OBM

June 11, 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

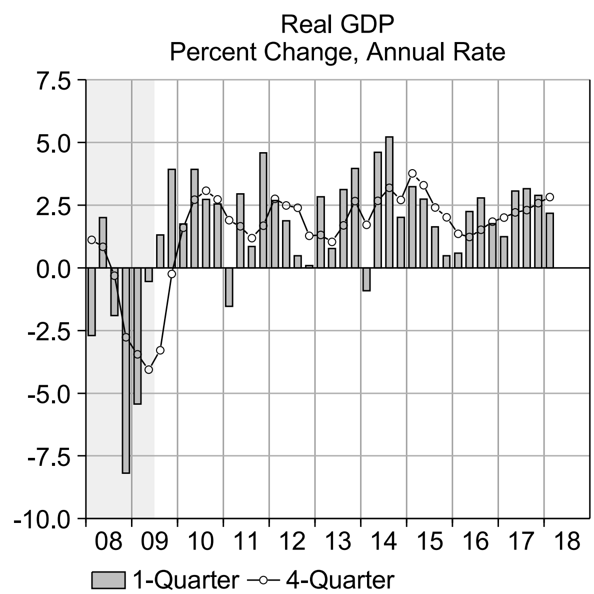
ECONOMIC SUMMARY

Economic Performance Overview

- Economic growth slowed to 2.2% in the first quarter after averaging 3% during the previous three quarters.
- U.S. employment increased by 223,000 jobs in May for a 3-month average of 179,000 jobs per month. The unemployment rate decreased to an expansion-low of 3.8%.
- Ohio nonfarm payroll employment decreased by 1,000 jobs in April, and the March increase was revised down by 1,500 jobs to 9,300. Nevertheless, Ohio employment has increased by over 42,000 jobs through the first four months of the year. The unemployment rate decreased to 4.3% in April – the lowest level since July 2001.
- Leading economic indicators remain consistent with uninterrupted economic growth through 2018.

Economic Growth

Real GDP expanded at a revised annual rate of 2.2% during the first quarter, down from a 3.0% pace during the three previous quarters. Growth was 2.8% on a year-over-year basis, which is the fastest since the second quarter of 2015 and the culmination of a string of steady increases during the last couple of years from a low of 1.2% in the second quarter of 2016. The first-quarter results do not reflect the potentially positive effects of the recent federal tax changes and spending increases, but also do not reflect potential negative effects from recently imposed international trade restrictions.



The first-quarter slowdown probably does not mark a genuine downshift from the 3% rate during the previous three quarters. First-quarter growth has been lower than growth in other quarters in recent years, suggesting that weakness in the most recent quarter is at least partly a result of mismeasurement (known in the economic literature as “residual seasonality”). Other key indicators of current and future growth remain consistent with a faster pace of growth.

Sentiment among small businesses was stable in May and very near the elevated average level since the November 2016 election, according to the Index of Small Business Optimism from the **National Federation of Independent Business (NFIB)**. In fact, the Index has been higher only 20 times out of the last 433 surveys. Four of the ten sub-indexes increased, while three decreased and three were unchanged.

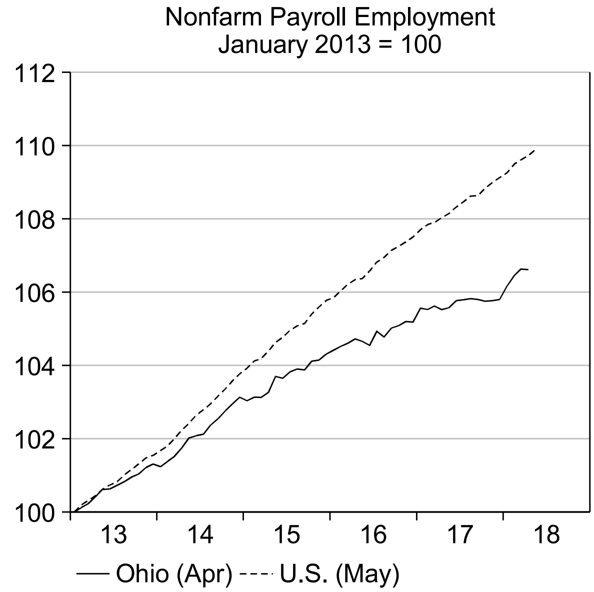
National leading economic indicators continued to strengthen in April, and remain consistent with uninterrupted expansion through the end of 2018. The Conference Board’s composite **Leading Economic Index** increased 0.4% after strong readings in each of the previous six months. Eight of the ten components of the index increased, led by the interest rate spread and followed by the average workweek of production workers and the ISM Index for New Orders. The index was held back by a decline in business permits and stock prices.

In addition, the diffusion of 1-month and 3-month changes in the coincident economic indexes for the fifty states remained very positive in April, as did the diffusion of the state leading economic indexes. Both measures, which have provided some warning of recessions in the past, had deteriorated heading into last fall.

As shown in the table below, the **consensus among forecasters** is that real GDP growth is picking up in the second quarter. The Federal Reserve Bank of Atlanta projects growth of 4.5%, based on the recent trajectory of key indicators so far during the second quarter. The Federal Reserve Bank of New York “Nowcast” projects growth of 3.3%. The latest projection from the Survey of Professional Forecasters from the Philadelphia Federal Reserve Bank is for 3.0% growth. The Blue Chip consensus, which is an average from a different group of forecasters, is 3.2%, with a range of 2.6% to 3.8% from the average of the lowest ten to the highest ten forecasts. Finally, the IHS GDP Tracker projection for second-quarter growth is 4.1%.

Source	**Date**	**2018-Q2 GDP Forecast**
Atlanta FRB (GDPNow)	6/6/18	4.5%
New York FRB (Nowcast)	6/1/18	3.3%
Philadelphia FRB (SPF*)	5/11/18	3.0%
Blue Chip	6/1/18	3.2% (2.6%-3.8%)
IHS	6/7/18	4.1%
*Survey of Professional Forecasters (2nd month of each quarter)		

Employment



Labor markets remain very healthy, with reports of strong demand and constrained supply. The labor index from the Conference Board's survey of consumers increased notably in May to its highest level since March 2001. The index is calculated as the percentage of respondents who think jobs are plentiful, minus the percentage who think jobs are hard to get. Retaining and hiring qualified workers was cited as the number one challenge faced by small businesses responding to the latest survey by the NFIB.

Nonfarm payrolls across the country increased by 223,000 jobs in May. Private nonfarm payrolls increased by 218,000 jobs. The 5,000 public sector job increase occurred at the state and local level, especially local government outside of education. Job gains were widespread across sectors, led by retail (+31,100), health care (+28,900), construction (+25,000), professional and technical services (+22,600), and manufacturing (+18,000).

The total change during the previous two months was revised up by 15,000 jobs, and the average gain during the most recent three months was 179,000, which was slightly below the average during the previous twelve months of 197,000. During the first five months of the year, employment increased by 1.037 million jobs, compared with a gain of 862,000 jobs during the year-earlier period.

