OBM

January 10, 2018

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

FROM: Timothy S. Keen, Director TK

SUBJECT: Monthly Financial Report

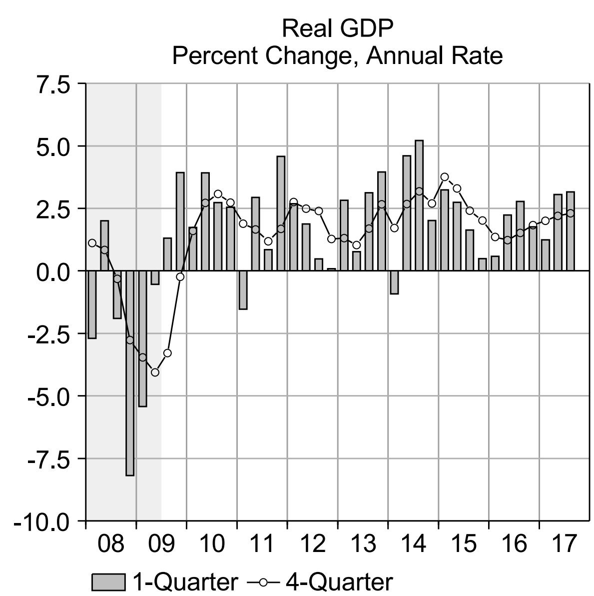
ECONOMIC SUMMARY

Economic Performance Overview

- The economy grew 3.2% in the third quarter after growth of 3.1% in the second quarter. Subsequently released data indicate that growth continued through the fall.
- U.S. employment increased by 148,000 jobs in December. The 3-month average job gain is 204,000. The unemployment rate was at an expansion-low of 4.1% for the third-straight month.
- Ohio nonfarm payroll employment decreased by 5,600 jobs in November after a 1,200 decline in October. Employment is up 36,100 jobs year-to-date. The unemployment rate decreased to 4.8% in November to just 0.1 point higher than its expansion-low reached in October 2015.
- Leading economic indicators remain consistent with uninterrupted economic growth well into 2018.

Economic Growth

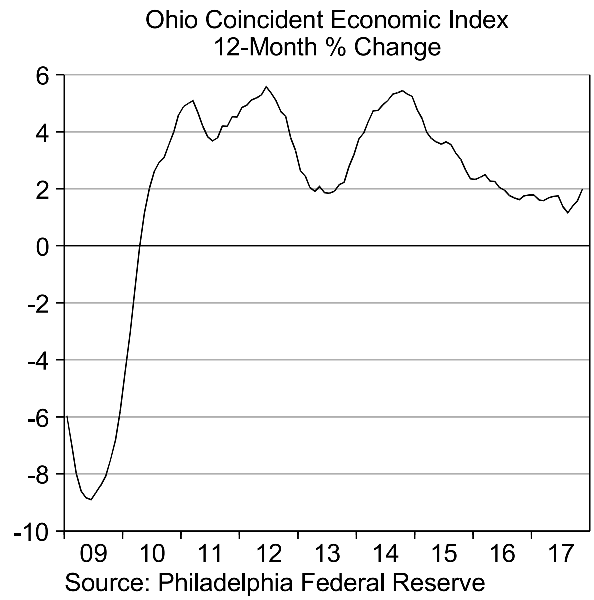
Real GDP expanded at an annual rate of 3.2% during the third quarter, down slightly from the previous estimate of 3.3% and following growth of 3.1% in the second quarter. The slight downward revision to the third-quarter growth rate reflected a small adjustment to personal consumption expenditures for services, mainly transportation services and recreation services.



The back-to-back quarters remain the strongest 2-quarter period since the second-half of 2014. Third-quarter growth likely would have been even higher without the effects of the hurricanes. More recent economic data indicate that growth remained solid in the fourth quarter.

Growth in real GDP in the third quarter occurred mainly in personal consumption expenditures, which contributed 1.49 percentage points of the total 3.2% growth rate, followed by the change in private inventories (+0.79pp), business investment in equipment (+0.58pp), and net exports of goods and services (+0.36pp). Net exports improved in both dimensions, as exports rose and imports fell. Subtracting from growth were residential fixed investment (-0.18pp) and business investment in structures (-0.21pp).

The Ohio economy continued to rebound in November, according to the **Ohio coincident economic index** from the Philadelphia Federal Reserve. The index increased for the third month in a row, rising 0.6% after gains of 0.3% in each of the two previous months. These increases followed two straight months of 0.1% declines. The October increase of 0.3% was revised down from the initial report of 0.5%. At 2.0%, the November year-over-year rate of change was the strongest since June 2016.



The breadth of increases in the **state coincident economic indexes** across the country in November was mixed. The number of states for which the coincident index fell in October was revised down from seven to six, but jumped to eleven in November. More importantly, the number that declined over 3-month spans decreased from nine in October to seven in November – the lowest since last June. In view of the generally positive picture from other indicators, it appears that the weakness in state coincident indexes is an outlier.

In contrast, the number of negative readings among individual **state-level composite leading indexes** jumped to ten in November, up from four in October. The data for Texas was not yet available. Among the ten states posting negative readings, only Alaska, Michigan, North Dakota, and New Jersey had negative values for the second-straight month.

The Ohio leading index increased to 2.1% in November from 1.8% in October. The index has improved from modestly negative in July and August. Compiled by the Philadelphia Federal Reserve, the diffusion across these state leading indexes has been a leading indicator of turning points for the economy in the past. However, the real-time data from these indexes must be interpreted with caution, since they are very sensitive to the state unemployment rates, which are subject to large annual benchmark revisions early each year.

National leading economic indicators continued to strengthen in November and remain consistent with uninterrupted expansion well into 2018. The Conference Board's composite **Leading Economic Index** increased 0.4% after an unrevised increase of 1.2% in the previous month. Six of the ten components of the index increased, led by the ISM index for new orders and followed by consumer expectations for business conditions.

The **consensus among forecasters** is that real GDP continued to expand in the fourth quarter at a pace similar to that observed in the middle two quarters and that growth will continue throughout 2018. In particular, the Federal Reserve Bank of Atlanta projects real GDP growth of 2.7% in the fourth quarter, based on the trajectory of major indicators during the third quarter and data available so far for the fourth quarter. The Federal Reserve Bank of New York projects growth of 4.0%. The more-stable Blue Chip consensus, which is an average of forecasts from a group of professional forecasters, calls for 2.8% growth, with a range of 2.4% to 3.2% from the average of the lowest ten to the highest ten forecasts. The IHS GDP Tracker projection for fourth-quarter growth is 2.5%.

The pattern of growth in the fourth quarter is estimated to have been similar to recent quarters. According to Federal Reserve Bank of Atlanta estimates, growth was led by pickups in personal consumption expenditures, business investment in equipment, investment in residential structures, and government spending. The contributions from inventory accumulation and net exports are estimated to have swung from positive to negative. The Federal Reserve Bank of New York maps current trends in indicators into a projection of 3.5% real GDP growth in the first quarter of 2018.

Employment

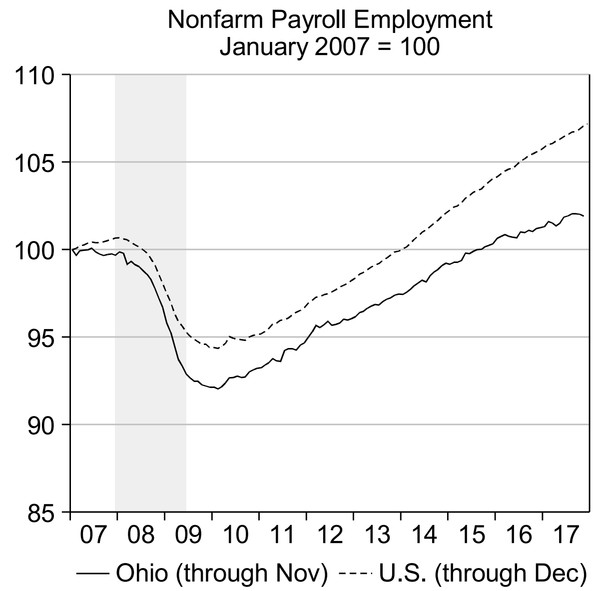
Nonfarm payrolls across the country increased by 148,000 jobs in December. Private nonfarm payrolls increased by 146,000 jobs. The total change during the previous two months was revised lower by 9,000 jobs, and the December increase fell below the average of 171,000 jobs during the most recent twelve months. The average for the most recent three months of 204,000 jobs reflects the rebound in October and November from the storm-depressed tally in September.

