OBM

February 12, 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

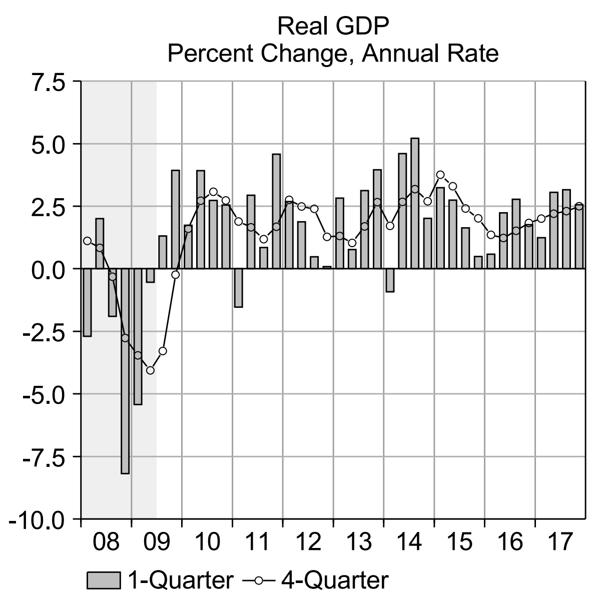
ECONOMIC SUMMARY

Economic Performance Overview

- The economy grew 2.6% in the fourth quarter after growth of more than 3% in each of the two previous quarters.
- U.S. employment increased by 200,000 jobs in January. The 3-month average job gain is 192,000 jobs per month. The unemployment rate was at an expansion-low of 4.1% for the fourth straight month.
- Ohio nonfarm payroll employment increased by 2,500 jobs in December, but remained below its August level. Employment increased by 38,500 jobs for the year. The unemployment rate decreased to 4.7% in December, matching the expansion-low recorded just over two years ago.
- Leading economic indicators remain consistent with uninterrupted economic growth well into 2018.

Economic Growth

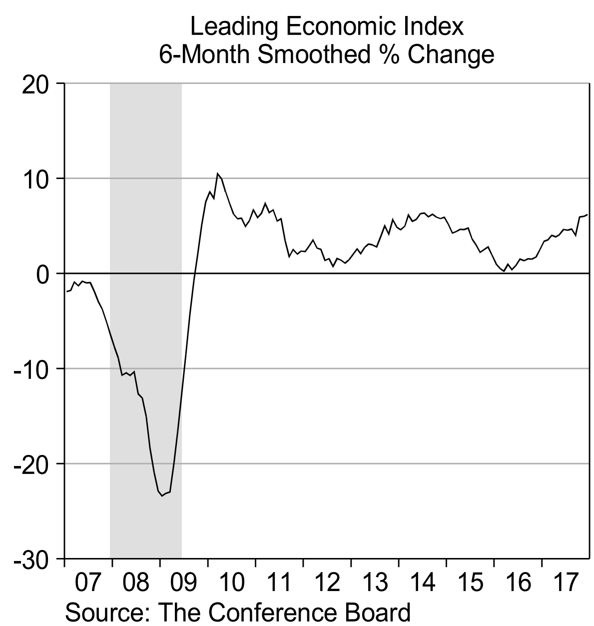
Real GDP expanded at an annual rate of 2.6% during the fourth quarter, down from more than 3% growth in the previous two quarters. Growth was 2.5% from the fourth quarter of 2016 to the fourth quarter of 2017 – the best year-over-year performance since 2.7% growth in 2014. During the fourth quarter, growth was lower than expected largely due to an unexpected swing in the change in business inventories from positive in the previous quarter to negative. GDP growth aside from the inventory change was 3.3%. However, with demand seemingly remaining strong, a restocking of inventories could add to growth in the first quarter of 2018.



Growth in real GDP in the fourth quarter reflected positive contributions from personal consumption expenditures (+2.58 percentage points), followed by nonresidential fixed investment (+0.84pp), exports (+0.82pp), government (+0.50pp), and residential fixed investment (+0.42pp). Subtracting from growth were imports (-1.96pp), which are included as production in other categories and backed out in a separate line item, and the change in business inventories (-0.67pp). Both trade and inventories had added to growth during the previous quarter.

The Ohio economy continued to grow in December, according to the **Ohio coincident economic index** from the Philadelphia Federal Reserve. The index increased for the fourth month in a row, rising 0.3% after a gain of 0.5% the month before. The recent string of increases followed two straight months of 0.1% declines. At 2.1%, the December year-over-year rate of change was the strongest since May 2016. Likewise, a **survey of businesses** in and around Ohio, conducted by the Federal Reserve Bank of Cleveland in December and early January, found that activity continued to expand at a moderate pace.

The breadth of increases in the **state coincident economic indexes** across the country remained mixed again in December. The indexes for ten states decreased from a month earlier, which is slightly better than the twelve states with decreases in November. The monthly number has been unusually volatile recently, but the number of states with declines over 3-month spans appears to be gradually receding from the peak of twelve states last August; this despite an uptick in December to eight states from six states in November.



The number of negative readings among individual **state-level composite leading indexes** also decreased in December to six after increasing from two in October to nine in November. Among the six states posting negative readings, five had negative values for the second straight month.

The Ohio leading index was 1.8% for a second month in December, as the November figure was revised down from 2.1%. The index has improved from modestly negative in July and barely negative in August. Compiled by the Philadelphia Federal Reserve, the diffusion across these state leading indexes itself has been a timely indicator of turning points for the economy in the past. However, 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 December and remain consistent with uninterrupted expansion well into 2018. The Conference Board's composite **Leading Economic Index** increased 0.6% after an upwardly revised increase of 1.3% in the previous month. Nine of the ten components of the index increased, led by the ISM index for new orders and followed by the Leading Credit Index, stock prices, and consumer expectations for business conditions. The 6-month smoothed rate of change increased to 6.2%, which is the highest since July 2014.

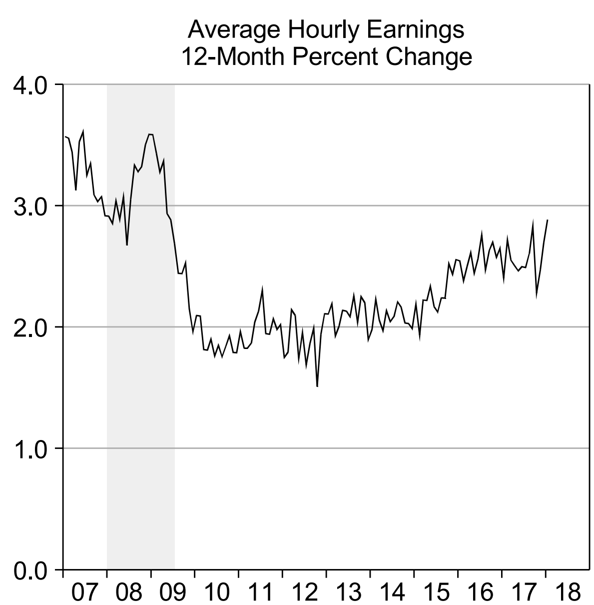
The **consensus among forecasters** is that real GDP growth is stable-to-increasing in the first quarter and will continue throughout the year. In particular, the Federal Reserve Bank of Atlanta projects real GDP growth of 4.0% in the first quarter, based on the trajectory of key indicators during the fourth quarter, and the few data points available so far for the first quarter. The Federal Reserve Bank of New York projects growth of 3.2%. The more-stable Blue Chip consensus, which is an average of forecasts from a group of professional forecasters, calls for 2.6% growth, with a range of 2.1% to 3.2% from the average of the lowest ten to the highest ten forecasts. The IHS GDP Tracker projection for first-quarter growth is similar to the Blue Chip consensus at 2.4%.

