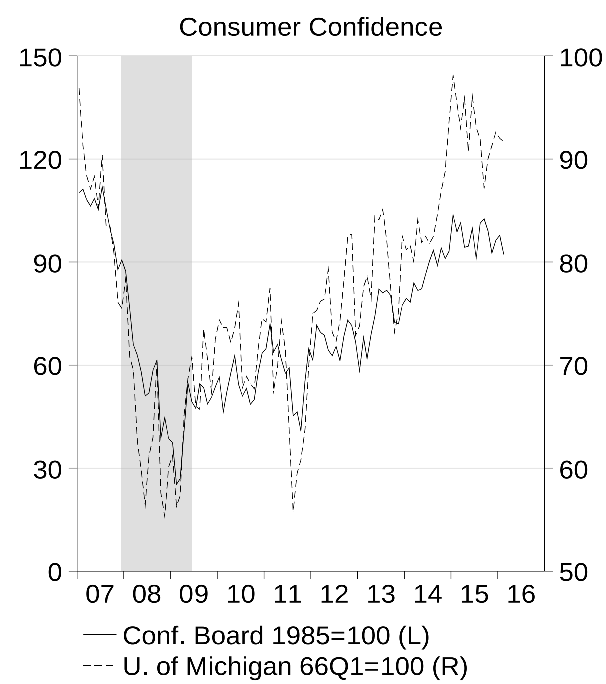
Excluding the volatile food and energy categories as a means of assessing the underlying trend, the index increased 0.3% in January to 2.2% above its year earlier level. An alternative measure of the underlying inflation trend, the Median CPI from the Federal Reserve Bank of Cleveland, continued to track even higher at 2.4% year-over-year. The measure of inflation that is most closely watched by the Federal Reserve, personal consumption expenditure (PCE) inflation excluding food and energy, increased 0.3% in January to 1.7% above its year earlier level.



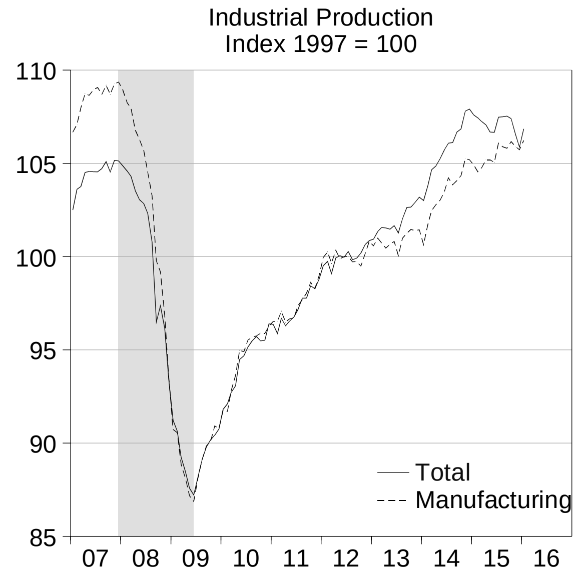
Personal consumption expenditures increased in step with incomes, rising 0.5% in January after an upwardly revised increase of 0.1% in December. Compared with a year earlier, personal consumption expenditures were higher by 3.2%. Consumers saved 5.2% of their income during January – the same as in December and roughly in line with behavior since 2012.

Spending on services increased 0.6%, while spending on durable goods increased 1.2% and spending on non-durable goods was flat. The increase in spending on durable goods reflected the 1.4% rise in unit sales of **light motor vehicles** during January. Vehicle sales held steady in February.

Consumer confidence weakened in February, continuing the erratic trend that can now be traced back to January 2015. The Conference Board index retreated due to decreases 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 a very slight improvement in expectations. In general, discounting month to month volatility, consumer confidence indexes are at relatively high levels that are consistent with sustained growth in consumer spending in the months ahead.



Manufacturing



Manufacturing activity began to stabilize in January and February, according to several measures, even as the headwinds from the stronger dollar, slower growth in foreign economies, and lower energy prices remain. Recent economic trends are consistent with overall economic expansion and possibly a modest strengthening in manufacturing activity as the year unfolds.

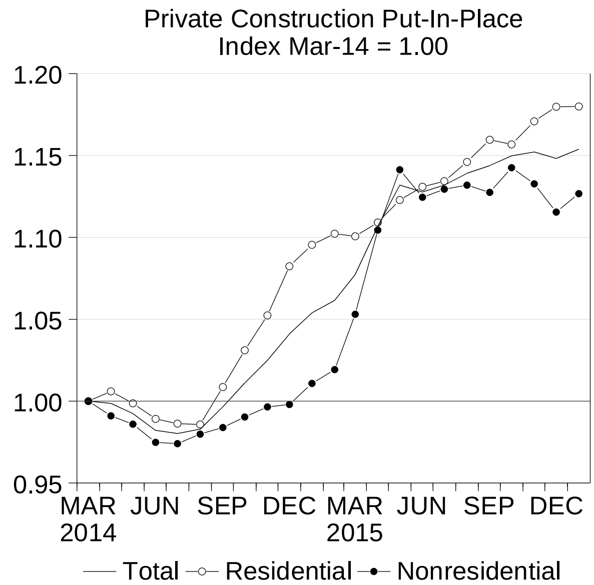
Industrial production increased 0.9% in January following three straight declines, but remained 0.7% below its year earlier level. **Mining output** was flat after a 4-month stretch of declines, perhaps reflecting the recent firming in the price of oil. **Utility output** increased 5.4% reflecting the shift from mild weather in November and December to more normal weather in January. **Manufacturing output** decreased 0.5% after two consecutive monthly declines of 0.2%, resulting in output being 1.2% above its year earlier level.

Reports from **purchasing managers** improved encouragingly during February. The PMI® increased by 1.3 points to 49.5, compared with an expectation of little change. While still below the neutral level of 50, the index level was the highest since last September. The New Orders index was unchanged at 51.5 and the Production index increased from just above neutral to 52.8, matching its best level since last May. The Employment index rebounded, but remained below neutral, and the New Export Orders and Supplier Deliveries indexes decreased slightly.