The **unemployment rate** decreased by 0.1 percentage point to 3.8% – the lowest level since December 1969. The decrease occurred due to a 281,000 decline in the number of unemployed and an increase in total employment of 293,000. The broadest measure of unemployment, the U-6 unemployment rate, decreased 0.2 percentage points to 7.6%, also an expansion-low and the lowest since May 2001. The U-6 unemployment rate includes those who say that they want to work but have stopped looking because they believe they cannot find a job as well as those working part-time who would prefer full-time work.

Average hourly earnings of all employees on private nonfarm payrolls increased 0.3% in May to 2.7% above the year earlier level. The year-over-year rate of change has moved very little since rising to 2.8% last September, which along with 1-month spikes to that level in July 2016 and January 2018 is the high for this cycle. Policymakers and investors are watching the rate of change in wages for signs that price inflation will pick up.

Ohio nonfarm payroll employment decreased by 1,000 jobs in April, and the March increase was revised down by 1,500 jobs to 9,300. Ohio employment is up by 42,400 jobs year-to-date to a level of 5.58 million jobs. Gains during the month in trade, transportation and utilities (+2,500), professional and business services (+2,300), and other services (+1,300) were offset by losses in leisure and hospitality (-2,900), manufacturing (-1,800), and financial activities (-1,700).

During the twelve months ending in April, Ohio employment increased by 56,900 jobs. The largest gains were in trade, transportation and utilities (+13,500), manufacturing (+10,500), and educational and health services (+7,900). Employment decreased only in the information category (-900).

According to the most recent survey of economic conditions from the Federal Reserve Bank of Cleveland, companies in and around Ohio had continued difficulty in finding qualified workers across a broad range of occupations, yet companies also reported no meaningful changes to wage pressures. Employers in the area appear to be raising wages enough to stay competitive, but keeping those increases in line with recent trends.

Among the **contiguous states**, year-over-year employment growth was strongest in Pennsylvania (+1.4%), Indiana, Michigan, and Ohio (+1.0%), West Virginia (+0.9%), and Kentucky (+0.4%). Manufacturing employment increased year-over-year in Ohio (1.5%), Indiana (1.0%), Pennsylvania and West Virginia (0.6%), and in Michigan (0.1%). Manufacturing employment decreased 1.4% in Kentucky.

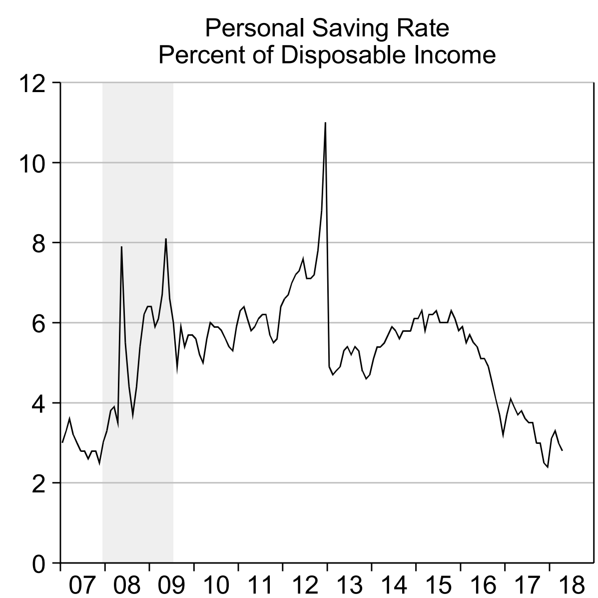
The **Ohio unemployment rate** decreased by 0.1 percentage points to 4.3% in April – the lowest level since July 2001. The decline on the month resulted from a decrease in the number of unemployed of 3,600 and an increase in the total number employed of 10,900 workers. The labor force was higher by 7,300. Since last July, the unemployment rate has declined by 0.8 percentage points, with much of that decline (0.6 points) in just the first four months of 2018.

Across the country in April, the unemployment rate decreased notably from the month before in four states – Illinois, New Mexico, South Carolina, and Delaware. Changes in the unemployment rate in the remaining states and the District of Columbia were not statistically meaningful.

Consumer Income and Consumption

Personal income and spending both remained solid in April. **Personal income** increased 0.3%, reflecting a 0.4% increase in wage and salary disbursements and flat personal dividend income. The March gain was revised down to 0.2%. Wage and salary disbursement also picked up from a 0.2% increase in the previous month. Compared with a year earlier, personal income was up 3.8% and wage and salary disbursements were higher by 4.6%.

The **personal saving rate** decreased to 2.8% in May, down from 6.3% in October 2015. Other than readings near 2.5% last November and December, the 2.8% saving rate is the lowest since the eve of the last recession in November 2007. The 3.5 percentage point decrease during the last 30 months resulted from personal consumption spending growing about half again as fast as personal income. The strength in spending growth occurred across durable goods, nondurable goods, and services.



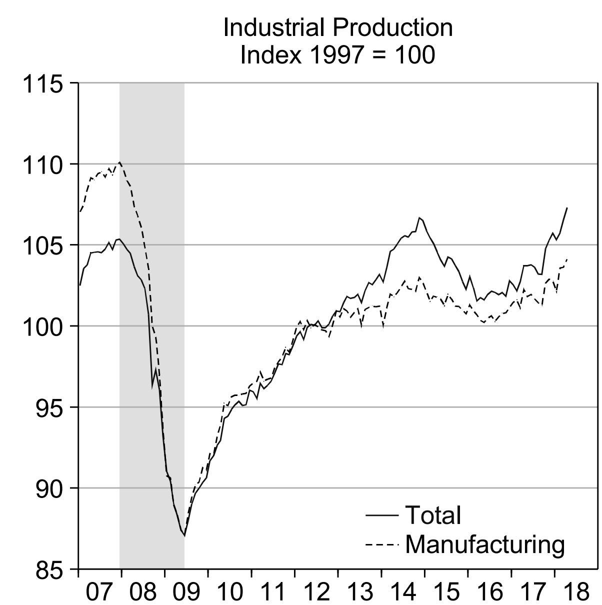
A low saving rate can indicate optimism about the economy on the part of consumers, but it also entails risk. If economic conditions deteriorate, a low savings rate can mean that households have to curtail consumption sharply to bring spending back into line with stagnant or reduced incomes.

Personal consumption expenditures increased by 0.6% in April after an upward revision to 0.5% in March. Spending was flat in February. Spending for durable goods increased 0.3% in April despite a modest decline in unit sales of light motor vehicles. Spending for nondurable goods rebounded 0.9% after two straight months of small declines. Spending for services grew 0.5% after a 0.6% rise the month before. The decrease in motor vehicle sales from 17.1 million in April to 16.8 million in May likely subtracted from spending for durable goods in May.

In and around Ohio, participants in the Cleveland Fed survey reported that retail sales activity was in line with, or weaker than, activity across the country. A grocery chain operator identified population loss and online shopping as causes of weak sales. Most respondents expected better sales in the months ahead, although some expressed concern about the effects of tariffs on goods imported from China.