Employment

Nonfarm payrolls across the country increased by 200,000 jobs in January. Private nonfarm payrolls increased by 196,000 jobs. The total change during the previous two months was revised lower by 24,000 jobs, in part reflecting the effects of the regular annual benchmarking process. The January change and the average change during the most recent three months (192,000) were both above the average change of 181,000 jobs per month during the most recent twelve months.

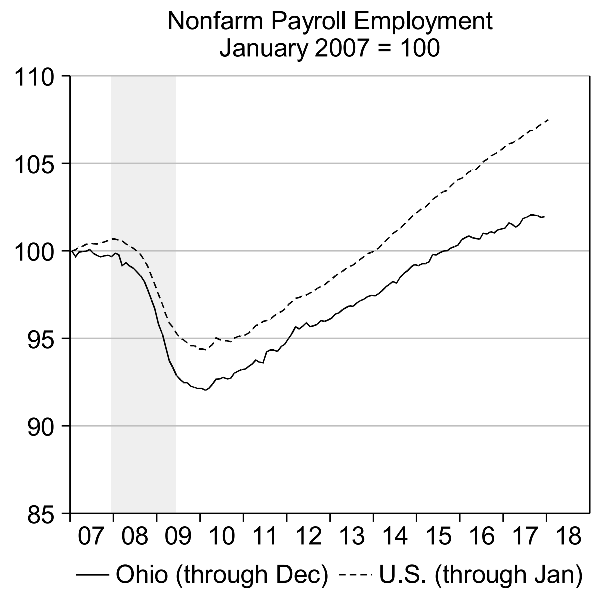
Job gains were widespread across sectors, led by education and health services (+38,000); construction (+36,000); leisure and hospitality (+35,000); and trade, transportation and utilities (+34,000). Health care (+20,600) accounted for just over half the increase in education and health services. The rise in construction was concentrated in specialty trade contracts in residential (+13,900) and nonresidential (+12,400), while the increase in trade, transportation and utilities was spread across wholesale trade (+10,000), retail trade (+15,000), and transportation (+11,000). Employment in professional and business services increased by 23,000 jobs, and manufacturing employment increased by 15,000 jobs.

The **unemployment rate** was unchanged at 4.1% for the fourth month in a row, its lowest level since December 2000. The broadest measure of unemployment, the U-6 unemployment rate, increased by 0.1 percentage point to 8.2%, still below the level of last summer. 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.



In a seemingly long overdue break from the recent trend of weak wage increases, **average hourly earnings** of all employees on private nonfarm payrolls increased 0.3% to 2.9% year-over-year – the fastest pace since April 2009. The acceleration is seen as an indication of stronger growth and possibly higher inflation.

Ohio nonfarm payroll employment increased by 2,500 jobs in December, but remained below its August level. Employment increased by 38,500 jobs for the year. Gains in manufacturing (+3,500), leisure and hospitality (+2,200), and financial activities (+1,600) were partially offset by losses in professional and business services (-3,500) and construction (-1,700).



During the twelve months ending in December, Ohio employment increased by 38,500 jobs. The largest gains were in leisure and hospitality (+14,900); educational and health services (+12,600); manufacturing (+10,200); financial activities (+9,800); and construction (+6,800). Employment decreased in trade, transportation and utilities (TTU; -10,400), government (-4,700 and the fifth month in a row), and information (-2,600). The decrease in the TTU category was driven by retail trade, where 17,000 jobs were lost, or 3.0% of the total.

Labor markets in and around Ohio continued to tighten into early January, according to the Cleveland Fed survey. Construction and services outside of finance reported the strongest activity. Hiring by manufacturers started to trend slowly higher after weakening in the spring. Firms commented on the challenge of balancing wage increases in order to attract and retain workers with the difficulty of passing on higher costs to customers.

Among the **contiguous states**, year-over-year employment growth was strongest in Pennsylvania (+1.3%), Michigan (+1.3%), Kentucky (+1.1%), followed by Indiana (+0.9%), Ohio (+0.7%), and West Virginia (+0.2%). Manufacturing employment increased year-over-year in Ohio (1.5%), Indiana (1.4%), Michigan (0.9%), and Kentucky (0.8%). It decreased 0.8% in Pennsylvania and 0.9% in West Virginia.

The **Ohio unemployment rate** decreased by 0.1 percentage point to 4.7% in December, matching the expansion-low set in October 2015. The decline on the month resulted from a larger increase in total employment (+12,200) than in the labor force (+3,200). Since the expansion-low for the Ohio unemployment rate, total employment has increased by 92,300 and the labor force has increased by 94,000. These Ohio numbers are from the household survey and may differ from establishment survey figures cited previously as the two surveys can vary on a monthly basis, although their results tend to be closer over a longer time period.

Across the country in December, the unemployment rate decreased notably from the month before in six states, led by the District of Columbia (-0.4 percentage point). The rate increased by a statistically significant amount only in Colorado (+0.2 percentage point). Changes in the unemployment rate in the other forty-three states were not statistically different from zero.

Consumer Income and Consumption

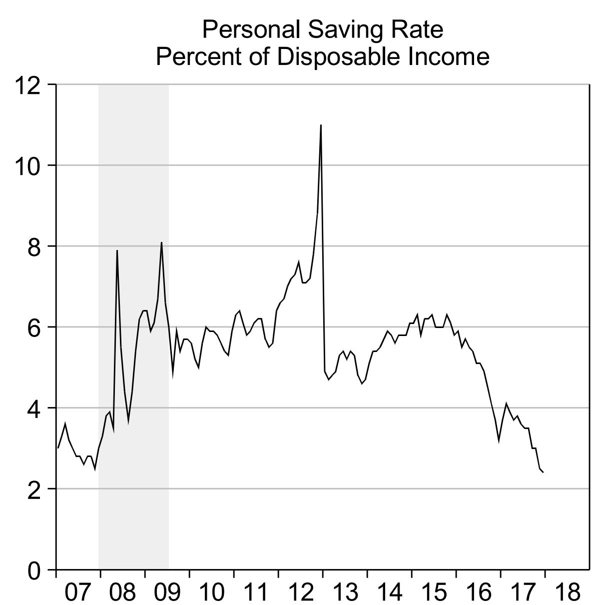
Personal income and spending both continued to grow during December. **Personal income** increased 0.4% after gains of 0.3% in November and 0.4% in October. A key driver was wage and salary disbursements, which make up more than half of personal income and which expanded by 0.5%. Compared with a year earlier, personal income was up 4.1% and wage and salary disbursements increased 4.9%.

Personal consumption expenditures increased by 0.4% on top of the upward revision from 0.6% to 0.8% the month before. Spending on durable goods increased 0.7% in December, in part reflecting a 2.1% increase in unit sales of light motor vehicles. On the other and, the decline in vehicle sales to an annual rate of 17.1 million units during January subtracted from durable goods spending for that month. Spending on nondurables fell 0.2% after rising 1.5% the month before. Spending on services continued rising at a 0.5% pace in December.

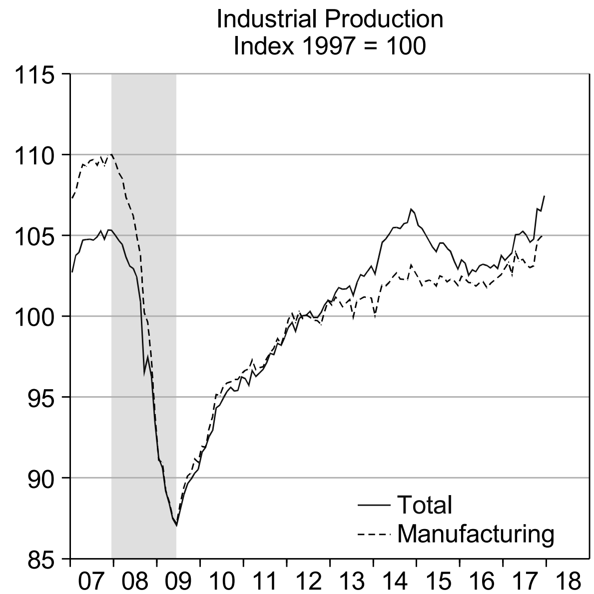
In and around Ohio, most retailers reported an improving outlook heading into the holiday shopping season, according to the survey by the Cleveland Fed. A general theme is that retailers that had invested in technology to enhance customers' shopping experiences generated increases in same-store sales. Revenues for the early part of the season were reportedly better than expected and better than a year ago. Cold weather across the region and promotions were cited as positive factors.