Sectors that led in employment increases were health care (+31,400), construction (+30,000), leisure and hospitality (+29,000), and manufacturing (+25,000), where strength was concentrated in primary metals, fabricated metal products, and machinery. Employment increased 25,100 at food service and drinking places within the leisure and hospitality category. Notably, retail lost 20,300 jobs, reflecting pronounced weakness in general merchandise Stores (-27,300). Retail had added 26,000 jobs in November but had lost 20,000 jobs in October. Although the month-to-month data are inconsistent, the trend in retail seems to be declining. Temporary help services employment added 7,000 jobs, bringing the 3-month total increase to 38,200, suggesting that businesses in general anticipated and reacted to a robust holiday season (in contrast, temporary help the prior December decreased by over 17,000 jobs).

The **unemployment rate** was unchanged at 4.1%, its lowest level since December 2000. The broadest measure of unemployment, the U-6 unemployment rate, increased by 0.1 percentage point to 8.1%, just above its lowest level since December 2006. 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. Despite the tightening in labor markets indicated by lower unemployment rates, wage gains were modest.

Average hourly earnings of all employees on private nonfarm payrolls increased 0.3% to 2.5% from a year earlier. Despite strong labor market conditions, wage growth has remained subdued, both puzzling and reassuring monetary policymakers. The relative weakness is puzzling in light of what appears to be a tight market for workers, but is reassuring, because an escalation in wage growth would at some point elicit concerns about a rise in consumer price inflation.

Ohio nonfarm payroll employment decreased by 5,600 jobs in November after a 1,200 decline in October. Employment is up 36,100 jobs year-to-date. Gains led by financial activities (3,500), manufacturing (2,700), and other services (800) were more than offset by declines of 5,200 in trade, transportation, and utilities (retail trade alone declined by 6,400), 2,700 in professional and business services, and 2,300 in government.



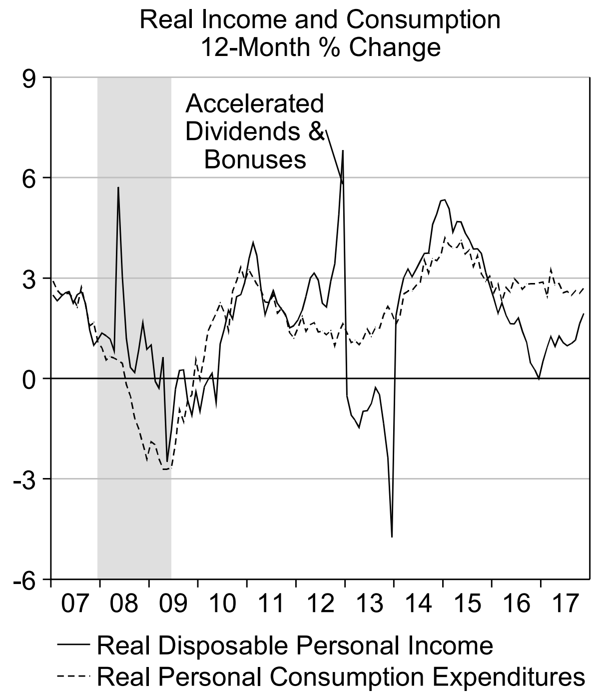
During the twelve months ending in November, Ohio employment increased by 38,600 jobs. The largest gains were in educational and health Services (+14,500), leisure and hospitality (+12,300), financial activities (+9,500), and manufacturing (+7,800). Employment declines occurred in government (-9,700), which was the fourth decline in a row; trade, transportation and utilities (-6,300); and information (-2,200). Again, the decline in trade, transportation and utilities was driven by retail trade, which has shed 15,600 jobs.

Among the **contiguous states**, year-over-year employment growth was strongest in Kentucky (+1.3%), followed by Michigan and Pennsylvania (+1.1%), and Indiana and Ohio (+0.7%). Employment declined 0.8% in West Virginia compared with a year earlier. Manufacturing employment increased year-over-year by 1.1% in Indiana and Ohio, 0.9% in Kentucky, 0.4% in Michigan, and decreased 0.3% in Pennsylvania and 1.1% in West Virginia.

The **Ohio unemployment rate** decreased by 0.3 percentage points to 4.8% in November – the lowest level since October 2015. The decline on the month resulted from a larger increase in total employment (+27,100) than in the labor force (+10,300). The number of unemployed persons declined by 16,800. Since the Ohio unemployment rate reached its low for the expansion in October 2015, total employment has increased by 80,500 and the labor force has increased by 91,300. These Ohio numbers are all from the household survey, and the November changes are sharply different from the establishment survey figures cited previously. The source of the deviation between the household and establishment survey is not clear: the two surveys can vary widely on a monthly basis, although their results tend to be closer over a longer time period.

Across the country in November, the unemployment rate decreased notably from the month before in eight states, led by California, Kentucky, Minnesota, and Ohio. The rate increased by a statistically significant amount in only two states: North Carolina (+0.2) and North Dakota (+0.1%). Changes in the unemployment rate in the other forty states and the District of Columbia were not statistically different from zero.

Consumer Income and Consumption



Personal income and spending both continued to grow during November. **Personal income** increased 0.3% after gains of 0.4% in October and 0.5% in September. A key driver was wage and salary disbursements, which make up more than half of personal income and which expanded by 0.4%. Transfers decreased 0.2%, pulling growth in personal income below growth in wage and salary disbursements. Compared with a year earlier, personal income was up 3.8% and wage and salary disbursements rose 4.5%.

Personal consumption expenditures increased by 0.6% following gains of 0.2% and 1.0% in October and September, respectively. Spending on durable goods was unchanged in November, but the October change, which was originally reported as a 0.1% decrease, was revised up to a 0.3% increase. Holding back spending on durables during November was the 3.4% decline in unit sales of light motor vehicles to 17.4 million at a seasonally adjusted annual rate. Unit sales bounced back by 2.1% in December to 17.8 million units, remaining just below the October rate of 18.0 million units but above the 12-month moving average of 17.2 million units.

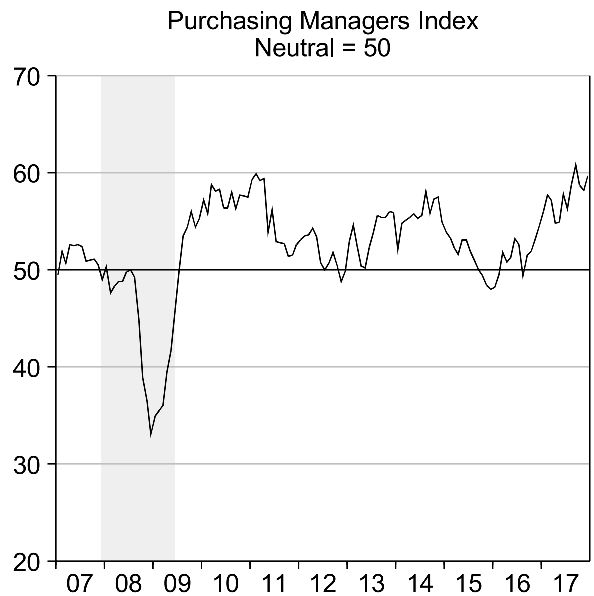
Spending on nondurables and services also picked up in November. Nondurables spending grew 1.2% after a 0.1% drop the month before. Services spending grew 0.6%, up from a 0.2% increase the prior month. A key factor in the pattern of consumer spending during the late summer and fall was the major hurricanes that hit Texas and Florida in August and September. Those effects appear to have finished moving through the data.

