OBM

August 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

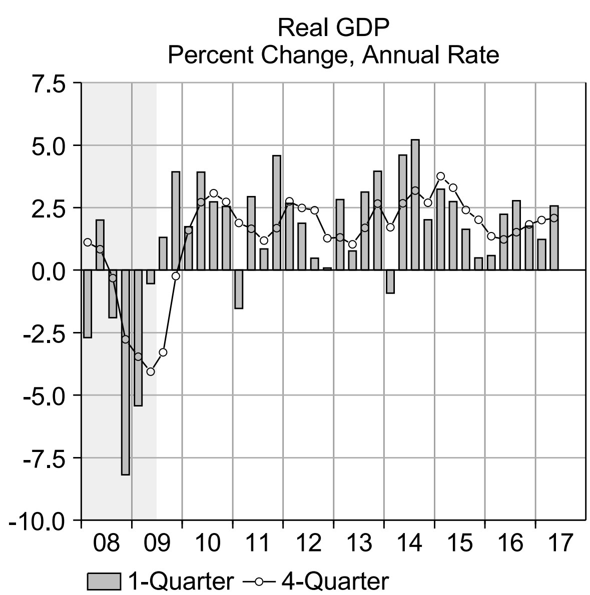
ECONOMIC SUMMARY

Economic Performance Overview

- First-quarter economic growth increased to 2.6% from 1.2% in the first quarter. Forecasters project stronger growth in the third quarter and a trend rate of 2% to 2.5% thereafter.
- U.S. employment increased by 209,000 jobs in July for a year-to-date average of 184,000 jobs per month. The unemployment rate edged lower to 4.3%.
- Ohio nonfarm payroll employment increased by 11,500 jobs in June to a level that is 25,100 jobs above the December 2016 level. The unemployment rate ticked up to 5.0%.
- Leading economic indicators remain consistent with uninterrupted growth at a modest pace.

Economic Growth

The current economic expansion marked its eighth anniversary in June, and remains the third longest in history. At 96 months, this expansion is second in length only to the 106-month expansion during 1961-1970 and the 120-month expansion during 1991-2001. The economy expanded for 92 months straight during 1982-1991 and for 80 months following the conclusion of World War II. The seven other post-war expansions lasted for an average of 36 months.

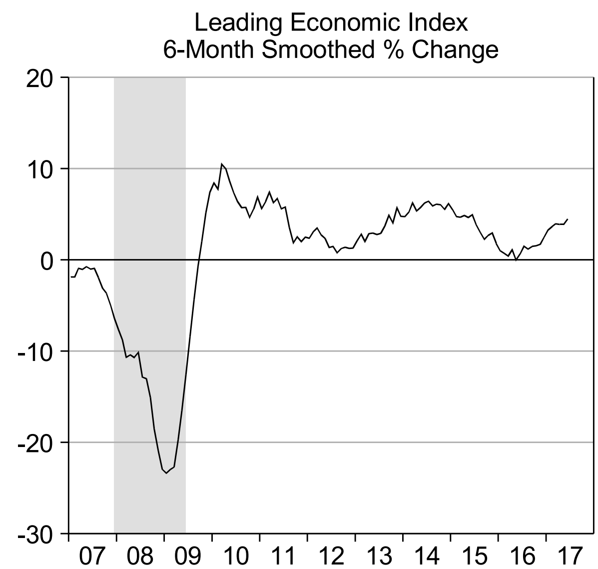


Real GDP growth increased to a moderate 2.6% in the second quarter from a slow 1.2% in the first quarter. Compared with a year earlier, real GDP was up by 2.1% in the second quarter. The growth rate was 1.8% in the fourth quarter and 1.5% for all of 2016, which was the slowest rate of growth for any calendar year since the end of the 2007-2009 recession. As part of the regular annual revision process, real GDP growth in recent years was revised modestly – up 0.2% in 2014 and 0.3% in 2015 and down 0.1% in 2016.

The acceleration from the first quarter to the second quarter reflected a smaller decrease in private inventory investment, a pickup in personal consumption expenditures, and an upturn in federal government spending, which was due entirely to national defense. The positive contributions from these areas were partly offset by a decrease in residential fixed investment after a very strong first quarter and slower growth in exports and nonresidential fixed investment.

The Ohio economy also continued to expand through June. The **Ohio coincident economic index,** from the Philadelphia Federal Reserve, was unchanged on the month, but that was after a 0.4% increase in May. Compared with a year earlier, the index was higher by 1.8%. The index is composed of four labor market indicators, and has represented 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 0.6% in June for the tenth straight monthly gain. The smoothed 6-month rate of change in the index was 4.5%, up from a recent low of zero in May 2016. Eight of the ten components made positive contributions again in June, led by building permits, which was the only component to decrease the month before, followed by the ISM new orders index and the interest rate spread. The only component that subtracted from the index was initial unemployment claims.



Source: The Conference Board

On the negative side, the breadth of gains in state-level composite coincident indexes compiled by the Philadelphia Federal Reserve, which has been a leading indicator for the national economy in the past, deteriorated in the second quarter. The number of state indexes declining held at eight in May and June after jumping from two in March to nine in April. The number of states for which the index decreased over the three months ending in June jumped from three in May to eight. The last month in which the index for a greater number of states declined over a 3-month span was July 2007, when the indexes for nine states were lower.

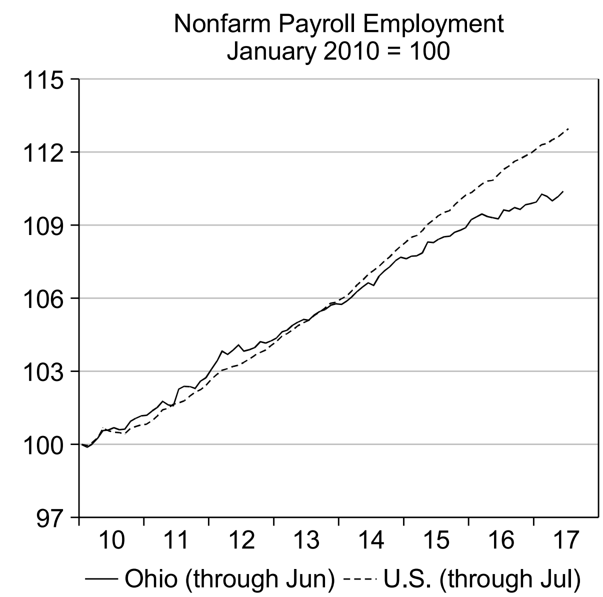
The diffusion of state leading economic indexes in June sent a more positive signal, as the indexes for only two states were negative (Maine and Massachusetts). In contrast, five states posted negative readings in May. The Ohio index was +1.1% in June and in line with recent months. The strongest readings in neighboring states were in Michigan (+3.6%) and Indiana

(+2.4%), followed by Pennsylvania (+0.6%), Kentucky (+0.5%), and West Virginia (+0.4%). In contrast to recent performance, 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 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.

