June 13, 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

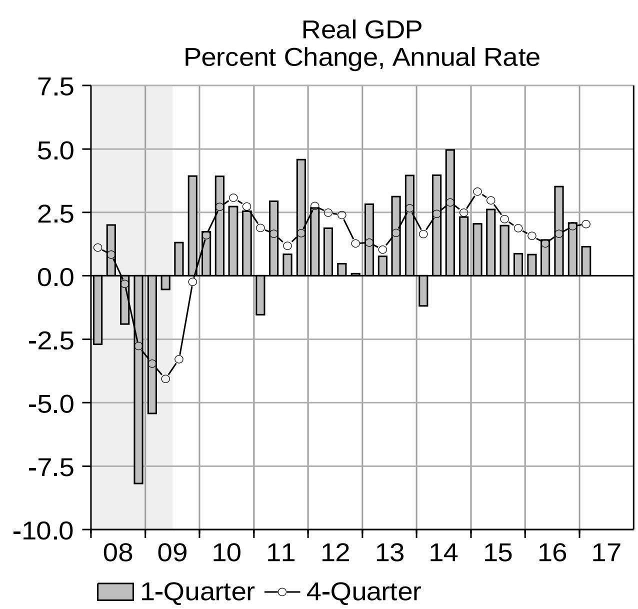
ECONOMIC SUMMARY

Economic Performance Overview

- First-quarter economic growth was revised higher to 1.2%, compared with 2.1% in the fourth quarter and 1.6% for all of 2016. Forecasters project stronger growth in the second quarter and a trend rate of 2% to 2.5% thereafter.
- U.S. employment increased by 138,000 jobs in May for a year-to-date average of 162,000 jobs per month. The unemployment rate decreased to 4.3%.
- Ohio nonfarm payroll employment decreased by 5,700 jobs in April to 9,100 jobs above the December 2016 level. The unemployment rate decreased to 5.0%.
- Despite weak first-quarter growth, leading indicators continue to point toward uninterrupted growth at a modest pace.

Economic Growth

Real GDP growth in the first quarter was revised up to 1.2% from an initial report of 0.7%. That followed growth of 2.1% in the fourth quarter and 1.6% for all of 2016, which matched the slowest annual growth rate of the current expansion. Compared with a year earlier, quarterly real GDP was up by 2.0%. Despite the first-quarter lull, the economy is generally expected to expand by more than 3% in the second quarter and then revert to the 2% growth path of recent years.



The modest upward revision left the first-quarter story of slow growth essentially unchanged. Personal consumption expenditures were revised higher from 0.3% to a still-sluggish 0.6%, largely due to transitory weather-related reasons. The change in inventories was slightly more negative, while exports were slightly more positive. The most promising sign was the upward adjustment in business fixed investment from 9.4% to 11.4% – the fastest pace in five years.

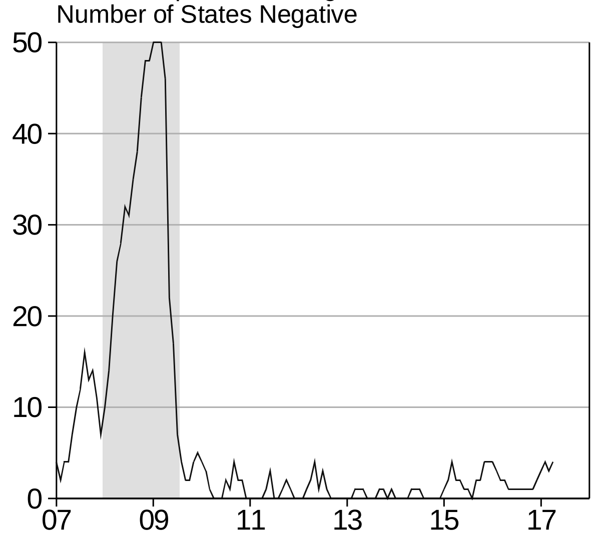
In addition, growth in final sales to domestic purchasers, which excludes the effects of changes in inventories and foreign demand, was revised up from 1.5% to 2.1%. Real disposable personal income was revised up from 1.0% to 1.7%. Corporate profits decreased 7.3% at an annual rate, but were 3.7% higher than the same quarter a year earlier – the third straight year-over-year gain.

Economic activity grew at a moderate pace in and around Ohio into mid-May, according to a survey of businesses by the Federal Reserve Bank of Cleveland. Labor markets continued to strengthen, consumer spending at brick-and-mortar stores reportedly rose slightly, and motor vehicle sales strengthened. Manufacturing activity grew slightly, with more strength evident among heavy equipment producers, and freight volume continued to expand. Sales of both new and existing homes picked up after a lull in the first quarter, and commercial real estate activity remained elevated.

The **Ohio coincident economic index,** from the Philadelphia Federal Reserve, corroborated these reports by increasing 0.2% in April to 1.7% above the year earlier level. The index is composed of four labor market indicators and has represented the change in general business conditions accurately over time.

Leading economic indicators still point to uninterrupted expansion through year-end. The composite **Leading Economic Index,** compiled by the Conference Board, increased by 0.3% in April for the eighth straight monthly gain. The smoothed 6-month rate of change in the index held steady at 4.1% for a second month, up from a recent low of zero in May 2016. Eight of the ten components made positive contributions during April, led by the interest rate spread and initial jobless claims. Other positive contributors included the ISM index for new orders and consumer expectations for business conditions. Building permits and stock prices subtracted from the index.

State Composite Leading Indexes
Number of States Negative



Source: Philadelphia Fed. Latest data: April.

On the other hand, the breadth of gains in state-level composite coincident indexes compiled by the Philadelphia Federal Reserve, which has been a leading indicator in the past, deteriorated abruptly in April. The indexes for nine states declined in April, up from three states in March and zero in December. However, the indexes for only four states declined over the three months ending in April– well below the threshold that has in the past signaled recession.

The diffusion of state leading economic indexes in April was also consistent with continued economic growth, even though the number of states with positive readings decreased from 47 to 46. The four states with negative readings were Alaska, Connecticut, Louisiana, and Massachusetts. In contrast, prior to the most recent three recessions, the number of states with negative leading indexes has reached fifteen on average three months in advance and twenty-three on average during the initial month of those recessions.

The **Ohio Leading Economic Index,** from the Philadelphia Federal Reserve, was 1.5% in April – the highest level since February 2016. 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, limiting its predictive power.

High-frequency projections of second-quarter **real GDP** growth call for a discernible pickup from the first quarter. The Federal Reserve Bank of Atlanta projects second-quarter growth of 3.4%, while the Federal Reserve Bank of New York projects growth of 2.2%. The more stable Blue Chip consensus, which is an average of forecasts from a group of professional forecasters, calls for 3.1% growth, with a range of 2.5% to 3.6% from the average of the lowest ten to the highest ten forecasts.