Consumer confidence points to continued gains in income and spending in the current quarter. The Conference Board measure strengthened in May while the University of Michigan/Reuters measure weakened again, but both remained at cyclically high levels. The Conference Board's consumer confidence index increased 2.4 points in May. Assessments of both current and future conditions improved, with views of the present rising to the highest level relative to views of the future since 2001.

The percentage of respondents who expect higher income in six months minus those who expect lower income retreated from the April mark, which had been the highest level since June 2001. Purchasing plans for the next six months fell across the board. The apparent strength in consumer moods evident in the Conference Board index is tempered somewhat by the pullback in assessments of both current and future conditions in the University of Michigan/Reuters survey in May.



Industrial Activity

Industrial production increased by 0.7% in April to 3.5% above its year earlier level. The March change was revised up from 0.5% to 0.7%, but the annualized first-quarter change was adjusted down from 4.5% to 2.3%. Industrial production appears on track for an annualized gain of approximately 5% in the second quarter.

Manufacturing production increased by 0.5% in April, although the March change was revised from an increase of 0.1% to no change. Motor vehicle assemblies were above schedule, pointing to higher output and inventory-building during this quarter. **Mining** output increased 1.1%, reflecting energy-related drilling. **Utilities** production increased 1.9% in April, as cool weather created unseasonably strong heating demand.

Production across the country in some industries that are key employers in Ohio was weak. Aside from a 2.3% increase in machinery production, output fell 0.5% in the primary metal and fabricated metal products industries and 1.3% in motor vehicles and parts. Compared with a year ago, production increased 4.7% in fabricated metal products, 3.1% in motor vehicles and parts, 2.9% in machinery, and 2.5% in primary metal.

Demand for products manufactured in and around Ohio strengthened into early May, according to the Cleveland Fed survey. Respondents cited strong consumer confidence, seasonal factors, and fear of future price increases as causes. Most contacts expect demand to weaken due to trade-related price increases. Higher demand for heavy machinery and other capital goods was reported by many producers in the durable goods sector.

Reports of improving conditions from **purchasing managers** in manufacturing remained widespread in May. The PMI® increased from 57.3 in April to 58.7 in May – strongly consistent with continuing expansion in the manufacturing sector. The important New Orders and Production sub-indexes increased impressively. The composite index has been above 55 in each of the last seventeen months, and the year-to-date average of 59.0 is consistent with the apparent momentum in industrial production.

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

One purchasing manager in the transportation industry said, “We are overselling our forecast and don’t see an end to the upswing in business.” The contact also noted, however, that concern about the tariffs proposed in Section 301 was prompting a search for alternatives to sourcing goods from China (Section 301 of the Trade Act of 1974 provides the executive branch with the authority to respond to unfair, unreasonable, or discriminatory trade practices and gives the Office of the U.S. Trade Representative (USTR) the ability to take action to compel another country to eliminate the offending act, policy, or practice, with the president’s approval). Similarly, a purchasing manager in the fabricated metals products industry said, “We are concerned about the strong dollar … as well as the steel tariffs, which are causing domestic steel prices to rise.” Finally, a contact in the machinery industry said, “Sales remain strong. Lead times and direct material costs are soaring.”

Construction

Construction put-in-place increased 1.8% in April, essentially offsetting the 1.8% decline in March. Private construction advanced by 2.8%, also recouping the March decline. Public construction fell 1.3% after an upwardly revised 1.2% gain in March. Momentum among the categories that are used in calculating GDP – so called core construction – softened heading into the second quarter, but the recent trend remains consistent with strong second-quarter growth in real GDP.

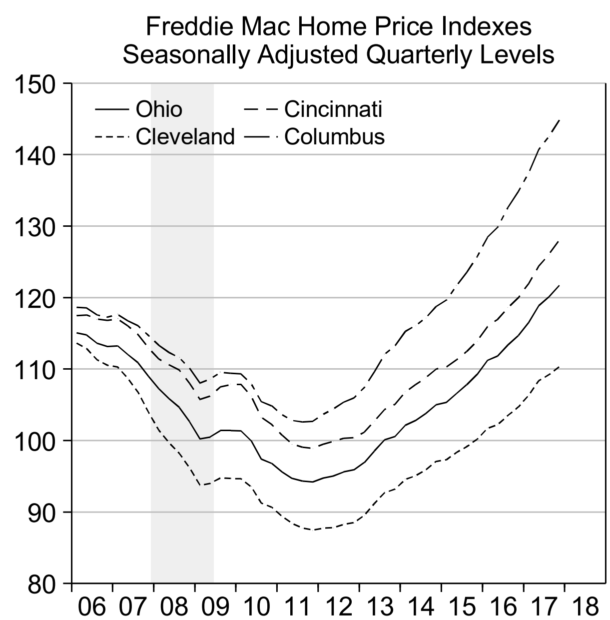
Private residential improvements was the center of weakness in March and the center of strength in April. After falling 10.1% in March, the highly volatile and often significantly revised category recovered by 11.6% in April. The rebound accounted for more than three-quarters of the increase in both private and total construction put-in-place in during the month. The recent volatility is likely related to rebuilding following last year's damaging hurricane season.

Total **housing starts** decreased 1.2% in April on a 3-month moving average basis after a 3.3% increase in March. The decrease occurred entirely in the multi-family segment, which was down 4.3%. Single-family starts edged slightly higher. Midwest starts rose 3.8% due to a 31.0% increase in multi-family that outweighed a 4.2% decrease in single-family. Compared with a year earlier, total starts were higher by 7.7%, while Midwest starts were lower by 2.5%.

The more-forward-looking permits were unchanged nationally and increased 3.3% in the Midwest on a 3-month moving average basis. Compared with a year earlier, permits rose 7.5% nationally but fell 6.6% in the Midwest due to exceptionally strong activity during February-April 2017.

Home sales were positive in April. Sales of existing homes edged higher by 0.5% nationally and 1.1% in the Midwest on a 3-month moving average basis. Both were down modestly from a year earlier. Sales of newly built homes increased 1.5% across the country and 1.9% in the Midwest on a 3-month moving average basis. Compared with a year earlier, new home sales were higher by 7.5% nationally and 10.8% in the Midwest.

Homebuilders in and around Ohio reported that customer demand was either steady or improving, according to the Cleveland Fed survey. Purchasers have been motivated by the strong job market, higher mortgage rates, and rising home prices. Real estate agents reported stable demand by first-time buyers and those with Section 8 vouchers. Homebuilders expect current trends to continue into the summer.



Limited supply is constraining sales and pushing up prices. **Home prices** across the country posted their 73rd consecutive monthly increase in March to 6.5% above the year earlier level, 47.1% above the cyclical low reached in February 2012, and 8.8% higher than the previous peak reached in February 2007, according to the Case-Shiller index.