Consumer moods faltered in December after brightening impressively in previous months. The **Consumer Confidence Index** from the Conference Board retreated from a 17-year high the month before. The decline occurred entirely in assessments about the future, as assessments of current conditions improved further from an already-high level the month before, probably reflecting a strong labor market, low inflation and interest rates, and the very strong stock market. The University of Michigan/Reuters Consumer Index of Consumer Sentiment declined for the second-straight month due entirely to less positive views of the future. In the case of both surveys, consumer attitudes appear consistent with continued robust spending.

Higher confidence among consumers likely has been a factor behind declines in the **personal saving rate** that have stretched from late 2015 through 2017. Disposable personal income increased 0.4% in November to 3.7% above the year earlier level, but total consumer outlays rose 0.7% to 4.5% above the year earlier level. The result has been a drop in the saving rate from 5.1% as recently as July 2016 to 2.9% in October. The saving rate was 6.3% in October 2015. The recent decline is an indication that consumers have positive views of the near future.

Industrial Activity

Industrial production increased by 0.2%, and the October change that was originally reported as a 0.9% increase was revised up to a 1.2% increase. **Manufacturing** production also increased 0.2% in November, and the previous month's change was adjusted higher from 1.3% to 1.4%. **Mining** output grew 2.0%, as the October decline, which was influenced by Hurricanes Harvey and Nate, was revised up from -1.3% to -0.6%. **Utility** output essentially retraced the 2.0% October increase, falling 1.9% in November.



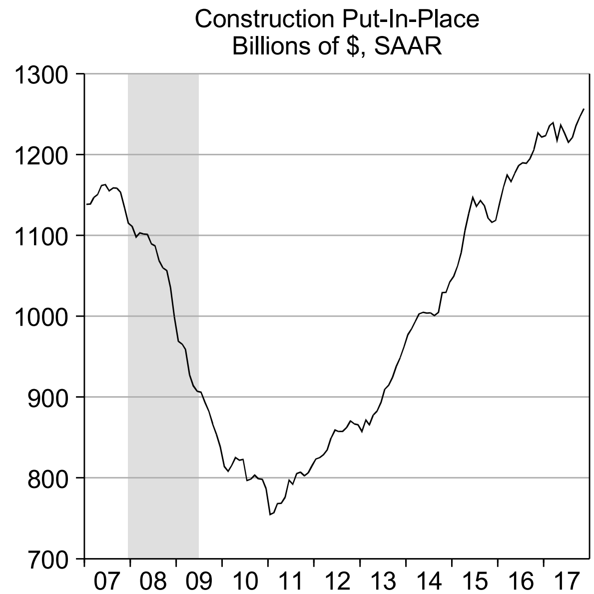
Production across the country in some industries that are key employers in Ohio strengthened, led by primary metals (+1.7%) and followed by fabricated metal products (+0.7%) and machinery (+0.7%). Production of motor vehicles and parts edged higher by 0.1%. Compared with a year earlier, production increased 10.0% in machinery, 5.2% in primary metal, and 5.0% in fabricated metal products. Production of motor vehicles and parts increased 0.1%.

Reports of improving conditions from **purchasing managers** in manufacturing grew more widespread in December. The PMI® increased from 58.2 to 59.7 – above the neutral level of 50 for the sixteenth straight month. The important New Orders and Production sub-indexes advanced to 69.4 and 65.8, respectively, likely pointing to continued growth in the manufacturing sector through the winter and into the spring.

Of the eighteen industries tracked by the Manufacturing ISM® *Report on Business*, sixteen reported growth in the latest month. Among the industries with a disproportionate effect on Ohio manufacturing employment, machinery, primary metals, transportation equipment, and fabricated metal products all reported expansion. One respondent in the machinery industry reported "[s]trong international sales – Europe and Australia – versus the last two years," while a survey participant in the fabricated metal products industry reported "[f]irst quarter will probably be better than the fourth quarter 2017," in contrast to the typical slowdown. "Domestic and international sales [are] on the rise," according to a contact in the transportation equipment industry.

Construction

Construction put-in-place increased 0.8% in November, but the October gain was revised lower from 1.4% to 0.9%. Private construction grew 1.0% and public construction increased by 0.2% after a large 3.5% rise in October. Year-over-year growth has slowed substantially within the past year in the private and public sectors and in residential and nonresidential. For example, total construction slowed from 9.2% year-over-year in December 2016 to 2.4% in November 2017. That reflected slowdowns in residential and nonresidential from 12.3% to 7.9% and from 7.1% to -1.3%, respectively. Private nonresidential has slowed the most, from 14.5% year-over-year in December to -3.1% in November.



Housing starts increased across the country and in the Midwest in November on a 3-month moving average basis. Total starts increased 3.5% in November after rising 2.0% the month before. Single-family starts increased 2.3% and multi-family starts increased 6.6% – the best since December 2016. In the Midwest, total starts increased just 0.7% and the previous month's increase was revised down from 10.0% to 7.7%. Single-family starts rose 2.8%, while multi-family starts fell 4.1%. The more-forward-looking permits were mixed, rising 0.8% nationally and declining 0.2% in the Midwest, in both cases after moderate increases the month before.

Home sales were solid in November. Sales of existing homes increased 2.8% nationally and 3.6% in the Midwest on a 3-month moving average basis. Both were up modestly from a year earlier. Sales of newly built homes increased 9.6% across the country and 4.3% in the Midwest on a 3-month moving average basis. Compared with a year earlier, new home sales were higher by 15.4% nationally but 1.4% lower in the Midwest.

Homebuilders continue to report strong industry conditions. The **National Association of Home Builders/Wells Fargo Housing Market Index** increased to its highest level since 1999 in December. The current sales index rose 4 points to 81, which is the highest reading since July 1999. The 6-month sales prospects index rose 3 points to 79, which is its highest mark since June 2005. The prospective buyer traffic index increased 8 points to 58, which is its highest reading since December 1998. The 3-month moving average of the Midwest index increased from 65 to 76.

In light of these factors, **home prices** continue to rise. The Case-Shiller index increased for the 68th month in a row in October to 6.2% above the year earlier level, 42.9% above the cyclical low reached in February 2012, and 5.7% higher than the previous peak reached in February 2007.

REVENUES

December GRF receipts totaled $2,708.8 million and were $178.9 million (6.2%) below the estimate. The variance was primarily due to Other Income, which was $201.8 million below estimate. The Other Income variance was due to a $200 million transfer to the GRF from unclaimed funds that was estimated to occur in December but will occur in January instead.

If not for the unclaimed funds timing variance, GRF receipts would have been $21.1 million (0.7%) above estimate. A small shortfall in tax revenue of $11.9 million (0.6%) would have been more than offset by an overage in federal grants of $17.4 million (2.0%) and an overage in transfers in to the GRF of $17.6 million.

The shortfall in monthly tax receipts was driven mostly by the non-auto sales tax, which was $8.1 million (1.0%) below estimate. Additionally, the cigarette and other tobacco products tax was $5.7 million (7.5%) below estimate. There were small negative or positive variances in a number of other taxes.

On the non-tax side, outside of the delayed transfer from unclaimed funds, federal grants were over estimate despite total Medicaid spending being slightly below estimate. The composition of Medicaid spending was more beneficial to the state than had been estimated in December, with slightly more federal spending (spending on populations with higher federal match) and slightly less state spending.

Transfers in were above estimate in December due to a later than anticipated transfer from the Highway Safety Fund, which was originally estimated to occur in November, and a higher than estimated transfer from a Medicaid managed care performance payment fund.

