OBM

January 10, 2017

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

FROM: Timothy S. Keen, Director TK

SUBJECT: Monthly Financial Report

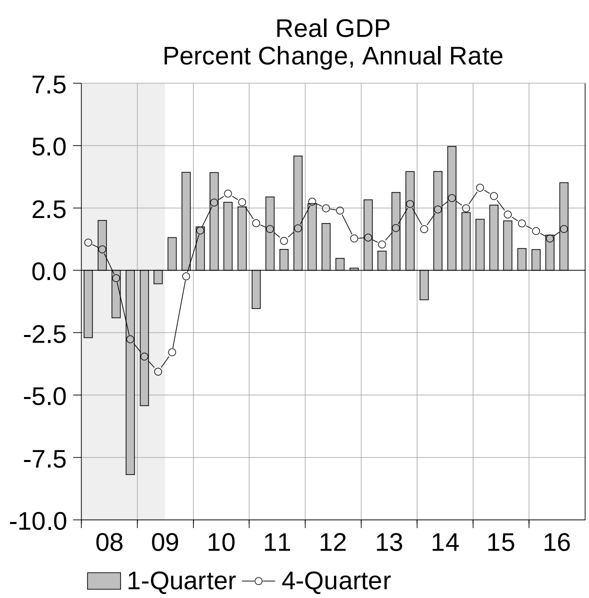
ECONOMIC SUMMARY

Economic Performance Overview

- Third-quarter real GDP growth was revised upward to 3.5%, following 1.0% growth during the previous three quarters. Forecasters estimate that growth slowed from 3.5% in the fourth quarter, but modest growth will continue throughout 2017.
- U.S. employment increased by 156,000 jobs in December for a 3-month average of 165,000 jobs gained. The unemployment rate edged up 0.1 point to 4.7%.
- After three months of decline, Ohio nonfarm payroll employment increased by 9,100 jobs in November, and as a result is now up 31,000 jobs in the 11 months of calendar year (CY) 2016. This is a much slower pace of employment growth than in CY 2011-2015. The unemployment rate in November was unchanged at 4.9%.
- Leading indicators point toward continued national growth at a modest pace, fueled by a healthy household sector, possibly with some revival in investment.
- In the wake of the strong dollar and weak manufacturing sector, Ohio's economy has hit a rough patch. Growth has been slowing throughout calendar year 2016 and tax revenue growth – particularly sales and income – has slowed as a result.

Economic Growth

Real GDP growth in the third quarter was revised up by 0.3 percentage points to 3.5% – the best growth since the third quarter of 2014. The acceleration in activity marked a significant change from the growth rate of 1.4% in the second quarter and an average of only 1.0% during the previous three quarters. Compared with a year earlier, real GDP was higher by 1.7%.



The **increase in third-quarter** real GDP primarily reflected an increase in personal consumption expenditures for services, particularly housing and utilities. Personal consumption expenditures for durable goods also increased, with much of the added spending going for motor vehicles and parts. Spending on nondurable goods decreased.

Exports of goods increased during the third quarter, especially in the foods, beverages, and consumer durable goods categories. Exports of services increased, due to higher spending on travel. Private inventory investment and federal government spending also increased.

Partially offsetting the sources of growth were decreases in investment in equipment and in residential housing. Imports, which are automatically included in these individual categories and then subtracted as a separate category, increased.

The **acceleration during the third quarter** reflected an upswing in inventory investment, faster growth in exports, smaller decreases in state and local government spending, an upturn in federal government spending, and a smaller decrease in residential fixed investment. Slower personal consumption expenditure growth, higher imports, and slower non-residential fixed investment were drags on growth.

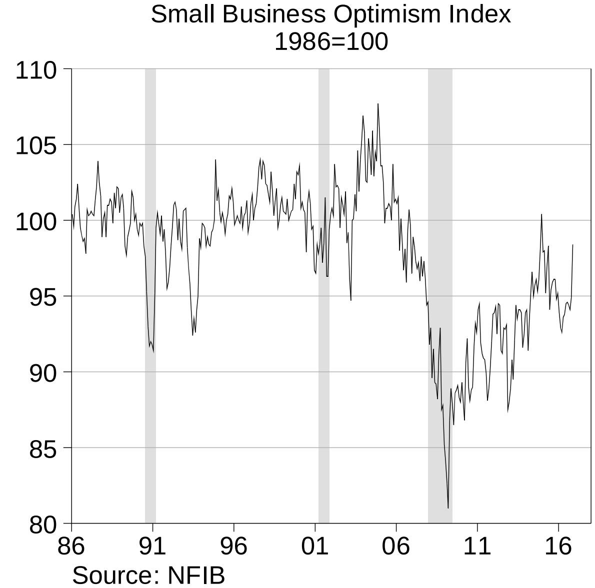
The improvement in the pace of activity during the third quarter showed in attitudes among small business operators. The Small Business Optimism Index compiled by the National Federation of Independent Business increased 3.5 points in November to 98.4 – among the largest one-month increases dating back to the 1985 start of the survey.

The Ohio economy slowed in late summer and early fall, but showed some improvement in November. For example, the Ohio coincident economic index from the Philadelphia Federal Reserve Bank edged higher by 0.1% in November after essentially no change during each of the previous two months. On the other hand, the year-over-year rate of change slowed to 2.1%, which is the weakest pace since 2010. The index is composed of four state-specific labor market indicators, and has represented business conditions accurately over time.

Forecasters estimate that the national economy expanded by 1.5% to 3% during the fourth quarter with estimates centered on 2% to 2.5%. For example, the GDPNow projection by the Federal Reserve Bank of Atlanta was 2.9% as of January 3, while similar estimates from other sources are tracking closer to 2%. The Blue Chip consensus, which is an average of forecasts from a group of professional forecasters, is 2.1%, with a range of 1.5% to 2.6% from the average of the lowest ten to the highest ten forecasts. The median projection for fourth-quarter real GDP growth from the November 14 Survey of Professional Forecasters, conducted by the Philadelphia Federal Reserve Bank, was 2.2%.

Leading economic indicators for the U.S. remained soft in November, but still consistent with a moderate pace of growth into early next year. The Leading Economic Index (LEI) from the Conference Board was unchanged in November, but seven of the ten components made positive contributions. The interest rate spread was the largest positive contributor, followed by average weekly initial jobless claims and stock prices. Building permits made the largest negative contribution, followed by the average workweek.

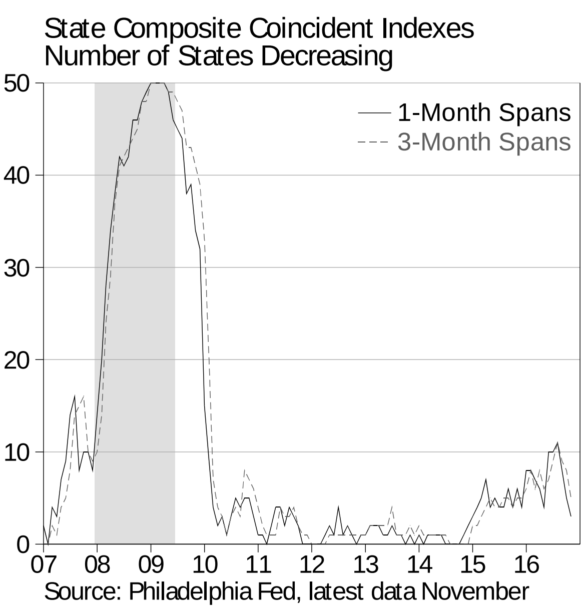
Compared with a year earlier, the LEI was higher by 0.7% – down considerably from the pace observed during 2015. However, this slow growth is not an indicator of an expected recession in the near term. The rate of change in the index regularly has turned outright negative in advance of recessions in the past.