Manufacturing production in and around Ohio has trended slowly higher so far this year, according to the Cleveland Fed survey, with strength centered on consumer and intermediate goods as opposed to industrial products. Suppliers to the motor vehicle, construction, and aerospace industries have reported that activity has remained high but that the pace has slowed. Respondents again cited the strong dollar, low commodity prices, aggressive competition from overseas, and weakness in energy and emerging markets as factors tempering the outlook.

Of the 18 industries tracked by the Manufacturing ISM® *Report on Business*, nine reported growth in February. Among the industries with a disproportionate effect on Ohio manufacturing employment, only the primary metals industry expanded, according to purchasing managers. The machinery industry was stable, while activity in the fabricated metal products and transportation equipment industries contracted. One respondent in the fabricated metal industry noted a healthy backlog, and a respondent in the machinery industry reported very strong demand.

Construction



Construction put-in-place jumped by 1.5% in January, largely reflecting a very large increase in public spending on highways. Private construction increased 0.5% while public construction increased 4.5% after a 3.3% increase in December. The recent surge in public construction spending might be the result of spending authorized under recent federal legislation, which appropriated $305 billion during fiscal years 2016-2020 for highway and related projects.

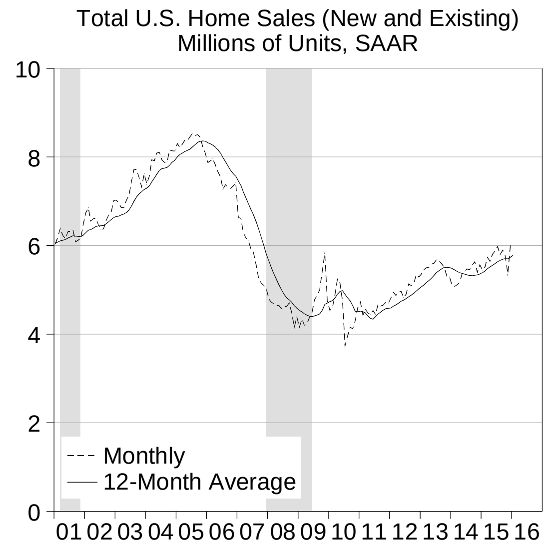
Private nonresidential construction put-in-place across the country recouped 1.0% in January after a 1.5% decline in December and a 0.9% drop in November. Large gains in manufacturing, power, and lodging construction were partly offset by declines in commercial and communications construction. In and around Ohio, nonresidential contractors reported to the Cleveland Fed that results for 2015 were favorable and that they expect 2016 to be moderately stronger. Demand so far in 2016 mainly has been led by health care and higher education, with manufacturing, commercial (outside of office buildings), and multi-family housing making additional contributions.

Private residential construction put-in-place across the country was unchanged in January after a 1.2% increase in November and a 0.8% increase in December. The third large increase in a row in multi-family construction (+2.6%) was mostly offset by setbacks in single-family construction (-0.2%) and improvements to residential structures (-0.7%). In and around Ohio during early 2016, respondents to the Cleveland Fed survey cited the favorable weather as a reason for stronger activity. Contracts for home construction were said to be concentrated in the move-up categories, condo sales were reportedly increasing, and home prices were said to be rising. Little change in market conditions is expected through the spring.

Across the country in January, **housing starts** increased 0.8% on a 3-month moving average basis, as multi-family activity swung from a deep negative the month before (-6.9%) into positive territory (+1.1%) and single-family activity edged higher (+0.7%). Midwest starts decreased 7.4% after sizable gains in the previous two months, as both single-family and multi-family construction posted declines. Housing permits increased 1.1% nationally and 5.9% in the Midwest on a 3-month moving average basis, suggesting recent weakness in new housing will be reversed.

Existing home sales increased both across the country (+1.2%) and in the Midwest (+0.5%) during January on a 3-month moving average basis. On the other hand, the Pending Homes Sales Index – which measures housing contract activity for single-family homes, condos, and co-ops, and usually leads existing home sales by a month or two – decreased both across the country and the Midwest, extending the trend in place since last July.

New home sales also increased nationwide (+0.9%) and in the Midwest (+3.2%). Inventories of existing homes for sale increased after a steep drop the month before, but remained at a low level relative to the pace of sales. The inventory of newly constructed homes for sale rose modestly again for the fourth month in a row in absolute terms and to one of the highest monthly levels relative to sales since 2011.



Home prices across the country posted their 47th consecutive increase in December, rising by 0.8%, according to the Case-Shiller index. Home prices increased 10.2% across the country from December 2013 to December 2015.

REVENUES

Note: This month's report includes the adjusted monthly and year-to-date revenue estimates that reflect the 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.

February GRF receipts totaled $2,421.0 million and were $92.4 million (3.7%) below the estimate. Federal grants account for almost the entire shortfall. Federal reimbursement for Medicaid in February drove this negative variance, as Medicaid spending was $99.3 million (5.9%) below the estimate. Positive variances in the remaining non-tax receipt categories were partially offset by a small negative variance in tax receipts ($2.2 million or 0.2%).

Monthly tax receipts totaled $1,427.9 million and were $2.2 million (0.2%) below the estimate. Non-tax receipts totaled $992.8 million and were $85.6 million (7.9%) below the estimate, and transfers totaled $0.3 million, $4.6 million (93.1%) below the estimate due to a transfer that was anticipated in February but will likely occur in March. Within the tax revenue category, overages in foreign insurance ($39.9 million or 185.5%), the financial institutions tax ($10.3 million or 25.5%), and the commercial activities tax ($2.8 million or 1.0%) were offset by the combination of shortfalls in the non-auto sales tax ($34.5 million or 5.3%), auto sales tax ($1.4 million or 1.5%), personal income tax ($13.4 million or 6.9%), and the kilowatt hour tax ($5.8 million or 16.5%). The overage in the foreign insurance receipts is likely due to more taxpayers remitting their payments earlier than the March deadline than the estimate had assumed.