For the fiscal year-to-date and despite the December shortfall, tax revenues are $17.6 million (0.2%) above estimate, with the auto sales tax, personal income tax, and commercial activity tax being the primary drivers of that overage. Year-to-date non-tax revenue is $298.6 million below estimate, but again, $200 million of that is a timing matter related to the delayed unclaimed funds transfer. If not for that, non-tax revenues would be $98.6 million (1.8%) below estimate, with the bulk of the shortfall coming from federal grants, which are $67.8 million (1.3%) below estimate. Transfers in are $25.8 million (25.0%) above estimate. If not for the unclaimed funds transfer delay, total GRF sources would be $55.2 million (0.3%), below estimate, and non-federal revenues would be $12.7 million (0.1%) above estimate.

Variances for the fiscal year-to-date by category are provided in the following table ($ in millions).

Category	Includes:	YTD Variance	% Variance
Tax receipts	Sales & use, personal income, corporate franchise, financial institutions, commercial activity, MCF, public utility, kilowatt hour, foreign & domestic insurance, other business & property taxes, cigarette, alcoholic beverage, liquor gallonage, & estate	$17.6	0.2%
Non-tax receipts	Federal grants, earnings on investments, licenses & fees, other income, intrastate transfers	($298.6)	(5.6%)
Transfers	Budget stabilization, liquor transfers, capital reserve, other	$25.8	25.0%
TOTAL REVENUE VARIANCE:		**($255.2)**	**(1.6%)**
Non-federal revenue variance		**($187.3)**	**(1.7%)**
Federal grants variance		**($67.8)**	**(1.3%)**

On a year-over-year basis, monthly receipts were $374.5 million (12.1%) below December of the previous fiscal year. Tax revenues decreased by $52.5 million (2.8%) from last December. This was primarily due to the repeal of the sales tax on Medicaid managed care companies. Absent that law change, tax revenues would have increased from last December by a modest $18.4 million (1.0%). Federal grants decreased by $322.0 million (26.9%) from last December. Federal grants in the GRF and Medicaid spending are expected to decline for the year as an important source of Medicaid funding has shifted from the GRF to a dedicated purpose fund. In fiscal years 2010-2017, Medicaid managed care company premiums were subject to the sales tax, and this revenue was deposited into the GRF. This revenue helped support Medicaid spending from the GRF, and the subsequent drawdown of federal revenue was therefore also deposited into the GRF. Beginning in fiscal year 2018, the sales tax no longer applies to Medicaid managed care premiums. Instead, a new federally approved Medicaid related provider tax on all Medicaid managed care organizations and non-Medicaid major medical managed care organizations is levied. Receipts from this tax, as is the case with all other Medicaid related health care provider taxes, go into a dedicated purpose fund and help support Medicaid spending. The federal dollars drawn down by the disbursement of these non-GRF funds are deposited in a dedicated federal fund, not the GRF. This change will reduce non-auto sales tax receipts, GRF Medicaid spending, and related federal grant revenue in fiscal year 2018, as it has done throughout the first six months.

GRF revenues in December, other than taxes and federal grants, were essentially unchanged from a year ago.

For the year-to-date, tax revenues have declined by $3.1 million from last year, but again this is due to the repeal of the sales tax on Medicaid managed care premiums. Absent that change, tax revenues would be up by $318.8 million (3.0%). Slightly over half the growth would be from the income tax, which has increased by $160.9 million (4.0%). GRF CAT revenues have increased by $110.3 million (17.8%), although this is partly due to the GRF share of the CAT being increased by the fiscal years 18-19 budget bill, H.B. 49.

GRF Revenue Sources Relative to Monthly Estimates – December 2017

($ in millions)

Individual Revenue Sources Above Estimate		Individual Revenue Sources Below Estimate	
Transfers in	$17.6	Other Income	($201.8)
Federal Grants	$17.4	Non-auto Sales Tax	($8.1)
Financial Institutions Tax	$3.1	Cigarette and Other Tobacco Products Tax	($5.7)
Public Utility Excise Tax	$1.3	Commercial Activity Tax	($1.2)
Other Sources Above Estimate	$0.5	Personal Income	($0.8)
		Other Sources Below Estimate	($1.4)
Total above	**$39.9**	**Total below**	**($219.0)**

(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

December non-auto sales and use tax collections totaled $809.7 million and were $8.1 million (1.0%) below estimate. The December shortfall pushed year-to-date collections under the estimate by $7.5 million (0.2%). The timing of sales tax collections is such that holiday sales will largely be reflected in January sales tax collections. National data suggests that holiday sales were strong. For example, MasterCard estimates that non-auto spending from Nov.1 through Dec.24 increased by 4.9% from last year, however, this does not necessarily imply overages in non-auto sales tax collections. One reason that growth in non-auto collections has been rather weak through the first-half of fiscal year 2018 is that Bureau of Economic Analysis (BEA) data through the third quarter show that retail sales inflation, particularly in those categories that correspond to the Ohio non-auto sales tax base, is still slightly negative.

July was the last month of Medicaid Health Insuring Corporations (MHIC) sales tax collections. Beginning in August, the sales tax on MHIC capitation payments was replaced by a Medicaid related provider tax on all Medicaid managed care organizations and non-Medicaid major medical managed care organizations, which is being deposited into a non-GRF dedicated purpose fund. As a result, non-auto sales tax collections are expected to be negative relative to fiscal year 2017 in all of the remaining months of fiscal year 2018.

After one adjusts for sales tax collections from MHICs, estimated growth for all of fiscal year 2018 is only 2.5%. Through December, fiscal year 2018 collections growth has been 2.0% (see table below), which is slightly below the first-half estimated growth of 2.2%.

Non-Auto Sales Tax Revenue Growth Without MHIC– FY18 through December

($ in millions)

	Dec-2016	Dec-2017	FY 2017 YTD	FY 2018 YTD
Non-Auto sales tax GRF	$865.2	$809.7	$4,642.5	$4,405.3
Non-Auto sales tax PLF (Library Fund)	$16.47	$16.45	$97.35	$97.34
Non-Auto sales tax, all funds	$881.7	$826.2	$4,739.8	$4,502.6
MHIC revenues (state)	$73.2	$0.0	$397.1	$71.7
GRF and PLF revenues without MHIC	$808.5	$826.2	$4,342.7	$4,430.9
Change from prior year in non-MHIC collections		$17.7		$88.2
Pct. change from prior year in non-MHIC collections		2.2%		2.0%

Auto Sales Tax

The auto sale tax continues to meet or exceed expectations. Auto sales tax collections in December were $105.4 million, which was $0.3 million (0.2%) below estimate. For the year, collections are now $23.8 million (3.5%) above estimate and revenues have grown $10.1 million (1.5%) from last year.

For fiscal year 2018 the budget forecast expects auto sales tax collections to decline by 2.5%, as unit sales of new autos are not expected to reach fiscal year 2017 levels. As noted in previous issues of this report, the estimates for fiscal year 2018 anticipate year-over-year declines in 9 of the 12 months. However, there has been growth of 1.5% in collections so far this year, contrary to expectations.

Despite a very strong September and October, national new light vehicle sales are down about 1.6% compared to July-December of last year. However, all of the decline is in passenger cars; light truck sales are actually up by 4.1%. Since light trucks are on average higher priced, this shift in the mix of vehicle sales has helped to support auto sales tax collections. OBM does not have current data on used vehicle sales, so it is not clear what impact the used auto market has had on tax collections.

Personal Income Tax

December GRF personal income tax receipts totaled $788.6 million and were $0.8 million (0.1%) below the estimate.

In a switch from the story for most of the year-to-date, withholding collections were below estimate in December, falling short by $11.3 million (1.5%). However, for the year, withholding is $47.9 million (1.1%) above estimate. The December shortfall may be in part due to calendar effects being larger than OBM had estimated.