As reported by Freddie Mac, home prices increased 2.1% in the first quarter to 7.5% year-over-year. In comparison, prices across Ohio increased 2.5% in the quarter and 7.2% from a year ago. In major metro areas in Ohio: prices increased 2.5% in the quarter and 7.7% from a year ago in Cincinnati; 2.0% in the quarter and 5.9% from a year ago in Cleveland; and 3.1% in the quarter and 8.6% from a year ago in Columbus after seasonal adjustment.

REVENUES

May GRF receipts totaled $2,714.4 million and were $8.7 million (0.3%) above estimate. Tax revenues were $57.9 million (2.9%) above estimate, led again by the personal income tax, which posted a $92.6 million (15.7%) overage, as employer withholding, estimated payments, annual returns, payments from trusts, and refunds all contributed to better than expected revenues.

The GRF tax revenue overages in May extended beyond the income tax. The auto sales tax was above estimate by $15.5 million (12.7%), and the commercial activity tax (CAT) was above estimate by $17.6 million (5.7%), both posting the second very strong month in a row. The financial institutions tax (FIT) was also $11.1 million (40.7%) above estimate. There were two negative tax sources to report: first, the non-auto sales tax, which was $8.4 million (1.1%) below estimate, although this modest shortfall follows strong performances in March and April. The second negative was in the insurance taxes. The foreign insurance tax was $11.0 million (78.5%) below estimate, as refunds exceeded the estimated amount, and the domestic insurance tax was $66.9 million (74.5%) below estimate. The domestic insurance tax variance is expected to be a timing matter, where payments in June eventually make up for the May shortfall.

For the fiscal year, GRF tax revenues are now $418.7 million (2.1%) above estimate. The income tax has by far the biggest overage, at $401.9 million (5.6%). Income tax revenues have benefitted from both stronger than expected withholding and strong tax filing season results, in which estimated payments and annual returns have exceeded estimate and refunds have been below estimate.

Sales tax revenues are also above estimate for the year, by $40.2 million (0.4%). Results there have been mixed, with auto revenues $76.1 million (6.2%) above estimate, while non-auto revenues were still below estimate at -$35.9 million (0.5%).

Revenues from both the CAT and the FIT are also above estimate for the year, by $27.2 million (1.8%) and $20.8 million (12.8%), respectively.

The income tax, sales tax, CAT and FIT are collectively $490.2 million above estimate for the year. All the other tax sources combined are $71.6 million below estimate for the year, but the insurance taxes alone are $76.1 million below estimate (again, with most of this variance due to timing), meaning that all other taxes are a small $4.5 million above estimate.

Non-tax revenues followed their $52.6 million April overage with a $48.0 million shortfall (7.1%) in May, meaning that the results for the two months combined were close to offsetting. This was true of individual categories within non-tax revenues as well.

Federal grants followed a $38.8 million overage in April with a $33.1 million shortfall in May, as Medicaid GRF spending swung from being $71.0 million over estimate in April to being $44.8 million below estimate in May. Intrastate Transfer Voucher (ISTV) revenue went from being $15.2 million above estimate in April to being $9.5 million below estimate in May, as statewide indirect cost allocation payments were received in April instead of May as originally estimated and were also larger than originally estimated.

For the year, non-tax revenues are below estimate by $263.5 million (2.8%), with the main factor being that federal grants are $243.5 million (2.7%) below estimate for the year. The federal grants shortfall is within $19 million of the variance in the federal share of Medicaid spending, which is well within the expected deviation of federal revenues from the federal share of spending. The other significant variance in year-to-date non-tax revenues is in the "Other income" category, where revenues are $31.0 million (11.1%) below estimate for the year, due to the fact that JobsOhio liquor enterprise payments have come in lower than estimated as a result of 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). From a pure revenue perspective, non-federal revenue may be the most important category to examine because it filters out the impact of federal grants. Such grants are inextricably tied to Medicaid spending, and therefore a shortfall in such grants that results from underspending is not bad news from a budgetary perspective. At this juncture, non-federal revenues are $402 million or 2.0% above estimate, very close to the variance for tax revenues.

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	$418.7	2.1%
Non-tax receipts	Federal grants, earnings on investments, licenses & fees, other income, intrastate transfers	($263.5)	-2.8%
Transfers	Budget stabilization, liquor transfers, capital reserve, other	$3.2	2.5%
TOTAL REVENUE VARIANCE:		**$158.3**	**0.5%**
Non-federal revenue variance		**$401.8**	**2.0%**
Federal grants variance		**($243.5)**	**-2.7%**

On a year-over-year basis, May GRF revenues and transfers were down by $208.3 million (7.1%) from the last May. However, this decrease is due completely to a decline of $318.3 million (33.6%) in federal grants received. Non-federal revenues increased by $109.9 million (5.6%) from last May, led by a $135.7 million (7.0%) increase in tax revenues. The income tax alone increased by $126.2 million (22.7%) from last May.

Year-to-date GRF revenues and transfers have decreased by $1,298.9 million (4.2%) from last year, but that decline is driven by the policy change discussed in prior issues of this report. Both non-auto sales tax revenues, which were down $497.0 million (5.9%) and federal grants, which were down $2,063.9 million (19.2%) reflect the fact that a policy decision by the Centers for Medicare and Medicaid Services (CMS) led to the elimination of the sales tax on Medicaid managed care premiums and an accounting change that altered where associated federal grant revenue was deposited.

To be more specific, in fiscal year 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 into a 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 eleven months.

Once adjusting for these policy and accounting changes, a much more optimistic picture emerges. Non-federal revenues have increased so far in fiscal year 2018 by $765.1 million (3.8%). If not for the loss of the sales tax on Medicaid premiums, GRF non-federal revenues would have increased by $1,439.1 million (7.5%). GRF tax revenues by themselves, absent the Medicaid premium sales tax change, would have increased by $1,208.7 million (6.4%).

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

Individual Revenue Sources Above Estimate		**Individual Revenue Sources Below Estimate**	
Personal Income Tax	$92.6	Domestic Insurance Tax	($66.9)
Commercial Activity Tax	$17.6	Federal Grants	($33.1)
Auto Sales Tax	$15.5	Foreign Insurance Tax	($11.0)
Financial Institutions Tax	$11.1	ISTVs	($9.5)
Public Utilities Excise Tax	$4.7	Non-auto Sale Tax	($8.4)
Natural Gas Distribution Tax	$2.5	License and Fees	($3.0)
Kilowatt Hour Tax	$1.7	Other Income	($2.4)
Other Sources Above Estimate	$0.1	Other Sources Below Estimate	($2.6)
Total above	**$145.6**	**Total below**	**($136.9)**

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

May non-auto sales and use tax collections totaled $724.8 million and were $8.4 million (1.1%) below estimate. As noted earlier, the negative variance followed strong performances – the best of the fiscal year – in March and April. May's collections left growth for the fiscal year, after adjusting for the elimination of the tax on Medicaid Health Insuring Corporation (MHIC) premiums, unchanged from April at 2.3% (please see the table below).