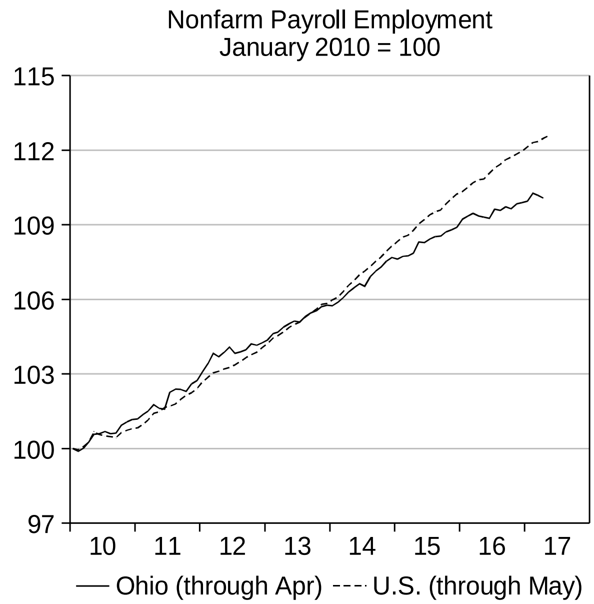
Employment

Nonfarm payrolls across the country increased by 138,000 jobs in May, below expectations for about a 190,000 increase. In addition, the March and April gains were revised down by a total of 66,000. The average employment increase during the past three months of 121,000 jobs is toward the lower end of the recent range of monthly job gains, but the 12-month average of 189,000 jobs per month is close to recent averages for this expansion.

U.S. employment in the goods sector was up 6,000 in mining and 11,000 in construction, but employment was down 1,000 in manufacturing. Within the service sector, job gains were led by education and health services (+47,000), where gains were concentrated in health care (+24,300); professional and business services (+38,000), where gains were concentrated in administrative and support services (+24,400); and leisure and hospitality (+31,000), where food and drinking places accounted for almost all of the gain (+30,300). Government employment decreased by 9,000, with declines in both state and local employment more than offsetting an increase in federal employment.

The U.S. **unemployment rate** declined by 0.1 percentage point to 4.3%, despite a 233,000 decrease in total employment (as measured by the household survey; this number is very different than the 138,000 gain reported by the survey of business establishments, but such discrepancies between the two surveys are common). The decline in the unemployment rate was driven by a 195,000 decline in the number of unemployed. The May unemployment rate is the lowest since May 2001. The broadest measure of unemployment, the U-6 unemployment rate, decreased 0.2 percentage points to 8.4% – its lowest level since November 2007. The U-6 unemployment rate includes those who want to work but have stopped looking because they believe they cannot find a job, as well as those working part-time who would prefer full-time work.

Average hourly earnings of all employees on private nonfarm payrolls increased 0.2% to 2.5% above the year earlier level – down from 2.8% in February. Still, the recent steady growth in wages indicates that a long-awaited tightening in labor market conditions is unfolding and is likely a reason that monetary policymakers are planning additional increases in the federal funds rate.



Ohio nonfarm payroll employment decreased by 5,700 jobs in April after declining by 4,300 jobs in March. Gains of 6,100 jobs in professional and business services and 5,000 jobs in leisure and hospitality were more than offset by declines in construction (-7,400), manufacturing (-5,800), other services (-2,500), and government (-1,900).

A more optimistic picture of the Ohio labor market emerged from the Cleveland Fed survey, which indicated that payrolls continued to expand into mid-May. Payrolls were said to have expanded across a broad range of industries, with wage pressures continuing among some skilled occupations and at the lower end of pay scales. Respondents at staffing firms reported an increase in the number of job openings and placements in the spring, which they attributed to improvements in the business climate. Companies reported difficulty in attracting and retaining qualified workers, despite offering more flexible work schedules, enhanced benefits, and higher pay.

During the twelve months ending in April, Ohio employment increased by 35,900 jobs, or 0.7%. The largest employment gains occurred in education and health services (+18,100), leisure and hospitality (+8,100), professional and business services (+5,700), financial activities (+5,500), and construction (+4,000). Government (-9,200) and other services (-3,300) were the only major sectors to post notable declines in employment. However, within the trade, transportation, and utilities sector, retail trade employments has fallen by 2,900 over the past year, a trend that may be exacerbated by additional announced store closings.

Among the **contiguous states**, year-over-year employment growth was strongest in Michigan (+1.7%), followed by Kentucky (+1.6%), Indiana (+1.0%), Pennsylvania (+0.8%), and Ohio (+0.7%). Employment declined in West Virginia (-0.4%). Manufacturing employment increased in Kentucky (1.7%), Michigan (1.1%), Indiana (0.9%), and Ohio (0.3%). Manufacturing employment declined 1.6% in Pennsylvania and 2.8% in West Virginia.

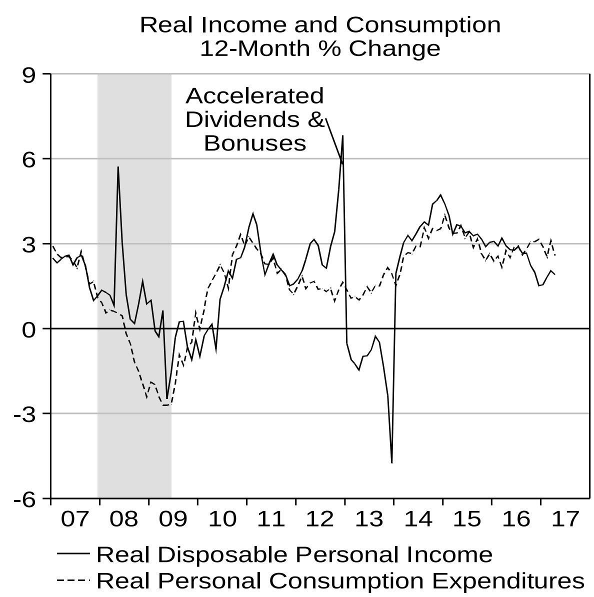
The **Ohio unemployment rate** decreased by 0.1 percentage points to 5.0% in April. The rate is up 0.3 points from the cyclical low of 4.7% reached in October 2015, but has been in the 4.7% to 5.1% range since December 2014. The increase since October 2015 has resulted from a larger

increase in the Ohio labor force (+107,900) than in total employment (+87,900).
Across the country in April, the unemployment rate decreased by a statistically significant amount in ten states, with Alabama and Tennessee experiencing the largest declines. Massachusetts was the only state with an increase. March unemployment rates in other states and the District of Columbia were not statistically different from the month before. When compared to a year earlier, the unemployment rate was lower by a statistically significant margin in nineteen states, with Illinois, Oregon, West Virginia, and Wyoming registering the largest declines.

Consumer Income and Consumption

Personal income and spending were both stronger in April after a one-month lull in March. **Personal income** grew 0.4% in April, up from 0.2% in March, and the January and February gains were revised up from 0.3% and 0.4%, respectively, to 0.5% and 0.6%. The wage and salary disbursements component, which makes up more than half of total personal income, surged 0.7% in April, up from no change in March. Compared with a year earlier, personal income was up 3.6% and wage and salary disbursements were up 3.7%.