The recent lull in the LEI appears to be related to manufacturing activity, which has been negatively affected by the strengthening of the dollar since 2011 (and in fact the dollar hit a 14 year high in mid-December), weaker demand growth overseas, and the sharp pullback in the energy industry. Strength in labor markets and benefits from lower energy costs have continued to support consumer income and spending.

Improved prospects for corporate profits also point to continued economic growth ahead and possibly increased investment. Earnings per share of S&P 500 companies are estimated to have risen 3.2% in the year ending in the fourth quarter, according to FactSet. Analysts anticipate double-digit year-over-year comparisons in each quarter of 2017. Historically, business investment has followed movements in corporate profits.

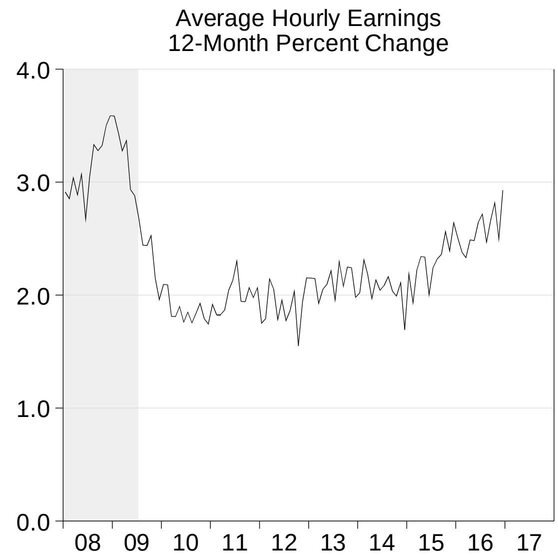
The message from state-level coincident and leading composite indexes across the country improved notably in November. This is a key positive development, because the deterioration during 2016 had begun to approach that of past inflection points. The **Coincident Economic Index** (CEI) declined for only three states in November, and the prior month number was revised down from nine to five. In contrast, the number of states with declining CEIs has been notably higher prior to each of the most recent five recessions.



The improvement in state coincident indexes was also reflected in the diffusion index of state leading indexes. The **Leading Economic Index** (LEI) for only one state (Maine) declined in November, and the prior month number was revised down from seven to five. In contrast, the number of states with negative LEIs has reached fourteen on average three months before the last three recessions and twenty-three on average during the initial month of those recessions.

Closer to home, the **Ohio Leading Economic Index** from the Philadelphia Federal Reserve rebounded to 1.2% in November, and the October reading was revised from a negative to +0.6%. The index is designed to predict the rate of change in the coincident index during the next six months, but can be volatile from month to month and is often revised significantly.

Employment



Nonfarm payrolls across the country increased by 156,000 jobs in December, and the two previous month's changes were revised upward by a net 19,000 jobs. Growth averaged 165,000 jobs in the most recent three months, down from 212,000 per month during the previous three-month period. During the most recent twelve months, job growth has averaged 180,000 per month, which has pushed the unemployment rate slightly lower.

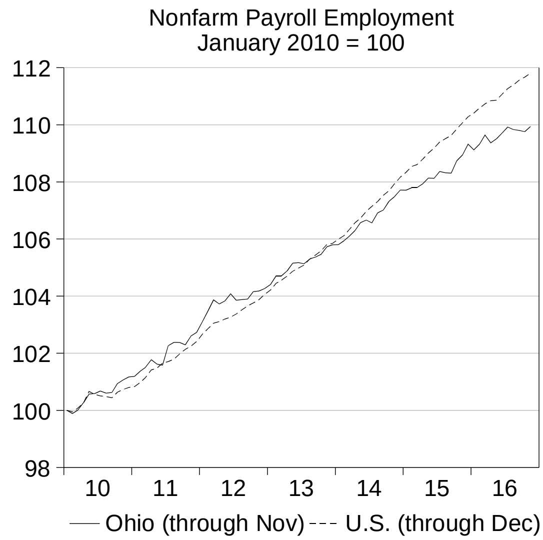
Employment increases were concentrated in education and health services (+70,000), where health care added 43,200 jobs and social assistance added 20,100 jobs. Leisure and hospitality employment increased 24,000, reflecting a 29,600 increase at food services and drinking places. Manufacturers added 17,000 jobs after shedding employment for four straight months. Retail employment increased by 6,000 jobs, but that masked a 23,900 job decline at general merchandise stores (clothing and sporting goods were examples of specialty retail stores with employment gains). Construction employment fell 3,000 jobs and mining employment was down 2,000 jobs.

The U.S. **unemployment rate** ticked up by 0.1 point to 4.7%, which was still down from 5.0% in December 2015. The unemployment rate has been at or below 5.0% since September 2015. The broadest measure of unemployment – the U-6 unemployment rate – fell to 9.2%, its lowest level since March 2008. The U-6 unemployment rate includes those who say that they want to work but have stopped looking because they believe they cannot find a job, as well as those working part time involuntarily, since they seek full time work.

Average hourly earnings of all employees on private nonfarm payrolls increased 0.4% to 2.9% above the year earlier level, the fastest pace since 2009. The acceleration in wages during the past year indicates that a long-awaited tightening in labor market conditions is unfolding, and is sure to hold the attention of monetary policymakers.

Ohio nonfarm payroll employment increased by 9,100 jobs in November, following three consecutive monthly declines. Changes in employment levels across sectors were mixed, with employment rising in leisure and hospitality (+10,300), construction (+3,600), and government (+1,300). Employment declines occurred in educational and health services (-2,100), trade, transportation and utilities (-1,100), professional and business services (-1,000), and manufacturing (-1,000).

During the twelve months ending in November, Ohio employment increased by 49,800 jobs. This number is significantly higher than the 31,000 job gain since last December because last December saw an unusually high employment increase of 18,800 jobs. The largest employment gains over the 12 month period occurred in leisure and hospitality (+16,200), government (+11,500), and education and health services (+9,800). Employment also increased in trade, transportation, and utilities (+7,900), financial activities (+7,600), and construction (+5,500). Year-over-year declines occurred in professional and business services (-6,600), manufacturing (-3,000), and natural resource and mining (-2,000). Professional and business services remains a particular puzzle. Employment in this category has grown by 2.6% nationally over the past 12 months, whereas it has declined 0.9% in Ohio.



Among the **contiguous states**, year-over-year employment growth was strongest in Michigan (+2.0%), followed by West Virginia (+1.4%), Indiana (+1.3%), Ohio (+0.9%), Kentucky (+0.8%), and Pennsylvania (+0.7%). Manufacturing employment increased year-over-year in Michigan (+0.6%) and Kentucky (+0.1%) and decreased in Ohio (-0.4%), Pennsylvania (-0.6%), Indiana (-0.7%), and West Virginia (-1.1%). Manufacturing employment was held back in Ohio relative to a year ago in part by declines in the primary metal (-8.5%), fabricated metal (-5.6%), and transportation equipment (-2.8%) industries. Employment in the important machinery industry expanded (+1.7%) from a year earlier.

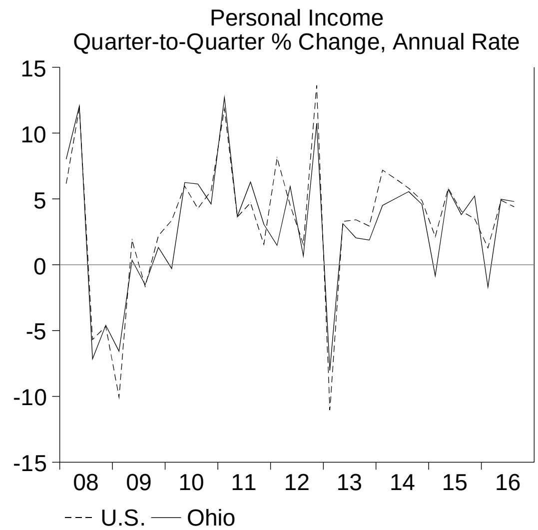
The **Ohio unemployment rate** was unchanged at 4.9% in November remaining below 5.0%for the fifth straight month. The rate is up 0.3 points from the cyclical low of 4.6% reached in September 2015. The increase during that period resulted from a larger increase in the Ohio labor force (+28,000) than in total employment (+13,000). The unemployment rate has moved in a narrow range since the end of 2014.