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Non-Auto Sales Tax Revenue Growth Without MHIC– FY18 through May
($ in millions)

	May-17	May-18	FY 17 YTD	FY 18 YTD
Non-Auto sales tax GRF	$787.3	$724.9	$8,413.3	$7,916.3
Non-Auto sales tax PLF (Library Fund)	$16.4	$17.7	$174.6	$176.7
Non-Auto sales tax, all funds	$803.7	$742.5	$8,587.9	$8,093.0
MHIC revenues (state)	$73.8	$0.0	$745.8	$71.7
GRF and PLF revenues without MHIC	$729.9	$742.5	$7,842.2	$8,021.3
Change from prior year in non-MHIC collections				
Pct. change from prior year in non-MHIC collections		$12.7		$179.2

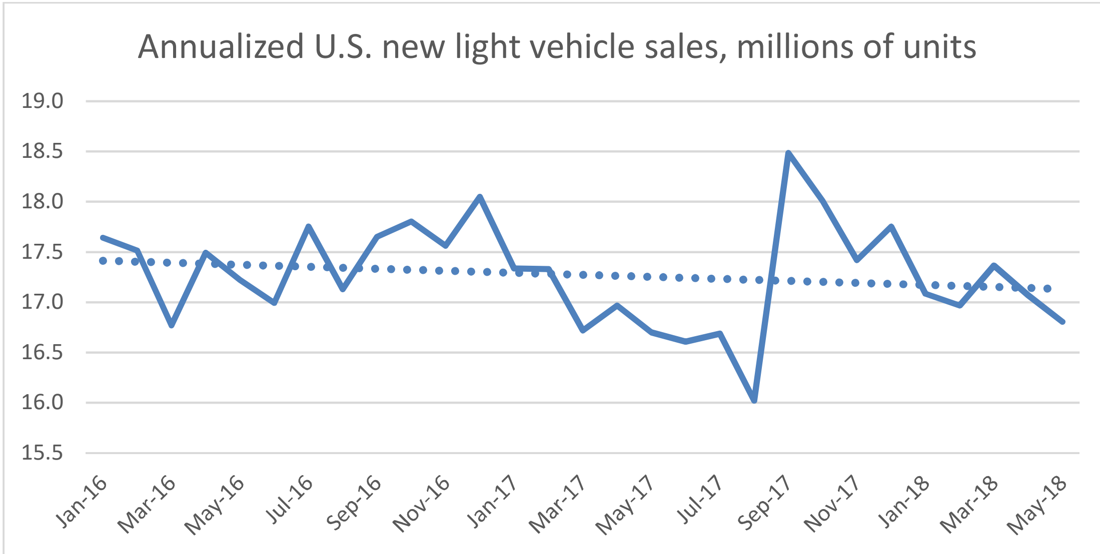
July was the last month of Medicaid Health Insuring Corporations (MHIC) sales tax collections, as mentioned above. Beginning in August, the sales tax on MHIC capitation payments was replaced by a Medicaid related provider tax on member months of both Medicaid and non-Medicaid major medical managed care 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%.

As noted in last month's issue of this report, OBM's measure of retail prices, which is specially constructed to reflect the non-auto sales tax base (e.g. omitting motor vehicles and parts, omitting grocery stores, etc.) still shows slightly negative year-to-year price changes through the first quarter of 2018. These negative price changes can also be observed in the CPI for commodities, minus food and energy, which has tracked closely with the OBM-constructed price index over the past few years. It is unlikely that non-auto sales tax growth will accelerate much without some retail price inflation. Through May, non-auto sales tax growth remains about 2% below income tax withholding growth, on a 6-month moving average basis.

Auto Sales Tax

Auto sales tax revenues in May were $15.5 million (12.7%) above the estimate, and are now $76.1 million (6.2%) above estimate for the year. Revenues are 3.6% above their year-ago level.

As noted in last month's issue of this report, the auto sales tax continues to exceed expectations despite a plateau in unit sales of new light vehicles at the national level. Unit sales dropped to an annualized level of 16.8 million units in May. The trend over the past 2.5 years is clearly slightly downward, as illustrated by the graph below.



Several factors may be supporting sales tax revenue growth even as new unit sales fall. First, as noted in last month's issue of this report, sales have been shifting from lower-priced autos to higher-priced light trucks. Light trucks now account for almost three-quarters of estimated light vehicle expenditure. Bureau of Economic Analysis (BEA) data through April shows that average light truck prices are now about $11,600 (45%) above average car prices. Second, average prices of both light trucks and cars have increased over the past year. Third, there appears to have been some movement since the end of fiscal year 2017 away from leasing and toward purchasing of autos. For accounting purposes auto leasing tax revenue is counted as non-auto revenue, and auto purchasing revenue is counted as auto revenue; this shift will tend to boost measured auto sales tax revenue.

Personal Income Tax

GRF personal income tax receipts for May totaled $682.8 million and were $92.6 million (15.7%) above estimate. This strong performance is broad-based, with all tax payment categories (except "other payments," which is comprised of collections by the attorney general) exceeding estimate and refunds were also modestly smaller than expected.

Withholding was above estimate by $20.5 million for the month, and for the year withholding is $142.2 million above estimate. It has increased by 5.0% from last year, compared to an estimate of 3.1%. The greater-than-anticipated withholding performance in May is consistent with outcomes demonstrated throughout this fiscal year. As previously noted, this source continues to outpace the estimates of Ohio wage and salary income from the Bureau of Economic Analysis (BEA).

May is not a significant payment month for estimated payments. Nonetheless, revenue from this source exceeded the May estimate by $3.6 million (37.5%).

Annual return tax payments considerably exceeded estimate by $46.0 million (186.4%) in May. This represents the largest source of revenue overage for the month. This is another indication of what appears to be strong growth in total tax liability for tax year 2017. For the fiscal year, annual return payments are $59.5 million (8.6%) above estimate, more than making up for the lower than anticipated results demonstrated during the first-half of this fiscal year (which primarily reflected tax year 2016 extension returns).

Furthermore, trust tax return payments show strong growth. These payments were above estimate by $15.1 million (377.6%) in May. The apparent strength is largely due to tax return deposit timing; trust tax return payments in April were low relative to estimate, so May performance makes up for this drop. For the year-to-date, trust tax payments were above estimate by $59.5 million (8.6%).

May refunds were $13.6 million (11.2%) below estimate, and for the January-May period, refunds are $49.7 million (3.2%) below estimate. Although the count of refunds being paid out has increased relative to last year, refund amounts per return have dropped.

On a year-over-year basis, May GRF income tax collections were $126.2 million (22.7%) above May 2017 collections. For the year, collections are up by $764.7 million (11.2%). Except for the "other" return category, all payment categories have improved from last year. Growth in withholding and estimated payments accounts for $605.2 million, explaining most of the GRF income tax growth.