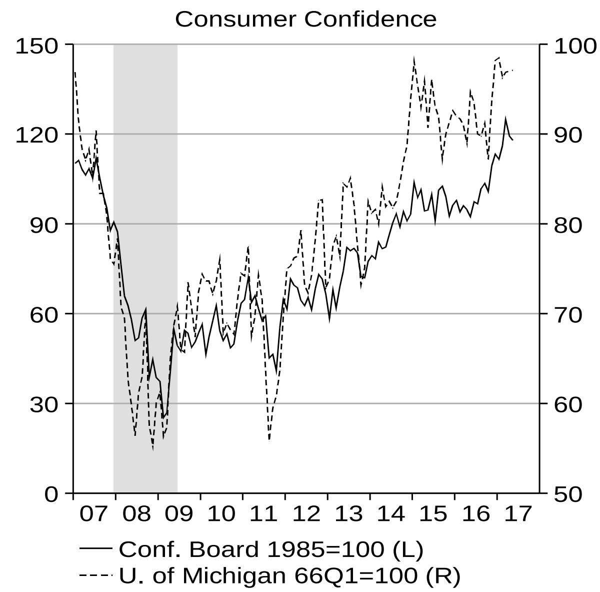
The **Consumer Price Index** (CPI) increased by 0.2% in April, recouping most of the 0.3% decline in March that reflected a decrease in energy prices. Excluding prices of food and energy, the CPI was higher by 0.1%. Compared with a year earlier, the CPI was higher by 2.2% and excluding food and energy, the CPI was up by 1.9%. The Median CPI from the Federal Reserve Bank of Cleveland, which is an alternative measure of the trend in inflation, continued to track slightly higher at 2.4% year-over-year. The measure of inflation that is most closely watched by the Federal Reserve (personal consumption spending minus food and energy) was 1.5% year-over-year – still below the 2% threshold targeted by the Fed.



Monthly **personal consumption expenditures** increased 0.4% in April. Additionally, February and March changes were revised up from zero to 0.1% and 0.3%, respectively. Spending on durable goods increased 0.9% after an upwardly revised March decline of 0.4% that was originally reported as a 1.4% decline. Spending on autos through April (as reported in the monthly census of retail trade) has held up surprisingly well (with year-over-year gains averaging almost 5 percent) given that sales of new vehicles have now fallen below 17.0 million units for three consecutive months. Spending on nondurable goods in May increased 0.6%, and spending on services increased 0.3%.

For the quarter, real consumer spending increased at an annual rate of only 0.6% after a 3.5% increase in the fourth quarter. The reasons behind the decline in growth during the first quarter appear to be temporary – unusually warm weather, delays in receipt of tax refunds, and timing issues related to strong holiday and auto sales in the fourth quarter. Forecasters generally expect a snap-back in growth to above 3% in the second quarter, reflecting continued income growth, rising net worth, and very high levels of consumer confidence.

Retailers in and around Ohio attributed a slight rise in sales at brick-and-mortar stores during the early spring to the rollout of spring merchandise and promotional activity, according to the Cleveland Fed survey. One respondent noted that liquidations and store closures have led to reduced traffic at malls and expressed concern over a potential downward spiral. Sales of motor vehicles were reported to be up 3.5% year-over-year, however, according to a dealer group, auto dealers expressed concern about higher-than-normal inventories, which are at the highest levels since 2004, and tightening credit for subprime borrowers.



Consumer attitudes generally remained bright in May, following a strong run-up in recent months. The Conference Board measure of **consumer confidence** retreated somewhat, due to a modest deterioration in assessments of future conditions. Plans for buying autos, homes, and major appliances in the next six months slipped to the lowest levels of the year. The University of Michigan/Reuters index essentially held its ground again in May, sustaining the substantial gains from last October to April. The May levels of the composite indexes from the two sources were 26.2% and 12.3% above the respective historical averages during periods of economic expansion.

<u>Manufacturing</u>

Industrial production in manufacturing jumped by 1.0% in April, more than recouping the 0.4% decline in March and representing the best gain since April 2014. Total industrial production also increased by 1.0%, reflecting a 1.2% increase in mining output and a 0.7% increase in utility output.

The large increase in manufacturing output reflected a 5.0% increase in production of motor vehicles and parts during April. Excluding high technology and motor vehicles and parts, manufacturing output increased 0.7% – its best gain since March 2014. Compared with a year earlier, manufacturing production was up by 1.7%.

Production across some industries of special importance to Ohio was mixed but mostly positive in April. Production in fabricated metal products, machinery, and motor vehicles and parts increased by enough to at least recoup the declines in March. Production in primary metals decreased by 0.6% after a 1.3% decrease the month before. Compared with a year earlier, production in all four industries was higher.

Reports of improving conditions from **purchasing managers** in manufacturing during May were about as common as in April. The PMI® was 54.9 in May after a 54.8 reading in April, extending the streak of readings above the neutral level of 50 to nine months. None of the components showed notable weakness, other than the Prices index, which fell from 68.5 to 60.5. The New Orders index increased from 57.5 to 59.5, while the Production index slipped from 58.6 to 57.1. All factors considered, reports from purchasing managers in manufacturing remain consistent with improving conditions in the sector.

Of the eighteen industries tracked by the Manufacturing ISM® *Report on Business*, fifteen reported growth in the latest month. Among the industries with a disproportionate effect on Ohio manufacturing employment, all of them – primary metals, machinery, fabricated metal products, and transportation equipment – reported expansion again in May.

One respondent in the transportation equipment industry said that the "[e]conomy is still strong, but [the] political climate can change things very quickly." A survey participant in the fabricated metal products industry reported that "Business is booming, and getting direct employees is increasingly difficult." A machinery industry contact said that "[b]usiness conditions are steady, and with competition increasing, it's making negotiations even more intense to reduce costs."

Manufacturing activity in and around Ohio picked up slightly heading into mid-May, according to the Cleveland Fed survey. Producers of heavy equipment reported a notable upturn in shipments to other manufacturers in a positive shift from the pattern of flat to falling orders since the beginning of the Great Recession. In addition, suppliers to the construction and food services industries reported a high level of demand; however, demand for consumer packaged products was weaker than expected. Motor vehicle production plans are lower than levels from a year ago, and the increase in light truck production has been smaller than the decline in car production. A key concern among manufacturers is the effect of the strong dollar on overseas sales. Even so, the number of respondents planning plant expansion has increased.

Construction

There were almost no pockets of strength in construction in April, as **construction put-in-place** decreased 1.4%, although the March change was revised from a decline of 0.2% to an increase of 1.1%. Activity declined in both the private and public sectors, as well as in the residential and nonresidential categories. Compared with a year earlier, total construction was up 6.7%, reflecting a 10.4% year-over-year increase in private construction and a 4.4% decrease in public construction.

The weakness in **private** construction in April resulted from a 0.7% decline in residential construction and a 0.6% decline in nonresidential construction. Despite the seventh monthly gain in a row in single-family construction (+0.8%), the first decline in four months in multi-family construction (-0.2%) combined with a decrease in improvements (-2.9%) to pull down overall residential construction. Nonresidential was pulled down by large declines in manufacturing and power that were only partly offset by an increase in office.

Public construction put-in-place fell 3.7%, reflecting a 15.5% decline in residential and a 3.4% decline in nonresidential. The weakness in nonresidential was concentrated in highway, education, amusement & recreation, and office. Only water supply construction made a meaningful positive contribution to overall public construction.

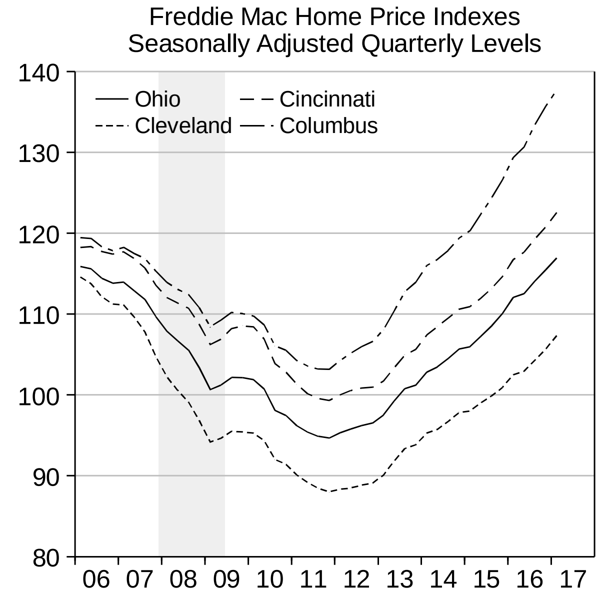
Nonetheless, nonresidential contractors in and around Ohio reported that inquiries and backlogs remain strong, according to the Cleveland Fed survey. The highest demand is for commercial property development, infrastructure projects, and education buildings.