The consensus among forecasters is for continued growth in **real GDP** in the second-half of the year. The Federal Reserve Bank of Atlanta projects growth of 4.0% in the third quarter, based on the trajectory of major indicators during the second quarter and data available so far for the third quarter. The Federal Reserve Bank of New York projects growth of 1.9%. The more-stable Blue Chip consensus, which is an average of forecasts from a group of professional forecasters, calls for 2.4% growth, with a range of 1.8% to 3.0% from the average of the lowest ten to the highest ten forecasts

Employment

Nonfarm payrolls across the country increased by 209,000 jobs in July, somewhat above expectations for about a 188,000 increase. In addition to the gain relative to expectations, the May and June gains were revised up by a total of 2,000. The average employment increase during the past three months of 195,000 jobs is toward the higher end of the recent range of monthly job gains. Employment has increased by an average of 184,000 jobs per month so far this year, compared with an average gain of 187,000 per month in 2016.



Employment was unchanged in mining, and up 6,000 in construction and 16,000 in manufacturing. Within the Service sector, job gains were led by food services and drinking places (+53,100); professional and business services (+49,000), with a concentration in administrative and support services (+30,200); and health care (+39,400). No major sector posted a large job loss.

The **unemployment rate** was essentially unchanged at 4.3%, reflecting a 345,000 increase in total employment and a 4,000 increase in the number of unemployed. The unemployment rate has been below 4.5% for four months. The broadest measure of unemployment, the U-6 unemployment rate, was unchanged at 8.6% and has been below 8.9% for four months. 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 and those working part-time who would prefer full-time work.

Average hourly earnings of all employees on private nonfarm payrolls increased 0.3% to 2.5% above the year earlier level, but were still slightly below the level reported earlier in the year. Even so, the steady growth in wages indicates that labor markets are tightening gradually, and is likely to support policy changes by the Federal Reserve in coming months designed to constrain credit.

Ohio nonfarm payroll employment increased by 11,500 jobs in June, and the May increase was revised higher from 6,300 jobs to 8,200 jobs. Gains of 6,100 jobs in government, 4,000 jobs in manufacturing, and 2,400 in financial activities were partly offset by declines in leisure and hospitality (-3,000) and information (-1,000).

During the twelve months ending in June, Ohio employment increased by 56,800 jobs. The largest gains were in education and health services (+21,700), professional and business services (+9,400), financial activities (+8,000), construction (+6,400), and leisure and hospitality (+5,400). Trade, transportation, and utilities (-600) had the only decline, driven by a 4,600 decline in the sub-category of retail sales employment.

According to a regular survey by the Federal Reserve Bank of Cleveland, employers in and around Ohio reported that payrolls continued to expand into July, but at a slower pace than in the spring. The construction and nonfinancial services industries reported notable increases. Brick-and-mortar retailers continued to trim payrolls. Both construction and freight hauling contacts reported difficulty in finding qualified applicants.

Among the **contiguous states**, year-over-year employment growth was strongest in Kentucky (+1.6%), followed by Indiana (+1.5%), Michigan (+1.4%), Pennsylvania (+1.3%), Ohio (+1.0%), and West Virginia (+0.2%), which broke into positive territory for the first time since a single positive reading last November. Manufacturing employment increased year-over-year in Michigan (1.0%), Kentucky (0.8%), Indiana (0.5%), and in Ohio (0.4%). It decreased in Pennsylvania (-2.2%) and West Virginia (-3.0%).

The **Ohio unemployment rate** increased by 0.1 percentage point to 5.0% in June. 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 (+102,200) than in total employment (+79,100).

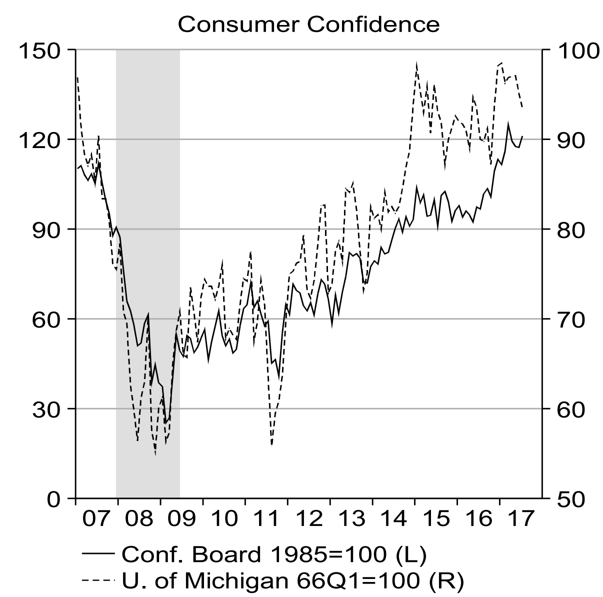
Across the country in June, the unemployment rate decreased by a statistically significant amount in eight states and increased by a statistically significant amount in two states—Michigan and Tennessee. When compared to a year earlier, the unemployment rate was lower by a statistically significant margin in twenty-seven states. It was not higher in any state.

<u>Consumer Income and Consumption</u>

Personal income and spending growth both slowed in June. **Personal income** was essentially flat in June after a 0.3% increase in May that was initially reported as 0.4%. The weakness in June reflected decreases in personal dividend income and personal interest income. The drop in dividend income was related to a one-time special dividend paid by Costco in May. The wage and salary disbursements component, which makes up more than half of total personal income, accelerated to 0.4% growth in June from 0.1% in May. Compared with a year earlier, personal income was up 2.6% and wage and salary disbursements were up 2.5%.