Across the country in November, the unemployment rate decreased by a statistically significant amount in eighteen states and was not statistically different from the month before in the other states. The unemployment rate was lower than a year earlier by a statistically significant margin in nine states and meaningfully higher in only two states, including neighboring Pennsylvania.

<u>Consumer Income and Consumption</u>

Personal income stalled and personal consumption expenditures slowed in November, despite the post-election jump in consumer confidence. **Personal income** was flat, as wage and salary disbursements decreased 0.1%. Compared with a year earlier, personal income and wage and salary disbursements each were up 3.5%.

Ohio personal income grew faster than national personal income in the second and third quarters, but slightly slower during the year ending in the third quarter. In Ohio, personal income increased 5.0% in the second quarter and 4.8% in the third quarter, compared with corresponding increases of 4.9% and 4.4% nationally. Compared with a year earlier, Ohio personal income was higher by 3.3%, compared with a 3.5% increase nationally. The difference in the year-over-year changes was the 1.7% first-quarter decline in Ohio, compared with a 1.3% rise nationally. Patterns in wage and salary disbursements were similar. As the revenue section of this report will explore in more detail, Ohio employer withholding collections show notably less growth than these income numbers would lead one to expect.



The **Consumer Price Index** (CPI) increased 0.2% in November, causing real personal income to decline. The cost of shelter made the largest contribution to the increase in the price level, with the 2.7% increase in the price of gasoline also making a significant contribution. The year-over-year change in the CPI increased to 1.7% – the highest since just before the price of oil started to slide in mid-2014. Excluding the volatile food and energy categories, the CPI was up 2.1% year-over-year. The Median CPI from the Federal Reserve Bank of Cleveland, which is an alternative measure of the trend in inflation, continued to track a little bit higher at 2.5% year-over-year. The measure of inflation that is most closely watched by the Federal Reserve was 1.4% above its year earlier level – up from its low but still below the 2% threshold targeted by the Fed.

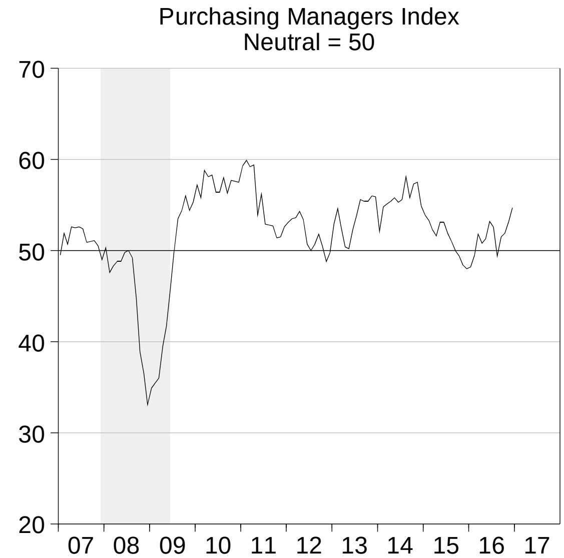
Personal consumption expenditures increased 0.2% in November, and the October change was revised higher from 0.3% to 0.4%. Spending on durable goods decreased, in part due to the 0.9% decline in sales of light motor vehicles. Light vehicle sales could stay at the recent level for an extended period, but are unlikely to move significantly and sustainably higher in this cycle. Spending on nondurable goods edged higher by 0.1%, and spending on services increased 0.3%.

Consumer attitudes improved markedly again in December. **Consumer confidence** jumped 4.0% to its highest level since August 2001, according to the Conference Board, due to brighter expectations. The University of Michigan/Reuters index also improved, reflecting brighter assessments of both current and future conditions.

Manufacturing

Continuing the pattern in place for more than a year, industrial activity remained weak again in November. **Industrial production** decreased 0.4% for the third decline in four months. Utility output was a major culprit yet again, posting a significant decline for the third month in a row due to weather. Mining output fell 1.1%, retracing much of the 1.9% increase from the month before. Manufacturing production decreased 0.1% after two increases in a row. Compared with a year ago, industrial production was down 0.6%, utility output was down 1.9%, mining output was down 4.6%, and manufacturing output was up by a slim 0.1%.

The industrial sector continues to be affected by the ongoing headwinds from the strengthening of the dollar since 2011 – including a renewed increase since July – and the fallout from the big decline in the price of oil. The higher foreign exchange value of the dollar undermines foreign demand for U.S.-made goods and services by making them more expensive in foreign currencies. On the other hand, the price of oil has recovered to above $50 per barrel, which has revived activity somewhat in the mining sector.



Among industries of special importance to Ohio, primary metals production increased 2.3%, while production of fabricated metal products, machinery, and motor vehicles and parts decreased by 0.7%, 1.5%, and 2.3%, respectively. Production of primary metals, fabricated metal products, and machinery were all lower than a year earlier, whereas production of motor vehicles and parts was higher by 4.4%.

Purchasing managers in the manufacturing sector reported more broad-based increases in activity again during December, suggesting that the long lull in manufacturing activity may have subsided. The PMI® increased by 1.5 points to 54.7, the highest level in two years. The New Orders index increased from 53.0 to 60.2, and the Production index increased from 56.0 to 60.3. The New Export Orders index increased to 56.0 – its highest level in just over three years.

Of the eighteen industries tracked by the Manufacturing ISM® *Report on Business*, eleven reported growth in the latest month. Among the industries with a disproportionate effect on Ohio manufacturing employment, primary metals, machinery, and fabricated metal products reported expansion in December, whereas the transportation equipment industry reported contraction. One respondent in the primary metals industry reported that business has been "been steady the last few months" and appears "strong into the first quarter" of 2017. A contact in the fabricated metal products industry noted that "December 2016 is way ahead of December 2015." A respondent in the machinery industry said that "business continues to be brisk."

<u>Construction</u>

Construction put-in-place increased 0.9% in November, due to gains in both private construction (+1.0%) and public construction (+0.9%). Compared with a year earlier, total construction was up 4.1%, reflecting a 4.6% year-over-year increase in private construction and a 2.6% increase in public construction.

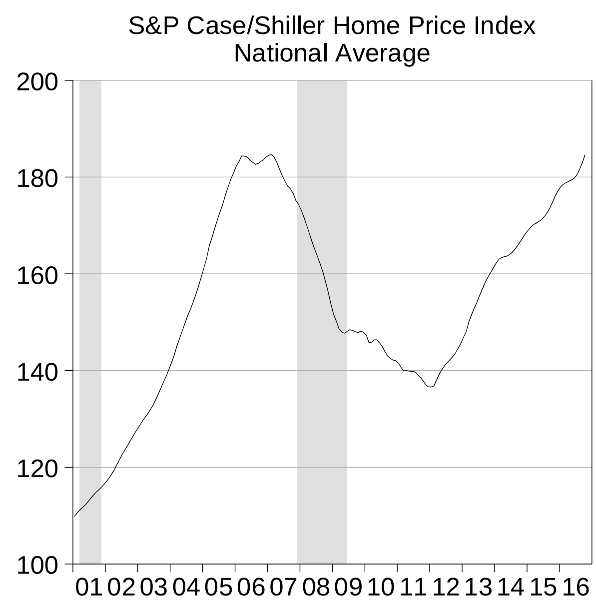
The increase in **private** construction in November resulted from increases in both residential construction (+1.0%) and nonresidential construction (+0.9%). Most of the growth in private construction year-to-date through November occurred in nonresidential construction, but increases in residential construction in recent months finally have lifted activity above the year-end 2015 pace.