Housing starts decreased 1.7% in April on a 3-month moving average basis, as a 7.0% decrease in multi-family more than offset a 0.8% increase in single-family – the same pattern as in March. Total starts increased 0.8% across the Midwest, following decreases of 5.3% and 12.5% in February and March, respectively. Compared with a year earlier, starts were 4.6% higher across the country and 6.6% lower in the Midwest on a 3-month moving average basis.

Changes in **home sales** have reportedly been constrained by supply. Existing home sales fell 0.7% across the country and increased 1.8% in the Midwest in April on a 3-month moving average basis. The pattern was similar with respect to new home sales, which fell 1.6% across the country and were flat in the Midwest. Compared with a year earlier, both existing and new home sales were higher on a 3-month moving average basis.

Homebuilders in and around Ohio attributed the growth in year-over-year sales to improvements in the job market and rising prices for buyers' existing homes, according to the Fed survey. Single-family starts during the first quarter were reportedly much higher in Ohio relative to a year earlier, whereas activity outside Ohio was flat or down. New home demand was strongest in the move-up and high-end price point categories, as purchases by first-time buyers declined markedly during the period.

Home prices across the country posted their 62nd consecutive monthly increase in March, rising by 0.3% to 5.7% above the year earlier level, according to the Case-Shiller index. According to the Freddie Mac index, home prices increased 1.7% in the fourth quarter to 6.5% above the year earlier level. In comparison, prices across Ohio increased 1.3% in the quarter and 4.4% from a year ago. Prices increased 1.5% in the quarter and 5.0% from a year ago in Cincinnati, 1.6% in the quarter and 4.7% from a year ago in Cleveland, and 1.5% in the quarter and 6.5% from a year ago in Columbus after seasonal adjustment.



In a sign of recovery from the 2008-09 financial crisis, the Freddie Mac price index for Ohio finally topped its first quarter 2006 peak in the first quarter of 2017. The Columbus price index was 15.2% above its pre-crisis cyclical peak and Cincinnati prices were 6.4% above their peak. Cleveland prices remained 7.8% below their 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. The revenue tables do not reflect the revised fiscal year 2017 estimates contained in the Executive Budget for fiscal years 2018-2019. Please see the February 2017 issue of this report for additional information.

May **GRF receipts totaled $2,922.7 million** and were $266.6 million (8.4%) below the estimate. Monthly tax receipts totaled $1,951.7 million and were $67.0 million (3.3%) below the estimate, while non-tax receipts totaled $959.9 million and were $210.7 million (18.0%) below the estimate. Actual transfers to the GRF were $11.2 million in May, compared to an estimate of zero.

Almost 80% of the May shortfall in GRF receipts was due to federal grants, which were $212.8 million, or 18.3% below estimate. This shortfall was due mainly to two factors, Medicaid underspending of $148 million, and a delay of $95 million in federal reimbursement that will be received in June (there were also other factors depressing May federal grants, such as the recapture of federal overpayments for the January – March period).

The overall shortfall in GRF tax receipts was essentially due to continuing underperformance of the income tax and the non-auto sales tax. The largest negative variance was in the income tax, where collections were $88.8 million (13.8%) below estimate. Almost all payment categories contributed to the May shortfall, although the biggest single variance was in withholding, which was $43.9 million (6.0%) below estimate. The variance in the non-auto sales tax was much smaller, as collections fell $11.5 million (1.4%) below estimate. Tax revenues other than the income tax and non-auto sales tax were $33.3 million above estimate for the month, with the commercial activity tax (CAT) exceeding the estimate by $26.9 million (10.6%).

For the fiscal year, GRF receipts were $1,679.0 million (5.2%) below estimate. Almost exactly half of the overall variance is from tax receipts, which are $840.8 million (4.1%) below estimate. A little over three-fourths of the tax shortfall is from the income tax, which is $643.1 million (8.6%) below estimate. Federal grants are now $921.4 million (7.9%) below estimate, due primarily to Medicaid spending being $1,021.4 million (6.0%) below estimate. Finally, transfers are above estimate by $66.4 million, mostly due to the January overage discussed in the February issue of this report.

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	($840.8 million)	-4.1%
Non-tax receipts	Federal grants, earnings on investments, licenses & fees, other income, intrastate transfers	(904.6 million)	-7.7%
Transfers	Budget stabilization, liquor transfers, capital reserve, other	$66.4 million	159.7%
TOTAL REVENUE VARIANCE:		**($1,679.0 million)**	**-5.2%**
Non-federal revenue variance		**($757.6 million)**	**-3.7%**
Federal grants variance		**($921.4 million)**	**-7.9%**

On a year-over-year basis, monthly receipts were $98.5 million (3.5%) above May from last year. Tax revenues increased by $42.9 million (2.2%), while non-tax revenues increased by $58.5 million (6.5%). Of this increase, $46.7 million was due to federal grants, despite the fact that grants were far short of the May estimate. The tax receipts increase was mostly due to increases in sales tax and CAT collections, partly offset by a decrease in income tax collections.

For the fiscal year, tax revenues have fallen by $22.4 million (0.1%) from a year ago. As has been the case throughout the fiscal year, the income tax is responsible for far more than that entire decline, dropping by $206.0 million (2.9%). Sales tax collections have seen the largest increase, rising by $190.0 million (2.0%). Other changes have roughly offset each other, as the corporate franchise tax, financial institutions tax, and cigarette and other tobacco tax have all seen declines in collections, while the CAT and the foreign insurance tax have increased.

On the non-tax side, federal grants have fallen for the year by $461.7 million (4.1%). This decline is somewhat larger than expected given that GRF Medicaid spending has declined by only a slightly larger amount, $498.7 million (3.0%) from last year. However, federal grants and Medicaid spending should be better aligned after June when the delayed $95 million in federal grants is received.

GRF Revenue Sources Relative to Monthly Estimates – May 2017
($ in millions)

Individual Revenue Sources Above Estimate		Individual Revenue Sources Below Estimate	
Commercial Activity Tax	$26.9	Federal Grants	($212.8)
Transfers In	$11.2	Personal Income Tax	($88.8)
Public Utility Excise Tax	$5.1	Non-auto Sales Tax	($11.5)
Foreign Insurance Tax	$4.4	Cigarette and Other Tobacco Tax	($5.1)
Auto Sales Tax	$3.2	Natural Gas Distribution Tax	($3.4)
Other Sources Above Estimate	$4.7	Other Sources Below Estimate	($0.5)
Total above	**$55.5**	**Total below**	**($322.1)**

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

Non-Auto Sales and Use Tax

May non-auto sales and use tax collections totaled $787.3 million and were $11.5 million (1.4%) below estimate. This is a marked improvement over the March and April collections which missed the forecast by 5.4% and 5.3% respectively. Although national retail sales are back on the upswing after poor performances in February and March, retail price deflation is still negatively impacting tax collections.