The **Consumer Price Index** (CPI) was unchanged in June, as energy prices decreased and food prices were flat. The price of gasoline fell 2.8% in June on top of a 6.4% decline in May, roughly matching the 6.2% decline in March. Excluding prices of food and energy, the CPI was higher by 0.1%. Compared with a year earlier, the CPI was higher by 1.6% and excluding food and energy the CPI was up by 1.7%. The Median CPI from the Federal Reserve Bank of Cleveland, which is an alternative measure of the trend in inflation, tracked slightly higher at 2.2% 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** slowed, gaining 0.1% in June, although the May change was revised higher from 0.1% to 0.2%. Spending on durable goods decreased 0.4%, partially due to the slip in sales of motor vehicles from 16.7 million units in May to 16.6 million units in June, although the May change was revised from a decline of 0.3% to no change. Sales of autos rebounded somewhat to 16.7 million units in July, but remain well below the recent peak of 18.3 million units last December. Spending on nondurable goods decreased 0.4%, and spending on services increased 0.3%.



Consumer spending at brick-and-mortar retailers in and around Ohio has remained stable in recent months, according to the Fed survey. Sales of fresh food were strong, while sales of electronics were weak. Sales of apparel items at large chain retailers were reportedly soft. On a year-over-year basis during the spring sales of new motor vehicles were up about 3%. Dealers reported higher-than-usual inventories due to lower demand for passenger cars.

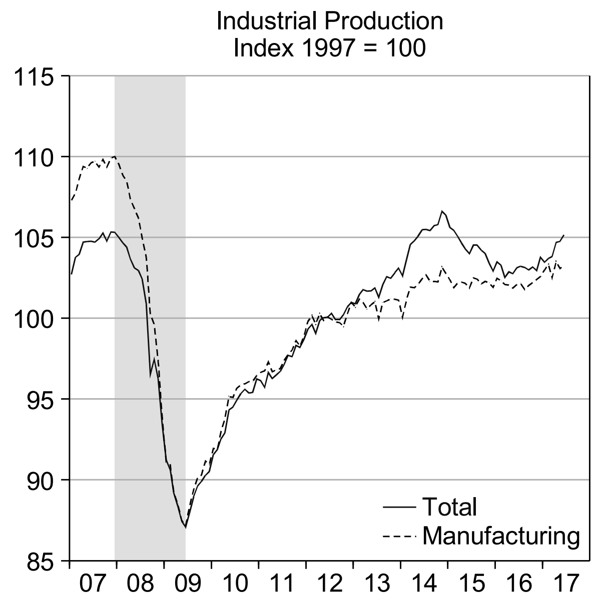
Consumer attitudes remained bright in July, generally holding near the high levels of recent months. The Conference Board measure of **consumer confidence** increased to its highest level since March and before that since December 2000. Assessments of both current and future conditions improved on the month, with current conditions rated the best since July 2001 and future conditions viewed somewhat less brightly than in the first quarter. Views regarding the labor market were the best since the summer of 2001, but plans to buy motor vehicles and houses were at 6-month lows.

The University of Michigan/Reuters survey reports similar information, although a decline in the expectations index outweighed the increase in the assessment of current conditions to pull down the overall index for a second straight month. Survey respondents reported that buying conditions for motor vehicles and houses are worse than a year ago, reflecting higher mortgage rates, housing prices, and a more conservative outlook among some motor vehicle lenders.

Manufacturing

Industrial production in manufacturing increased 0.2% in June after a 0.4% decline in May. The May decline was the second in three months. Utility production was unchanged on the month. Mining output increased 1.6% after a 1.9% increase in May, reflecting broad-based strength. Total industrial production increased a healthy 0.4%— the fifth consecutive monthly increase.

The increase in manufacturing output reflected a 0.7% increase in production of motor vehicles and parts during June that only partly offset the 2.2% decline in May. Excluding motor vehicles and parts, manufacturing output increased 0.1%. Compared with a year earlier, manufacturing production, again excluding motor vehicles and parts, was up by a modest 1.2%.



Production across the country in some industries that are key employers in Ohio was mixed during June. In addition to the moderate rise in production of motor vehicle and parts, production in primary metal and machinery each increased 0.6%. Production in fabricated metal decreased by 0.1%. Compared with a year earlier, production in all four industries was modestly to moderately higher.

Manufacturers in and around Ohio reported to the Cleveland Fed that the small pickup in demand at energy-related companies has been more than offset by declines in motor vehicle and consumer packaged-product industries. Year-to-date production through May at auto assembly plants in and around Ohio was down about 9%. The number of drilling rigs operating in and around Ohio continued to increase relative to a year earlier, reflecting rising investment in regional oil and gas, pipelines, and mid-stream plants.

Reports of improving conditions from **purchasing managers** in manufacturing remained broad-based in July. The PMI® was 56.3, down from 57.8 in June, but remained near the high for the year and extended the streak of readings above the neutral level of 50 to eleven months. The New Orders and Production sub-indexes both decreased slightly, but remained just above 60. All other sub-indexes either improved or were little changed, pointing to continued strengthening in the manufacturing sector nationally in July.

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, fabricated metal products, machinery, primary metals, and transportation equipment all reported expansion.

One respondent in the Machinery industry stated “Business is very steady, but everyone is waiting until the last minute to place their orders.” A survey participant in the fabricated metal products industry reported “Six profitable months in a row. First time since 2007.”

Construction

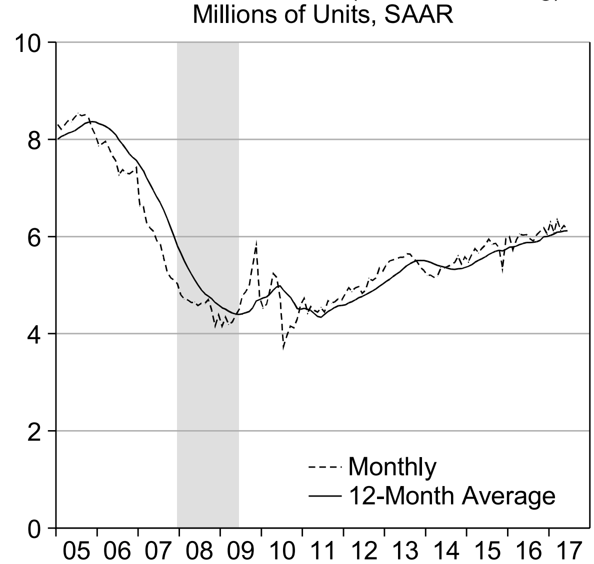
Construction put-in-place decreased 1.3% in June. Activity declined in both the private sector (-0.1%) and the public sector (-5.4%). Compared with a year earlier, total construction was up just 1.6%, reflecting a 5.3% year-over-year increase in private construction and a 9.5% decrease in public construction.