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**	
Foreign Insurance	$39.9	Federal Grants	($90.9)
Financial Institutions Tax	$10.3	Non-Auto Sales & Use Tax	($34.5)
License & Fees	$3.9	Personal Income Tax	($13.4)
Commercial Activities Tax	$2.8	Kilowatt Hour Tax	($5.8)
Other Income	$1.4	Transfers In – Other	($4.6)
Cigarette & Other Tobacco	$1.4	Auto Sales & Use Tax	($1.4)
Other Sources Above Estimate	$0.1	Other Sources Below Estimate	($1.6)
Total above	**$59.8**	**Total below**	**($152.2)**

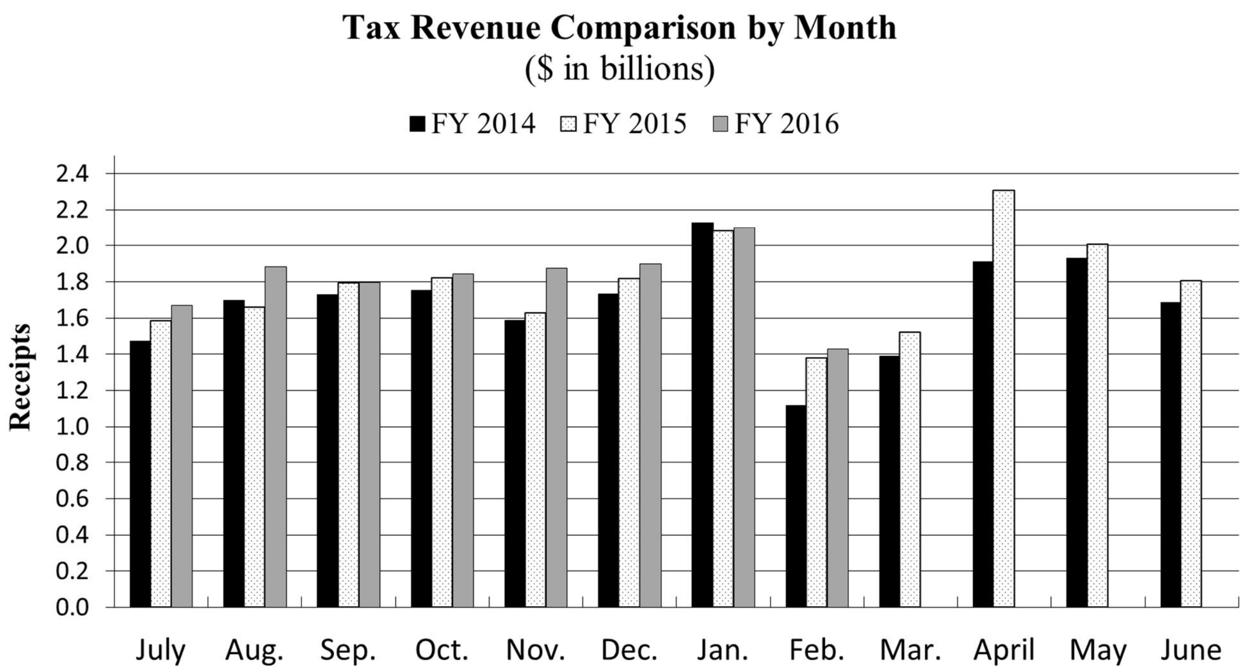
For the fiscal year, tax revenues continue to be slightly below the estimate, with a shortfall of $22.7 million (0.2%). Non tax revenues are $300.8 million (3.5%) below estimate, with more than the entire shortfall arising from federal grants, which are $315.5 million (3.7%) below estimate.

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	($22.7 million)	-0.2%
Non-tax receipts	Federal grants, earnings on investments, licenses & fees, other income, intrastate transfers	($300.8 million)	-3.5%
Transfers	Budget stabilization, liquor transfers, capital reserve, other	$7.5 million	4.1%
TOTAL REVENUE VARIANCE:		**($316.0 million)**	**-1.4%**

On a year-over-year basis, monthly receipts were $294.3 million (13.8%) higher than in February of the previous fiscal year, mainly due to non-tax receipts, which account for $237.4 million, of the overage; federal grants represented the majority of this growth. February 2016 tax receipts grew $50.7 million (3.7%) compared to the previous February. Growth in the commercial activities tax ($97.8 million or 51.5%), foreign insurance tax ($42.4 million or 223.7%), the cigarette and other tobacco products tax ($17.1 million or 32.1%), and the financial institutions tax ($11.0 million or 27.6%) was partially offset by the year-over-year decline in the personal income tax ($106.7 million or 37.0%).

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.

The decline in the income tax is also due to law changes in H.B. 64, where tax rates were reduced by 6.5% and the deduction for the profits of pass-through entities (the small business deduction) was substantially increased.



Personal Income Tax

February personal income tax receipts totaled $181.6 million and were $13.4 million or 6.9% below the estimate. More than the entirety of the negative variance is due to below estimate collections in withholding ($23.8 million or 3.5%). Lower than anticipated refunds ($12.0 million or 2.5%) and above estimate quarterly estimated payments ($2.4 million or 49.7%) partially offset the withholding shortfall. Negative variances in trust payments ($1.1 million or 85.9%) and payments associated with annual returns ($3.4 million or 37.4%) also contributed to the monthly shortfall.

In February and March, income tax collections are driven almost entirely by withholding and refunds. In April, estimated payments and payments of tax due are significant, but for these two months collections and variances will be almost all the result of withholding and refund activity (there is an estimated $70 million in March payments of tax due from taxpayers who remit before the deadline).