OBM's January executive budget estimates for fiscal year 2017 assumed that by year's end the shortfall with respect to the July estimates would grow to about $199 million, or 2.1%. Poor performances in March and April undermined those estimates. Year-to-date collections are now $213.9 million (2.5%) under estimate. So far, fiscal year 2017 collections have grown by just 1.8% over the same period in fiscal year 2016. Although this is weak growth compared to past non-recessionary periods, data from other states indicates that through April, Ohio's sales tax growth has been about equal to the median growth for the U.S.

Auto Sales Tax

Auto sales tax collections totaled $129.0 million in May and were $3.2 million (2.6%) over estimate. This result is surprising given the plateauing of national light vehicle sales in recent months. Year-to-date collections are now just $2.8 million (0.2%) below estimate.

OBM's January executive budget estimates for fiscal year 2017 assumed that by year's end the shortfall would grow to about $60 million, or 4.3%. Collections will clearly outperform this estimate. The most up-to-date industry forecast for May shows a seasonally adjusted sales rate of 16.9 million light vehicles. The recent trend in sales volumes of three consecutive months below 17 million units would lead us to believe that collections will fall below estimate next month, but the shortfall should not be so large that collections approach the -$60 million executive budget estimate for the year-end total.

Personal Income Tax

May GRF personal income tax receipts totaled $556.5 million and were $88.8 million (13.8%) below estimate. As has been the case throughout most of the year, refunds and employer withholding drove the May shortfall, although annual return payments and trust payments were also below estimate.

Employer withholding was $43.0 million (6.0%) below estimate in May. Withholding is $240.8 million (3.0%) below estimate for the year. Unfortunately, this underperformance has been very consistent; the year-to-date shortfall has been between 2.8% and 3.6% for nine of the eleven months in fiscal year 2017.

Refunds were once again above estimate in May, as they have been throughout the tax filing season. The overage in May was 21.6%, similar to the percentage variance in the previous four months, but the actual amount was smaller at $22.4 million, since most refunds have been paid in earlier months.

Annual return payments fell $17.8 million (43.1%) below estimate in May and trust payments fell short by $10.9 million (87.0%). The shortfall in trust payments, both for the month and for the fiscal year-to-date, may be an indicator of weak capital gains in tax year 2016, since capital gains are thought to make up most of the income behind trust tax collections.

For the year, GRF income tax collections are now $643.1 million (8.6%) below estimate. The year- to-date variance is mostly due to a combination of withholding and refunds. Withholding is $240.8 million (3.0%) below estimate and refunds are $375.9 million (24.1%) above estimate. All other payments are a combined $41.1 million below estimate, and distributions to the Local Government Fund are $14.7 million below estimate (which adds to the net GRF amount).

FY2017 PERSONAL INCOME TAX RECEIPTS BY COMPONENT ($ in millions)

	Estimate May	Actual May	$ Var May	Actual May 2017	Actual May 2016	$ Var Y-0ver-Y
Withholding	$712.1	$669.1	($43.0)	$669.1	$644.7	$24.4
Quarterly Est.	$8.0	$9.4	$1.4	$9.4	$8.7	$0.7
Trust Payments	$12.5	$1.6	($10.9)	$1.6	$20.7	($19.1)
Annual Returns & 40 P	$41.3	$23.5	($17.8)	$23.5	$55.5	($32.0)
Other	$9.7	$11.0	$1.3	$11.0	$8.1	$2.9
Less: Refunds	($103.6)	($126.0)	($22.4)	($126.0)	($128.0)	$2.0
Local Distr.	($34.7)	($32.1)	$2.6	($32.1)	($31.0)	($1.1)
Net to GRF	$645.3	$556.5	($88.8)	$556.5	$578.7	($22.2)

On a year-over-year basis, May personal income tax receipts were $22.2 million (3.8%) below May 2016 collections. For the year-to-date, income tax collections are still $206.0 million (2.9%) below fiscal year 2016 collections. The main culprits in the year-to-date decline are the large, but anticipated, decline in quarterly estimated payments and the unanticipated increase in refunds —

refunds have increased by $81.0 million, but were expected to decline by $294.9 million. In addition, although withholding is not one of the categories of payment that have declined from last year, the fact that collections have grown by only $116.7 million (1.5%) has contributed to the decline in overall income tax revenues. If withholding and refunds had performed as expected, year-to-date income tax collections would now be 5.8% above last year.

One clue as to what has happened to income tax collections this year may be found by examining federal tax collections, as shown in the Monthly Treasury Statements. The statement for April shows that, for federal fiscal year 2017, non-withheld tax collections have declined by about $26 billion, or 15%, from the prior year. This would seem to be evidence to support the hypothesis that some higher-income taxpayers deferred their income, such as capital gains, from tax year 2016 into later years in the hope of eventually having that income taxed at reduced federal rates. OBM is not suggesting that this can explain all of the Ohio income tax fiscal year 2017 shortfall, but it could be one factor in the shortfall.

Commercial Activity Tax

May GRF CAT collections posted the third strong collections months in a row, with revenues exceeding the estimate by $26.9 million (10.6%). The May overage pushed year-to-date collections back into the black, at $4.9 million (0.4%) above estimate. In addition, after lagging the prior year for most of fiscal year 2017, collections are now 2.6% ahead of last year's level.

The January executive budget forecast predicted that CAT revenues would fall $32.0 million short (-2.5%) of the July estimate by the end of fiscal year 2017. It is now clear that CAT collections will do better than that, and may exceed the July estimate for the year.

At this point, it is not clear how much of the improvement in the CAT is due to tax credits being below estimate, as some credits that were expected to be claimed against the CAT have instead been taken against other taxes like the FIT, and how much is due to better growth in taxable gross receipts.

GRF Non-Tax Receipts

GRF non-tax receipts totaled $959.9 million in May and were $210.7 million (18.0%) below estimate. Almost all of the variance was due to federal grants, which were $212.8 million (18.3%) below the estimate.

As mentioned earlier, the federal grants shortfall was significantly larger than Medicaid underspending in May, primarily due to $95 million in reimbursement being delayed until June. For the year, the federal grants variance lines up better with Medicaid underspending, but is still somewhat larger than Medicaid underspending would imply. To reiterate a point made in prior issues of this report, it is expected that by year's end, federal grant revenues will be somewhat below the estimated federal share of Medicaid underspending, with the gap being roughly in the $50 million to $60 million range. One of the reasons for this is that prior year federal grants were found, after the fact, to have been slightly larger than they should have been, and the federal government has recaptured those overpayments in fiscal year 2017.