Housing starts decreased 2.1% in November on a 3-month moving average basis, following partial recovery in October from a larger September decline. The weakness occurred exclusively in multi-family (-15.0%), as single-family increased 4.4%. Across the Midwest, starts tacked 1.3% onto a 9.9% jump in October on a 3-month moving average basis. Again, a large decline in multi-family cut into the increase in single-family. Compared with a year earlier, starts were 1.4% higher across the country and 9.5% higher in the Midwest.

Homebuilders are more positive about the future than they have been in eleven years, according to a regular survey by the National Association of Homebuilders. The Housing Market Index increased by 10% in December to the highest level since July 2005. Homebuilders in the Midwest are more optimistic than at any time during the history of the survey, which began in December 2004. A key test for the industry in 2017 will be whether heightened optimism will translate into greater activity despite recent and expected increases in mortgage rates.

Home sales increased across the country and the Midwest in November on a 3-month moving average basis. Existing home sales and new home sales each increased 1.9% nationally, and 1.5% and 12.9%, respectively in the Midwest. The number of months' supply of both existing and new homes remained low.

Home prices across the country recovered to their all-time high by posting their 57th consecutive increase in October. The gain of 0.9% lifted the cumulative change since the low-point in January 2012 to 35.1% and the level back to the all-time high set in February 2007, according to the Case-Shiller National Index. After adjusting for inflation, however, the October level remains well below the all-time inflation-adjusted peak.



REVENUES

NOTE: The revenue tables in this report contain OBM's July 2016 revised estimates of fiscal year 2017 tax revenues, non-tax revenues, and transfers. These revisions incorporate both changes to the baseline and law changes enacted since January, 2016.

December **GRF receipts totaled $3,083.3 million** and were $102.4 million (3.4%) above the estimate. Monthly tax receipts totaled $1,869.1 million and were $37.5 million (2.0%) below the estimate, while non-tax receipts totaled $1,197.4 million and were $123.1 million (11.5%) above the estimate. Lastly, transfers to the GRF were $16.8 million above estimate.

As one might expect, such a large variance in non-tax receipts is due to federal grants, which were $123.4 million (11.5%) above estimate. There were two factors at work. First, Medicaid spending was above estimate in December. Second, about $76 million in federal grants for November Medicaid spending was not received until December.

The December tax revenue shortfall was primarily the result of a $29.5 million shortfall in the income tax. A mix of positive and negative variances in other taxes essentially offset each other, with the exception of a $7.6 million shortfall in the cigarette and other tobacco products tax.

For the fiscal year, GRF receipts were $611.3 million (3.5%) below estimate. A little less than half of the overall variance is from tax receipts, while a little more than half is from non-tax receipts, with federal grants being the reason for the non-tax shortfall. Tax receipts are $296.6 million (2.7%) below estimate. Sales tax and income tax collections together are $287.8 million below estimate, while all other tax sources combined are $8.8 million below estimate.

For the year, non-tax receipts are $324.6 million (5.0%) below estimate, with federal grants accounting for more than all of the category variance, falling $336.8 million (5.2%) below estimate. Non-tax revenues other than federal grants are $12.2 million over estimate, with all non-federal categories having small overages.

Lastly, transfers are $9.8 million above estimate for the year.

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	($296.6 million)	-2.7%
Non-tax receipts	Federal grants, earnings on investments, licenses & fees, other income, intrastate transfers	($324.6 million)	-5.0%
Transfers	Budget stabilization, liquor transfers, capital reserve, other	$9.8 million	44.0%
TOTAL REVENUE VARIANCE:		**($611.3 million)**	**-3.5%**
Non-Federal Revenue Variance:		**($274.6 million)**	**-2.4%**
Federal Grants Variance:		**($336.8 million)**	**-5.2%**

On a year-over-year basis, monthly receipts were $81.3 million (2.7%) above December of the previous fiscal year. Federal grants increased by $102.9 million, or 9.4%, while all other sources combined were $21.6 million below last December. Tax receipts decreased by $30.9 million (1.6%), while transfers increased by $9.3 million.

For the fiscal year, tax revenues have fallen by $138.2 million, or 1.3%, from a year ago. As has been the case throughout the first six months of the fiscal year, the income tax is responsible for more than that entire decline, dropping by $214.6 million, or 5.1%. The decline in income tax revenues was partly anticipated, and was mostly due to a decline of $133.8 million (31.9%) in quarterly estimated payments. Briefly, the estimated payment decrease is the result of an ongoing shift in taxpayer behavior to reduce estimated payments to better match lower expected tax liability due to rate cuts and the expansion of the small business deduction. The whole year fiscal year 2017 income tax forecasts expect the drop in estimated payments to be offset by a decline in refunds in the second half of the fiscal year. If in fact some of the decline in estimated payments is due to economic factors – lower non-wage income – rather than behavior due to Ohio law changes, this expectation may not be met.

The other big area responsible for the year–to-date decline in income tax revenues is refunds, which have increased by $44.9 million, or 17.6%, from last year. Unlike the estimated payment decline, this increase in refunds was not expected. These refunds are based on tax year 2015 (or earlier year) liability and are not necessarily indicative of what to expect for refunds in the spring filing season.

On the non-tax side, federal grants have fallen by $175.6 million, or 2.8%. Despite the fact that individual month results have frequently been driven by factors other than Medicaid underspending, over the six months of the fiscal year those factors have mostly washed out, and Medicaid underspending is the major factor driving the federal grants decrease.

GRF Revenue Sources Relative to Monthly Estimates – December 2016
($ in millions)

Individual Revenue Sources Above Estimate		Individual Revenue Sources Below Estimate	
Federal Grants	$123.4	Personal Income Tax	($29.5)
Non-Auto Sales and Use Tax	$6.5	Cigarette and Other Tobacco Tax	($7.6)
Kilowatt Hour Tax	$1.4	Financial Institutions Tax	($5.5)
Transfers to the GRF	$16.8	Auto Sales and Use Tax	($2.8)
Other Sources Above Estimate	$1.9	Other Sources Below Estimate	($2.1)
Total above	**$150.0**	**Total below**	**($47.5)**
		Net	**$102.4**

(Note: Due to rounding of individual sources, the combined sum of sources above and below estimate may differ slightly from the total variance.)

Non-Auto Sales and Use Tax

December non-auto sales and use tax collections totaled $865.2 and were $6.5 million (0.8%) above estimate. This brings year-to-date collections to $4,642.5 million, which is $95.5 (2.0%) below estimates. December's small overage follows big negative variances in October and November. Results for the quarter were still very poor, based on those two months.

Although recent national economic news has emphasized positives for consumer spending such as strong consumer confidence, household income gains, low inflation, and low interest rates, whether this is will translate into better sales tax receipts in Ohio and elsewhere is still an open question. Survey data indicates that many states besides Ohio had weak or even negative sales tax performance through November. December's better performance in Ohio will have to be followed by a stronger January through March quarter before one can state with confidence that the sales tax has broken out of its negative trend.

Ohio GRF Non-Auto Sales Tax Revenues						
Calendar Quarters, Dollars in Millions						
Quarterly	2015Q3	2015Q4	2016Q1	2016Q2	2016Q3	2016Q4
Actual	$2,253.0	$2,308.9	$2,139.6	$2,303.5	$2,286.3	$2,354.8
Estimate	$2,196.9	$2,316.8	$2,177.0	$2,351.8	$2,307.2	$2,430.8
Variance	$56.1	($7.9)	($37.4)	($48.3)	($20.9)	(76.0)
Percent Variance	2.6%	-0.3%	-1.7%	-2.1%	-0.9%	-3.1%
Year-Over-Year Percent Growth	5.9%	3.6%	4.6%	2.8%	1.5%	2.0%

December non-auto tax collections were $50.7 million (6.2%) higher than December collections a year ago, finally showing fairly strong growth after two straight small declines. December growth accounts for more than half of the fiscal year to date growth of $83.9 million (1.8%).