Consumer moods remained positive in January after brightening impressively in previous months. The **Consumer Confidence Index** from the Conference Board increased after falling in December from a 17-year high in November. The increase occurred as expectations improved and assessments of the current situation were little changed – the opposite of the previous month. The strengthening of outlooks in recent months probably reflects the strong labor market, low inflation and interest rates, and the strong stock market. The University of Michigan/Reuters **Consumer Index of Consumer Sentiment** declined for a third straight month, but again only slightly. The levels of both expectations and assessments of current conditions remain near long-time highs.

Higher confidence among consumers likely has been a factor behind declines in the **personal saving rate**, which continued in December. Disposable personal income increased 0.3% during the month to 3.9% above the year earlier level, but total personal outlays rose 0.4% to 4.7% above the year earlier level. As a result, the saving rate declined to 2.4% of disposable income, down from 4.1% last February and 6.3% in October 2015. The continuation of the decline underscores that consumers have positive views of the near future.



Industrial Activity



Industrial production increased by 0.9% in December, but the November change that was originally reported as a 0.2% increase was revised to a 0.1% decrease. **Manufacturing** production increased 0.1% in December, and the two previous months' changes each were adjusted higher by 0.1 percentage point. **Mining** output grew 1.6%, but the previous month's change was revised down from 2.0% to 0.1%. **Utility** output surged 4.3%, handily eclipsing the 2.5% weather-related drop the month before.

Production across the country in some industries that are key employers in Ohio was mixed. Production increased 2.0% in motor vehicles and parts and 0.4% in machinery, but was unchanged in fabricated metal products, and decreased 1.5% in primary metal. Compared with a year earlier, production increased 8.2% in machinery, 4.7% in fabricated metal products, and 3.2% in primary metal. Production of motor vehicles and parts increased 0.4%.

According to the survey by the Cleveland Fed, manufacturing output continued to strengthen modestly in and around Ohio heading into the turn of the year. Several contacts pointed to overall improvement in the economy. A few mentioned ongoing strength in the construction, motor vehicle, and energy industries. Respondents from the petrochemical industry reported continuing activity related to rebuilding from the late-summer hurricanes. Steel production was said to be up due to increased manufacturing output. In general, respondents at manufacturing firms look for a moderate pickup in the pace of growth early this year.

Reports of improving conditions from **purchasing managers** in manufacturing remained widespread in January. The PMI® decreased from 59.3 to 59.1 – still well above the neutral level of 50 for the seventeenth straight month. The important New Orders and Production sub-indexes also retreated modestly after a strong run-up in recent months, supporting expectations of 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*, fourteen reported growth in the latest month. Among the industries with a disproportionate effect on Ohio manufacturing employment, fabricated metal products, primary metals, machinery, and transportation equipment all reported expansion. One respondent in the machinery industry reported hearing "reports of additional business due to the recent reduction of tax rates," while a survey participant in the fabricated metal products industry reported a "[s]low start to 2018," but with a recent pickup in orders. According to a contact in the transportation equipment industry, "Overall, business remains steady. With several key programs to begin ramping up in the industry, [the] outlook looks good for calendar year 2018".

Construction

Construction put-in-place increased 0.7% in December, continuing the stretch of solid growth since July, during which activity grew at an annualized 7.7%. Private construction grew 0.8% and public construction increased by 0.3%. Year-over-year growth has slowed substantially within the past year in the private and public sectors and in the residential and nonresidential categories. For example, total construction slowed from 9.2% year-over-year in December 2016 to 2.6% in December 2017. That reflected slowdowns in residential and nonresidential from 12.3% to 6.2% and from 7.1% to 0.1%, respectively. Private nonresidential has slowed the most, from 14.5% year-over-year in December 2016 to -2.5% in December 2017.

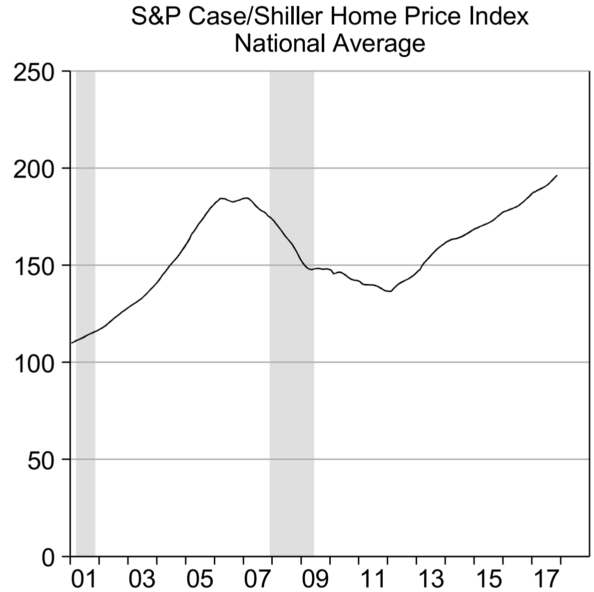
Total **housing starts** increased 0.9% across the country on a 3-month moving average basis in December, whereas starts decreased 1.6% on the same basis in the Midwest. Single family starts were higher both nationally and in the Midwest. Multi-family starts were stronger than single family starts nationally, but decreased 7.7% in the Midwest. Compared with a year earlier, total starts increased by 0.2%, while Midwest starts were lower by 11.9%.

The more forward looking permits were positive across the board, rising 2.0% nationally and 2.5% in the Midwest. Compared with a year earlier, national permits were up by 3.0% and Midwest permits were little changed at -0.2%.

Home sales continued at a high level again in December. Sales of existing homes increased 1.2% nationally and 0.7% in the Midwest on a 3-month moving average basis. Both were up moderately from a year earlier. In contrast, sales of newly built homes decreased 0.7% across the country and 5.2% in the Midwest on a 3-month moving average basis. Compared with a year earlier, new home sales were higher by 12.3% nationally but 3.8% lower in the Midwest.

In and around Ohio, several homebuilders reported that they have not seen the typical seasonal decline in demand, according to the Cleveland Fed. Reasons given included low interest rates, a healthy economy, and low inventory of existing homes. Unit sales of new and existing single-family homes during November 2017 were almost 4 percent higher when compared to unit sales of November 2016. The average sales price rose more than 6 percent. Homebuilders expressed concern about the availability of land and a shrinking supply of building lots.

The demand for nonresidential construction services remains at a high level. Office construction was reportedly picking up, with the scope of projects expanding. Backlogs, which are at a high level, were said to be increasing as the year came to a close. Prices for office and industrial properties were reportedly rising. Apartment rents are still increasing, but the number of apartments coming to market is declining in and around Ohio.



Against the backdrop of strong demand and limitations on supply, **home prices** continue to rise. The Case-Shiller index increased for the 69th month in a row in November to 6.2% above the year earlier level, 43.8% above the cyclical low reached in February 2012, and 6.4% higher than the previous peak reached in February 2007.

REVENUES

January GRF receipts totaled $3,219.4 million and were $365.0 million (12.8%) above the estimate. The variance was due to several sources. On the plus side, the income tax and other income both had overages exceeding $200 million. Income tax collections were above estimate by $222.6 million (24.9%), while other income was above estimate by $202.3 million. Auto sales tax collections exceeded the estimate by $20.0 million (20.2%). On the negative side, non-auto sales tax collections were below estimate by $59.1 million (6.9%). Federal grants were below estimate by $22.9 million (3.1%). Finally, transfers in to the GRF were below estimate by $21.6 million (84.7%).