Quarterly withholding collections have recovered from the 2016 quarter four lows, as shown in the graph below. Growth from the prior year has averaged 4.0% over the four quarters of calendar year 2017. As the graph shows, withholding growth has also significantly outperformed BEA's estimates of growth in Ohio wage and salary income. The BEA data can be subject to fairly significant revisions after the fact, as it was for 2016 quarter four (income growth was revised downward so that it was much closer to the percent change in withholding).

Refunds exceeded the estimate again in December, but by a smaller amount than in October or November. Refunds were $13.1 million above the $30.6 million estimate. These refunds are still being paid against tax liability from calendar year 2016 or prior years. The first refunds against calendar year 2017 tax liability will not be made until late January. For the year-to-date, refunds are $56.1 million (19.3%) above estimate.

The overage in quarterly estimated payments almost offset the negative variances in withholding, refunds, and annual return payments. Quarterly payments were $25.4 million (29.0%) over estimate.

The passage of federal tax reform provided an incentive for taxpayers – particularly higher income taxpayers – to make their estimated payments in December rather than January, even though they were not due until January 16th. There are two reasons, first, the new $10,000 limit on state and local tax deductions on federal returns takes effect in 2018, so taxpayers had an incentive to pay their state taxes in 2017 when the deduction was still unlimited. Second, federal tax rates are generally lower in 2018, making the value of any deduction smaller, all else equal.

Although federal tax reform may have caused some payments that would otherwise have been made in January to have been made in December instead, this does not appear to have caused a problem for January collections. As of this writing, January estimated payments are already slightly ahead of the estimate, so combined December-January collections will be ahead of the estimate. Aside from the incentives to move payments between years created by federal tax reform, it seems at this point that strong growth in income not subject to withholding may be lifting estimated payments generally.

On a year-over-year basis, December GRF income tax collections were $7.8 million (1.0%) above December 2016 collections. For the year, collections are up by $160.9 million (4.0%). Except for annual return payments and refunds, all payment categories have improved from last year. Growth in withholding, at $165.2 million (4.1%) is actually larger than the total increase in collections.

FY2018 PERSONAL INCOME TAX RECEIPTS BY COMPONENT ($ in millions)						
	Estimate Dec	Actual Dec	$ Var Dec	Actual Dec-2017	Actual Dec-2016	$ Var Y-0ver-Y
Withholding	$746.6	$735.3	($11.3)	$735.3	$739.4	($4.1)
Quarterly Est.	$87.7	$113.1	$25.4	$113.1	$86.0	$27.1
Trust Payments	$1.5	$1.8	$0.3	$1.8	$1.6	$0.2
Annual Returns & 40 P	$9.5	$7.0	($2.5)	$7.0	$9.5	($2.5)
Other	$6.9	$7.7	$0.8	$7.7	$6.7	$1.0
Less: Refunds	($30.6)	($43.7)	($13.1)	($43.7)	($30.2)	($13.5)
Local Distr.	($32.2)	($32.5)	($0.3)	($32.5)	($32.2)	($0.3)
Net to GRF	$789.4	$788.6	($0.8)	$788.6	$780.8	$7.8

Commercial Activity Tax

December commercial activity tax (CAT) receipts deposited in the GRF totaled $9.4 million and were $1.2 million (11.0%) below the estimate. However, GRF CAT receipts for the year-to-date are still $8.9 million (1.2%) above estimate.

For the fiscal year, GRF CAT collections are $110.3 million (17.8%) above collections during the same period in fiscal year 2017. 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.

We can decompose the GRF increase into a total collections increase and a law change impact by looking at all funds CAT receipts. All funds collections have increased by $32.0 million (3.9%), growing from $832.43 million to $864.47 million. Under prior law, the GRF would have received an additional $24.0 million from that increase; the other $86.3 million is due to the change in the GRF percentage. (Note that the Tax Department administrative share of total net collections also dropped due to H.B. 49, from 0.85% to 0.75%. The $86.3 million gain due to H.B. 49 is actually due to both law changes, although all but $0.9 million is due to the 75% to 85% change.)

Cigarette and Other Tobacco Products Tax

December cigarette and other tobacco collections totaled $70.7 million and were $5.7 million (7.5%) below estimate. Year-to-date receipts total $420.8 million and are $4.6 million (1.1%) below estimate.

Collections have been up and down so far this year with respect to the estimate, being well below estimate in July, above estimate in August and September, below estimate in October, back above estimate in November, and then below estimate again in December. OBM believes that these monthly variances are the result of a different timing of collections than in recent history, but not to a change in the underlying prospects for these taxes. Collections are still expected to meet the estimate by year's end.

Financial Institutions Tax

The financial institutions tax (FIT) turned in another month of negative net collections in December, as refunds exceeded payments by $2.0 million. However, this was not as negative as the -$5.1 million estimate, so the FIT was $3.1 million above estimate for the month. Collections are $10.3 million below estimate for the year-to-date.

As stated in last month's report, it is not clear at this point whether the refunds, which are well in excess of what was originally estimated and well above last year's amounts, are due to credits against the tax being above estimate or the tax base (Ohio equity capital) being below estimate. OBM may have a better sense of this when more information about credits for the second quarter of fiscal year 2018 is known in late January.

GRF Non-Tax Receipts

GRF non-tax receipts totaled $874.6 million in December and were below estimate by $184.6 million (17.4%). Again, a transfer of $200.0 million to the GRF that was anticipated in December was delayed until January (this actually affects the "Other Income" category, and not transfers). Federal grants were above estimate for the first time since September, exceeding the estimate by $17.4 million (2.0%) despite total GRF Medicaid spending being below estimate. As stated in the introduction to this report, this is due largely to Medicaid spending in December being higher than expected for populations with higher federal match rates, and lower than expected for populations with lower federal match rates, thus shifting some of the burden from the state GRF to the federal government. For the year, federal grants are $67.8 million (1.3%) below estimate, which is roughly in line with expectations given the $136.1 million underspending in GRF Medicaid.

Finally, transfers in to the GRF were $17.6 million above the estimate of zero. Last month's report mentioned that transfers in November fell short of the estimate, due to a transfer from a special fund for the Multi-Agency Radio Communications Trunking System (MARCS), being delayed. That transfer was made in December, so November's shortfall was (mostly) offset by December's overage from this source. In addition, the GRF received an unanticipated transfer from a Medicaid managed care pay for performance fund.

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Table 1
GENERAL REVENUE FUND RECEIPTS
ACTUAL FY 2018 VS ESTIMATE FY 2018
($ in thousands)