FY2018 PERSONAL INCOME TAX RECEIPTS BY COMPONENT ($ in millions)						
	Estimate May	Actual May	$ Var	Actual May-2018	Actual May-2017	$ Var Y 0ver-Y
Withholding	$694.6	$715.1	$20.5	$715.1	$669.1	$46.0
Quarterly Est.	$9.7	$13.3	$3.6	$13.3	$9.4	$4.0
Trust Payments	$4.0	$19.1	($15.1)	$19.1	$1.6	$17.5
Annual Returns & 40 P	$24.7	$70.7	$46.0	$70.7	$23.5	$47.2
Other	$11.3	$7.4	($3.9)	$7.4	$11.0	($3.6)
Less: Refunds	($121.6)	($108.0)	$13.6	($108.0)	($126.0)	$18.0
Local Distr.	($32.5)	($35.0)	($2.5)	($35.0)	($32.1)	($2.9)
Net to GRF	$590.2	$682.8	$92.6	$682.8	$556.5	$126.3

Commercial Activity Tax

May commercial activity tax (CAT) receipts deposited in the GRF totaled $326.7 million and were $17.6 million (5.7%) above estimate. Of the four due-date months during fiscal year 2018, May is the only one to produce a positive variance.

Monthly CAT revenues have not displayed a consistent trend this year, with six of the 11 months above estimate and five months below. Notably, all funds revenues in each of the four months that precede a quarterly due date for the tax – July, October, January, and April – have been well above the estimate. Those four months have had a collective overage of $60.9 million, while the total for the seven other months have collectively fallen short of the estimate by $28.2 million, yielding a net all funds overage for the year $32.7 million. Perhaps some factor has led taxpayers to shift their payment timing so that a larger share of total payments due is being sent in early.

On a quarterly basis, revenues collected via CAT have shown less variation, as illustrated in the table below. The final quarterly payment for the year occurred in May. Because the June estimate is quite small, barring any unusual and unforeseen developments it is anticipated that total fiscal year 2018 CAT revenues will exceed the estimate.

FY 2018 CAT Payments, Actual vs. Estimate and vs. Prior Fiscal Year						
	Estimate	Actual	Variance	% Var	2017 Actual	% Change from 2017
Q1	$410.3	$421.5	$11.2	2.7%	$401.6	4.9%
Q2	$443.3	$443.0	($0.3)	-0.1%	$430.8	2.8%
Q3	$484.5	$466.1	($18.3)	-3.8%	$459.0	1.5%
Q4	$433.2	$473.4	$40.2	9.3%	$459.3	3.1%

*Assumes June 2018 revenues will match the $11.4 million estimate. Because the current-year actual contains the June 2018 estimate, the fourth quarter dollar variance and percentage figures are also estimates

GRF CAT revenues are $226.6 million (17.6%) higher than collections at the same point last fiscal year. For the month, revenues of $326.7 million are $46.9 million (16.8%) higher than May of the previous fiscal year. This increase is partly due to a change in the allocation formula found in the latest biennial budget bill (H.B. 49) that increased the GRF share of CAT receipts from 75 percent to 85 percent.

All funds revenues have increased by $63.6 million (3.7%) from fiscal year 2017. At the old GRF percentage of CAT revenue (and the old administrative fee percentage of 0.85%), GRF CAT revenues would have increased by $47.7 million from a year ago. The remaining $178.9 million of increase is due to the H.B. 49 law change.

A look at quarterly estimated and actual all funds revenues shows that CAT revenues have continued to grow every quarter, but the rate of growth slowed as the year has progressed, from 4.9% initially to 1.5% in the third quarter, and then is expected to increase in the fourth quarter. Based on April and May 2018 performance, we now anticipate a fourth quarter year-over-year growth rate well above the -5.7% that had been expected for this quarter.

Financial Institutions Tax

May financial institutions tax collections were $38.3 million, $11.1 million (40.7%) above estimate. For the year, collections are $20.8 million (12.8%) above estimate.

The overall story of the FIT has been unexpectedly good this fiscal year. May's results build on the considerable overages posted in January, February, and March.

The positive May performance is tempered by uncertainties related to payment timing. The last quarterly payment of the year is due Thursday, May 31. As always, the split between revenues booked in May and revenues booked in June is somewhat uncertain, so it will not be until early June that the final standing of FIT revenues relative to the estimate is known. It is reasonable to assume that at least some of the overage in May is due to early than originally expected revenue collection, and therefore June revenues could very well fall below the forecast.

GRF Non-Tax Receipts

GRF non-tax revenues in May totaled $627.1 million and were $48.0 million (7.1%) below estimate. Year-to-date non-tax revenues were $263.5 (2.8%) below estimate.

For the month, federal grants were below estimate by $33.1 million (5.0%) due to underspending in the GRF Medicaid category. Through May, federal Medicaid revenues have tracked relatively closely with Medicaid underspending, as year-to-date federal Medicaid revenues were approximately $18.8 million (0.2%) less than year-to-date spending for Medicaid federal share, which is within the expected variance range. For the year, federal grants were $243.5 million (2.7%) below estimate.

Revenues from ISTVs were $9.5 million (100.3%) below estimate as Statewide Indirect Cost Allocation payments were received in April instead of May as anticipated. Year-to-date ISTV revenues were $6.2 million (65.1%) above estimate.

License and fee revenues were $3.0 million (482.7%) below estimate, primarily due to the correction of a $3.0 million payment that was incorrectly deposited into the GRF in April.

6/11/2018

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

REVENUE SOURCE	MONTH ACTUAL MAY	MONTH ESTIMATE MAY	MONTH $ VAR	MONTH % VAR	YEAR-TO-DATE ACTUAL Y-T-D	YEAR-TO-DATE ESTIMATE Y-T-D	YEAR-TO-DATE $ VAR	YEAR-TO-DATE % VAR
TAX RECEIPTS								
Non-Auto Sales & Use	724,834	733,200	(8,366)	-1.1%	7,916,323	7,952,200	(35,877)	-0.5%
Auto Sales & Use	136,956	121,500	15,456	12.7%	1,312,186	1,236,100	76,086	6.2%
Subtotal Sales & Use	861,790	854,700	7,090	0.8%	9,228,510	9,188,300	40,210	0.4%
Personal Income	682,754	590,200	92,554	15.7%	7,582,045	7,180,100	401,945	5.6%
Corporate Franchise	45	0	45	N/A	2,016	0	2,016	N/A
Financial Institutions Tax	38,275	27,200	11,075	40.7%	183,846	163,000	20,846	12.8%
Commercial Activity Tax	326,673	309,100	17,573	5.7%	1,511,932	1,484,700	27,232	1.8%
Petroleum Activity Tax	0	0	0	N/A	5,442	4,800	642	13.4%
Public Utility	35,358	30,700	4,658	15.2%	119,132	109,100	10,032	9.2%
Kilowatt Hour	24,779	23,100	1,679	7.3%	320,057	331,600	(11,543)	-3.5%
Natural Gas Distribution	31,187	28,700	2,487	8.7%	69,549	65,500	4,049	6.2%
Foreign Insurance	(24,989)	(14,000)	(10,989)	-78.5%	291,972	299,300	(7,328)	-2.4%
Domestic Insurance	22,926	89,800	(66,874)	-74.5%	24,449	93,200	(68,751)	-73.8%
Other Business & Property	0	0	0	N/A	(263)	0	(263)	N/A
Cigarette and Other Tobacco	80,706	81,600	(894)	-1.1%	796,298	797,300	(1,002)	-0.1%
Alcoholic Beverage	4,052	4,600	(548)	-11.9%	50,203	51,600	(1,397)	-2.7%
Liquor Gallonage	3,749	3,700	49	1.3%	43,825	42,000	1,825	4.3%
Estate	14	0	14	N/A	145	0	145	N/A
Total Tax Receipts	2,087,318	2,029,400	57,918	2.9%	20,229,158	19,810,500	418,658	2.1%
NON-TAX RECEIPTS								
Federal Grants	628,870	661,969	(33,099)	-5.0%	8,686,578	8,930,059	(243,481)	-2.7%
Earnings on Investments	0	0	0	N/A	46,658	44,000	2,658	6.0%
License & Fees	(2,411)	630	(3,041)	-482.7%	58,465	56,380	2,085	3.7%
Other Income	621	2,980	(2,359)	-79.2%	247,967	278,940	(30,973)	-11.1%
ISTV'S	(30)	9,500	(9,530)	-100.3%	15,683	9,500	6,183	65.1%
Total Non-Tax Receipts	627,050	675,079	(48,030)	-7.1%	9,055,351	9,318,879	(263,529)	-2.8%
TOTAL REVENUES	**2,714,368**	**2,704,479**	**9,889**	**0.4%**	**29,284,509**	**29,129,379**	**155,130**	**0.5%**
TRANSFERS								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	0	1,200	(1,200)	-100.0%	133,327	130,129	3,198	2.5%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	0	1,200	(1,200)	-100.0%	133,327	130,129	3,198	2.5%
TOTAL SOURCES	**2,714,368**	**2,705,679**	**8,689**	**0.3%**	**29,417,836**	**29,259,508**	**158,327**	**0.5%**