Although December collections were good, the year-to-date variance of -$95.5 million makes it extremely likely that the non-auto sales and use tax will fall below estimate for fiscal year 2017. How large the year-end shortfall might be is still unknown. OBM will release updated fiscal year 2017 forecasts along with the Governor's fiscal years 2018-2019 budget.

Auto Sales Tax

Auto sales tax collections totaled $106.9 million in December and were $2.8 million (2.5%) below estimate. The December shortfall was the third in four months, despite strong unit sales of new autos at the national level. Year-to-date collections are now $9.4 million (1.3%) below the estimate.

Despite the small December shortfall, the auto sales tax has been a bright spot in fiscal year 2017 compared to the non-auto sales tax and the income tax. Perhaps new light vehicle sales of 18.3 million units in December will lead to collections at or above the estimate in January.

Auto sales tax collections were down $1.8 million (1.6%) from last December, but for the year have increased by $13.3 million, or 2.0%. At this point, the fiscal year growth rates of the auto sale and non-auto sales collections are very close, at 2.0% and 1.8% respectively.

It is unclear why consumers are continuing to spend on autos but not so much on non-automotive goods. As mentioned in last month's issue of this report, OBM has heard a hypothesis from a retail sector economist that consumers may have shifted a significant portion of their spending to services in satisfying a post-recession pent-up demand for such services. If so, this would help to explain why relatively strong growth in consumer spending in the GDP measures is being accompanied by such weak state sales tax growth.

Personal Income Tax

December GRF personal income tax receipts totaled $780.8 million and were $29.5 million (3.6%) below the estimate. Once again, employer withholding was the culprit, as the withholding shortfall of $34.3 million exceeded the overall income tax variance. The other categories of income tax payment were collectively $4.8 million over the estimate.

For the year, income tax collections are now $182.9 million (4.4%) below estimate. The year-to-date variance is due to withholding and refunds. Withholding is $144.1 million, or 3.4%, below estimate, and refunds are $43.9 million, or 17.1%, above estimate. All other payments are a combined $5.1 million above estimate.

Previous issues of this report have stated that OBM's working hypothesis is that wage income falling below estimate is a likely explanation of the withholding shortfall for the first six months of fiscal year 2017, but the shortfall has become so large that it now appears that other factors may also be at work. Since some other states are also experiencing weak withholding growth, analysts are searching for additional explanations, such as low payments of bonus income.

FY2017 PERSONAL INCOME TAX RECEIPTS BY COMPONENT ($ in millions)						
	ESTIMATE DEC	**ACTUAL DEC**	**$ VAR DEC**	**ACTUAL DEC 2016**	**ACTUAL DEC 2015**	**$ VAR Y-over-Y**
Withholding	$773.7	$739.4	($34.3)	$739.4	$769.4	($30.1)
Quarterly Est.	$88.6	$86.0	($2.6)	$86.0	$126.6	($40.6)
Trust Payments	$2.8	$1.6	($1.2)	$1.6	$4.1	($2.5)
Annual Returns & 40 P	$6.0	$9.5	$3.5	$9.5	$8.6	$0.9
Other	$8.4	$6.7	($1.7)	$6.7	$8.4	($1.7)
Less: Refunds	($35.3)	($30.2)	$5.1	($30.2)	($35.3)	$5.1
Local Distr.	($33.9)	($32.2)	$1.7	($32.2)	($32.2)	($0.0)
Net to GRF	$810.3	$780.8	($29.5)	$780.8	$849.7	($68.9)

The refunds that have been paid in July through December are refunds on late or amended tax returns for the 2015 tax year, and as such are not necessarily indicators of outcomes in the filing season for the 2016 tax year.

In what has become a familiar refrain, on a year-over-year basis, December personal income tax receipts were $68.9 million (8.1%) below December 2015 collections. Some of this was anticipated due to calendar effects, since there was one fewer collection day this December than last. However, the size of the decrease goes beyond a simple calendar effect.

For the year-to-date, income tax collections are $214.6 million (5.1%) below fiscal year 2016 collections. The main culprits in the year-to-date decline are a large decline in quarterly estimated payments and an increase in refunds. Fiscal year 2017 estimated payments are down $133.8 million, or 31.9% from last year. This is despite the fact that estimated payments are $6.5 million above the estimate.

The explanation for this is that the fiscal year 2017 estimates assumed a large drop in estimated payments, and there has in fact been a large decrease, just not quite as large as expected in the estimates. The decrease in estimated payments is a result of taxpayers adjusting their behavior to the tax rate cuts and especially to the increased small business deduction, so that rather than making overly large estimated payments and then filing for very large refunds in the January-June filing season, they have instead cut back on their estimated payments by more than 30%. All else constant, this should be offset by smaller refunds paid out in January through June. So, income tax revenues are expected to be lower than last fiscal year all the way through February, before finally turning positive in March as lower expected refunds finally outweigh lower estimated payments. The first test of this hypothesis about lower refunds will come in January.

Although withholding is not one of the categories of payment that have declined from last year, the fact that collections have grown by only $6.1 million, or 0.1%, has contributed to the decline in overall income tax revenues. It was expected that withholding would have grown by about $144 million from last year at this point, which would have offset much of the expected decline in estimated payments and other categories such as annual returns.

Commercial Activity Tax

December is a small collections month for the commercial activity tax, as it follows a month when quarterly payments of estimated tax are due. December GRF deposits were $8.1 million, $1.1 million below estimate. For the year, collections are $21.0 million, or 3.3%, below estimate.

As mentioned in October's issue of this report, based on information that OBM has received about tax credits in the first quarter of fiscal year 2017, it seems shortfalls so far this year are due not to credits being larger than expected but instead to low growth in taxable receipts. Since the largest industry sector contributors to CAT revenues are manufacturing and retail trade, the working hypothesis is that price deflation in goods has had a negative impact on CAT receipts, just as it is thought to have had a negative impact on non-auto sales tax collections.

The GRF receives 75% of CAT revenues, so all funds (total) CAT collections follow the same general pattern as GRF collections. Through December, total CAT collections are $832.4 million, which is $27.9 million, or 3.3%, below estimate. CAT collections have declined by $18.6 million, or 2.2%, from last year, whereas the expectation was that at this point they would have grown by $9.3 million, or 1.1%.

Cigarette and Other Tobacco Products Tax

The cigarette and other tobacco products (OTP) tax was $7.6 million (8.7%) below estimate in December. Collections had been running above estimate, but the December variance brings collections to $3.9 million (0.9%) below estimate for the year.

December tax collections were down sharply from last year, declining by $11.7 million, or 12.9%. Year-to-date collections have now decreased by $29.2 million, or 6.2%. Part of this decline is due to the fact that there was one-time revenue in fiscal year 2016 from the floor stocks tax associated with the cigarette tax rate increase.

Monthly collections have been volatile with respect to the estimate in fiscal year 2017 and December's performance by itself does not signal a break in the overall trend. Since there is no evidence that tobacco usage behavior has changed significantly overall since last year, at this point the December shortfall would seem to be a timing matter that will be corrected in the coming months.

GRF Non-Tax Receipts

GRF non-tax receipts totaled $1,197.4 million in December and were $123.1 million, or 11.5% above the estimate. There was very little December activity in this category except for federal grants. Federal grants were $123.4 million above estimate. The percentage variance was 11.5%, the same as for the entire non-tax receipts category.

GRF Medicaid spending being $80.2 million over estimate was a large factor in federal grants being over estimate in December. In addition, about $76 million in federal reimbursement for November expenditures was not received until December.