	MONTH				YEAR-TO-DATE			
REVENUE SOURCE	ACTUAL DECEMBER	ESTIMATE DECEMBER	$ VAR	% VAR	ACTUAL Y-T-D	ESTIMATE Y-T-D	$ VAR	% VAR
TAX RECEIPTS								
Non-Auto Sales & Use	809,737	817,800	(8,063)	-1.0%	4,405,251	4,412,800	(7,549)	-0.2%
Auto Sales & Use	105,444	105,700	(256)	-0.2%	699,336	675,500	23,836	3.5%
Subtotal Sales & Use	915,181	923,500	(8,319)	-0.9%	5,104,587	5,088,300	16,287	0.3%
Personal Income	788,612	789,400	(788)	-0.1%	4,148,803	4,121,500	27,303	0.7%
Corporate Franchise	45	0	45	N/A	2,938	0	2,938	N/A
Financial Institutions Tax	(1,965)	(5,100)	3,135	61.5%	(25,039)	(14,700)	(10,339)	-70.3%
Commercial Activity Tax	9,439	10,600	(1,161)	-11.0%	729,044	720,100	8,944	1.2%
Petroleum Activity Tax	1,710	1,500	210	14.0%	3,280	2,800	480	17.1%
Public Utility	1,846	500	1,346	269.1%	55,565	53,900	1,665	3.1%
Kilowatt Hour	22,595	23,100	(505)	-2.2%	168,282	179,500	(11,218)	-6.2%
Natural Gas Distribution	53	200	(147)	-73.6%	16,761	17,600	(839)	-4.8%
Foreign Insurance	1	100	(99)	-98.6%	144,844	155,500	(10,656)	-6.9%
Domestic Insurance	0	0	0	N/A	63	3,000	(2,937)	-97.9%
Other Business & Property	0	0	0	N/A	(263)	0	(263)	N/A
Cigarette and Other Tobacco	70,693	76,400	(5,707)	-7.5%	420,847	425,400	(4,553)	-1.1%
Alcoholic Beverage	4,448	4,600	(152)	-3.3%	29,626	30,000	(374)	-1.2%
Liquor Gallonage	3,946	3,700	246	6.6%	24,034	23,000	1,034	4.5%
Estate	14	0	14	N/A	114	0	114	N/A
Total Tax Receipts	1,816,618	1,828,500	(11,882)	-0.6%	10,823,484	10,805,900	17,584	0.2%
NON-TAX RECEIPTS								
Federal Grants	872,884	855,476	17,407	2.0%	5,004,627	5,072,460	(67,833)	-1.3%
Earnings on Investments	0	0	0	N/A	15,747	15,000	747	5.0%
License & Fees	352	610	(258)	-42.2%	8,970	10,795	(1,825)	-16.9%
Other Income	1,335	203,090	(201,755)	-99.3%	30,877	260,960	(230,083)	-88.2%
ISTV'S	1	0	1	N/A	388	0	388	N/A
Total Non-Tax Receipts	874,572	1,059,176	(184,604)	-17.4%	5,060,609	5,359,215	(298,607)	-5.6%
TOTAL REVENUES	2,691,190	2,887,676	(196,486)	-6.8%	15,884,092	16,165,115	(281,023)	-1.7%
TRANSFERS								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	17,625	0	17,625	N/A	129,269	103,429	25,840	25.0%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	17,625	0	17,625	N/A	129,269	103,429	25,840	25.0%
TOTAL SOURCES	2,708,815	2,887,676	(178,861)	-6.2%	16,013,361	16,268,544	(255,183)	-1.6%

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Table 2

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

REVENUE SOURCE	MONTH DECEMBER FY 2018	MONTH DECEMBER FY 2017	MONTH $ VAR	MONTH % VAR	YEAR-TO-DATE ACTUAL FY 2018	YEAR-TO-DATE ACTUAL FY 2017	YEAR-TO-DATE $ VAR	YEAR-TO-DATE % VAR
TAX RECEIPTS								
Non-Auto Sales & Use	809,737	865,217	(55,480)	-6.4%	4,405,251	4,642,461	(237,210)	-5.1%
Auto Sales & Use	105,444	106,935	(1,491)	-1.4%	699,336	689,237	10,098	1.5%
Subtotal Sales & Use	915,181	972,152	(56,971)	-5.9%	5,104,587	5,331,698	(227,112)	-4.3%
Personal Income	788,612	780,798	7,813	1.0%	4,148,803	3,987,894	160,909	4.0%
Corporate Franchise	45	471	(425)	-90.4%	2,938	(265)	3,203	1206.7%
Financial Institutions Tax	(1,965)	(5,290)	3,325	-62.9%	(25,039)	(15,191)	(9,848)	-64.8%
Commercial Activity Tax	9,439	8,059	1,380	17.1%	729,044	618,715	110,330	17.8%
Petroleum Activity Tax	1,710	1,317	393	29.8%	3,280	2,860	420	14.7%
Public Utility	1,846	168	1,678	999.3%	55,565	47,555	8,010	16.8%
Kilowatt Hour	22,595	22,268	328	1.5%	168,282	182,706	(14,425)	-7.9%
Natural Gas Distribution	53	490	(437)	-89.2%	16,761	16,929	(168)	-1.0%
Foreign Insurance	1	59	(57)	-97.6%	144,844	161,032	(16,187)	-10.1%
Domestic Insurance	0	0	0	N/A	63	53	9	17.5%
Other Business & Property	0	0	0	N/A	(263)	(678)	415	61.2%
Cigarette and Other Tobacco	70,693	79,494	(8,802)	-11.1%	420,847	438,905	(18,058)	-4.1%
Alcoholic Beverage	4,448	5,189	(741)	-14.3%	29,626	30,731	(1,105)	-3.6%
Liquor Gallonage	3,946	3,831	115	3.0%	24,034	23,231	803	3.5%
Estate	14	123	(109)	-88.8%	114	457	(343)	-75.1%
Total Tax Receipts	1,816,618	1,869,129	(52,511)	-2.8%	10,823,484	10,826,630	(3,147)	0.0%
NON-TAX RECEIPTS								
Federal Grants	872,884	1,194,908	(322,024)	-26.9%	5,004,627	6,147,200	(1,142,572)	-18.6%
Earnings on Investments	0	0	(0)	-100.0%	15,747	14,180	1,567	11.1%
License & Fee	352	671	(319)	-47.5%	8,970	12,014	(3,044)	-25.3%
Other Income	1,335	1,845	(509)	-27.6%	30,877	43,778	(12,901)	-29.5%
ISTV'S	1	1	0	35.5%	388	9,128	(8,740)	-95.7%
Total Non-Tax Receipts	874,572	1,197,424	(322,852)	-27.0%	5,060,609	6,226,300	(1,165,691)	-18.7%
TOTAL REVENUES	2,691,190	3,066,553	(375,363)	-12.2%	15,884,092	17,052,930	(1,168,838)	-6.9%
TRANSFERS								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	17,625	16,794	831	N/A	129,269	32,102	97,166	302.7%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	17,625	16,794	831	N/A	129,269	32,102	97,166	302.7%
TOTAL SOURCES	2,708,815	3,083,347	(374,532)	-12.1%	16,013,361	17,085,032	(1,071,671)	-6.3%

DISBURSEMENTS

December GRF disbursements, across all uses, totaled $2,532.0 million and were $14.6 million (0.6%) above estimate. This variance was primarily attributable to higher than estimated disbursements in the Higher Education and Health and Human Services categories, which were partially offset by lower than estimated disbursements in the Property Tax Reimbursements category. On a year-over-year basis, December total uses were $295.4 million (10.4%) lower than those of the same month in the previous fiscal year, with the Medicaid category largely responsible for the decrease. 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)	($205.8 million)	-1.2%
Transfers	Temporary or permanent transfers out of the GRF that are not agency expenditures	$3.2 million	4.9%
TOTAL DISBURSEMENTS VARIANCE:		**($202.6 million)**	**-1.2%**

GRF disbursements are reported according to functional categories. This section contains information describing GRF spending and variances within each of these categories.

Primary and Secondary Education

This category contains GRF spending by the Ohio Department of Education. December disbursements for this category totaled $614.3 million and were $1.2 million (0.2%) below estimate. This variance was primarily attributable to below estimate spending in the foundation funding and school lunch match line items. Disbursements for the school lunch match line item were below estimate due to the timing of payments as school lunch match payments will be made in future months, rather than December as originally estimated. Disbursements in the foundation funding line item were $6.2 million below estimate due to College Credit Plus and formula data updates. These variances were partially offset by above estimated spending in the pupil transportation line item due to the use of updated transportation data. Expenditures for the school foundation program totaled $600.9 million and were $2.9 million (0.5) above estimate. Year-to-date disbursements were $4,143.8 million, which is $18.3 million (0.4%) above estimate.

On a year-over-year basis, disbursements in this category were $4.8 million (0.8%) lower than for the same month in the previous fiscal year while year-to-date expenditures were $60.8 million (1.5%) higher than the same point in fiscal year 2017. The year-over-year variance is primarily attributable to increased payments to school districts under the foundation funding formula.