The other income overage was due to a $200 million deposit to the GRF from unclaimed funds being made in January rather than December. The delay created a large negative variance in December, as noted in last month's issue of this report, which was then offset in January.

Driven by the income tax overage, tax receipts were $204.0 million (9.8%) above estimate in January. Three payment types contributed to the income tax variance: employer withholding, quarterly estimated payments, and refunds. OBM believes that the withholding overage, as with the overage for the year-to-date, is the result of better than expected income growth. Lower than anticipated refunds, on the other hand, are thought to be a timing matter, caused by the federal government accepting tax returns later than expected (and later than last January). Estimated payments are a complicated story that is discussed at greater length in a subsequent section. OBM currently assumes that part of the estimated payment overage is due to higher than expected growth in non-wage income, but that part of the overage is due to changes made in the federal tax reform act and may turn out to be offset later in the tax filing season.

The auto sales tax continued its strong performance in January, with collections well above estimate despite a comparatively weak month for unit sales of new vehicles. Some of the January tax overage may be linked to strong December sales, due to the observed lag between purchases and tax collections. The non-auto sales tax, on the other hand, posted a surprising shortfall; surprising considering generally strong economic conditions, high consumer confidence, and reports that holiday sales grew moderately from the year before.

On the non-tax side, partially offsetting the overage in other income that resulted from the delayed deposit from unclaimed funds, federal grants were under estimate. This was expected given that Medicaid spending was under estimate, although the federal grant shortfall is a little smaller than one would expect based on the amount of Medicaid underspending.

Transfers in were below estimate in January due to some fund transfers that had been expected to occur during the month instead being delayed toward the end of the fiscal year.

For the fiscal year, the January overage caused tax revenues to finish the month $221.6 million (1.7%) above estimate. The income tax alone is $249.9 million (5.0%) above estimate. Other significant positive year-to-date variances can be found in the auto sales tax, which was $43.9 million (5.7%) above estimate and the commercial activity tax, which was $22.0 million (2.8%) above estimate.

On the negative side, January left the non-auto sales tax $66.6 million (1.3%) below estimate year-to-date, and only 1.3% above last year's level, after adjusting for the repeal of the tax on Medicaid Health Insuring Corporations (MHICs). The non-auto sales tax is the biggest source of concern for the remainder of fiscal year 2018. Federal grants are also significantly below estimate, at $90.8 million (1.6%) year-to-date, but this is actually a positive development as it stems from Medicaid underspending. Now that the unclaimed funds deposit has been received, the other income category year-to-date shortfall has decreased to $27.8 million (10.6%), down from a shortfall of $230.1 million in December. The year-to-date underage is due primarily to JobsOhio liquor enterprise payments coming in lower than estimated due to costs associated with modernization of the liquor information technology infrastructure.

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	$221.6	1.7%
Non-tax receipts	Federal grants, earnings on investments, licenses & fees, other income, intrastate transfers	($116.0)	-1.9%
Transfers	Budget stabilization, liquor transfers, capital reserve, other	$4.2	3.3%
TOTAL REVENUE VARIANCE:		**$109.8**	**0.6%**
Non-federal revenue variance		**$200.6**	**1.5%**
Federal grants variance		**($90.8)**	**-1.6%**

On a year-over-year basis, monthly receipts were $303.7 million (10.4%) above January of last year. Tax revenues increased by $214.5 million (10.4%) from last January. This was due primarily to the surge in income tax revenues. Both the commercial activity tax (CAT) and the auto sales tax also had significant growth from last year. CAT GRF revenues grew by $20.4 million (39.3%) although that growth is partly due to a law change that increased the GRF share of total CAT revenues from 75% in fiscal year 2017 to 85% this year. The auto sales tax grew by $16.6 million (16.2%) from last January, as tax collections continue to surprise to the upside despite a slight decline in the number of new vehicle sales nationally.

The non-auto sales tax continues to hinder growth from last year. In January, collections fell by $94.8 million (10.7%) from last January. Of that decline, $72.5 million was due to the repeal of the sales tax on Medicaid managed care companies. Absent that law change, tax revenues would still have increased from last January, but by a much smaller $22.3 million (2.7%).

Federal grants decreased by $64.4 million (8.2%) from last January. 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 seven months.

For the year-to-date, GRF tax revenues have increased by $211.3 million (1.6%) from last year. Income tax collections have increased by $430.4 million (8.9%). CAT collections have increased by $130.8 million (19.5%); again, the increase in the GRF share of the CAT from 75% to 85% is responsible for about 13.3% of this growth. The non-auto sales tax has decreased by $332.0 million (6.0%). As stated above, this decrease is due to the repeal of the sales tax on Medicaid managed care premiums. Absent that change, non-auto sales tax revenues would be up by $63.2 million (1.3%) and total tax revenues would be up by $606.6 million (4.9%).

GRF Revenue Sources Relative to Monthly Estimates – January 2018
($ in millions)

Individual Revenue Sources Above Estimate		**Individual Revenue Sources Below Estimate**	
Personal income tax	$222.6	Non-auto Sales Tax	($59.1)
Other Income	$202.3	Federal Grants	($22.9)
Auto Sales Tax	$20.0	Transfers In	($21.6)
Commercial Activity Tax	$13.0	Other Sources Below Estimate	($2.6)
Cigarette and Other Tobacco Products Tax	$7.0		
Other Sources Above Estimate	$6.3		
Total above	**$471.3**	**Total below**	**($106.2)**

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

Non-Auto Sales and Use Tax

January non-auto sales and use tax collections totaled $793.2 million and were $59.1 million (6.9%) below estimate. The January shortfall took what had been a small (-$7.5 million) variance for the year and increased it to -$66.6 million (1.3%). This is surprising given that, as mentioned in last month's issue of this report, national data suggested that holiday sales were strong. MasterCard had estimated that non-auto spending from Nov.1 through Dec.24 increased by 4.9% from last year. As mentioned in the economic overview of this report, personal consumption expenditure contributed 2.6% to fourth-quarter GDP growth, with most of that increase coming from goods, which are more likely to be taxable than services. The Census Bureau reports that retail and food services sales in December were up 5.4% from December last year. Nevertheless, non-auto sales tax collections not only fell short of the estimate but actually decreased by 2.7% from last January, once one adjusts for MHIC collections (please see the table below). The January decline pulled year-to-date growth ex-MHICs down to 1.3%.

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 2.5%.

The January shortfall in the non-auto sales tax requires OBM to both reexamine existing hypotheses as well as explore new hypotheses, as to why growth in the tax is slow, both in absolute terms, and relative to other variables such as U.S. retail sales. OBM has previously cited retail trade price growth being weak or actually negative as contributing to low non-auto tax growth. Once data for the fourth quarter is released, this is likely to still be true, but other explanations such as further erosion of brick and mortar sales due to online competition must also be investigated.

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

($ in millions)

	Jan-17	Jan-18	FY 2017 YTD	FY 2018 YTD
Non-Auto sales tax GRF	$888.1	793.25	$5,530.5	$5,198.5
Non-Auto sales tax PLF (Library Fund)	$16.44	$15.81	$113.79	$113.15
Non-Auto sales tax, all funds	$904.5	$809.1	$5,644.3	$5,311.7
MHIC revenues (state)	$73.2	$0.0	$470.3	$71.7
GRF and PLF revenues without MHIC	$831.4	$809.1	$5,174.0	$5,240.0
Change from prior year in non-MHIC collections		-$22.3		$65.9
Pct. change from prior year in non-MHIC collections		-2.7%		1.3%

Auto Sales Tax

The auto sale tax continues to meet or exceed expectations. Auto sales tax collections in January were $119.0 million, which was $20.0 million (20.2%) above estimate. For the year, collections are now $43.9 million (5.7%) above estimate and revenues have grown $26.7 million (3.4%) 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 3.4% in collections so far this year, contrary to expectations.