Table 1
GENERAL REVENUE FUND RECEIPTS
ACTUAL FY 2017 VS ESTIMATE FY 2017
($ in thousands)

REVENUE SOURCE	MONTH ACTUAL MAY	MONTH ESTIMATE MAY	MONTH $ VAR	MONTH % VAR	YEAR-TO-DATE ACTUAL Y-T-D	YEAR-TO-DATE ESTIMATE Y-T-D	YEAR-TO-DATE $ VAR	YEAR-TO-DATE % VAR
TAX RECEIPTS								
Non-Auto Sales & Use	787,279	798,800	(11,521)	-1.4%	8,413,287	8,627,200	(213,913)	-2.5%
Auto Sales & Use	129,030	125,800	3,230	2.6%	1,265,997	1,268,800	(2,803)	-0.2%
Subtotal Sales & Use	916,309	924,600	(8,291)	-0.9%	9,679,284	9,896,000	(216,716)	-2.2%
Personal Income	556,534	645,300	(88,766)	-13.8%	6,817,379	7,460,500	(643,121)	-8.6%
Corporate Franchise	279	0	279	N/A	3,650	0	3,650	N/A
Financial Institutions Tax	27,925	27,200	725	2.7%	160,520	192,300	(31,780)	-16.5%
Commercial Activity Tax	279,785	252,900	26,885	10.6%	1,285,340	1,280,400	4,940	0.4%
Petroleum Activity Tax	0	0	0	N/A	5,014	4,900	114	2.3%
Public Utility	33,904	28,800	5,104	17.7%	106,469	102,700	3,769	3.7%
Kilowatt Hour	23,443	22,900	543	2.4%	326,249	311,800	14,449	4.6%
Natural Gas Distribution	26,327	29,700	(3,373)	-11.4%	61,786	66,000	(4,214)	-6.4%
Foreign Insurance	(9,455)	(13,900)	4,445	32.0%	325,080	302,800	22,280	7.4%
Domestic Insurance	5,565	5,100	465	-9.1%	6,735	5,700	1,035	18.2%
Other Business & Property	0	0	0	N/A	(678)	0	(678)	N/A
Cigarette and Other Tobacco	82,653	87,800	(5,147)	-5.9%	822,695	821,300	1,395	0.2%
Alcoholic Beverage	4,578	4,600	(22)	-0.5%	51,944	49,900	2,044	4.1%
Liquor Gallonage	3,718	3,700	18	0.5%	42,391	41,000	1,391	3.4%
Estate	89	0	89	N/A	668	0	668	N/A
Total Tax Receipts	1,951,654	2,018,700	(67,046)	-3.3%	19,694,525	20,535,300	(840,775)	-4.1%
NON-TAX RECEIPTS								
Federal Grants	947,141	1,159,949	(212,808)	-18.3%	10,750,516	11,671,880	(921,364)	-7.9%
Earnings on Investments	0	0	0	N/A	37,303	25,900	11,403	44.0%
License & Fees	377	855	(478)	-56.0%	58,845	56,430	2,415	4.3%
Other Income	2,606	470	2,136	454.6%	48,580	46,425	2,155	4.6%
ISTV'S	9,766	9,300	466	5.0%	18,898	18,100	798	4.4%
Total Non-Tax Receipts	959,890	1,170,574	(210,684)	-18.0%	10,914,142	11,818,735	(904,594)	-7.7%
TOTAL REVENUES	2,911,543	3,189,274	(277,730)	-8.7%	30,608,667	32,354,035	(1,745,369)	-5.4%
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	11,157	0	11,157	N/A	108,019	41,600	66,419	159.7%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	11,157	0	11,157	N/A	108,019	41,600	66,419	159.7%
TOTAL SOURCES	2,922,701	3,189,274	(266,573)	-8.4%	30,716,686	32,395,635	(1,678,950)	-5.2%

Table 2

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

	MONTH				YEAR-TO-DATE			
REVENUE SOURCE	MAY FY 2017	MAY FY 2016	$ VAR	% VAR	ACTUAL FY 2017	ACTUAL FY 2016	$ VAR	% VAR
TAX RECEIPTS								
Non-Auto Sales & Use	787,279	779,357	7,922	1.0%	8,413,287	8,266,653	146,634	1.8%
Auto Sales & Use	129,030	112,981	16,049	14.2%	1,265,997	1,222,599	43,398	3.5%
Subtotal Sales & Use	916,309	892,338	23,971	2.7%	9,679,284	9,489,252	190,032	2.0%
Personal Income	556,534	578,705	(22,171)	-3.8%	6,817,379	7,023,358	(205,979)	-2.9%
Corporate Franchise	279	517	(238)	-46.0%	3,650	32,886	(29,236)	-88.9%
Financial Institutions Tax	27,925	27,235	690	2.5%	160,520	187,215	(26,695)	-14.3%
Commercial Activity Tax	279,785	255,392	24,393	9.6%	1,285,340	1,252,264	33,076	2.6%
Petroleum Activity Tax	0	0	0	N/A	5,014	5,598	(584)	-10.4%
Public Utility	33,904	26,106	7,798	29.9%	106,469	101,513	4,956	4.9%
Kilowatt Hour	23,443	24,329	(886)	-3.6%	326,249	316,795	9,453	3.0%
Natural Gas Distribution	26,327	26,651	(324)	N/A	61,786	60,712	1,074	1.8%
Foreign Insurance	(9,455)	(23,618)	14,163	60.0%	325,080	293,569	31,511	10.7%
Domestic Insurance	5,565	4,716	849	18.0%	6,735	5,281	1,454	27.5%
Other Business & Property	0	6	(6)	N/A	(678)	98	(777)	-790.0%
Cigarette and Other Tobacco	82,653	87,740	(5,087)	-5.8%	822,695	855,761	(33,066)	-3.9%
Alcoholic Beverage	4,578	4,685	(108)	-2.3%	51,944	49,508	2,436	4.9%
Liquor Gallonage	3,718	3,738	(20)	-0.5%	42,391	41,239	1,152	2.8%
Estate	89	244	(155)	-63.7%	668	1,857	(1,189)	-64.0%
Total Tax Receipts	1,951,654	1,908,784	42,869	2.2%	19,694,525	19,716,907	(22,382)	-0.1%
NON-TAX RECEIPTS								
Federal Grants	947,141	900,421	46,720	5.2%	10,750,516	11,212,207	(461,691)	-4.1%
Earnings on Investments	0	0	0	N/A	37,303	26,167	11,135	42.6%
License & Fee	377	605	(228)	-37.8%	58,845	56,095	2,749	4.9%
Other Income	2,606	373	2,234	599.6%	48,580	45,272	3,308	7.3%
ISTV'S	9,766	1	9,765	N/A	18,898	867	18,032	2080.8%
Total Non-Tax Receipts	959,890	901,399	58,491	6.5%	10,914,142	11,340,608	(426,466)	-3.8%
TOTAL REVENUES	2,911,543	2,810,183	101,360	3.6%	30,608,667	31,057,515	(448,848)	-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	11,157	14,033	(2,876)	-20.5%	108,019	209,508	(101,488)	-48.4%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	11,157	14,033	(2,876)	-20.5%	108,019	209,508	(101,488)	-48.4%
TOTAL SOURCES	2,922,701	2,824,217	98,484	3.5%	30,716,686	31,267,023	(550,337)	-1.8%

DISBURSEMENTS

May GRF disbursements, across all uses, totaled $3,101.8 million and were $116.4 million (3.6%) below estimate. This was primarily attributable to lower than estimated disbursements in the Medicaid and Primary and Secondary Education categories, which were partially offset by higher than estimated disbursements for Property Tax Reimbursements. On a year-over-year basis, May total uses were $292.3 million (10.4%) higher than those of the same month in the previous fiscal year, with the Property Tax Reimbursements, Medicaid, Health and Human Services, and Higher Education categories largely responsible for the increase. Year-to-date variances from estimate by category are provided in the table below.