Higher Education

December disbursements for the Higher Education category, which includes non-debt service GRF spending by the Department of Higher Education, totaled $218.7 million, and were $32.6 million (17.5%) above estimate. This variance was primarily attributable to the completion of Memorandums of Understanding (MOUs), which are necessary prior to the disbursement of funds for several programs. The above estimate spending of $30.8 million as a result of these MOUs being completed is actually planned spending occurring later than estimated. The remaining monthly variance was due to spending in the National Guard Scholarship Program that was above estimate by $1.7 million as a result of higher than expected requests for reimbursement from higher education institutions.

Year-to-date disbursements were $1,149.3 million, which was $8.4 million (0.7%) below estimate. On a year-over-year basis, disbursements in this category were $33.7 million (18.2%) higher than for the same month in the previous fiscal year while year-to-date expenditures were just $3.8 million (0.3%) higher than at the same point in fiscal year 2017.

Other Education

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

December disbursements in this category totaled $4.4 million and were $0.02 million (0.4%) above estimate. Year-to-date disbursements were $41.9 million, which was $0.4 million (1.0%) below estimate. On a year-over-year basis, disbursements in this category were $3.5 million (44.4%) lower than for the same month in the previous fiscal year while year-to-date expenditures were $4.4 million (9.5%) lower than at the same point in fiscal year 2017.

Medicaid

This category includes all Medicaid spending on services and program support by the following eight 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

December GRF disbursements for the Medicaid Program totaled $1,294.8 million and were $6.3 million (0.5%) below estimate and $351.3 million (21.3%) below disbursements for the same month in the previous fiscal year. The year-over-year variance occurs as the State has replaced the sales tax on Medicaid health insuring corporations (MHIC) with a provider tax on all Medicaid managed care organizations and non-Medicaid major medical managed care organizations, as approved by the federal Center for Medicare and Medicaid Services (CMS). Consequently, some Medicaid expenses paid from the GRF, where the sales tax was being deposited, are now being paid from state dedicated purpose funds. Year-to-date GRF disbursements totaled $7,625.0 million and were $136.1 million (1.8%) below estimate and $1,485.2 million (16.3%) below disbursements for the same point in fiscal year 2017.

December all funds disbursements for the Medicaid Program totaled $2,168.8 million and were $28.7 million (1.3%) below the estimate, and $112.4 million (4.9%) below disbursements for the same month in the previous fiscal year. Year-to-date all funds disbursements totaled $13,623.8 million and were $110.4 million (0.8%) below the estimate, and $1,297.1 million (10.5%) above disbursements for the same point in the previous fiscal year.

The December all funds variance is due to less than anticipated spending in the Hospital Upper Payment Limit (UPL) and managed care assistance programs. In the Hospital UPL program, the Department of Medicaid was able to complete a payment originally budgeted for December in November instead. The December expenditures for the managed care program were below estimate, as enrollment in this program was 3.4% below estimate. This variance in December was offset in part by the fee-for-service program, as a DDD county cost reconciliation payment originally budgeted for earlier months occurred in December instead.

The year-to-date all funds variance is due primarily to underspending in the fee-for-service program and program administration. Underspending in the fee-for-service program has occurred as both the utilization of services and cost of services provided have been less than anticipated. Additionally, program administration expenses have been below estimate as contractual service costs have been lower than anticipated.

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

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

	December Actual	December Projection	Variance	Variance %
GRF	$ 1,294.8	$ 1,301.1	$ (6.3)	-0.5%
Non-GRF	$ 874.0	$ 896.4	$ (22.4)	-2.5%
All Funds	$ 2,168.8	$ 2,197.5	$ (28.7)	-1.3%

<u>Enrollment</u>
Total December enrollment for the program was 3.01 million, which was 100,515 (3.2%) below estimate and 71,118 (2.3%) below enrollment for the same period last fiscal year. Year-to-date average monthly enrollment was 3.04 million and was 69,317 (2.2%) below estimate.

December enrollment by major eligibility category was: Covered Families and Children, 1.68 million; Aged, Blind and Disabled (ABD), 499,172; Group VIII Expansion, 697,611; and Other Full Benefits, 20,886 persons.

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. Expenditures by these agencies that support Medicaid services are reflected in the Medicaid category.

December disbursements in this category totaled $104.1 million and were $7.6 million (7.9%) above estimate. Year-to-date disbursements were $654.8 million, which was $31.0 million (4.5%) below estimate. On a year-over-year basis, disbursements in this category were $1.3 million (1.2%) lower than for the same month in the previous fiscal year while year-to-date expenditures were $19.0 million (2.8%) lower than at the same point in fiscal year 2017.

Department of Job and Family Services

December disbursements for the Department of Job and Family Services totaled $58.8 million and were $8.2 million (16.2%) above estimate. This variance was attributable to above estimate spending across several line items: disbursements for TANF State/Maintenance of Effort were $9.6 million above estimate due to the timing of GRF payments; disbursements for Early Child Care and Education were $3.6 million above estimate due above estimate enrollment in the program; and finally, disbursements for Child Support-Local were $1.6 million above estimate as counties drew down more funding than originally estimated. These and other variances were partially offset by below estimate spending in the Child Care State/Maintenance of Effort line item, which was $5.6 million below estimate due to an adjustment of the child care services payments from the Child Care and Development fund to the TANF Federal fund. Finally, there was below estimate spending in the Families and Children Programs line item, which was $1.6 million below estimate due to lower than anticipated spending for the Adoption Savings Reinvestment initiative.

Department of Mental Health and Addiction Services

December disbursements for the Department of Mental Health and Addiction Services totaled $35.1 million and were $2.0 million (6.1%) above estimate. This variance is primarily attributable to three line items: Prevention and Wellness, which was above estimate by $1.3 million due to the disbursement of an earmark earlier than estimated; Hospital Services, which was above estimate by $1.1 million due to the timing of hospital related payments; and Community Innovations, which was $1.1 million above estimate due to earlier than estimated drawdown of grant funding. The overall variance was partially offset by below estimate spending in the Criminal Justice Services line item, which was $1.4 million below estimate due to later than estimated drawdown of grant funding and the Continuum of Care line item, which was $0.8 million below an estimate of zero due to the availability of non-GRF cash and the subsequent recoding of GRF Continuum of Care expenditures to utilize the non-GRF source instead.

Department of Health

December disbursements for the Department of Health totaled $3.7 million and were $2.4 million (39.0%) below estimate. This variance was primarily attributable to the Medically Handicapped Children and Help Me Grow line items which were both $1.0 million below estimate. The variance in both line items was due to the timing of subsidy payments. December's payment for Medically Handicapped Children will occur in January instead of December as estimated. Additionally, spending for the Help Me Grow line item is expected to be greater than estimated for the second-half of the year to compensate for timing issues that resulted in below estimate spending in the first-half 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.

December disbursements in this category totaled $207.1 million and were $2.0 million (1.0%) below estimate. Year-to-date disbursements were $1,123.6 million, which was $29.6 million (2.6%) below estimate. On a year-over-year basis, disbursements in this category were $5.9 million (2.8%) lower than for the same month in the previous fiscal year while year-to-date expenditures were $15.4 million (1.4%) higher than at the same point in fiscal year 2017.

<u>Department of Rehabilitation and Correction</u>
December disbursements for the Department of Rehabilitation and Correction totaled $166.4 million and were $3.3 million (1.9%) below estimate. This variance was primarily attributable to below estimate disbursements for Community Residential Programs – CBCFs and Community Misdemeanor Programs due to the timing of grant payments, which will be made in January instead of December as estimated. These variances were partially offset by above estimate disbursements for Institutional Operations due to the timing of payments for contracts. Disbursements for Institution Medical Services were also higher than expected due to a change in the timing of some contract payments, which will be paid quarterly instead of monthly as estimated.

General Government

This category includes non-debt service GRF expenditures by the Department of Natural Resources, Development Services Agency, Department of Agriculture, Department of Taxation, Office of Budget and Management, non-judicial statewide elected officials, legislative agencies, and others.