The weakness in **private** construction in June resulted from a 0.2% decline in residential construction that more than offset a 0.1% rise in nonresidential construction. Within residential, a 2.9% decline in multi-family more than offset a 0.3% rise in single-family. Improvements were unchanged. Nonresidential was held back by a large decline in manufacturing and smaller declines in power and commercial that were offset by a large increase in office.

The weakness in **public** construction put-in-place occurred across all major segments. Residential fell 5.8% and nonresidential fell 5.4%, led by highway and education.

The recent weakness in home construction abated at least somewhat in June. **Housing starts** increased 0.8%, on a 3-month moving average basis, reflecting a 1.0% rise in single-family and a 0.1% rise in multi-family. The small increase in total starts came after three monthly declines in a row and four in the previous five months (all on a 3-month moving average basis).

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



Total starts increased robustly across the Midwest, with the total rising 13.0% due to a 7.9% increase in single-family and a 26.6% jump in multi-family. Compared with a year earlier, Midwest starts were still 1.5% lower due to a 23.8% year-over-year decline in multi-family that outweighed a 13.1% rise in single-family. More-forward-looking housing permits were also positive in June, up 0.4% across the country on a 3-month moving average basis and up 2.7% across the Midwest.

Home sales are still being constrained by supply, according to reports. Existing home sales fell 1.1% in June, falling back to the April level on a 3-month moving average basis. In the Midwest, existing home sales edged higher by 0.3%. In contrast, new home sales fell 1.5% across the country, marking the third straight monthly decline, while falling 8.3% in the Midwest, which was the second straight monthly decline. Compared with a year earlier, both existing and new home sales were higher across the country but lower in the Midwest on a 3-month moving average basis.

Home prices across the country posted their 64th consecutive monthly increase in May, rising by 0.2% to 5.6% above the year earlier level, according to the Case-Shiller index.

REVENUES

NOTE: Estimates in the revenue tables are based on the enacted version of H.B. 49, the fiscal year 2018-2019 operating budget bill, with the exception of federal grants, which reflect actual receipts. Federal grants are driven primarily by reimbursements for Medicaid spending and as is the usual practice, disbursement estimates for the first fiscal year of the biennium will not be completed until late August.

July **GRF receipts totaled $3,043.4 million** and were $12.9 million (0.4%) above the estimate. Monthly tax receipts totaled $1,661.9 million and were $2.2 million (0.1%) below the estimate, while non-tax receipts totaled $1,270.2 million and were right at the estimate. Transfers were $111.3 million and were $15.1 million (15.7%) above estimate. Variances for the fiscal year-to-date by category are identical to July and are provided in the following table:

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	($2.2 million)	-0.1%
Non-tax receipts	Federal grants, earnings on investments, licenses & fees, other income, intrastate transfers	$0.0 million	0.0%
Transfers	Budget stabilization, liquor transfers, capital reserve, other	$15.1 million	15.7%
TOTAL REVENUE VARIANCE:		**$12.9 million**	**0.4%**
Non-federal revenue variance		**$12.9 million**	**0.70%**
Federal grants variance (see note above)		**$0.0 million**	**0.0%**

On a year-over-year basis, monthly receipts were $275.5 million (10.0%) higher than in July of the previous fiscal year. The increases were spread across categories:

(i) Federal grants were $100.7 million (8.6%) greater than in fiscal year 2017;
(ii) Tax revenues were $69.2 million (4.3%) higher than a year ago;
(iii) Transfers in to the GRF were $106.3 million higher than a year ago.

The increase from last July in tax receipts was mainly due to the income tax, which grew by $58.4 million (10.8%). CAT collections also grew strongly, increasing by $14.7 million (37.5%) from last July. Growth in the sales tax was much more muted, at only $5.8 million (0.6%).

GRF Revenue Sources Relative to Monthly Estimates – July 2017

($ in millions)

Individual Revenue Sources Above Estimate		Individual Revenue Sources Below Estimate	
Personal Income Tax	$29.2	Non-auto Sale Tax	($26.8)
Transfers in	$15.1	Cigarette and Other Tobacco Tax	($7.6)
Commercial Activity Tax	$9.7	Kilowatt Hour Tax	($3.9)
Corporate Franchise Tax	$1.2	Domestic Insurance Tax	($3.3)
Financial Institutions Tax	$0.7	Auto Sales Tax	($1.5)
Other Sources Above Estimate	$0.5	Other Sources Below Estimate	($0.4)
Total above	**$56.4**	**Total below**	**($43.5)**

(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

July non-auto sales and use tax collections totaled $842.1 million and were $26.8 million (3.1%) below estimate. On a year-over-year basis, July receipts were $4.5 million (0.5%) above the same month last year.

The non-auto sales tax underperformed the estimates by $187 million (2.0%) in fiscal year 2017. Growth for fiscal year 2017 was only 2.4%. As a result, OBM sharply scaled back growth estimates for this tax in fiscal year 2018. After one adjusts for sales tax collections from Medicaid Health Insuring Corporations (MHICs), estimated growth for all of fiscal year 2018 is only 2.0%.

July was the last month of MHIC sales tax collections. Beginning in August, the sales tax on MHIC capitation payments is replaced by a provider assessment on member months of both Medicaid and non-Medicaid managed care companies, which will be deposited into a non-GRF fund. As a result, non-auto sales tax collections are expected to be negative relative to fiscal year 2017 in all of the remaining 11 months of fiscal year 2018.

Auto Sales Tax

Auto sales tax collections in July were $1.5 million (1.3%) below estimate. Collections were $1.2 million (1.1 %) above last July's level.

For fiscal year 2018 as a whole, auto sales tax collections are expected to decline by 2.5%, as unit sales of new autos are not expected to reach fiscal year 2017 levels. Although the July forecast anticipated growth in collections – and indeed there was growth, although not as much as estimated – the estimates for the remaining 11 months of fiscal year 2018 anticipate year-over-year declines in 9 of those months.

Personal Income Tax

July personal income tax receipts totaled $598.5 million and were $29.2 million (5.1%) above estimate. This is a sharp contrast with most of last year, when the income tax was the worst performer among the GRF taxes and finished 7.9% below estimate.