6/11/2018

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

REVENUE SOURCE	MONTH MAY FY 2018	MONTH MAY 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	724,834	787,279	(62,445)	-7.9%	7,916,323	8,413,287	(496,963)	-5.9%
Auto Sales & Use	136,956	129,030	7,926	6.1%	1,312,186	1,265,997	46,189	3.6%
Subtotal Sales & Use	861,790	916,309	(54,519)	-5.9%	9,228,510	9,679,284	(450,774)	-4.7%
Personal Income	682,754	556,534	126,220	22.7%	7,582,045	6,817,379	764,666	11.2%
Corporate Franchise	45	279	(234)	-83.9%	2,016	3,650	(1,634)	-44.8%
Financial Institutions Tax	38,275	27,925	10,351	37.1%	183,846	160,520	23,326	14.5%
Commercial Activity Tax	326,673	279,785	46,887	16.8%	1,511,932	1,285,340	226,592	17.6%
Petroleum Activity Tax	0	0	0	N/A	5,442	5,014	428	8.5%
Public Utility	35,358	33,904	1,454	4.3%	119,132	106,469	12,663	11.9%
Kilowatt Hour	24,779	23,443	1,336	5.7%	320,057	326,249	(6,192)	-1.9%
Natural Gas Distribution	31,187	26,327	4,861	18.5%	69,549	61,786	7,763	12.6%
Foreign Insurance	(24,989)	(9,455)	(15,534)	-164.3%	291,972	325,080	(33,108)	-10.2%
Domestic Insurance	22,926	5,565	17,361	312.0%	24,449	6,735	17,714	263.0%
Other Business & Property	0	0	0	N/A	(263)	(678)	415	61.2%
Cigarette and Other Tobacco	80,706	82,653	(1,947)	-2.4%	796,298	822,695	(26,397)	-3.2%
Alcoholic Beverage	4,052	4,578	(526)	-11.5%	50,203	51,944	(1,740)	-3.4%
Liquor Gallonage	3,749	3,718	31	0.8%	43,825	42,391	1,434	3.4%
Estate	14	89	(75)	-84.7%	145	668	(523)	-78.2%
Total Tax Receipts	2,087,318	1,951,654	135,665	7.0%	20,229,158	19,694,525	534,634	2.7%
NON-TAX RECEIPTS								
Federal Grants	628,870	947,141	(318,271)	-33.6%	8,686,578	10,750,516	(2,063,938)	-19.2%
Earnings on Investments	0	0	0	N/A	46,658	37,303	9,356	25.1%
License & Fee	(2,411)	377	(2,788)	-740.4%	58,465	58,845	(380)	-0.6%
Other Income	621	2,606	(1,986)	-76.2%	247,967	48,580	199,387	410.4%
ISTV'S	(30)	9,766	(9,796)	-100.3%	15,683	18,898	(3,216)	-17.0%
Total Non-Tax Receipts	627,050	959,890	(332,840)	-34.7%	9,055,351	10,914,142	(1,858,791)	-17.0%
TOTAL REVENUES	**2,714,368**	**2,911,543**	**(197,175)**	**-6.8%**	**29,284,509**	**30,608,667**	**(1,324,158)**	**-4.3%**
TRANSFERS								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	0	11,157	(11,157)	N/A	133,327	108,019	25,307	23.4%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	0	11,157	(11,157)	N/A	133,327	108,019	25,307	23.4%
TOTAL SOURCES	**2,714,368**	**2,922,701**	**(208,333)**	**-7.1%**	**29,417,836**	**30,716,686**	**(1,298,850)**	**-4.2%**

DISBURSEMENTS

May GRF disbursements, across all uses, totaled $2,398.3 million and were $59.8 million (2.4%) below estimate. This variance was primarily attributable to below estimate disbursements in the Medicaid and Primary and Secondary Education categories. These variances were partially offset by above estimate disbursements in the Debt Service category. On a year-over-year basis, May total uses were $686.9 million (22.3%) lower than those of the same month in the previous fiscal year, with the Medicaid, Property Tax Reimbursements, and Health and Human Services 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)	($298.2 million)	-1.0%
Transfers	Temporary or permanent transfers out of the GRF that are not agency expenditures	$4.0 million	6.1%
TOTAL DISBURSEMENTS VARIANCE:		**($294.2 million)**	**-1.0%**

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

Primary and Secondary Education

This category contains GRF spending by the Ohio Department of Education. May disbursements for this category totaled $553.0 million and were $33.2 million (5.7%) below estimate. This variance was primarily attributable to below estimate spending in the foundation funding, where expenditures totaled $540.0 million and were $29.5 million (5.2%) below estimate, as well as below estimate spending in the pupil transportation, and early childhood education line items. Disbursements in the foundation funding and pupil transportation line items were below estimate as data updates and payment reconciliation offset overspending in prior months. Disbursements in the early childhood education line item were below estimate due to above estimate spending in prior months, which caused reduced current month spending as disbursements evened out. Year-to-date disbursements were $7,399.1 million, which is $47.9 million (0.7%) above estimate. Expected underspending in the foundation funding line item for the remainder of the fiscal year will partially offset this year-to-date variance.