Year-to-date receipts totaled $5,307.6 million and were $130.0 million or 2.4% below the estimate. A negative variance in withholding ($58.2 million or 1.1%) and higher than anticipated refunds ($51.8 million or 6.9%) account for approximately 85% of the year-to-date shortfall. Beyond withholding and refunds, below estimate collections in quarterly estimated payments ($2.8 million or 0.4%), payments associated with annual returns ($13.7 million or 9.7%), and the miscellaneous category ($8.4 million or 13.4%) were slightly offset by a positive variance in trust payments ($2.7 million or 9.4%).

FY2016 PERSONAL INCOME TAX RECEIPTS BY COMPONENT ($ in millions)						
	ESTIMATE FEB	ACTUAL FEB	$ VAR FEB	ESTIMATE Y-T-D	ACTUAL Y-T-D	$ VAR Y-T-D
Withholding	$684.3	$660.5	($23.8)	$5,504.5	$5,446.3	($58.2)
Quarterly Est.	$4.8	$7.2	$2.4	$713.8	$711.0	($2.8)
Trust Payments	$1.3	$0.2	($1.1)	$29.4	$32.1	$2.7
Annual Returns & 40 P	$9.0	$5.6	($3.4)	$141.6	$127.9	($13.7)
Other	$13.3	$13.3	$0.0	$62.7	$54.3	($8.4)
Less: Refunds	($481.1)	($469.0)	$12.0	($756.6)	($808.4)	($51.8)
Local Distr.	($36.6)	($35.9)	$0.7	($257.8)	($255.3)	$2.5
Net to GRF	**$195.0**	**$181.9**	**($13.1)**	**$5,437.6**	**$5,307.9**	**($129.7)**

On a year-over-year basis, February 2016 GRF income tax collections were $106.7 million or 37.0% below February 2015 collections. More than the entire decline is attributable to higher refunds ($115.3 million or 32.6%). Growth in withholding ($10.7 million or 1.6%) helped offset part of this negative change. Beyond withholding and refunds, increased quarterly estimated payments ($0.6 million or 9.4%) and miscellaneous collections ($2.3 million or 20.8%) were entirely offset by lower payments associated with annual returns ($3.3 million or 36.7%) and trust payments ($1.1 million or 86.2%).

Through February, year-to-date income tax receipts were $131.1 million or 2.4% below the same point of the previous fiscal year. More than the entirety of the decline resulted from increased refunds ($151.2 million or 23.0%) and lower quarterly estimated payments ($24.6 million or 3.3%). Growth in withholding ($67.6 million or 1.3%) and trust payments ($7.1 million or 28.6%) was offset by negative growth in the miscellaneous collections ($7.8 million or 12.6%) and annual return payments ($8.2 million or 6.0%).

We have reached the portion of the fiscal year where, as expected, income tax collections have turned negative relative to fiscal year 2015. The decline in collections is the result 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 seven 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, and was felt again in February, as one can see from the fact that refunds increased by $115 million from last February. As previously noted, income tax collections are now $131.1 million, or 2.4%, below last year's level. That decrease from fiscal year 2015 is expected to get much larger over the next four 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 $620.5 million, and were $34.5 million (5.3%) below the estimate. Collections were also $7.7 million (1.2%) below last February. This represents a sharp reversal from the 5.1% growth in this tax over the July through January period.

The February shortfall is surprising in that there is nothing in the economic data concerning income or consumer spending that would have led one to expect collections to drop suddenly in February. OBM and the Department of Taxation have begun looking at the more granular sales tax data and the experience of other states in search of explanations, but so far have found no reason for the weak February performance.

Even after the February shortfall, year-to-date collections are still above estimate, but the overage has shrunk to $13.6 million (0.2%). Year-over-year growth is now $253.7 million, or 4.4%.

As stated in the economic overview, national economic data would suggest that consumer spending, and with it the non-auto sales tax, should continue to grow in the remainder of fiscal year 2016. The conditions supporting consumer spending growth are strong labor market fundamentals (job and wage growth), low energy costs, and low overall inflation. In this light, the February shortfall would seem to be an anomaly, but that hypothesis will be tested in the coming months.

Auto Sales Tax

Like the non-auto sales tax, the auto sales tax fell short of the February estimate, but the shortfall was minor. February collections fell sort of the estimate by $1.4 million, or 1.5%. Unlike the non-auto sales tax, collections continued growing relative to the prior year, as February revenues were $5.6 million, or 6.9%, above last February.

National light vehicle sales showed continued strength in February, with the annual pace being 17.5 million units, just slightly below the January pace of 17.6 million units. This was the strongest February sales month in 15 years, well above last February's sales pace of 16.4 million units.

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 $28.7 million (3.5%) above the estimate. Again, this overage is tied to strong light vehicle sales. Year-to-date tax collections are up by $29.9 million

(3.6%) 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

February commercial activity tax (CAT) GRF collections were $2.8 million (1.0%) above estimate. February results are significant, as the third quarterly payment of the year was due on February 10, covering gross receipts for the October – December quarter, which includes the bulk of holiday season economic activity.

As noted in last month's issue of this report, almost $60 million in GRF CAT payments were collected in January, well before the February 10 deadline (this phenomenon occurs every year), January payments were slightly below estimate, falling short by $4.3 million. Thus, the combined January-February GRF collections were below estimate by $1.5 million, or 0.5%.

For the year-to-date, GRF collections are $21.6 million (2.2%) below estimate. As of the end of October, GRF CAT collections were $32.1 million below estimate, so collections have been $10.5 million above estimate over the last four months.

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 and third quarters. In the fourth quarter credits are estimated to be high again, given the timing of credit applications and granting of certificates.

Despite the lingering shortfall compared to estimate, year-to-date GRF CAT revenues have increased substantially from fiscal year 2015. Year-to-date collections are up by $300.6 million, or 46.7% 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, as the needed funds for property tax replacement payments have declined.