National new light vehicle sales are down about 1.3% compared to July-January of last year. However, all of the decline is in passenger cars, light truck sales are actually up by 4.6%. 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

January GRF personal income tax receipts totaled $1,115.4 million and were $222.6 million (24.9%) above the estimate. This was the highest collections month since April 2015, and the highest January amount since January 2013.

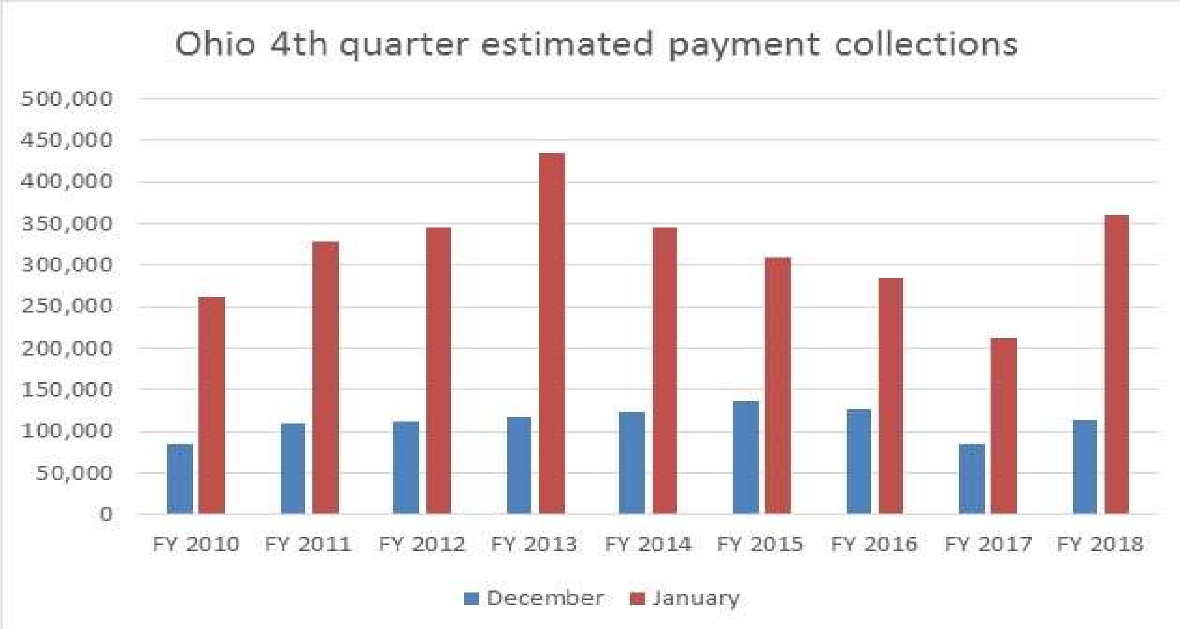
Three payment categories made significant contributions to the January overage:

(1) Employer withholding was $25.7 million (3.2%) above estimate;
(2) Quarterly estimated payments were $142.1 million (65.1%) above estimate;
(3) And refunds were $58.6 million (41.5%) below estimate.

The variance in refunds for January cannot be taken as an indicator of what is likely to happen in the remainder of the tax filing season. The IRS did not begin accepting tax returns until January 29th this year, whereas last year returns were accepted beginning on January 23rd. The estimates assumed a starting date this year similar to last year. This year's delay is presumably responsible for most or all of the January variance.

The overage in employer withholding resumes the pattern that was briefly interrupted in December. After 7 months, withholding growth is 4.5%, which is 1.5% ($72.8 million) above the estimate. As noted in last month's report, withholding growth this fiscal year has been outpacing the estimates of Ohio wage and salary income from the Bureau of Economic Analysis (BEA).

By far the most difficult of the three contributors to the January overage to interpret is quarterly estimated payments. Combined December-January estimated payments increased by $174.5 million (58.3%) from last year, and broke a four-year streak of declining fourth-quarter estimated payments, as shown in the graph below. Estimated payments began falling in 2014 as the first round of the recent income tax cuts, which both reduced tax rates and introduced a new deduction for business income took effect.



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 16. There are two reasons: 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 and federal tax rates are generally lower in 2018, making the value of any deduction after tax year 2017smaller, all else equal.

Although much of the estimated payment revenue was booked in the accounting system in January, much of it was received early in the month and may have actually been postmarked in December (if paid by check). Thus, the behavioral response to federal tax reform may still underlie much of the growth in estimated payments.

OBM examined both estimated payment collections for other states and looked at federal income tax collections for December and January. The experience of most other states was very similar to Ohio; extremely strong growth in collections over December and early January, with collections tailing off sharply after the first week or week and a half of January.

Federal collections, on the other hand, should not be affected by the new $10,000 limit on itemized deductions for state and local taxes. In fact, federal collections showed a markedly lower increase in estimated payments in December and January than state collections, with payments for the two months combined growing by 6.3% (The federal data from U.S. Treasury does not actually isolate estimated payments, but instead reports all non-withheld payments for the month. However, in December and January estimated payments are the vast majority of non-withheld payments). This data suggests that income growth may account for moderate growth in state estimated payment tax collections, but that most of the growth may be due to taxpayer responses to federal tax reform. If so, then higher fourth-quarter estimated payments may be offset by lower annual return payments (or higher refunds) later in the tax filing season.

On a year-over-year basis, January GRF income tax collections were $269.5 million (31.9%) above January 2017 collections. For the year, collections are up by $430.4 million (8.9%). Except for annual return payments, all payment categories have improved from last year. Growth in withholding and estimated payments accounts for $408.3 million, or 95% of the total growth in collections.

FY2018 PERSONAL INCOME TAX RECEIPTS BY COMPONENT ($ in millions)						
	Estimate Jan	Actual Jan	$ Var Jan	Actual Jan-2018	Actual Jan-2017	$ Var Y-0ver-Y
Withholding	$810.3	$836.0	$25.7	$836.0	$780.1	$55.9
Quarterly Est.	$218.4	$360.5	$142.1	$360.5	$213.1	$147.5
Trust Payments	$9.5	$15.7	$6.2	$15.7	$9.4	$6.3
Annual Returns & 40 P	$15.2	$8.7	($6.5)	$8.7	$12.8	($4.1)
Other	$12.0	$8.5	($3.5)	$8.5	$11.7	($3.2)
Less: Refunds	($141.4)	($82.8)	$58.6	($82.8)	($149.1)	$66.3
Local Distr.	($31.2)	($31.2)	$0.0	($31.2)	($32.1)	$0.9
Net to GRF	$892.8	$1,115.4	$222.6	$1,115.4	$845.9	$269.5

Commercial Activity Tax

January commercial activity tax (CAT) receipts deposited in the GRF totaled $72.4 million and were $13.0 million (22.0%) above estimate. GRF CAT receipts for the year-to-date are now $22.0 million (2.8%) above estimate. January is a month when early payments against the February 10 due date are received. Unfortunately, an overage in January does not necessarily imply an overage in February as well.

For the fiscal year, GRF CAT collections are $130.8 million (19.5%) 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 $48.0 million (5.3%), growing from $902.4 million to $950.4 million. Under prior law, the GRF would have received an additional $36.0 million from that increase: the other $94.8 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 $94.8 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

January cigarette and other tobacco collections totaled $81.0 million and were $6.9 million (9.4%) above estimate. Year-to-date receipts total $501.9 million and are $2.4 million (0.5%) above estimate.