Transfers to the GRF from other state funds were $16.8 million above the estimate of zero in December. This overage was a combination of later and earlier transfers than expected. First, racetrack relocation transfers which were expected in October were finally received in December. Second, transfers to the GRF related to the MARCS radio project that were estimated for January were instead received early.

For the year, non-tax revenues are $324.6 million, or 5.0%, below estimate. Federal grants are $336.8 million, or 5.2%, below estimate, essentially due to lower than expected GRF Medicaid spending, and all other non-tax revenues are a combined $12.2 million above estimate. Transfers are $9.8 million above estimate, although that number will probably drop by the end of January because of the early receipt of the expected January MARCS-related transfer.

Table 1

GENERAL REVENUE FUND RECEIPTS
ACTUAL FY 2017 VS ESTIMATE FY 2017
($ in thousands)

	MONTH				YEAR-TO-DATE			
REVENUE SOURCE	ACTUAL DECEMBER	ESTIMATE DECEMBER	$ VAR	% VAR	ACTUAL Y-T-D	ESTIMATE Y-T-D	$ VAR	% VAR
TAX RECEIPTS								
Non-Auto Sales & Use	865,217	858,700	6,517	0.8%	4,642,461	4,738,000	(95,539)	-2.0%
Auto Sales & Use	106,935	109,700	(2,765)	-2.5%	689,237	698,600	(9,363)	-1.3%
Subtotal Sales & Use	972,152	968,400	3,752	0.4%	5,331,698	5,436,600	(104,902)	-1.9%
Personal Income	780,798	810,300	(29,502)	-3.6%	3,987,894	4,170,800	(182,906)	-4.4%
Corporate Franchise	471	0	471	N/A	(265)	0	(265)	N/A
Financial Institutions Tax	(5,290)	200	(5,490)	-2744.9%	(15,191)	(8,000)	(7,191)	-89.9%
Commercial Activity Tax	8,059	9,200	(1,141)	-12.4%	618,715	639,700	(20,985)	-3.3%
Petroleum Activity Tax	1,317	1,800	(483)	-26.8%	2,860	3,000	(140)	-4.7%
Public Utility	168	400	(232)	-58.0%	47,555	51,100	(3,545)	-6.9%
Kilowatt Hour	22,268	20,900	1,368	6.5%	182,706	162,800	19,906	12.2%
Natural Gas Distribution	490	0	490	N/A	16,929	17,000	(71)	-0.4%
Foreign Insurance	59	(600)	659	109.8%	161,032	156,100	4,932	3.2%
Domestic Insurance	0	0	0	N/A	53	400	(347)	-86.7%
Other Business & Property	0	0	0	N/A	(678)	0	(678)	N/A
Cigarette and Other Tobacco	79,494	87,100	(7,606)	-8.7%	438,905	442,800	(3,895)	-0.9%
Alcoholic Beverage	5,189	5,100	89	1.8%	30,731	28,500	2,231	7.8%
Liquor Gallonage	3,831	3,800	31	0.8%	23,231	22,400	831	3.7%
Estate	123	0	123	N/A	457	0	457	N/A
Total Tax Receipts	1,869,129	1,906,600	(37,471)	-2.0%	10,826,630	11,123,200	(296,570)	-2.7%
NON-TAX RECEIPTS								
Federal Grants	1,194,908	1,071,499	123,408	11.5%	6,147,200	6,483,953	(336,753)	-5.2%
Earnings on Investments	0	0	0	N/A	14,180	8,500	5,680	66.8%
License & Fees	671	855	(184)	-21.5%	12,014	10,830	1,184	10.9%
Other Income	1,845	1,998	(153)	-7.6%	43,778	38,788	4,991	12.9%
ISTV'S	1	0	1	N/A	9,128	8,800	328	3.7%
Total Non-Tax Receipts	1,197,424	1,074,352	123,072	11.5%	6,226,300	6,550,871	(324,571)	-5.0%
TOTAL REVENUES	3,066,553	2,980,952	85,601	2.9%	17,052,930	17,674,071	(621,141)	-3.5%
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	16,794	0	16,794	N/A	32,102	22,300	9,802	44.0%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	16,794	0	16,794	N/A	32,102	22,300	9,802	44.0%
TOTAL SOURCES	3,083,347	2,980,952	102,395	3.4%	17,085,032	17,696,371	(611,338)	-3.5%

Table 2
GENERAL REVENUE FUND RECEIPTS
ACTUAL FY 2017 VS ACTUAL FY 2016
($ in thousands)

REVENUE SOURCE	MONTH DECEMBER FY 2017	MONTH DECEMBER FY 2016	MONTH $ VAR	MONTH % VAR	YEAR-TO-DATE ACTUAL FY 2017	YEAR-TO-DATE ACTUAL FY 2016	YEAR-TO-DATE $ VAR	YEAR-TO-DATE % VAR
TAX RECEIPTS								
Non-Auto Sales & Use	865,217	814,469	50,748	6.2%	4,642,461	4,558,527	83,934	1.8%
Auto Sales & Use	106,935	108,704	(1,769)	-1.6%	689,237	675,971	13,267	2.0%
Subtotal Sales & Use	972,152	923,173	48,979	5.3%	5,331,698	5,234,498	97,201	1.9%
Personal Income	780,798	849,668	(68,869)	-8.1%	3,987,894	4,202,479	(214,585)	-5.1%
Corporate Franchise	471	3,216	(2,745)	-85.4%	(265)	13,070	(13,335)	-102.0%
Financial Institutions Tax	(5,290)	783	(6,073)	-775.2%	(15,191)	(8,360)	(6,831)	-81.7%
Commercial Activity Tax	8,059	10,339	(2,280)	-22.1%	618,715	612,755	5,959	1.0%
Petroleum Activity Tax	1,317	2,012	(695)	-34.5%	2,860	3,362	(503)	-14.9%
Public Utility	168	520	(352)	-67.7%	47,555	51,619	(4,064)	-7.9%
Kilowatt Hour	22,268	21,094	1,174	5.6%	182,706	171,617	11,089	6.5%
Natural Gas Distribution	490	0	490	N/A	16,929	17,164	(235)	-1.4%
Foreign Insurance	59	(9,682)	9,741	100.6%	161,032	145,911	15,120	10.4%
Domestic Insurance	0	0	(0)	N/A	53	344	(291)	-84.5%
Other Business & Property	0	12	(12)	N/A	(678)	42	(720)	-1723.5%
Cigarette and Other Tobacco	79,494	91,218	(11,724)	-12.9%	438,905	468,091	(29,186)	-6.2%
Alcoholic Beverage	5,189	4,021	1,168	29.1%	30,731	28,976	1,755	6.1%
Liquor Gallonage	3,831	3,593	238	6.6%	23,231	22,407	824	3.7%
Estate	123	37	86	230.2%	457	823	(366)	-44.5%
Total Tax Receipts	1,869,129	1,900,003	(30,875)	-1.6%	10,826,630	10,964,797	(138,167)	-1.3%
NON-TAX RECEIPTS								
Federal Grants	1,194,908	1,092,033	102,875	9.4%	6,147,200	6,322,788	(175,588)	-2.8%
Earnings on Investments	0	0	0	N/A	14,180	7,916	6,264	79.1%
License & Fee	671	652	19	3.0%	12,014	9,837	2,177	22.1%
Other Income	1,845	1,817	28	1.5%	43,778	37,257	6,521	17.5%
ISTV'S	1	2	(1)	-59.9%	9,128	858	8,270	963.8%
Total Non-Tax Receipts	1,197,424	1,094,503	102,921	9.4%	6,226,300	6,378,656	(152,356)	-2.4%
TOTAL REVENUES	3,066,553	2,994,507	72,046	2.4%	17,052,930	17,343,453	(290,523)	-1.7%
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	16,794	7,512	9,282	123.6%	32,102	182,688	(150,586)	-82.4%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	16,794	7,512	9,282	123.6%	32,102	182,688	(150,586)	-82.4%
TOTAL SOURCES	3,083,347	3,002,019	81,328	2.7%	17,085,032	17,526,141	(441,109)	-2.5%