All funds CAT revenues were $3.7 million above estimate in February (1.0%, the same percentage as for the GRF). For the year, all funds CAT revenues are $28.9 million below estimate. Again, the percentage shortfall is the same as for the GRF, -2.2%.

Growth in all funds CAT revenues is negative for the year, at -2.2%. 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 only 0.1% above fiscal year 2015 actual collections).

Cigarette and Other Tobacco Tax

The cigarette and other tobacco product (OTP) tax collections were $1.4 million (2.0%) above estimate in February. For the year-to-date, collections are above estimate by $22.8 million (3.9%).
As mentioned in previous issues of this report, the overage in this tax category is being driven by cigarette sales. The “floor stocks” tax enacted in H.B. 64 in conjunction with the tax rate increase has fallen almost $20 million short of the estimate, and the revenue from the other tobacco products (OTP) tax (levied on such products as cigars, snuff, etc.) has dropped from fiscal year 2015, and is not contributing to the overage either.

Revenues from the cigarette and OTP taxes have increased by $127.6 million, or 26.5%, relative to last year. The cigarette 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). The fact that revenues have increased by close to the same percentage as the tax rate increase shows that the reduction in packs of cigarettes purchased has been small.

Financial Institutions Tax

The vast majority of the financial institutions tax (FIT) collections for the fiscal year are paid in three estimated payments, due January 31, March 31, and May 31. The first estimated payment of fiscal year 2016 was due January 31, and collections were thus received and deposited in state accounts in both January and February.

February collections were $50.8 million, or $10.3 million (25.5%) above estimate. This more than made up for the $1.9 million shortfall in January. For the two months combined – which is the comparison that matters – FIT collections were $8.5 million, or 9.8%, above estimate.

For the year, FIT collections $13.5 million, or 18.6%, above estimate. Collections are $24.2 million, or 39.0%, above last year.

The FIT is a relatively new tax – this is only the third fiscal year of its existence – based on the “Ohio equity capital” of banks and other financial institutions. As such, there is little past performance to examine in seeking an explanation of the variances for the year. Given the performance so far, one might expect the second and third estimated payments to exceed the estimate, but even that is unclear given the very brief history of this tax.

Foreign Insurance Tax

The foreign insurance tax was $39.9 million, or 185.5%, over estimate in February, erasing the prior year-to-date shortfall and creating a $29.9 million (16.9%) overage for the fiscal year. This is probably a timing matter, as the due date for foreign insurance tax payments was March 1, and it is likely that more companies than expected paid early. This in turn makes it likely that March collections will be below estimate by a roughly similar amount.

GRF Non-Tax Receipts and Transfers

GRF non-tax receipts totaled $992.8 million in February and were $85.6 million (7.9%) below the estimate. As usual, the variance was driven by what happened in federal grants. Federal grants were $90.9 million (8.5%) below estimate. The federal grants shortfall was somewhat bigger than one would expect given that GRF Medicaid spending was $99.3 million below estimate in February. It appears that this "additional" shortfall was caused in part by a refund to the federal government of excess federal reimbursement for fiscal year 2015, the final reconciliation of fiscal year 2015 federal grants.

Transfers in to the GRF were $4.6 million below estimate in February, reducing the year-to-date overage to $7.5 million. The February shortfall was due to a racetrack relocation payment transfer from a non-GRF fund being made in March rather than in February.

Table 1

GENERAL REVENUE FUND RECEIPTS

ACTUAL FY 2016 VS ESTIMATE FY 2016

($ in thousands)

	MONTH				YEAR-TO-DATE			
REVENUE SOURCE	ACTUAL FEBRUARY	ESTIMATE FEBRUARY	$ VAR	% VAR	ACTUAL Y-T-D	ESTIMATE Y-T-D	$ VAR	% VAR
TAX RECEIPTS								
Non-Auto Sales & Use	620,478	655,000	(34,522)	-5.3%	6,043,445	6,029,800	13,645	0.2%
Auto Sales & Use	87,136	88,500	(1,364)	-1.5%	859,238	830,500	28,738	3.5%
Subtotal Sales & Use	707,614	743,500	(35,886)	-4.8%	6,902,683	6,860,300	42,383	0.6%
Personal Income	181,580	195,000	(13,420)	-6.9%	5,307,617	5,437,600	(129,983)	-2.4%
Corporate Franchise	(568)	0	(568)	N/A	29,906	0	29,906	N/A
Financial Institutions Tax	50,781	40,450	10,331	25.5%	86,093	72,600	13,493	18.6%
Commercial Activity Tax	287,493	284,700	2,793	1.0%	944,625	966,200	(21,575)	-2.2%
Petroleum Activity Tax	0	0	0	N/A	3,362	3,000	362	12.1%
Public Utility	21,844	22,200	(356)	-1.6%	73,142	73,100	42	0.1%
Kilowatt Hour	29,234	35,000	(5,766)	-16.5%	227,778	234,100	(6,322)	-2.7%
Natural Gas Distribution	12,081	12,300	(219)	-1.8%	30,646	31,300	(654)	-2.1%
Foreign Insurance	61,372	21,500	39,872	185.5%	207,538	177,600	29,938	16.9%
Domestic Insurance	8	0	8	N/A	353	4,700	(4,347)	-92.5%
Other Business & Property	44	0	44	N/A	86	0	86	N/A
Cigarette and Other Tobacco	70,385	69,000	1,385	2.0%	609,534	586,700	22,834	3.9%
Alcoholic Beverage	2,846	3,300	(454)	-13.8%	34,833	35,300	(467)	-1.3%
Liquor Gallonage	3,234	3,200	34	1.1%	30,396	29,700	696	2.3%
Estate	(12)	0	(12)	N/A	905	0	905	N/A
Total Tax Receipts	1,427,935	1,430,150	(2,215)	-0.2%	14,489,496	14,512,200	(22,704)	-0.2%
NON-TAX RECEIPTS								
Federal Grants	983,519	1,074,390	(90,870)	-8.5%	8,214,915	8,530,371	(315,457)	-3.7%
Earnings on Investments	0	0	0	N/A	16,580	11,000	5,580	50.7%
License & Fees	7,473	3,593	3,880	108.0%	20,304	20,787	(483)	-2.3%
Other Income	1,761	365	1,397	383.1%	43,761	25,698	18,062	70.3%
ISTV'S	2	0	2	N/A	864	9,400	(8,536)	-90.8%
Total Non-Tax Receipts	992,756	1,078,347	(85,591)	-7.9%	8,296,424	8,597,257	(300,833)	-3.5%
TOTAL REVENUES	2,420,691	2,508,497	(87,806)	-3.5%	22,785,920	23,109,457	(323,537)	-1.4%
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	337	4,900	(4,563)	-93.1%	190,197	182,700	7,497	4.1%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	337	4,900	(4,563)	-93.1%	190,197	182,700	7,497	4.1%
TOTAL SOURCES	2,421,028	2,513,397	(92,368)	-3.7%	22,976,118	23,292,157	(316,039)	-1.4%