Most payment categories performed well in July; only annual returns were below estimate, falling short by $1.6 million. The best performers were employer withholding and refunds. Withholding collections were $17.7 million (2.7%) above estimate, while refunds were $6.4 million (9.3%) below estimate. Again, this is a reversal of the pattern from fiscal year 2017, when withholding and refunds were responsible for the majority of the income tax shortfall.

In some aspects, the July results are an extension of the last half of fiscal year 2017. Most of the underperformance of withholding in fiscal year 2017 was in the first-half of the year. In the last two quarters of fiscal year 2017, withholding growth picked up, posting growth rates of 3.5% in the January-March quarter and 4.6% in the April-June quarter. Withholding growth in July was 6.4%, continuing to show improvement from the trough of the last quarter of calendar year 2016, when withholding actually declined.

On a year-over-year basis, July GRF income tax collections were $58.7 million (10.9%) above July 2016 collections. All payment categories increased from last July, except for annual return payments. As noted above, withholding posted the biggest increase, growing by $40.1 million (6.4%) from last year.

FY2018 PERSONAL INCOME TAX RECEIPTS BY COMPONENT ($ in millions)						
	Estimate July	Actual July	$ Var July	Actual Jul-2017	Actual Jul-2016	$ Var Y-0ver-Y
Withholding	$651.4	$669.1	$17.7	$669.1	$629.0	$40.1
Quarterly Est.	$14.5	$18.0	$3.5	$18.0	$8.5	$9.5
Trust Payments	$1.0	$1.6	$0.6	$1.6	$1.1	$0.5
Annual Returns & 40 P	$5.5	$3.9	($1.6)	$3.9	$5.5	($1.6)
Other	$2.7	$5.3	$2.6	$5.3	$2.6	$2.7
Less: Refunds	($68.3)	($61.9)	$6.4	($61.9)	($70.8)	$8.8
Local Distr.	($37.5)	($37.5)	$0.0	($37.5)	($36.1)	($1.4)
Net to GRF	$569.3	$598.5	$29.2	$598.5	$539.8	$58.7

Commercial Activity Tax

July Commercial activity tax (CAT) receipts totaled $54.0 million and were $9.7 million (21.9%) above the estimate of $44.3 million. As the first CAT payment of the fiscal year is due August 10, the combined collections for July and August need examined before determining if the July overage is substantive or simply a matter of timing. However, the above estimate CAT receipts in July is encouraging and it extends a string of overages that began in March of fiscal year 2017. The last four months of fiscal year 2017 converted what had been a shortfall to an end-of-year overage

July GRF CAT receipts were $14.7 million (37.5%) above collections in July of last year. This increase is partly due to a change in the allocation method contained in H.B. 49 (the biennial budget bill) that increased the GRF share of CAT receipts from 75 percent to 85 percent. About $8.4 million of the GRF increase is due to growth in collections; that is, even if the GRF share of CAT collections had remained at 75%, GRF collections would have increased by $8.4 million, or 21.2%. The remaining $6.3 million of the increase is due to the increase in the GRF share from 75% to 85%.

Cigarette and Other Tobacco Products Tax

Cigarette and other tobacco collections were below estimate by $7.6 million (32.0%) in July. OBM believes that this variance is a timing issue and not a source of concern. July is by far the smallest collection month of the year for this tax, and history shows that July collections are quite volatile. August collections are expected to be in line with the estimates.

GRF Non-Tax Receipts

GRF non-tax receipts totaled $1,270.2 million in July and were nearly at the estimate. Federal grants have no variance from the estimate this month because monthly Medicaid disbursement estimates for fiscal year 2018, and thus the monthly federal share of Medicaid spending, are not finalized. Actual federal grant amounts for July were used in lieu of the estimate.

July transfers in totaled $111.3 million and were $15.1 million above estimate. Of that $15.1 million overage, $10 million is expected to be reversed in August or subsequent months due to the correction of an error. The remaining $5.1 million variance is attributable to a larger than expected transfer from the Local Government Innovation Fund (LGIF).

Table 1

GENERAL REVENUE FUND RECEIPTS
ACTUAL FY 2018 VS ESTIMATE FY 2018
($ in thousands)

	MONTH				YEAR-TO-DATE			
REVENUE SOURCE	ACTUAL JULY	ESTIMATE JULY	$ VAR	% VAR	ACTUAL Y-T-D	ESTIMATE Y-T-D	$ VAR	% VAR
TAX RECEIPTS								
Non-Auto Sales & Use	842,120	868,900	(26,780)	-3.1%	842,120	868,900	(26,780)	-3.1%
Auto Sales & Use	113,465	115,000	(1,535)	-1.3%	113,465	115,000	(1,535)	-1.3%
Subtotal Sales & Use	955,585	983,900	(28,315)	-2.9%	955,585	983,900	(28,315)	-2.9%
Personal Income	598,512	569,300	29,212	5.1%	598,512	569,300	29,212	5.1%
Corporate Franchise	1,172	0	1,172	N/A	1,172	0	1,172	N/A
Financial Institutions Tax	1,005	300	705	235.0%	1,005	300	705	235.0%
Commercial Activity Tax	53,995	44,300	9,695	21.9%	53,995	44,300	9,695	21.9%
Petroleum Activity Tax	0	0	0	N/A	0	0	0	N/A
Public Utility	56	0	56	N/A	56	0	56	#DIV/0!
Kilowatt Hour	24,331	28,200	(3,869)	-13.7%	24,331	28,200	(3,869)	-13.7%
Natural Gas Distribution	1,167	1,200	(33)	-2.7%	1,167	1,200	(33)	-2.7%
Foreign Insurance	474	300	174	57.9%	474	300	174	57.9%
Domestic Insurance	57	3,400	(3,343)	-98.3%	57	3,400	(3,343)	-98.3%
Other Business & Property	0	0	0	N/A	0	0	0	N/A
Cigarette and Other Tobacco	16,128	23,700	(7,572)	-32.0%	16,128	23,700	(7,572)	-32.0%
Alcoholic Beverage	5,380	5,700	(320)	-5.6%	5,380	5,700	(320)	-5.6%
Liquor Gallonage	4,056	3,800	256	6.7%	4,056	3,800	256	6.7%
Estate	1	0	1	N/A	1	0	1	N/A
Total Tax Receipts	1,661,918	1,664,100	(2,182)	-0.1%	1,661,918	1,664,100	(2,182)	-0.1%
NON-TAX RECEIPTS								
Federal Grants	1,269,389	1,269,389	N/A	N/A	1,269,389	1,269,389	N/A	N/A
Earnings on Investments	0	0	0	N/A	0	0	0	N/A
License & Fees	339	330	9	2.8%	339	330	9	2.8%
Other Income	437	430	7	1.7%	437	430	7	1.7%
ISTV'S	0	0	0	N/A	0	0	0	N/A
Total Non-Tax Receipts	1,270,165	1,270,149	17	0.0%	1,270,165	1,270,149	17	0.0%
TOTAL REVENUES	2,932,083	2,934,249	(2,165)	-0.1%	2,932,083	2,934,249	(2,165)	-0.1%
TRANSFERS								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	111,330	96,229	15,101	15.7%	111,330	96,229	15,101	15.7%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	111,330	96,229	15,101	15.7%	111,330	96,229	15,101	15.7%
TOTAL SOURCES	3,043,413	3,030,478	12,936	0.4%	3,043,413	3,030,478	12,936	0.4%