Collections have been up and down so far this year with respect to the estimate, generally alternating being below or above estimate in successive months. 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) surprised to the upside in January, as collections of $53.8 million exceeded the estimate by $1.5 million (2.9%). FIT performance had been very weak in the first-half of fiscal year 2018, which is a period when estimated payments for taxable year 2016 were reconciled against actual liabilities. This reconciliation yielded refunds that caused net negative collections, more negative than the estimate. January 31st was the due date for the first estimated payment against taxable year 2017. Not only was the January payment above estimate, but early February collections have exceeded the estimate for the month as a whole. Barring very large refundable credits in the remainder of February, the first estimated payment of fiscal year 2018 will exceed the estimate, which should be an indicator of strong performance for the balance of the fiscal year.

GRF Non-Tax Receipts

GRF non-tax receipts totaled $939.9 million in January and were above estimate by $182.6 million (24.1%). The January overage almost exactly offsets December's negative variance. As mentioned previously, a deposit of $200 million to the GRF from unclaimed funds that was anticipated in December was delayed until January. Federal grants were below estimate by $22.9 million (3.1%) driven by underspending in GRF Medicaid spending. For the year, federal grants are $90.8 million (1.6%) below estimate, which is less than expected given the $191.7 million underspending in GRF Medicaid. This may be in part due to December's result, discussed in last month's issue of this report, where Medicaid underspending was unusually concentrated in payment categories that have lower federal match rates.

Finally, transfers in to the GRF were $21.6 million below the estimate, although transfers are still $4.2 million above estimate for the fiscal year. The estimates had assumed that OBM would exercise some of its fiscal year 2018 authority to take money from state dedicated purposes funds in January in order to hit fiscal year 2018 fund balance targets, however, though ultimately will be required, such transfers have been delayed until later in the fiscal year.

2/12/2018

Table 1

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

REVENUE SOURCE	MONTH ACTUAL JANUARY	MONTH ESTIMATE JANUARY	MONTH $ VAR	MONTH % VAR	YEAR-TO-DATE ACTUAL Y-T-D	YEAR-TO-DATE ESTIMATE Y-T-D	YEAR-TO-DATE $ VAR	YEAR-TO-DATE % VAR
TAX RECEIPTS								
Non-Auto Sales & Use	793,249	852,300	(59,051)	-6.9%	5,198,500	5,265,100	(66,600)	-1.3%
Auto Sales & Use	119,045	99,000	20,045	20.2%	818,381	774,500	43,881	5.7%
Subtotal Sales & Use	912,294	951,300	(39,006)	-4.1%	6,016,881	6,039,600	(22,719)	-0.4%
Personal Income	1,115,391	892,800	222,591	24.9%	5,264,194	5,014,300	249,894	5.0%
Corporate Franchise	(540)	0	(540)	N/A	2,397	0	2,397	N/A
Financial Institutions Tax	53,809	52,300	1,509	2.9%	28,770	37,600	(8,830)	-23.5%
Commercial Activity Tax	72,448	59,400	13,048	22.0%	801,493	779,500	21,993	2.8%
Petroleum Activity Tax	0	0	0	N/A	3,280	2,800	480	17.1%
Public Utility	227	(100)	327	326.8%	55,791	53,800	1,991	3.7%
Kilowatt Hour	28,713	29,600	(887)	-3.0%	196,995	209,100	(12,105)	-5.8%
Natural Gas Distribution	1,995	1,700	295	17.3%	18,755	19,300	(545)	-2.8%
Foreign Insurance	513	1,700	(1,187)	-69.8%	145,357	157,200	(11,843)	-7.5%
Domestic Insurance	0	(100)	100	N/A	63	2,900	(2,837)	-97.8%
Other Business & Property	0	0	0	N/A	(263)	0	(263)	N/A
Cigarette and Other Tobacco	81,044	74,100	6,944	9.4%	501,891	499,500	2,391	0.5%
Alcoholic Beverage	4,654	4,000	654	16.4%	34,280	34,000	280	0.8%
Liquor Gallonage	4,978	4,800	178	3.7%	29,012	27,800	1,212	4.4%
Estate	5	0	5	N/A	118	0	118	N/A
Total Tax Receipts	2,275,531	2,071,500	204,031	9.8%	13,099,014	12,877,400	221,614	1.7%
NON-TAX RECEIPTS								
Federal Grants	716,712	739,647	(22,934)	-3.1%	5,721,340	5,812,107	(90,767)	-1.6%
Earnings on Investments	14,441	13,000	1,441	11.1%	30,187	28,000	2,187	7.8%
License & Fees	4,626	2,900	1,726	59.5%	13,596	13,695	(99)	-0.7%
Other Income	204,113	1,780	202,333	11367.0%	234,990	262,740	(27,750)	-10.6%
ISTV'S	37	0	37	N/A	425	0	425	N/A
Total Non-Tax Receipts	939,929	757,327	182,602	24.1%	6,000,537	6,116,542	(116,004)	-1.9%
TOTAL REVENUES	**3,215,460**	**2,828,827**	**386,633**	**13.7%**	**19,099,552**	**18,993,942**	**105,610**	**0.6%**
TRANSFERS								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	3,902	25,500	(21,598)	-84.7%	133,171	128,929	4,242	3.3%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	3,902	25,500	(21,598)	-84.7%	133,171	128,929	4,242	3.3%
TOTAL SOURCES	**3,219,362**	**2,854,327**	**365,035**	**12.8%**	**19,232,723**	**19,122,871**	**109,852**	**0.6%**

2/12/2018

Table 2
GENERAL REVENUE FUND RECEIPTS
ACTUAL FY 2018 VS ACTUAL FY 2017
($ in thousands)

REVENUE SOURCE	MONTH JANUARY FY 2018	MONTH JANUARY 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	793,249	888,075	(94,826)	-10.7%	5,198,500	5,530,536	(332,036)	-6.0%
Auto Sales & Use	119,045	102,491	16,554	16.2%	818,381	791,728	26,652	3.4%
Subtotal Sales & Use	912,294	990,566	(78,272)	-7.9%	6,016,881	6,322,264	(305,384)	-4.8%
Personal Income	1,115,391	845,851	269,540	31.9%	5,264,194	4,833,745	430,449	8.9%
Corporate Franchise	(540)	143	(683)	-478.7%	2,397	(123)	2,520	2052.7%
Financial Institutions Tax	53,809	53,791	19	0.0%	28,770	38,599	(9,829)	25.5%
Commercial Activity Tax	72,448	52,002	20,446	39.3%	801,493	670,716	130,776	19.5%
Petroleum Activity Tax	0	0	0	N/A	3,280	2,860	420	14.7%
Public Utility	227	66	160	241.4%	55,791	47,621	8,170	17.2%
Kilowatt Hour	28,713	28,679	34	0.1%	196,995	211,385	(14,391)	-6.8%
Natural Gas Distribution	1,995	1,576	418	26.5%	18,755	18,505	250	1.4%
Foreign Insurance	513	1,709	(1,196)	-70.0%	145,357	162,740	(17,383)	-10.7%
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	81,044	77,464	3,580	4.6%	501,891	516,369	(14,478)	-2.8%
Alcoholic Beverage	4,654	4,295	359	8.4%	34,280	35,026	(747)	-2.1%
Liquor Gallonage	4,978	4,862	117	2.4%	29,012	28,093	919	3.3%
Estate	5	33	(28)	-85.6%	118	490	(372)	-75.8%
Total Tax Receipts	2,275,531	2,061,037	214,494	10.4%	13,099,014	12,887,667	211,347	1.6%
NON-TAX RECEIPTS								
Federal Grants	716,712	781,119	(64,407)	-8.2%	5,721,340	6,928,319	(1,206,979)	-17.4%
Earnings on Investments	14,441	9,862	4,579	46.4%	30,187	24,042	6,146	25.6%
License & Fee	4,626	2,938	1,688	57.5%	13,596	14,951	(1,356)	-9.1%
Other Income	204,113	604	203,509	33700.0%	234,990	44,382	190,607	429.5%
ISTV'S	37	3	35	1360.4%	425	9,131	(8,705)	-95.3%
Total Non-Tax Receipts	939,929	794,525	145,404	18.3%	6,000,537	7,020,825	(1,020,287)	-14.5%
TOTAL REVENUES	**3,215,460**	**2,855,562**	**359,898**	**12.6%**	**19,099,552**	**19,908,492**	**(808,940)**	**-4.1%**
TRANSFERS								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	3,902	60,085	(56,183)	N/A	133,171	92,187	40,983	44.5%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	3,902	60,085	(56,183)	**N/A**	133,171	92,187	40,983	44.5%
TOTAL SOURCES	**3,219,362**	**2,915,647**	**303,715**	**10.4%**	**19,232,723**	**20,000,679**	**(767,957)**	**-3.8%**