Table 2
GENERAL REVENUE FUND RECEIPTS
ACTUAL FY 2016 VS ACTUAL FY 2015
($ in thousands)

	MONTH				YEAR-TO-DATE			
REVENUE SOURCE	FEBRUARY FY 2016	FEBRUARY FY 2015	$ VAR	% VAR	ACTUAL FY 2016	ACTUAL FY 2015	$ VAR	% VAR
TAX RECEIPTS								
Non-Auto Sales & Use	620,478	628,191	(7,713)	-1.2%	6,043,445	5,789,787	253,658	4.4%
Auto Sales & Use	87,136	81,522	5,614	6.9%	859,238	829,330	29,908	3.6%
Subtotal Sales & Use	707,614	709,714	(2,100)	-0.3%	6,902,683	6,619,117	283,566	4.3%
Personal Income	181,580	288,232	(106,652)	-37.0%	5,307,617	5,438,672	(131,055)	-2.4%
Corporate Franchise	(568)	2,680	(3,248)	-121.2%	29,906	(24,685)	54,592	221.2%
Financial Institutions Tax	50,781	39,791	10,989	27.6%	86,093	61,922	24,170	39.0%
Commercial Activity Tax	287,493	189,732	97,761	51.5%	944,625	644,061	300,564	46.7%
Petroleum Activity Tax	0	0	0	N/A	3,362	1,944	1,418	73.0%
Public Utility	21,844	23,796	(1,952)	-8.2%	73,142	60,634	12,508	20.6%
Kilowatt Hour	29,234	27,723	1,511	5.4%	227,778	198,180	29,598	14.9%
Natural Gas Distribution	12,081	15,948	(3,867)	-24.2%	30,646	36,409	(5,762)	-15.8%
Foreign Insurance	61,372	18,961	42,411	223.7%	207,538	172,780	34,758	20.1%
Domestic Insurance	8	52	(44)	-84.2%	353	7,415	(7,062)	-95.2%
Other Business & Property	44	27	17	64.9%	86	47	39	84.5%
Cigarette and Other Tobacco	70,385	53,278	17,107	32.1%	609,534	481,958	127,576	26.5%
Alcoholic Beverage	2,846	4,057	(1,210)	-29.8%	34,833	37,350	(2,518)	-6.7%
Liquor Gallonage	3,234	3,275	(41)	-1.2%	30,396	29,387	1,008	3.4%
Estate	(12)	0	(12)	N/A	905	2,357	(1,451)	-61.6%
Total Tax Receipts	1,427,935	1,377,265	50,670	3.7%	14,489,496	13,767,546	721,950	5.2%
NON-TAX RECEIPTS								
Federal Grants	983,519	749,061	234,458	31.3%	8,214,915	6,398,496	1,816,419	28.4%
Earnings on Investments	0	0	0	N/A	16,580	11,393	5,188	45.5%
License & Fee	7,473	5,637	1,836	32.6%	20,304	17,579	2,725	15.5%
Other Income	1,761	692	1,070	154.7%	43,761	23,065	20,696	89.7%
ISTV'S	2	2	(0)	-3.7%	864	263	600	227.9%
Total Non-Tax Receipts	992,756	755,392	237,364	31.4%	8,296,424	6,450,796	1,845,628	28.6%
TOTAL REVENUES	2,420,691	2,132,657	288,034	13.5%	22,785,920	20,218,343	2,567,578	12.7%
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	337	(5,925)	6,263	105.7%	190,197	17,774	172,423	970.1%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	337	(5,925)	6,263	105.7%	190,197	17,774	172,423	970.1%
TOTAL SOURCES	2,421,028	2,126,732	294,297	13.8%	22,976,118	20,236,117	2,740,001	13.5%

DISBURSEMENTS

February GRF disbursements, across all uses, totaled $2,807.5 million and were $103.3 million (3.5%) below estimate. This was primarily attributable to lower than estimated disbursements in the Medicaid category. On a year-over-year basis, February total uses were $457.8 million (19.5%) higher than those of the same month in the previous fiscal year, with the Medicaid category 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)	($659.1 million)	-2.7%
Transfers	Temporary or permanent transfers out of the GRF that are not agency expenditures	$26.2 million	3.3%
TOTAL DISBURSEMENTS VARIANCE:		**($632.9 million)**	**-2.5%**

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. February disbursements for this category totaled $723.2 million and were $0.3 million (0.0%) above estimate. Expenditures for the school foundation program totaled $617.3 million and were $1.9 million (0.3%) above estimate. This slight variance was primarily attributable to third grade reading proficiency academic performance payments being disbursed in February instead of March as estimated. Year-to-date disbursements were $5,471.6 million, which was $27.5 million (0.5%) below estimate.

On a year-over-year basis, disbursements in this category were $50.2 million (7.5%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $488.7 million (9.8%) higher than at the same point in fiscal year 2015.