Table 2

GENERAL REVENUE FUND RECEIPTS
ACTUAL FY 2018 VS ACTUAL FY 2017
($ in thousands)

	MONTH				YEAR-TO-DATE			
REVENUE SOURCE	JULY FY 2018	JULY FY 2017	$ VAR	% VAR	ACTUAL FY 2018	ACTUAL FY 2017	$ VAR	% VAR
TAX RECEIPTS								
Non-Auto Sales & Use	842,120	837,587	4,534	0.5%	842,120	837,587	4,534	0.5%
Auto Sales & Use	113,465	112,242	1,223	1.1%	113,465	112,242	1,223	1.1%
Subtotal Sales & Use	955,585	949,828	5,757	0.6%	955,585	949,828	5,757	0.6%
Personal Income	598,512	540,068	58,444	10.8%	598,512	540,068	58,444	10.8%
Corporate Franchise	1,172	184	988	537.6%	1,172	184	988	537.6%
Financial Institutions Tax	1,005	303	702	231.7%	1,005	303	702	231.7%
Commercial Activity Tax	53,995	39,280	14,715	37.5%	53,995	39,280	14,715	37.5%
Petroleum Activity Tax	0	0	0	N/A	0	0	0	N/A
Public Utility	56	78	(22)	-27.8%	56	78	(22)	-27.8%
Kilowatt Hour	24,331	26,098	(1,767)	-6.8%	24,331	26,098	(1,767)	-6.8%
Natural Gas Distribution	1,167	1,145	22	2.0%	1,167	1,145	22	2.0%
Foreign Insurance	474	312	161	51.6%	474	312	161	51.6%
Domestic Insurance	57	2,367	(2,311)	-97.6%	57	2,367	(2,311)	-97.6%
Other Business & Property	0	5	(5)	N/A	0	5	(5)	N/A
Cigarette and Other Tobacco	16,128	23,466	(7,338)	-31.3%	16,128	23,466	(7,338)	-31.3%
Alcoholic Beverage	5,380	5,679	(299)	-5.3%	5,380	5,679	(299)	-5.3%
Liquor Gallonage	4,056	3,887	169	4.4%	4,056	3,887	169	4.4%
Estate	1	(1)	2	229.3%	1	(1)	2	229.3%
Total Tax Receipts	1,661,918	1,592,699	69,219	4.3%	1,661,918	1,592,699	69,219	4.3%
NON-TAX RECEIPTS								
Federal Grants	1,269,389	1,168,722	100,667	8.6%	1,269,389	1,168,722	100,667	8.6%
Earnings on Investments	0	0	0	N/A	0	0	0	N/A
License & Fee	339	822	(483)	-58.7%	339	822	(483)	-58.7%
Other Income	437	663	(226)	-34.1%	437	663	(226)	-34.1%
ISTV'S	0	26	(26)	N/A	0	26	(26)	N/A
Total Non-Tax Receipts	1,270,165	1,170,233	99,932	8.5%	1,270,165	1,170,233	99,932	8.5%
TOTAL REVENUES	2,932,083	2,762,932	169,151	6.1%	2,932,083	2,762,932	169,151	6.1%
TRANSFERS								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	111,330	5,000	106,330	2126.6%	111,330	5,000	106,330	2126.6%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	111,330	5,000	106,330	2126.6%	111,330	5,000	106,330	2126.6%
TOTAL SOURCES	3,043,413	2,767,932	275,481	10.0%	3,043,413	2,767,932	275,481	10.0%

DISBURSEMENTS

NOTE: At the beginning of each fiscal year, in conjunction with each agency receiving GRF appropriations, OBM undertakes the process of estimating GRF spending by month for the upcoming year. These spending estimates are built on a combination of H.B. 49 appropriation levels and estimated spending against encumbrances entered into in previous fiscal years. In addition to accounting for policy changes and spending to meet prior year encumbrances, OBM and the agencies also take this opportunity to review any changes in caseloads, payrolls, or other demands for services that might impact the level and pattern of spending during the coming year. The fiscal year 2018 GRF disbursement estimates will be completed in August and included in the September Monthly Financial Report. As a result, OBM has set disbursement estimates for July at the actual disbursement amounts for the month. Therefore, table 3 in this report shows no monthly variances.

July GRF disbursements, across all uses, totaled $3,603.6 million and were without variation as a result of estimates being under development. On a year-over-year basis, July total uses were $110.9 million (3.2%) higher than those of the same month in the previous fiscal year, with the Medicaid and Primary and Secondary Education categories largely responsible for the increase.

Category	**Description**	**YOY Variance**	**% Variance**
Expenditures and transfers between agencies (ISTVs)	State agency operations, subsidies, tax relief, debt service payments, and pending payroll (if applicable)	$309.6 million	9.4%
Transfers	Temporary or permanent transfers out of the GRF that are not agency expenditures	($198.7 million)	-99.7%
TOTAL DISBURSEMENTS VARIANCE:		**$110.9 million**	**3.2%**

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 for the Ohio Department of Education. July disbursements for this category totaled $782.0 million and were $43.2 million (5.8%) above disbursements for the same month of the previous fiscal year. This variance was primarily attributable to timing of payments for Student Assessments, which were $18.7 million (3,314.2%) above prior year disbursements due to payments of prior year encumbrances occurring earlier in fiscal year 2018. Expenditures for the school foundation program totaled $750.9 million and were $23.5 million (3.2%) above disbursements for the same month of the previous fiscal year. This variance was primarily attributable to the timing of tuition payments to school districts, which offset the cost of educating students who are legal residents of other districts. The fiscal year 2017 tuition payments occurred in July of fiscal year 2018, rather than during fiscal year 2017.