DISBURSEMENTS

December GRF disbursements, across all uses, totaled $2,827.4 million and were $73.4 million (2.7%) above estimate. This was primarily attributable to higher than estimated disbursements in the Medicaid and Justice and Public Protection categories being partially offset by lower than estimated disbursements in the Property Tax Reimbursements category. On a year-over-year basis, December total uses were $207.9 million (7.9%) higher than those of the same month in the previous fiscal year, with the Medicaid and Justice and Public Protection 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)	($412.2 million)	-2.2%
Transfers	Temporary or permanent transfers out of the GRF that are not agency expenditures	($12.1 million)	-4.3%
TOTAL DISBURSEMENTS VARIANCE:		**($424.3 million)**	**-2.2%**

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 by the Ohio Department of Education. December disbursements for this category totaled $619.1 million and were $13.5 million (2.2%) above estimate. Expenditures for the school foundation program totaled $602.5 million and were $11.4 million (1.9%) above estimate. This variance was primarily attributable to the use of updated, current year data for the December foundation payments, which led to disbursements being above estimate in the pupil transportation and foundation funding line items. Year-to-date disbursements were $4,083.0 million, which was $75.3 million (1.9%) above estimate.

On a year-over-year basis, disbursements in this category were $18.4 million (3.1%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $3.6 million (0.1%) lower than the same point in fiscal year 2016.

Higher Education

December disbursements for the Higher Education category, which includes non-debt service GRF spending by the Department of Higher Education totaled $185.1 million as estimated. A notable positive variance occurred in the disbursements for the National Guard Tuition Grant Program, which were above estimate by $1.2 million as a result of higher than expected requests for reimbursement from higher education institutions. This variance was partially offset by disbursements for the Choose Ohio First Scholarship Program, which were below estimate by $1.0 million as a result of lower than expected requests for reimbursement from higher education institutions.

Year-to-date disbursements were $1,145.5 million, which was $10.0 million (0.9%) below estimate. On a year-over-year basis, disbursements in this category were $5.3 million (2.9%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $32.4 million (2.9%) higher than at the same point in fiscal year 2016.

Other Education

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

December disbursements in this category totaled $8.0 million and were $3.4 million (73.1%) above estimate. This variance was primarily attributable to the timing of $2.5 million in subsidy payments to the Ohio History Connection, which occurred in December instead of January as estimated. Year-to-date disbursements were $46.3 million, which was $1.3 million (3.0%) above estimate. On a year-over-year basis, disbursements in this category were $3.3 million (71.8%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $7.7 million (20.0%) higher than at the same point in fiscal year 2016.

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.

Expenditures
December GRF disbursements for the Medicaid Program totaled $1,646.1 million and were $80.2 million (5.1%) above the estimate, and $94.2 million (6.1%) above disbursements for the same month in the previous fiscal year. Year-to-date GRF disbursements totaled $9,110.2 million and were $404.6 million (4.3%) below the estimate, and $192.3 million (2.1%) below disbursements for the same point in the previous fiscal year.

December all funds disbursements for the Medicaid Program totaled $2,281.2 million and were $57.8 million (2.6%) above the estimate, and $272.6 million (13.6%) above disbursements for the same month in the previous fiscal year. Year-to-date all funds disbursements totaled $12,326.8 million and were $684.8 million (5.3%) below the estimate, and $63.9 million (0.5%) below disbursements for the same point in the previous fiscal year.

The December all funds variance is primarily due to the timing of expenditures. An administrative payment to the managed care firms, called the health insurer fee, which was budgeted to occur in November was instead paid in December, and was higher than estimated. Payments to hospital-based physicians, budgeted in November, were not completed until December. Finally, the Center for Medicare and Medicaid Services has recently instructed the Department of Medicaid that payments to the federal government for the Medicare Buy-In program must be sent by the first of each month. For this reason, two payments were sent in December - the December payment and the January payment. This will result in 13 payments in fiscal year 2017.

Underspending in other Medicaid programs during December partially offset the greater than estimate spending described above. Fee-for-service program expenses were below estimate due to enrollment in this program being 10.0% below estimate for the month. Direct service expenses in the managed care program were below estimate due to lower capitation rates which began in January 2016. Finally, lower administrative costs in December were the result of lower costs for information technology projects, volume-based service contracts, and reimbursement requests from county departments of job and family services.

The year-to-date all funds variance included underspending in the managed care program due to lower capitation rates, and underspending in the fee-for-service program due to enrollment in this program being an average of 7.35% below estimate each month. In addition, there was the underspending in administrative costs described above, and lower than anticipated spending in the hospital upper payment limit program. This underspending was partially offset by the additional payment in the Medicare Buy-In program described above.

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

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

	December Actual		December Projection		Variance	Variance %
GRF	$	1,646.1	$	1,565.9	$ 80.2	5.1%
Non-GRF	$	635.1	$	657.5	$ (22.4)	-3.4%
All Funds	$	2,281.2	$	2,223.4	$ 57.8	2.6%

Enrollment

Total December enrollment across all categories was 3.04 million. The most significant components are the Covered Families and Children/Modified Adjusted Gross Income (CFC/MAGI) category, which decreased by 26,537 persons to a December total of 2.48 million persons, and the Aged, Blind and Disabled (ABD) category, which decreased by 6,014 persons to a December total of 414,148 covered lives.

Total enrollment across all categories for the same period last year was 3.02 million covered persons, including 2.46 million persons in the CFC/MAGI category and 383,838 people in the ABD category.

Please note that these data are subject to revision.

Health and Human Services

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

December disbursements in this category totaled $105.4 million and were $14.6 million (12.2%) below estimate. Year-to-date disbursements were $673.8 million, which was $52.7 million (7.3%) below estimate. On a year-over-year basis, disbursements in this category were $5.2 million (4.7%) lower than for the same month in the previous fiscal year while year-to-date expenditures were $11.3 million (1.7%) higher than at the same point in fiscal year 2016.

<u>Department of Job and Family Services</u>
December disbursements for the Department of Job and Family Services totaled $61.6 million and were $16.2 million (20.8%) below estimate. This variance was attributable to several lines. First, disbursements for Early Child Care and Education were $8.7 million (40.1%) below estimate due to a change in the child care disbursement schedule. Second, disbursements for Family Assistance – Local were $1.7 million (25.3%) below estimate due to timing differences in county requests for advances. Third, disbursements for Child Support – Local were $1.3 million (38.6%) below estimate due to county agency requests being lower than anticipated. Finally, disbursements for Unemployment Insurance Administration were $1.2 million (85.8%) below estimate due to timing of payments, and disbursements for TANF State/Maintenance of Effort were $1.1 million (4.2%) below estimate due to a decrease in Ohio Works First caseloads.

<u>Department of Mental Health and Addiction Services</u>
December disbursements for the Department of Mental Health and Addiction Services totaled $31.3 million and were $1.8 million (6.3%) above estimate. This variance was primarily attributable to Hospital Services disbursements being $2.0 million (9.2%) above estimate as payments originally planned for future months were made in December.

<u>Department of Health</u>
December disbursements for the Department of Health totaled $5.0 million and were $0.4 million (7.8%) below estimate. A notable positive variance occurred in disbursements for Help Me Grow, which were $0.8 million (47.5%) above estimate due to payments estimated to occur in the months of September and October occurring in December.