Higher Education

February disbursements for the Higher Education category, which includes non-debt service GRF spending by the Department of Higher Education, totaled $196.3 million and were $6.4 million (3.1%) below estimate. This variance was primarily attributable to National Guard Tuition Grant Program, Ohio College Opportunity Grant Scholarship Program, and Choose Ohio First Scholarship Program disbursements being $4.0 million below estimate due to lower than estimated requests for reimbursement from higher education institutions.

Year-to-date disbursements were $1,490.7 million, which was $15.8 million (1.1%) 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 $51.1 million (3.5%) 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.

February disbursements in this category totaled $3.6 million and were $0.4 million (12.7%) above estimate. Year-to-date disbursements were $52.4 million, which was $3.2 million (6.6%) above estimate. On a year-over-year basis, disbursements in this category were $1.0 million (39.8%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $11.5 million (28.2%) 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 that 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 were shifted into the GRF for the biennium.

<u>Expenditures</u>
February GRF disbursements for the Medicaid Program totaled $1,573.4 million and were $99.3 million (5.9%) below the estimate, and $375.7 million (31.4%) above disbursements for the same month in the previous fiscal year. Year-to-date GRF disbursements totaled $12,201.8 million and were $487.7 million (3.8%) below the estimate, and $1,744.3 million (16.7%) 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.

February all funds disbursements for the Medicaid Program totaled $2,051.5 million and were $387.4 million (15.9%) below the estimate, and $182.7 million (9.8%) above disbursements for the same month in the previous fiscal year. Year-to-date all funds disbursements totaled $16,261.3 million and were $1,121.8 million (6.5%) below the estimate, and $1,000.5 million (6.6%) above disbursements for the same point in the previous fiscal year.

The February all funds variance was due primarily to the delay of payments to hospitals through the Hospital Care Assurance Program (HCAP). This program compensates hospitals which provide a disproportionally high amount of uncompensated care. HCAP payments, which had been estimated to occur in February, will be completed before the end of the fiscal year. Also below estimate for the month was spending for managed care due primarily to lower monthly capitation rates which went into effect in January. Spending in program administration, primarily related to information technology improvement projects, was less than estimated for the month. These savings were offset in part by greater than anticipated spending for the developmental disabilities waiver program within the fee-for-service category. Reconciliation payments to counties for developmental disabilities services, estimated to occur in January, were issued in February.

The year-to-date all funds variance results from the HCAP, managed care, and program administration variances described above. In addition, below estimate spending in the fee-for-service category, which includes inpatient and outpatient hospital, behavioral health, developmental disability services, and nursing facilities, was driven by enrollment in these programs being an average of 5.4 percent below estimate for the year.

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

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

	February Actual	February Projection	Variance	Variance %
GRF	$ 1,573.4	$ 1,672.7	$ (99.3)	-5.9%
Non-GRF	$ 478.1	$ 766.2	$ (288.1)	-37.6%
All Funds	$ 2,051.5	$ 2,438.9	$ (387.4)	-15.9%

<u>Enrollment</u>

Total February enrollment across all categories was 3.00 million. The most significant components are the Covered Families and Children/Modified Adjusted Gross Income (CFC/MAGI) category, which increased by 43,887 persons to a February total of 2.46 million persons, and the Aged, Blind and Disabled/Dual Eligible (ABD/Dual) category, which decreased by 1,743 persons to a February total of 379,882 covered lives.

Total enrollment across all categories for the same period last year was 3.04 million covered persons, including 2.42 million persons in the CFC/MAGI category and 418,439 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.

February disbursements in this category totaled $90.4 million and were $1.9 million (2.1%) below estimate for the month. Year-to-date disbursements were $895.5 million, which was $84.0 million (8.6%) below estimate. On a year-over-year basis, disbursements in this category were $5.4 million (5.7%) lower than for the same month in the previous fiscal year while year-to-date expenditures were $41.4 million (4.4%) lower than at the same point in fiscal year 2015.

<u>Department of Health</u>
February disbursements for the Department of Health totaled $2.8 million and were $4.5 million (61.5%) below estimate. This variance was primarily attributable to Help Me Grow program disbursements being $1.3 million (48.4%) below estimate due to subsidy payments planned for February being moved to future months.

<u>Department of Job and Family Services</u>
February disbursements for the Department of Job and Family Services totaled $57.4 million and were $0.8 million (1.4%) below estimate. This variance was primarily attributable to Information Technology Projects disbursements being $1.4 million (35.7%) below estimate due to the timing of invoices. This variance was partially offset by Early Care and Education disbursements being $1.8 million (8.8%) above estimate due to higher than estimated child care subsidy payments and Family and Children Services disbursements being $1.7 million (213.2%) above estimate due to the timing of county incentive payments.

<u>Department of Mental Health and Addiction Services</u>
February disbursements for the Department of Mental Health and Addiction Services totaled $24.5 million and were $4.5 million (22.5%) above estimate. This variance was primarily attributable to several lines. Criminal Justice Services disbursements were $1.3 million above estimate, while Specialized Docket Support disbursements were $1.1 million above estimate, both due to payments originally planned for January and later months being made in February. Additionally, Hospital Services disbursements were $2.0 million (12.9%) above estimate as payments originally planned for earlier months 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.

February disbursements in this category totaled $129.4 million and were $6.3 million (4.7%) below estimate for the month. Year-to-date disbursements were $1,370.8 million, which was $5.0 million (0.4%) below estimate. On a year-over-year basis, disbursements in this category were $4.0 million (3.2%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $72.1 million (5.5%) higher than at the same point in fiscal year 2015.

<u>Department of Rehabilitation and Correction</u>
February disbursements for the Department of Rehabilitation and Correction totaled $100.0 million and were $7.9 million (7.4%) below estimate. This variance was primarily attributable to disbursements for Institutional Operations and Community Nonresidential Programs being made in January instead of February as estimated, and lower than estimated disbursements for Institution Medical Services due to staff addition delays.