Higher Education
July disbursements for the Higher Education category, which includes non-debt service GRF spending by the Department of Higher Education, were \$170.4 million and were \$10.3 million (5.7%) below disbursements for the same month of the previous fiscal year. The variance was due to a temporary delay in distribution of a portion of the Department of Higher Education's subsidy line items while the MOUs between the department and the associated organizations are finalized.

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.

July disbursements in this category totaled \$8.0 million and were \$0.4 million (4.4%) below disbursements for the same month of the previous fiscal year.

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, the Department of Aging, the Department of Education, and the State Board of Pharmacy.

Expenditures
July GRF disbursements for the Medicaid Program totaled \$1,972.1 million and were \$271.9 million (16.0%) above disbursements for the same month in the previous fiscal year. This increase from the prior fiscal year is primarily attributable to the fee-for-service and managed care programs. Fee-for-service has increased due to greater utilization and health care unit cost, although enrollment is lower than one year ago. The managed care program is greater due to enrollment being 2.8% greater than one year ago and higher capitation rates that took effect in January 2017.

July all funds disbursements for the Medicaid Program totaled \$2,223.8 million and were \$353.3 million (18.9%) above disbursements for the same month in the previous fiscal year. As described above, this increase from the prior fiscal year is primarily attributable to the fee-for-service and managed care programs. Fee-for-service has increased due to greater utilization and health care unit cost, although enrollment is lower than one year ago. The managed care program is greater due to enrollment being 2.8% greater than one year ago and higher capitation rates that took effect in January 2017.

The chart below shows the July disbursements in both fiscal years 2017 and 2018 by funding source.

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

		July FY17		July FY18		Change	Change %
GRF	$	1,700.2	$	1,972.1	$	271.9	13.8%
Non-GRF	$	170.3	$	251.7	$	81.4	32.3%
All Funds	$	1,870.5	$	2,223.8	$	353.3	18.9%

Enrollment
Total July enrollment across all categories was 3.08 million. The most significant components are the Covered Families and Children/Modified Adjusted Gross Income (CFC/MAGI) category, which decreased by 26,926 persons to a July total of 2.44 million persons, and the Aged, Blind and Disabled (ABD) category, which increased 3,192 persons to a July total of 490,157 covered lives.

Total enrollment across all categories for the same period last year was 3.04 million covered persons, including 2.53 million persons in the CFC/MAGI category and 361,392 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 for the following state agencies: Job and Family Services, Health, Aging, Developmental Disabilities, Mental Health and Addiction Services, and others. Examples of expenditures in this category include: child care, TANF, administration of the state's psychiatric hospitals, operating subsidies to county boards of developmental disabilities, various immunization programs, and Ohio's long term care ombudsman program. To the extent that these agencies spend GRF to support Medicaid services, that spending is reflected in the Medicaid category.

July disbursements in this category totaled $121.6 million and were $4.4 million (3.5%) below disbursements for the same month of the previous fiscal year.

Department of Job and Family Services
July disbursements for the Department of Job and Family Services totaled $50.8 million and were $1.9 million (3.5%) below disbursements for the same month of the previous fiscal year. This variance was primarily attributable to disbursements for Adoption Services, which was $5.5 million (58.1%) below prior year disbursements due to a shift of the federal component of Adoption Services from the GRF into a federal line item and Child Support – Local disbursements, which was $1.6 million (69.4%) below prior year disbursements due to the timing of payments to counties. These negative variances were partially offset by disbursements for the Children and Families subsidy, which were $3.4 million (28.9%) above prior fiscal year

disbursements due to additional appropriation for Public Children Service Agencies. Additionally, disbursements for Information Technology projects were $1.5 million (59.8%) above prior year disbursements due to maintenance costs of old systems while transitioning to Ohio Benefits.

Department of Mental Health and Addiction Services
July disbursements for the Department of Mental Health and Addiction Services totaled $34.1 million and were $4.1 million (10.6%) below disbursements for the same month in the previous fiscal year. This variance was primarily attributable to the Continuum of Care Services line item, which was $6.3 million (98.9%) below prior year disbursements due to later disbursement of first-quarter allocation to communities, and the Hospital Services line item, which was $2.9 million (12.8%) above prior year disbursements due to the timing of disbursements for several programs.

Department of Developmental Disabilities
July disbursements for the Department of Developmental Disabilities totaled $17.8 million and were $2.8 million (13.5%) below disbursements for the same month in the previous fiscal year. This variance was primarily attributable to the Tax Equity line item, which was $3.5 million (100%) below disbursements for the same month of the previous fiscal year. This line item was consolidated into the non-GRF Medicaid Services line item, thus eliminating it for fiscal year 2018 and beyond.

Department of Health
July disbursements for the Department of Health totaled $13.0 million and were $4.4 million (50.7%) above disbursements for the same month of the previous fiscal year. This variance was primarily attributable to the Help Me Grow line item which was $3.0 million (375.1%) above prior year disbursements due to earlier disbursement of payments. Additionally, the Medically Handicapped Children line item was $0.9 million (47.6%) above prior year disbursements due to increased fiscal year 2018 appropriations. Finally, the Mothers & Children Safety Network line item was $0.9 million (265.7%) above prior year disbursements due to approximately $1.0 million in subsidy payments that were encumbered in fiscal year 2017 but disbursed in July of fiscal year 2018.

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.

July disbursements in this category totaled $273.5 million and were $12.0 million (4.6%) above disbursements for the same month of the previous fiscal year.

Department of Rehabilitation and Correction
July disbursements for the Department of Rehabilitation and Correction totaled $187.5 million and were $1.5 million (0.8%) below disbursements for the same month in the previous fiscal year. This variance was primarily attributable to the timing of disbursements for Community

Nonresidential Programs, Halfway Houses, Community Misdemeanor Programs, and Community Based Correctional Facilities. These negative variances were partially offset by disbursements for Institutional Medical Services, which were $7.9 million (35.5%) above disbursements for the same month in the previous fiscal year due to pharmacy payments that were made in July instead of August as they were in fiscal year 2017.