Category	Description	YTD Variance	% Variance
Expenditures and transfers between agencies (ISTVs)	State agency operations, subsidies, tax relief, debt service payments, and pending payroll (if applicable)	($1,302.7 million)	-3.9%
Transfers	Temporary or permanent transfers out of the GRF that are not agency expenditures	($15.5 million)	-4.9%
TOTAL DISBURSEMENTS VARIANCE:		**($1,318.2 million)**	**-3.9%**

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. May disbursements for this category totaled $558.2 million and were $77.7 million (12.2%) below estimate. This variance was primarily attributable to below estimate spending in the student assessment, pupil transportation, and foundation funding line items. Disbursements in the student assessment line item were below estimate due to test vendor payments occurring in April instead of May as expected; disbursements in the pupil transportation line item were below estimate due to formula obligations for transportation being under appropriation limits; and disbursements were below estimate in the foundation funding line item due to a $40 million payment for catastrophic cost reimbursement that was expected to occur in May, but is now anticipated to disburse in June. Expenditures for the school foundation program totaled $541.6 million and were $63.9 million (10.6%) below estimate. Year-to-date disbursements were $7,514.7 million, which is $68.1 million (0.9%) below estimate.

On a year-over-year basis, disbursements in this category were $5.8 million (1.0%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $295.8 million (4.1%) higher than the same point in fiscal year 2016. This year-over-year variance is primarily attributable to increased payments to school districts under the foundation funding formula.

Higher Education

May disbursements for the Higher Education category, which includes non-debt service GRF spending by the Department of Higher Education, totaled $195.2 million and were $0.2 million (0.1%) below estimate. This variance was primarily attributable to disbursements for the Ohio College Opportunity Grant (OCOG), which were $1.3 million below estimate as a result of system interface issues causing delays in requests for reimbursement. This and other negative variances were partially offset by disbursements for the Ohio National Guard Scholarship Program, which were $1.8 million above estimate as a result of a catch-up in payments due to payment processing delays that occurred earlier in the fiscal year.

Year-to-date disbursements were $2,114.2 million, which was $10.0 million (0.5%) below estimate. On a year-over-year basis, disbursements in this category were $10.0 million (5.4%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $72.9 million (3.6%) 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.

May disbursements in this category totaled $3.3 million and were $0.4 million (11.7%) below estimate. Year-to-date disbursements were $69.3 million, which was $2.7 million (3.8%) below estimate. On a year-over-year basis, disbursements in this category were $0.8 million (29.7%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $4.6 million (7.1%) 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.

<u>Expenditures</u>
May GRF disbursements for the Medicaid Program totaled $1,603.7 million and were $148.8 million (8.5%) below estimate and $101.4 million (6.8%) above disbursements for the same month in the previous fiscal year. Year-to-date GRF disbursements totaled $16,107.1 million and were $1,021.4 million (6.0%) below estimate and $498.7 million (3.0%) below disbursements for the same point in the previous fiscal year.

May all funds disbursements for the Medicaid Program totaled $2,264.9 million and were $198.3 million (8.1%) below estimate and $84.2 million (3.9%) above disbursements for the same month in the previous fiscal year. Year-to-date all funds disbursements totaled $23,458.1 million and were $1,481.4 million (5.9%) below estimate and $1,159.8 million (5.2%) above disbursements for the same point in the previous fiscal year.

The May all funds variance is primarily attributable to the managed care program due to lower than budgeted monthly capitation rates. Hospital and hospital-based physician upper payment limit (UPL) expenses were also below estimate due to a delay in completing payments for this program. The UPL program provides additional payments to hospitals and hospital-based physicians for allowable costs that are not fully covered by Medicaid payments; the combination of Medicaid payments and UPL payments may not exceed the amount that the Medicare program would have paid for such services (i.e. the upper payment limit). The remaining May payments will be completed in June. Additionally, payment delays for the Medicare Buy-In program also contributed to below estimate spending in the premium assistance program. These payments will also be completed in June. Below estimate spending also took place in program administration. These savings are partially offset by greater than anticipated spending in the fee-for-service program due to settlement payments for the Medicaid in Schools program.

The year-to-date all funds variance included below estimate spending in the managed care program due to lower than budgeted monthly capitation rates. Year-to-date fee-for-service program costs were below estimate due to enrollment being below estimate by an average of 2.3% per month. Below estimate fee-for-service enrollment also caused hospital and hospital-based physician upper payment limit (UPL) expenses to be below estimate, in particular, the inpatient hospital component to which these expenses are closely linked – this is in addition to the above-mentioned payment delay. Finally, lower program administration costs are the result of lower costs for information technology projects, volume-based service contracts, and reimbursement requests from county departments of job and family services. This underspending was partially offset by higher rates paid by the premium assistance program.

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

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

	May Actual	May Projection	Variance	Variance %
GRF	$ 1,603.7	$ 1,752.5	$ (148.8)	-8.5%
Non-GRF	$ 661.2	$ 710.7	$ (49.5)	-7.0%
All Funds	$ 2,264.9	$ 2,463.2	$ (197.3)	-8.1%

Enrollment
Total May enrollment across all categories was 3.10 million. The most significant components are the Covered Families and Children/Modified Adjusted Gross Income (CFC/MAGI) category, which decreased by 7,584 persons to a May total of 2.51 million persons, and the Aged, Blind and Disabled (ABD) category, which increased by 7,858 persons to a May total of 445,696 covered lives.

Total enrollment across all categories for the same period last year was 3.05 million covered persons, including 2.52 million persons in the CFC/MAGI category and 369,253 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.

May disbursements in this category totaled $86.8 million and were $3.8 million (4.2%) below estimate. Year-to-date disbursements were $1,252.2 million, which was $72.5 million (5.5%) below estimate. On a year-over-year basis, disbursements in this category were $13.7 million (18.7%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $42.5 million (3.5%) higher than at the same point in fiscal year 2016.

Department of Job and Family Services
May disbursements for the Department of Job and Family Services totaled $36.6 million and were $20.8 million (36.3%) below estimate. This variance was primarily attributable to Early Care and Education, which was $16.2 million below estimate due to payments being made in January instead of May. Additionally, disbursements for Child Care State Maintenance of Effort were $6.0 million below estimate due to an increase in provider child care rates beginning in September 2016 that caused the early disbursement of funds relative to the original estimates. Disbursements for the Children and Families subsidy were $1.2 million below estimate due to the timing of the State Child Protective Allocation (SPCA) payments, which were paid in April instead of May. These and other variances were partially offset by above estimate disbursements for Disability and Other Assistance, which were $1.4 million above estimate due to more counties having draws against the collected refunds on Disability Assistance allocation, and Family Assistance – Local disbursements, which were $1.3 million above estimate due to unanticipated county draws for income maintenance payments.

Department of Mental Health and Addiction Services

April disbursements for the Department of Mental Health and Addiction Services totaled $34.5 million and were $12.0 million (53.6%) above estimate. This variance was primarily attributable to Continuum of Care disbursements, which were $17.0 million above an estimate of $0, and Criminal Justice Services disbursements, which were $1.2 million (643.7%) above estimate as subsidy payments originally scheduled for April were made in May. These variances were partially offset by below estimate disbursements for Hospital Services, which were $5.2 million (32.4%) below estimate as payments originally scheduled for May were made in earlier months instead.

Department of Health

May disbursements for the Department of Health totaled $10.3 million and were $3.8 million (58.6%) above estimate. This variance is primarily attributable to the Immunization line item, which was $1.8 million (325%) above estimate due to the timing of disbursements for several media campaigns. Additionally, the Local Health Departments line item was above estimate by $0.8 million as a one-time subsidy payment originally estimated to occur in April occurred in May instead. Disbursements for Emergency Preparedness and Response were also above estimate by $0.6 million as the Department of Health purchased additional supplies of the drug Naloxone, which is a life-saving drug overdose treatment. The variance was partially offset by below estimate spending in the FQHC Primary Care Workforce Initiative which was $0.7 million below estimate due to scheduled disbursements occurring in April rather than May.