<u>Department of Youth Services</u>
February disbursements for the Department of Youth Services totaled $10.9 million and were $1.7 million (18.5%) above estimate. This variance was primarily attributable to disbursements for Community Corrections Facilities being made in February instead of January as estimated.

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.

February disbursements in this category totaled $25.6 million and were $0.4 million (1.6%) above estimate for the month. Year-to-date disbursements were $248.9 million, which was $21.5 million (7.9%) below estimate. On a year-over-year basis, disbursements in this category were $1.1 million (4.4%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $8.1 million (3.4%) higher than at the same point in fiscal year 2015.

<u>Department of Administrative Services</u>
February disbursements for the Department of Administrative Services totaled $4.4 million and were $3.4 million (332.8%) above estimate. As reported last month, this variance was primarily attributable to the timing of quarterly rent payments for certain GRF-supported agencies. These payments occurred in February 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. February property tax reimbursements totaled ($0.6) million and were $0.7 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 $896.5 million and were $8.5 million (0.9%) below estimate.

Debt Service

February payments for debt service totaled $53.2 million and were $2.8 million (5.0%) below estimate. This variance was primarily attributable to refunding savings and continued low market interest rates. Year-to-date debt service payments were $1,030.9 million and were $12.3 million (1.2%) below estimate.

Transfers Out

February transfers out totaled $13.0 million compared to an estimate of $0.0 million. This variance was primarily attributable to transfers to the Managed Care Performance Payment Program fund. Year-to-date transfers out were $826.7 million and were $26.2 million (3.3%) above estimate.

Table 3
GENERAL REVENUE FUND DISBURSEMENTS
ACTUAL FY 2016 VS ESTIMATE FY 2016
($ in thousands)

Functional Reporting Categories Description	MONTH ACTUAL FEBRUARY	MONTH ESTIMATED FEBRUARY	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	723,249	722,901	348	0.0%	5,471,584	5,499,039	(27,455)	-0.5%
Higher Education	196,252	202,608	(6,356)	-3.1%	1,490,713	1,506,544	(15,832)	-1.1%
Other Education	3,623	3,216	407	12.7%	52,409	49,166	3,243	6.6%
Medicaid	1,573,388	1,672,700	(99,312)	-5.9%	12,201,838	12,689,573	(487,735)	-3.8%
Health and Human Services	90,399	92,299	(1,901)	-2.1%	895,462	979,471	(84,009)	-8.6%
Justice and Public Protection	129,436	135,777	(6,341)	-4.7%	1,370,847	1,375,844	(4,997)	-0.4%
General Government	25,638	25,235	403	1.6%	248,929	270,390	(21,461)	-7.9%
Property Tax Reimbursements	(642)	41	(684)	-1648.1%	896,539	905,028	(8,489)	-0.9%
Capital Outlay	0	0	0	N/A	0	0	0	N/A
Debt Service	53,221	56,021	(2,800)	-5.0%	1,030,890	1,043,210	(12,320)	-1.2%
Total Expenditures & ISTV's	2,794,564	2,910,800	(116,237)	-4.0%	23,659,210	24,318,266	(659,056)	-2.7%
Transfers Out:								
BSF Transfer Out	0	0	0	N/A	425,500	425,500	0	0.0%
Operating Transfer Out	12,964	0	12,964	N/A	401,224	375,031	26,193	7.0%
Temporary Transfer Out	0	0	0	N/A	0	0	0	N/A
Total Transfers Out	12,964	0	12,964	N/A	826,724	800,531	26,193	3.3%
Total Fund Uses	2,807,528	2,910,800	(103,272)	-3.5%	24,485,934	25,118,797	(632,863)	-2.5%

Table 4

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

Functional Reporting Categories Description	MONTH FEBRUARY FY 2016	MONTH FEBRUARY 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	723,249	673,014	50,236	7.5%	5,471,584	4,982,901	488,684	9.8%
Higher Education	196,252	196,549	(297)	-0.2%	1,490,713	1,439,608	51,104	3.5%
Other Education	3,623	2,592	1,031	39.8%	52,409	40,896	11,514	28.2%
Medicaid	1,573,388	1,197,690	375,698	31.4%	12,201,838	10,457,542	1,744,295	16.7%
Health and Human Services	90,399	95,847	(5,448)	-5.7%	895,462	936,874	(41,412)	-4.4%
Justice and Public Protection	129,436	125,475	3,960	3.2%	1,370,847	1,298,795	72,052	5.5%
General Government	25,638	24,547	1,091	4.4%	248,929	240,832	8,098	3.4%
Property Tax Reimbursements	(642)	(1)	(641)	-90397.2%	896,539	908,134	(11,595)	-1.3%
Capital Outlay	0	0	0	N/A	0	0	0	N/A
Debt Service	53,221	39,968	13,253	33.2%	1,030,890	993,355	37,535	3.8%
Total Expenditures & ISTV's	2,794,564	2,355,680	438,883	18.6%	23,659,210	21,298,937	2,360,273	11.1%
Transfers Out:								
BSF Transfer	0	0	0	N/A	425,500	0	425,500	N/A
Operating Transfer Out	12,964	(5,952)	18,917	317.8%	401,224	582,835	(181,611)	-31.2%
Temporary Transfer Out	0	0	0	N/A	0	0	0	N/A
Total Transfers Out	12,964	(5,952)	18,917	317.8%	826,724	582,835	243,889	41.8%
Total Fund Uses	2,807,528	2,349,728	457,800	19.5%	24,485,934	21,881,772	2,604,162	11.9%

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**	34,812,645
Less FY 2016 Estimated Total Encumbrances as of June 30, 2016	339,059
Less FY 2016 Estimated Transfers Out	810,931
Total Estimated Uses	**35,962,635**
FY 2016 ESTIMATED UNENCUMBERED ENDING FUND BALANCE	**469,729**

* 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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