Department of Youth Services
July disbursements for the Department of Youth Services totaled $55.2 million and were $8.2 million (17.4%) above disbursements for the same month in the previous fiscal year. This variance was primarily attributable to payments for RECLAIM Ohio and Community Corrections Facilities being made earlier than in the previous fiscal year.

Public Defender Commission
July disbursements for the Public Defender Commission totaled $6.1 million and were $5.3 million (659.2%) above disbursements for the same month in the previous fiscal year. This variance was primarily attributable to the timing of county reimbursement payments, which were made from a non-GRF line item during the same month in the previous fiscal year.

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.

July disbursements in this category totaled $44.0 million and were $10.4 million (31.1%) above disbursements for the same month of the previous fiscal year.

Department of Agriculture
July disbursements for the Department of Agriculture totaled $3.3 million and were $1.1 million (53.6%) above disbursements for the same month of the previous fiscal year. This variance was primarily attributable to Soil and Water Conservation Districts disbursements being $1.0 million (2,956.3%) above disbursements for the same month of the previous fiscal year due to the timing of subsidy disbursements.

Department of Taxation
July disbursements for the Department of Taxation totaled $8.6 million and were $2.0 million (30.1%) above disbursements for the same month of the previous fiscal year. This variance was primarily attributable to an encumbrance stemming from an audit project initiated in the previous fiscal year and payroll shifting to the GRF due to reductions of appropriations to non-GRF funds.

Department of Natural Resources

July disbursements for the Department of Natural Resources totaled $6.5 million and were $1.8 million (37.8%) above disbursements for the same month of the previous fiscal year. This variance was primarily attributable to Parks and Recreation disbursements, which were $1.8 million (57.3%) above disbursements for the same month of the previous fiscal year due to the Parks and Recreation division using this line item strictly for payroll in fiscal year 2018, whereas payroll and other expenses were split between GRF and non-GRF in fiscal year 2017.

Table 3

GENERAL REVENUE FUND DISBURSEMENTS
ACTUAL FY 2018 VS ESTIMATE FY 2018
($ in thousands)

Functional Reporting Categories Description	MONTH ACTUAL JULY	MONTH ESTIMATED JULY	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	781,970	781,970	N/A	N/A	781,970	781,970	N/A	N/A
Higher Education	170,355	170,355	N/A	N/A	170,355	170,355	N/A	N/A
Other Education	7,952	7,952	N/A	N/A	7,952	7,952	N/A	N/A
Medicaid	1,972,140	1,972,140	N/A	N/A	1,972,140	1,972,140	N/A	N/A
Health and Human Services	121,558	121,558	N/A	N/A	121,558	121,558	N/A	N/A
Justice and Public Protection	273,532	273,532	N/A	N/A	273,532	273,532	N/A	N/A
General Government	43,967	43,967	N/A	N/A	43,967	43,967	N/A	N/A
Property Tax Reimbursements	3,158	3,158	N/A	N/A	3,158	3,158	N/A	N/A
Capital Outlay	0	0	N/A	N/A	0	0	N/A	N/A
Debt Service	228,477	228,477	N/A	N/A	228,477	228,477	N/A	N/A
Total Expenditures & ISTV's	3,603,109	3,603,109	N/A	N/A	3,603,109	3,603,109	N/A	N/A
Transfers Out:								
BSF Transfer Out	0	0	N/A	N/A	0	0	N/A	N/A
Operating Transfer Out	500	500	N/A	N/A	500	500	N/A	N/A
Temporary Transfer Out	0	0	N/A	N/A	0	0	N/A	N/A
Total Transfers Out	500	500	N/A	N/A	500	500	N/A	N/A
Total Fund Uses	3,603,609	3,603,609	N/A	N/A	3,603,609	3,603,609	N/A	N/A

Table 4

GENERAL REVENUE FUND DISBURSEMENTS
ACTUAL FY 2018 VS ACTUAL FY 2017
($ in thousands)

	MONTH				YEAR-TO-DATE			
Functional Reporting Categories Description	JULY FY 2018	JULY FY 2017	$ VAR	% VAR	ACTUAL FY 2018	ACTUAL FY 2017	$ VAR	% VAR
Primary and Secondary Education	781,970	738,815	43,154	5.8%	781,970	738,815	43,154	5.8%
Higher Education	170,355	180,677	(10,322)	-5.7%	170,355	180,677	(10,322)	-5.7%
Other Education	7,952	8,317	(365)	-4.4%	7,952	8,317	(365)	-4.4%
Medicaid	1,972,140	1,700,244	271,896	16.0%	1,972,140	1,700,244	271,896	16.0%
Health and Human Services	121,558	125,917	(4,359)	-3.5%	121,558	125,917	(4,359)	-3.5%
Justice and Public Protection	273,532	261,533	11,999	4.6%	273,532	261,533	11,999	4.6%
General Government	43,967	33,536	10,431	31.1%	43,967	33,536	10,431	31.1%
Property Tax Reimbursements	3,158	74	3,084	4171.5%	3,158	74	3,084	4171.5%
Debt Service	228,477	244,405	(15,928)	-6.5%	228,477	244,405	(15,928)	-6.5%
Total Expenditures & ISTV's	3,603,109	3,293,519	309,590	9.4%	3,603,109	3,293,519	309,590	9.4%
Transfers Out:								
BSF Transfer	0	29,483	(29,483)	N/A	0	29,483	(29,483)	N/A
Operating Transfer Out	500	169,738	(169,238)	-99.7%	500	169,738	(169,238)	-99.7%
Temporary Transfer Out	0	0	0	N/A	0	0	0	N/A
Total Transfers Out	500	199,221	(198,721)	-99.7%	500	199,221	(198,721)	-99.7%
Total Fund Uses	3,603,609	3,492,739	110,870	3.2%	3,603,609	3,492,739	110,870	3.2%

FUND BALANCE

The Office of Budget and Management (OBM) is currently working to complete the analysis necessary for the preparation of the fiscal year 2018 General Revenue Fund (GRF) balance. As mentioned above, OBM is currently finalizing the fiscal year 2018 projections of disbursements, transfers, and encumbrances. This analysis will be completed in August and reflected in the September 2018 Monthly Financial Report.

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, Steven Peishel, Craig Rethman, Katja Ryabtseva, Tara Schuler, Travis Shaul, Dex Stanger, and Nick Strahan.