Justice and Public Protection

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

May disbursements in this category totaled $138.6 million and were $4.6 million (3.2%) below estimate. Year-to-date disbursements were $1,905.2 million, which was $36.5 million (1.9%) below estimate. On a year-over-year basis, disbursements in this category were $2.9 million (2.1%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $60.0 million (3.3%) higher than at the same point in fiscal year 2016.

Department of Rehabilitation and Correction

May disbursements for the Department of Rehabilitation and Correction totaled $109.1 million and were $5.4 million (4.7%) below estimate. This variance was primarily attributable to below estimate disbursements for Institutional Operations and Institution Medical Services due to the timing of payments for equipment and medical supplies, which will occur in June rather than May 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.

May disbursements in this category totaled $25.8 million and were $5.2 million (16.7%) below estimate. Year-to-date disbursements were $343.5 million, which was $23.4 million (6.4%) below estimate. On a year-over-year basis, disbursements in this category were $5.6 million (17.9%) lower than for the same month in the previous fiscal year while year-to-date expenditures were $7.8 million (2.3%) higher than at the same point in fiscal year 2016.

Department of Administrative Services
May disbursements for the Department of Administrative Services totaled $0.6 million and were $3.9 million (86.4%) below estimate. This variance was attributable to the timing of quarterly rent payments for certain GRF-supported agencies as payments will occur in June instead of May 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. May property tax reimbursements totaled $458.0 million and were $104.9 million (29.7%) above estimate. Year-to-date disbursements totaled $1,750.3 million and were $39.0 million (2.2%) below estimate. The monthly variance is due to reimbursement requests being received from counties later than anticipated. Aggregate disbursements for the fiscal year are expected to remain below estimate, driven primarily by declines in the homestead exemption program.

Debt Service

May payments for debt service totaled $15.7 million and were $3.0 million (23.2%) above estimate. Year-to-date debt service payments were $1,291.7 million and were $29.1 million (2.2%) below estimate. The year-to-date variance is primarily attributable to the use of unspent bond proceeds in the site development program to offset debt service and lower than estimated interest rates on recent bond issuances.

Transfers Out

May transfers out totaled $16.6 million and were $16.6 million above estimate. Year-to-date transfers out were $302.4 million and were $15.5 million (4.9%) below estimate. The monthly variance is primarily attributable to the timing of transfers out to the Medicaid Managed Care Performance Payments Fund.

Table 3

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

Functional Reporting Categories Description	MONTH ACTUAL MAY	MONTH ESTIMATED MAY	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	558,245	635,982	(77,737)	-12.2%	7,514,697	7,582,806	(68,109)	-0.9%
Higher Education	195,165	195,395	(230)	-0.1%	2,114,160	2,124,176	(10,015)	-0.5%
Other Education	3,324	3,766	(442)	-11.7%	69,266	71,987	(2,721)	-3.8%
Medicaid	1,603,682	1,752,490	(148,808)	-8.5%	16,107,091	17,128,461	(1,021,371)	-6.0%
Health and Human Services	86,763	90,606	(3,842)	-4.2%	1,252,229	1,324,720	(72,491)	-5.5%
Justice and Public Protection	138,572	143,176	(4,605)	-3.2%	1,905,164	1,941,633	(36,470)	-1.9%
General Government	25,780	30,961	(5,181)	-16.7%	343,482	366,898	(23,416)	-6.4%
Property Tax Reimbursements	457,955	353,076	104,880	29.7%	1,750,318	1,789,302	(38,984)	-2.2%
Capital Outlay	0	0	0	N/A	0	0	0	N/A
Debt Service	15,690	12,740	2,951	23.2%	1,291,746	1,320,838	(29,092)	-2.2%
Total Expenditures & ISTV's	3,085,176	3,218,191	(133,015)	-4.1%	32,348,153	33,650,822	(1,302,669)	-3.9%
Transfers Out:								
BSF Transfer Out	0	0	0	N/A	29,483	29,483	0	0.0%
Operating Transfer Out	16,591	0	16,591	N/A	272,892	288,392	(15,501)	-5.4%
Temporary Transfer Out	0	0	0	N/A	0	0	0	N/A
Total Transfers Out	16,591	0	16,591	N/A	302,374	317,875	(15,501)	-4.9%
Total Fund Uses	3,101,767	3,218,191	(116,424)	-3.6%	32,650,527	33,968,697	(1,318,170)	-3.9%

Table 4

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

	MONTH				YEAR-TO-DATE			
Functional Reporting Categories Description	MAY FY 2017	MAY FY 2016	$ VAR	% VAR	ACTUAL FY 2017	ACTUAL FY 2016	$ VAR	% VAR
Primary and Secondary Education	558,245	552,456	5,789	1.0%	7,514,697	7,218,916	295,781	4.1%
Higher Education	195,165	185,157	10,008	5.4%	2,114,160	2,041,212	72,949	3.6%
Other Education	3,324	2,563	761	29.7%	69,266	64,683	4,583	7.1%
Medicaid	1,603,682	1,502,269	101,412	6.8%	16,107,091	16,605,772	(498,681)	-3.0%
Health and Human Services	86,763	73,074	13,689	18.7%	1,252,229	1,209,761	42,468	3.5%
Justice and Public Protection	138,572	135,699	2,873	2.1%	1,905,164	1,845,125	60,038	3.3%
General Government	25,780	31,411	(5,631)	-17.9%	343,482	335,729	7,753	2.3%
Property Tax Reimbursements	457,955	310,496	147,459	47.5%	1,750,318	1,758,462	(8,144)	-0.5%
Capital Outlay	0	0	0	N/A	0	0	0	N/A
Debt Service	15,690	11,319	4,371	38.6%	1,291,746	1,276,811	14,935	1.2%
Total Expenditures & ISTV's	3,085,176	2,804,444	280,732	10.0%	32,348,153	32,356,471	(8,318)	0.0%
Transfers Out:								
BSF Transfer	0	0	0	N/A	29,483	425,500	(396,017)	-93.1%
Operating Transfer Out	16,591	5,000	11,591	231.8%	272,892	411,027	(138,135)	-33.6%
Temporary Transfer Out	0	0	0	N/A	0	0	0	N/A
Total Transfers Out	16,591	5,000	11,591	231.8%	302,374	836,527	(534,153)	-63.9%
Total Fund Uses	3,101,767	2,809,444	292,323	10.4%	32,650,527	33,192,998	(542,471)	-1.6%

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 $458.8 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.

NOTE: The Fund Balance Table is based on the fiscal year 2017 estimates prepared in July 2016 and does not reflect revised fiscal year 2017 estimates contained in the Executive Budget for fiscal years 2018-2019. Please see the February 2017 issue of this report for additional information.

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**	35,893,611
Less FY 2017 Estimated Total Encumbrances as of June 30, 2017	312,696
Less FY 2017 Estimated Transfers Out	417,875
Total Estimated Uses	**36,624,182**
FY 2017 ESTIMATED UNENCUMBERED ENDING FUND BALANCE	**458,825**

* 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.

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

Jason Akbar, Ben Boettcher, Beth Brink, Frederick Church, Todd Clark, Jim Coons, Adam Damin, Erin DeGiralomo, Paul DiNapoli, Chris Guerrini, Sharon Hanrahan, Jennifer Kahle, Kurt Kauffman, Sári Klepacz, Lauren Lopez, Steven Peishel, Craig Rethman, Katja Ryabtseva, Tara Schuler, Travis Shaul, Dex Stanger, and Nick Strahan.