DISBURSEMENTS

January GRF disbursements, across all uses, totaled $2,454.3 million and were $27.8 million (1.1%) above estimate. This variance was primarily attributable to higher than estimated disbursements in the Primary and Secondary Education and Justice and Public Protection categories, which were partially offset by lower than estimated disbursements in the Medicaid category. On a year-over-year basis, January total uses were $68.0 million (2.7%) lower than those of the same month in the previous fiscal year, with the Medicaid and Operating Transfer Out categories 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)	($178.5 million)	-0.9%
Transfers	Temporary or permanent transfers out of the GRF that are not agency expenditures	$3.9 million	6.0%
TOTAL DISBURSEMENTS VARIANCE:		**($174.6 million)**	**-0.9%**

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

Primary and Secondary Education

This category contains GRF spending by the Ohio Department of Education. Total January disbursements for this category totaled $706.1 million and were $44.3 million (6.7%) above estimate. Expenditures for the school foundation program totaled $686.8 million and were $53.1 million (8.4%) above estimate. The total variance was primarily attributable to above estimated spending in the EdChoice and College Credit Plus programs within the foundation funding line item. Spending for the EdChoice program is now projected to be below estimate in February. This variance was partially offset by lower than estimated spending in the Student Assessment and Half-Mill Maintenance Equalization line items due to the timing of payments. Certain payments within these line items will be made in future months, rather than January as originally estimated. Year-to-date disbursements for the Primary and Secondary Education category were $4,849.9 million, which is $62.5 million (1.3%) above estimate.

On a year-over-year basis, disbursements in this category were $44.2 million (6.7%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $105.0 million (2.2%) 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

January disbursements for the Higher Education category, which includes non-debt service GRF spending by the Department of Higher Education, were $184.6 million and were $2.9 million (1.6%) above estimate. The majority of this monthly variance was due to spending in the National Guard Scholarship and Ohio College Opportunity Grant Scholarship programs, which were above estimate by a total of $2.3 million as a result of higher than expected requests for reimbursement from higher education institutions.

Year-to-date disbursements were $1,333.8 million, which was $5.4 million (0.4%) below estimate. On a year-over-year basis, disbursements in this category were $2.7 million (1.5%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $6.4 million (0.5%) 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.

January disbursements in this category totaled $7.1 million and were $1.1 million (13.2%) below estimate. Year-to-date disbursements were $49.0 million, which was $1.5 million (2.9%) below estimate. On a year-over-year basis, disbursements in this category were $2.3 million (46.5%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $2.1 million (4.2%) 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.

<u>Expenditures</u>
January GRF disbursements for the Medicaid Program totaled $1,017.4 million and were $55.5 million (5.2%) below estimate and $145.3 million (12.5%) 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 $8,642.4 million and were $191.7 million (2.2%) below the estimate, and $1,630.5 million (15.9%) below disbursements for the same point in the previous fiscal year.

January all funds disbursements for the Medicaid Program totaled $2,104.9 million and were $63.3 million (2.9%) below the estimate and $155.4 million (8.0%) below disbursements for the same month in the previous fiscal year. Year-to-date all funds disbursements totaled $15,728.8 million and were $173.6 million (1.1%) below the estimate, and $1,452.5 million (10.2%) above disbursements for the same point in the previous fiscal year.

The January all funds variance is due primarily to underspending in the managed care program and program administration. The January expenditures for the managed care program were below estimate as enrollment in this program was 2.3% below estimate. In addition, the Department of Medicaid was able to negotiate lower capitation rates to managed care organizations than originally anticipated, which took effect in January. Finally, program administration expenses were below estimate as contractual service costs have been lower than anticipated.

The year-to-date all funds variance is due primarily to underspending in both the managed care and fee-for-service programs, as well as program administration. Managed care program expenditures have been below estimate as enrollment in this program has been 2.4% below estimate year-to-date. Likewise, underspending in the fee-for-service program has occurred as the enrollment in this program is 2.8% below estimate year-to-date. Finally, program administration expenses have been below estimate for reasons described above.

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

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

	January Actual	January Projection	Variance	Variance %
GRF	$ 1,017.4	$ 1,073.0	$ (55.5)	-5.2%
Non-GRF	$ 1,087.5	$ 1,095.2	$ (7.8)	-0.7%
All Funds	$ 2,104.9	$ 2,168.2	$ (63.3)	-2.9%

Enrollment

Total January enrollment for the program was 3.00 million, which was 113,289 (3.6%) below the estimate and 96,103 (3.1%) below enrollment for the same period last fiscal year. Year-to-date average monthly enrollment was 3.04 million and was 76,923 (2.5%) below estimate.

December enrollment by major eligibility category was: Covered Families and Children, 1.67 million; Aged, Blind and Disabled (ABD), 491,131; Group VIII Expansion, 693,286; and Other Full Benefits, 21,669 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. To the extent that these agencies spend GRF to support Medicaid services, that spending is reflected in the Medicaid category.

January disbursements in this category totaled $161.6 million and were $3.6 million (2.3%) above estimate. Year-to-date disbursements were $816.4 million, which was $27.4 million (3.2%) below estimate. On a year-over-year basis, disbursements in this category were $1.1 million (0.7%) lower than for the same month in the previous fiscal year while year-to-date expenditures were $20.1 million (2.4%) lower than at the same point in fiscal year 2017.

Department of Job and Family Services

January disbursements for the Department of Job and Family Services totaled $96.2 million and were $4.2 million (4.2%) below estimate. This variance was primarily attributable to lower than estimated spending for TANF State/Maintenance of Effort, which was $9.9 million below estimate due to a decrease in estimated county expenditures. This variance was partially offset by above estimate disbursements in three line items: 1.) Child Support – Local was $2.4 million above estimate as disbursements are based on historical data of county draws, which exceeded original monthly estimates; 2.) Unemployment Insurance Administration was $2.0 million above estimate due to unexpected spending in Office of Information Technology charges; 3.) Child, Family, and Adult Community and Protective Services were $1.4 million above estimate due to higher than estimated Community and Protective Services allocation payments.

Department of Mental Health and Addiction Services

January disbursements for the Department of Mental Health and Addiction Services totaled $37.0 million and were $7.7 million (26.1%) above estimate. This variance was primarily attributable to the Continuum of Care line item, which was $13.6 million above an estimate of zero. This variance was due to a partial early payment of a quarterly disbursement originally planned to occur in its entirety in February. The agency processed a significant amount of payments in late January rather than in February. The remaining payments will be processed in February and that month will likely show a commensurate amount of under estimate spending. This variance was partially offset by below estimate disbursements for Hospital Services, which were below estimate by $4.8 million due to delayed processing of some payments. Additionally, the Addiction Services Partnership with Corrections line item was below estimate by $1.1 million due to the timing of payments.

Department of Developmental Disabilities

January disbursements for the Department of Developmental Disabilities totaled $16.8 million and were $1.2 million (7.4%) above estimate. This variance was primarily attributable to the Early Intervention line item, which was $1.2 million above estimate due to the timing of payments. The agency had several prior months below estimate but have now caught up and are slightly ahead of year-to-date estimates as locals have drawn down more funding than estimated.