Justice and Public Protection

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

December disbursements in this category totaled $213.0 million and were $25.7 million (13.8%) above estimate. Year-to-date disbursements were $1,108.1 million, which was $10.0 million (0.9%) above estimate. On a year-over-year basis, disbursements in this category were $61.8 million (40.9%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $91.0 million (9.0%) higher than at the same point in fiscal year 2016.

Department of Rehabilitation and Correction
December disbursements for the Department of Rehabilitation and Correction totaled $171.8 million and were $27.3 million (18.9%) above estimate. This variance was primarily attributable to higher than estimated disbursements for Community Residential Programs – CBCFs, which were made in December instead of January as estimated. Disbursements for Institutional Operations, Community Nonresidential Programs, and Community Misdemeanor Programs were also higher than estimated due to the timing of payments.

Public Defender Commission
December disbursements for the Public Defender Commission totaled $3.1 million and were $2.8 million (47.8%) below estimate. This variance was primarily attributable to the timing of county reimbursement payments, which occurred in November instead of December 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.

December disbursements in this category totaled $32.0 million and were $0.3 million (1.0%) below estimate. Year-to-date disbursements were $198.5 million, which was $11.7 million (5.6%) below estimate. On a year-over-year basis, disbursements in this category were $8.9 million (38.7%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $13.8 million (7.4%) higher than at the same point in fiscal year 2016.

Property Tax Reimbursements

Payments from the property tax reimbursement category are made to local governments and school districts to reimburse these entities for revenues foregone as a result of the 10.0 percent and 2.5 percent rollback, as well as the homestead exemption. December property tax reimbursements totaled $2.1 million and were $34.3 million (94.2%) below estimate. Year-to-date disbursements totaled $901.0 million and were $19.0 million (2.1%) below estimate. Aggregate disbursements for the second half of the fiscal year are expected to continue to be below estimate, driven primarily by declines in the homestead exemption program.

Debt Service

December payments for debt service totaled $16.7 million and were $0.2 million (1.0%) below estimate. Year-to-date debt service payments were $907.1 million and were $0.8 million (0.1%) below estimate.

Transfers Out

December transfers out totaled $0.0 million and were at estimate. Year-to-date transfers out were $268.0 million and were $12.1 million (4.3%) below estimate.

Table 3

GENERAL REVENUE FUND DISBURSEMENTS
ACTUAL FY 2017 VS ESTIMATE FY 2017
($ in thousands)

Functional Reporting Categories Description	MONTH ACTUAL DECEMBER	MONTH ESTIMATED DECEMBER	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	619,072	605,606	13,466	2.2%	4,083,012	4,007,742	75,270	1.9%
Higher Education	185,083	185,054	29	0.0%	1,145,504	1,155,496	(9,992)	-0.9%
Other Education	7,968	4,604	3,365	73.1%	46,299	44,956	1,343	3.0%
Medicaid	1,646,073	1,565,872	80,201	5.1%	9,110,179	9,514,816	(404,638)	-4.3%
Health and Human Services	105,419	120,053	(14,635)	-12.2%	673,799	726,487	(52,688)	-7.3%
Justice and Public Protection	212,975	187,227	25,748	13.8%	1,108,123	1,098,084	10,039	0.9%
General Government	31,984	32,307	(323)	-1.0%	198,523	210,213	(11,690)	-5.6%
Property Tax Reimbursements	2,101	36,417	(34,317)	-94.2%	900,987	919,983	(18,996)	-2.1%
Capital Outlay	0	0	0	N/A	0	0	0	N/A
Debt Service	16,747	16,924	(177)	-1.0%	907,140	907,973	(833)	-0.1%
Total Expenditures & ISTV's	2,827,421	2,754,063	73,358	2.7%	18,173,566	18,585,751	(412,185)	-2.2%
Transfers Out:								
BSF Transfer Out	0	0	0	N/A	29,483	29,483	0	0.0%
Operating Transfer Out	0	0	0	N/A	238,557	250,623	(12,066)	-4.8%
Temporary Transfer Out	0	0	0	N/A	0	0	0	N/A
Total Transfers Out	0	0	0	N/A	268,040	280,106	(12,066)	-4.3%
Total Fund Uses	2,827,421	2,754,063	73,358	2.7%	18,441,605	18,865,856	(424,251)	-2.2%

Table 4

GENERAL REVENUE FUND DISBURSEMENTS
ACTUAL FY 2017 VS ACTUAL FY 2016
($ in thousands)

	MONTH				YEAR-TO-DATE			
Functional Reporting Categories Description	DECEMBER FY 2017	DECEMBER FY 2016	$ VAR	% VAR	ACTUAL FY 2017	ACTUAL FY 2016	$ VAR	% VAR
Primary and Secondary Education	619,072	600,631	18,440	3.1%	4,083,012	4,086,573	(3,561)	-0.1%
Higher Education	185,083	179,831	5,252	2.9%	1,145,504	1,113,119	32,384	2.9%
Other Education	7,968	4,638	3,330	71.8%	46,299	38,575	7,724	20.0%
Medicaid	1,646,073	1,551,827	94,246	6.1%	9,110,179	9,302,506	(192,327)	-2.1%
Health and Human Services	105,419	110,609	(5,190)	-4.7%	673,799	662,487	11,312	1.7%
Justice and Public Protection	212,975	151,129	61,846	40.9%	1,108,123	1,017,087	91,036	9.0%
General Government	31,984	23,065	8,920	38.7%	198,523	184,762	13,761	7.4%
Property Tax Reimbursements	2,101	864	1,237	143.2%	900,987	898,795	2,192	0.2%
Capital Outlay	0	0	0	N/A	0	0	0	N/A
Debt Service	16,747	16,617	130	0.8%	907,140	880,798	26,343	3.0%
Total Expenditures & ISTV's	2,827,421	2,639,210	188,211	7.1%	18,173,566	18,184,702	(11,136)	-0.1%
Transfers Out:								
BSF Transfer	0	0	0	N/A	29,483	425,500	(396,017)	-93.1%
Operating Transfer Out	19,708	0	19,708	N/A	238,557	388,234	(149,677)	-38.6%
Temporary Transfer Out	0	0	0	N/A	0	0	0	N/A
Total Transfers Out	19,708	0	19,708	N/A	268,040	813,734	(545,694)	-67.1%
Total Fund Uses	2,847,129	2,639,210	207,919	7.9%	18,441,605	18,998,436	(556,831)	-2.9%

FUND BALANCE

Table 5 describes the estimated General Revenue Fund (GRF) unencumbered ending fund balance for FY 2017. Based on the estimated revenue sources for FY 2017 and the estimated FY 2017 disbursements, transfers, and encumbrances, the GRF unencumbered ending fund balance for FY 2017 is an estimated $459.0 million.

The GRF unencumbered ending fund balance should not be considered as a balance available for expenditure in FY 2017 nor should it be considered as equivalent to the FY 2017 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.

Table 5
FUND BALANCE
GENERAL REVENUE FUND
FISCAL YEAR 2017
($ in thousands)

July 1, 2016 Beginning Cash Balance*	**$ 1,193,327**
Plus FY 2017 Estimated Revenues	22,897,600
Plus FY 2017 Estimated Federal Revenues	12,682,980
Plus FY 2017 Estimated Transfers to GRF	309,100
Total Sources Available for Expenditures & Transfers	**37,083,007**
Less FY 2017 Estimated Disbursements**	35,893,436
Less FY 2017 Estimated Total Encumbrances as of June 30, 2017	312,696
Less FY 2017 Estimated Transfers Out	417,875
Total Estimated Uses	**36,624,007**
FY 2017 ESTIMATED UNENCUMBERED ENDING FUND BALANCE	**459,000**

* Includes reservations of $428.6 million for prior year encumbrances and $54.5 million for transfers from the fiscal year 2016 ending balance executed during fiscal year 2017. After accounting for these amounts, the estimated unencumbered beginning fund balance for fiscal year 2017 is $710.2 million.

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

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