December disbursements in this category totaled $30.5 million and were $5.0 million (14.0%) below estimate. Year-to-date disbursements were $189.5 million, which was $14.1 million (6.9%) below estimate. On a year-over-year basis, disbursements in this category were $1.5 million (4.6%) lower than for the same month in the previous fiscal year while year-to-date expenditures were $9.0 million (4.6%) lower than at the same point in fiscal year 2017.

<u>Department of Administrative Services</u>

December disbursements for the Department of Administrative Services totaled $2.6 million and were $1.4 million (111.1%) over estimate. This variance was attributable to the timing of quarterly rent payments for certain GRF-supported agencies and vacant space in state buildings managed by the department.

<u>Department of Transportation</u>
December disbursements for the Department of Transportation totaled $0.8 million and were $2.6 million (77.6%) below estimate. This variance was primarily attributable to the Public Transportation - State line item, which was $1.2 million below estimate, and the Airport Improvements - State line item, which was $1.2 million below estimate, both due to the timing of project expenditures and payments to grantees.

Property Tax Reimbursements

Payments from the property tax reimbursement category are made to local governments and school districts to reimburse these entities for revenues foregone as a result of the 10.0 percent and 2.5 percent rollback, as well as the homestead exemption. December property tax reimbursements totaled $41.7 million and were $11.1 million (21.0%) below estimate. Year-to-date disbursements totaled $906.4 million and were $1.0 million (0.1%) below estimate. The monthly variance is due to the timing of payments to counties that brings year-to-date spending in line with the year-to-date estimate.

Debt Service

December payments for debt service totaled $16.0 million and were $0.3 million (2.0%) below estimate. Year-to-date debt service payments were $897.9 million and were $3.5 million (0.4%) below estimate.

Transfers Out

December transfers out totaled $0.2 million. Year-to-date transfers out were $68.8 million and were $3.2 million (4.9%) above estimate. The year-to-date variance was caused by the reversal of a mistimed transfer in August.

1/10/2018

Table 3

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

Functional Reporting Categories Description	MONTH ACTUAL DECEMBER	MONTH ESTIMATED DECEMBER	MONTH $ VAR	MONTH % VAR	YEAR-TO-DATE YTD ACTUAL	YEAR-TO-DATE YTD ESTIMATE	YEAR-TO-DATE $ VAR	YEAR-TO-DATE % VAR
Primary and Secondary Education	614,293	615,483	(1,190)	-0.2%	4,143,826	4,125,559	18,267	0.4%
Higher Education	218,748	186,147	32,601	17.5%	1,149,269	1,157,628	(8,359)	-0.7%
Other Education	4,428	4,410	19	0.4%	41,908	42,310	(402)	-1.0%
Medicaid	1,294,801	1,301,138	(6,337)	-0.5%	7,624,963	7,761,110	(136,147)	-1.8%
Health and Human Services	104,138	96,518	7,620	7.9%	654,805	685,799	(30,994)	-4.5%
Justice and Public Protection	207,110	209,101	(1,991)	-1.0%	1,123,579	1,153,153	(29,575)	-2.6%
General Government	30,521	35,487	(4,966)	-14.0%	189,479	203,608	(14,129)	-6.9%
Property Tax Reimbursements	41,698	52,767	(11,069)	-21.0%	906,420	907,392	(972)	-0.1%
Capital Outlay	0	0	0	N/A	0	0	0	N/A
Debt Service	16,034	16,358	(324)	-2.0%	897,879	901,408	(3,528)	-0.4%
Total Expenditures & ISTV's	2,531,771	2,517,408	14,363	0.6%	16,732,127	16,937,966	(205,839)	-1.2%
Transfers Out:								
BSF Transfer Out	0	0	0	N/A	0	0	0	N/A
Operating Transfer Out	229	0	229	N/A	68,755	65,514	3,241	4.9%
Temporary Transfer Out	0	0	0	N/A	0	0	0	N/A
Total Transfers Out	229	0	229	N/A	68,755	65,514	3,241	4.9%
Total Fund Uses	2,532,000	2,517,408	14,591	0.6%	16,800,882	17,003,480	(202,599)	-1.2%

1/10/2018

Table 4

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

Functional Reporting Categories Description	MONTH DECEMBER FY 2018	MONTH DECEMBER FY 2017	MONTH $ VAR	MONTH % VAR	YEAR-TO-DATE ACTUAL FY 2018	YEAR-TO-DATE ACTUAL FY 2017	YEAR-TO-DATE $ VAR	YEAR-TO-DATE % VAR
Primary and Secondary Education	614,293	619,072	(4,779)	-0.8%	4,143,826	4,083,012	60,814	1.5%
Higher Education	218,748	185,083	33,666	18.2%	1,149,269	1,145,504	3,765	0.3%
Other Education	4,428	7,968	(3,540)	-44.4%	41,908	46,299	(4,391)	-9.5%
Medicaid	1,294,801	1,646,073	(351,272)	-21.3%	7,624,963	9,110,179	(1,485,215)	-16.3%
Health and Human Services	104,138	105,419	(1,281)	-1.2%	654,805	673,799	(18,994)	-2.8%
Justice and Public Protection	207,110	212,975	(5,865)	-2.8%	1,123,579	1,108,123	15,455	1.4%
General Government	30,521	31,984	(1,463)	-4.6%	189,479	198,523	(9,044)	-4.6%
Property Tax Reimbursements	41,698	2,101	39,597	1885.0%	906,420	900,987	5,433	0.6%
Debt Service	16,034	16,747	(713)	-4.3%	897,879	907,140	(9,261)	-1.0%
Total Expenditures & ISTV's	2,531,771	2,827,421	(295,650)	-10.5%	16,732,127	18,173,566	(1,441,438)	-7.9%
Transfers Out:								
BSF Transfer	0	0	0	N/A	0	29,483	(29,483)	N/A
Operating Transfer Out	229	0	229	N/A	68,983	250,711	(181,728)	-72.5%
Temporary Transfer Out	0	0	0	N/A	0	0	0	N/A
Total Transfers Out	229	0	229	N/A	68,983	280,194	(211,210)	-75.4%
Total Fund Uses	2,532,000	2,827,421	(295,422)	-10.4%	16,801,111	18,453,759	(1,652,648)	-9.0%

FUND BALANCE

Table 5 describes the estimated General Revenue Fund (GRF) unencumbered ending fund balance for FY 2018. Based on the estimated revenue sources for FY 2018 and the estimated FY 2018 disbursements, transfers, and encumbrances, the GRF unencumbered ending fund balance for FY 2018 is an estimated $223.7 million.

The GRF unencumbered ending fund balance should not be considered as a balance available for expenditure in FY 2018 nor should it be considered as equivalent to the FY 2018 surplus calculation as defined in Section 131.44 of the Ohio Revised Code.

It is important to note that the GRF unencumbered ending fund balance will be impacted by any GRF expenditures or transfers that may be authorized by the General Assembly or by the Controlling Board during the course of the fiscal year.

Table 5
FUND BALANCE
GENERAL REVENUE FUND
FISCAL YEAR 2018
($ in thousands)

July 1, 2017 Beginning Cash Balance*	**$ 557,090**
Plus FY 2018 Estimated Revenues	22,258,300
Plus FY 2018 Estimated Federal Revenues	9,744,042
Plus FY 2018 Estimated Transfers to GRF	271,129
Total Sources Available for Expenditures & Transfers	**32,830,561**
Less FY 2018 Estimated Disbursements**	32,264,198
Less FY 2018 Estimated Total Encumbrances as of June 30, 2018	276,666
Less FY 2018 Estimated Transfers Out	65,974
Total Estimated Uses	**32,606,838**
FY 2018 ESTIMATED UNENCUMBERED ENDING FUND BALANCE	**223,723**

* Includes reservations of $382.6 million for prior year encumbrances. After accounting for these amounts, the estimated unencumbered beginning fund balance for fiscal year 2018 is $170.9 million.

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

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