Department of Health

January disbursements for the Department of Health totaled $5.0 million and were $1.4 million (21.3%) below estimate. This variance was primarily attributable to disbursements for the FQHC Primary Care Workforce Initiative line item, which were below estimate by $0.6 million due to subsidy payments being distributed later than originally anticipated. Disbursements for the Infant Vitality line item were also below estimate by $0.6 million due to the establishment of contracts and sub-grant payments occurring later than originally estimated. These payments will be disbursed in future months instead of January as expected.

Justice and Public Protection

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

January disbursements in this category totaled $218.9 million and were $27.8 million (14.5%) above estimate. Year-to-date disbursements were $1,342.5 million, which was $1.8 million (0.1%) below estimate. On a year-over-year basis, disbursements in this category were $34.1 million (18.4%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $49.5 million (3.8%) higher than at the same point in fiscal year 2017.

Department of Rehabilitation and Correction
January disbursements for the Department of Rehabilitation and Correction totaled $169.5 million and were $31.1 million (22.5%) above estimate. This variance was primarily attributable to above estimate disbursements for Community Residential Programs – CBCFs and Community Misdemeanor Programs, due to payments being made in January instead of December as estimated. Additionally, some payments for Community Nonresidential Programs were disbursed early in January instead of February as estimated. Disbursements for Institutional Operations were also above estimate due to the timing of payments for contracts and utilities. These variances were partially offset by below estimated disbursements for Institution Medical Services due to a change in the timing of some contract payments, which will be paid quarterly instead of monthly as estimated.

Department of Youth Services
January disbursements for the Department of Youth Services totaled $23.2 million and were $3.3 million (12.6%) below estimate. This variance was primarily attributable to the timing of payments for Community Corrections Facilities and RECLAIM Ohio grants, some of which were not processed in January as estimated and will be disbursed in future months.

Public Defender Commission
January disbursements for the Public Defender Commission totaled $3.0 million and were $3.0 million (49.5%) below estimate. This variance is mostly attributable to the timing of disbursements for County Reimbursement payments, which will be made in future months instead of January as estimated.

General Government

This category includes non-debt service GRF expenditures by the Department of Administrative Services, 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.

January disbursements in this category totaled $36.4 million and were $1.1 million (3.2%) above estimate. Year-to-date disbursements were $225.8 million, which was $13.0 million (5.4%) below estimate. On a year-over-year basis, disbursements in this category were $1.0 million (2.8%) lower than for the same month in the previous fiscal year while year-to-date expenditures were $10.1 million (4.3%) lower than at the same point in fiscal year 2017.

Department of Administrative Services
January disbursements for the Department of Administrative Services totaled $3.4 million and were $2.4 million (223%) 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.

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. January property tax reimbursements totaled -$6.0 thousand dollars. The estimate for January was $0.5 million and thus the total amount disbursed was under estimate by $0.5 million. Year-to-date disbursements totaled $906.4 million and were $1.5 million (0.2%) below estimate.

Debt Service

January payments for debt service totaled $121.9 million and were $4.7 million (4.0%) above estimate. Year-to-date debt service payments were $1,019.8 million and were $1.2 million (0.1%) above estimate. The monthly variance was caused by certain Certificate of Participation debt service transfer payments being made in January, rather than February as originally planned.

Transfers Out

January transfers out totaled $0.4 million, the entirety of which was above an estimate of zero. Year-to-date transfers out were $69.4 million and were $3.9 million (6.0%) above estimate. The year-to-date variance was primarily due to an erroneous transfer in that occurred in July and required an unplanned transfer out in August to correct.

2/12/2018

Table 3

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

Functional Reporting Categories Description	MONTH ACTUAL JANUARY	MONTH ESTIMATED JANUARY	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	706,062	661,786	44,276	6.7%	4,849,888	4,787,344	62,543	1.3%
Higher Education	184,568	181,641	2,928	1.6%	1,333,837	1,339,269	(5,431)	-0.4%
Other Education	7,096	8,176	(1,080)	-13.2%	49,003	50,486	(1,482)	-2.9%
Medicaid	1,017,438	1,072,970	(55,532)	-5.2%	8,642,401	8,834,080	(191,679)	-2.2%
Health and Human Services	161,556	157,925	3,631	2.3%	816,361	843,724	(27,363)	-3.2%
Justice and Public Protection	218,911	191,139	27,772	14.5%	1,342,490	1,344,292	(1,802)	-0.1%
General Government	36,359	35,247	1,113	3.2%	225,838	238,855	(13,016)	-5.4%
Property Tax Reimbursements	(6)	526	(532)	-101.2%	906,414	907,918	(1,504)	-0.2%
Debt Service	121,890	117,150	4,739	4.0%	1,019,769	1,018,558	1,211	0.1%
Total Expenditures & ISTV's	**2,453,874**	**2,426,559**	**27,315**	**1.1%**	**19,186,001**	**19,364,525**	**(178,524)**	**-0.9%**
Transfers Out:								
BSF Transfer Out	0	0	0	N/A	0	0	0	N/A
Operating Transfer Out	444	0	444	N/A	69,445	65,514	3,931	6.0%
Temporary Transfer Out	0	0	0	N/A	0	0	0	N/A
Total Transfers Out	**444**	**0**	**444**	**N/A**	**69,445**	**65,514**	**3,931**	**6.0%**
Total Fund Uses	**2,454,317**	**2,426,559**	**27,759**	**1.1%**	**19,255,446**	**19,430,039**	**(174,594)**	**-0.9%**

2/12/2018

Table 4
GENERAL REVENUE FUND DISBURSEMENTS
ACTUAL FY 2018 VS ACTUAL FY 2017
($ in thousands)

	MONTH				YEAR-TO-DATE			
Functional Reporting Categories Description	**JANUARY FY 2018**	**JANUARY FY 2017**	**$ VAR**	**% VAR**	**ACTUAL FY 2018**	**ACTUAL FY 2017**	**$ VAR**	**% VAR**
Primary and Secondary Education	706,062	661,905	44,158	6.7%	4,849,888	4,744,916	104,971	2.2%
Higher Education	184,568	181,908	2,661	1.5%	1,333,837	1,327,411	6,426	0.5%
Other Education	7,096	4,843	2,252	46.5%	49,003	51,142	(2,139)	-4.2%
Medicaid	1,017,438	1,162,744	(145,306)	-12.5%	8,642,401	10,272,922	(1,630,521)	-15.9%
Health and Human Services	161,556	162,648	(1,092)	-0.7%	816,361	836,447	(20,087)	-2.4%
Justice and Public Protection	218,911	184,823	34,089	18.4%	1,342,490	1,292,946	49,544	3.8%
General Government	36,359	37,391	(1,032)	-2.8%	225,838	235,914	(10,075)	-4.3%
Property Tax Reimbursements	(6)	995	(1,002)	-100.6%	906,414	901,983	4,431	0.5%
Debt Service	121,890	106,193	15,697	14.8%	1,019,769	1,013,333	6,436	0.6%
Total Expenditures & ISTV's	**2,453,874**	**2,503,449**	**(49,576)**	**-2.0%**	**19,186,001**	**20,677,015**	**(1,491,014)**	**-7.2%**
Transfers Out:								
BSF Transfer	0	0	0	N/A	0	29,483	(29,483)	N/A
Operating Transfer Out	444	18,918	(18,474)	N/A	69,445	269,629	(200,184)	-74.2%
Temporary Transfer Out	0	0	0	N/A	0	0	0	N/A
Total Transfers Out	**444**	**18,918**	**(18,474)**	**N/A**	**69,445**	**299,111**	**(229,667)**	**-76.8%**
Total Fund Uses	**2,454,317**	**2,522,367**	**(68,049)**	**-2.7%**	**19,255,446**	**20,976,126**	**(1,720,680)**	**-8.2%**

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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