On a year-over-year basis, disbursements in this category were $5.2 million (0.9%) lower than for the same month in the previous fiscal year while year-to-date expenditures were $115.6 million (1.5%) lower than the same point in fiscal year 2017. The year-to-date variance was primarily attributable to 23 foundation payments being disbursed in the previous fiscal year through May, compared to 22 foundation payments in the current fiscal year.

Higher Education

May disbursements for the Higher Education category, which includes non-debt service GRF spending by the Department of Higher Education, were $201.1 million, and were $4.4 million (2.2%) above estimate for the month. This variance was primarily attributable to above estimate spending in the National Guard Scholarship and the Ohio College Opportunity Grant Programs, which were above estimate by a total of $6.1 million due to requests for reimbursement from higher education institutions that were estimated to occur in April occurring in May. This variance was partially offset by spending in the Choose Ohio First Scholarship Program, which was below estimate by $2.1 million, again due to the timing of requests from higher education institutions.

Year-to-date disbursements were $2,125.1 million, which was $7.5 million (0.4%) below estimate. On a year-over-year basis, disbursements in this category were $5.9 million (3.0%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $11.0 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.

May disbursements in this category totaled $3.1 million and were $0.4 million (11.2%) below estimate. Year-to-date disbursements were $66.0 million, which was $1.4 million (2.1%) below estimate. On a year-over-year basis, disbursements in this category were $0.2 million (7.0%) lower than for the same month in the previous fiscal year while year-to-date expenditures were $3.3 million (4.7%) 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>
May GRF disbursements for the Medicaid Program totaled $938.2 million and were $44.8 million (4.6%) below estimate, and $665.5 million (41.5%) below disbursements for the same month in the previous fiscal year. This 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. In addition, May of last year included a one-time settlement payment under the Medicaid in Schools program.

Year-to-date GRF disbursements totaled $13,343.7 million and were $265.3 million (1.9%) below estimate, and $2,763.4 million (17.2%) below disbursements for the same point in the previous fiscal year. This variance is primarily attributable to the replacement of the sales tax on MHICs as described above.

May all funds disbursements for the Medicaid Program totaled $2,090.1 million and were $136.8 million (6.1%) below estimate, and $174.8 million (7.7%) below disbursements for the same month in the previous fiscal year. Year-to-date all funds disbursements totaled $24,322.1 million and were $548.2 million (2.2%) below estimate, and $864.1 million (3.7%) above disbursements for the same point in the previous fiscal year.

The May all funds variance is primarily attributable to underspending in the fee-for-service, Care Innovation and Community Improvement, and premium assistance programs. In the fee-for-service and premium assistance programs, these variances were the result of program enrollment being 16% and 9% below estimate, respectively. Program activity in the Care Innovation and Community Improvement program is slightly behind schedule, but is expected to be back on schedule in early fiscal year 2019. Underspending in May was also reported in administrative expenses.

The year-to-date, all funds variance is primarily attributable to underspending in all major program categories. Underspending in the fee-for-service, managed care, and premium assistance programs are all driven by program enrollment being 7.6%, 2.4%, and 4.7%, respectively, below estimate on an average monthly enrollment basis. Year-to-date underspending also includes the Care Innovation and Community Improvement program as described above. Finally, program administration expenses were 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)

	May Actual	May Projection	Variance	Variance %
GRF	$ 938.2	$ 983.0	$ (44.8)	-4.6%
Non-GRF	$ 1,151.9	$ 1,243.9	$ (92.0)	-7.4%
All Funds	$ 2,090.1	$ 2,226.8	$ (136.8)	-6.1%

<u>Enrollment</u>

Total May enrollment for the program was 2.97 million, which was 157,800 (5.1%) below the estimate and 129,500 (4.2%) below enrollment for the same period last fiscal year. Year-to-date average monthly enrollment was 3.01 million and was 101,109 (3.2%) below estimate.

May enrollment by major eligibility category was: Covered Families and Children, 1.66 million; Aged, Blind and Disabled (ABD), 487,880; Group VIII Expansion, 673,270; and Other Full Benefits, 23,899 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.

May disbursements in this category totaled $69.4 million and were $6.3 million (8.3%) below estimate. Year-to-date disbursements were $1,198.0 million, which was $67.1 million (5.3%) below estimate. On a year-over-year basis, disbursements in this category were $17.4 million (20.1%) lower than for the same month in the previous fiscal year while year-to-date expenditures were $54.2 million (4.3%) lower than at the same point in fiscal year 2017.

Department of Job and Family Services
May disbursements for the Department of Job and Family Services totaled $35.4 million and were $9.4 million (36.5%) above estimate. This variance was primarily attributable to the Early Care and Education line item, which was approximately $11.3 million above estimate due to a change in the disbursement schedule in February to utilize available Federal TANF funds. Additionally, the TANF State/Maintenance of Effort line item was $9.8 million above estimate due to the timing of county drawdowns. These variances were partially offset by below estimate disbursement in the Child Care State/Maintenance of Effort line item, which was $5.2 million below the estimate, partly due to the increased spending in the Early Care and Education line item described above and the Family Assistance Local line item, which was $4.0 million below estimate due to a change in the timing of county draws.

Department of Mental Health and Addiction Services
May disbursements for the Department of Mental Health and Addiction Services totaled $25.8 million and were $13.4 million (34.2%) below estimate. This variance was primarily attributable to the Continuum of Care line item, which was $19.3 million below estimate as a planned quarterly disbursement originally scheduled to occur in May occurred in April instead. Additionally, the Addiction Services Partnership with Corrections and the Community Innovations line items were each $1.1 million below estimate, largely due to timing related changes. These variances were partially offset by above estimate spending in the Hospital Services line item, which was $5.0 million above estimate as the agency balances GRF and non-GRF utilization to close the fiscal year, and the Criminal Justice Services line item, which was $4.1 million above estimate due to a change in disbursement schedule of this line item where a significant portion was disbursed in May rather than spread out over prior months.

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.

May disbursements in this category totaled $143.0 million and were $10.8 million (7.0%) below estimate. Year-to-date disbursements were $1,985.9 million, which was $23.8 million (1.2%) below estimate. On a year-over-year basis, disbursements in this category were $4.4 million (3.2%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $80.8 million (4.2%) higher than at the same point in fiscal year 2017.

Department of Rehabilitation and Correction
May disbursements for the Department of Rehabilitation and Correction totaled $108.2 million and were $15.8 million (12.7%) below estimate. This variance was primarily attributable to below estimate disbursements in several line items: Disbursements in the Institutional Operations line item were $8.5 million below estimate, disbursements in the Institution Medical Services line item were $4.1 million below estimate, and disbursements in the Community Nonresidential Programs line item were $2.3 million below estimate; all largely due to the timing of payments. Disbursements in the Community Misdemeanor Programs line item were $0 against an estimate of $1.6 million due to disbursements being made quarterly rather than throughout the year as estimated. These variances were partially offset by above estimate disbursements in the Halfway House line item, which were $1.9 million against an estimate of zero due to a delay in some quarterly disbursements being made in May rather than April as estimated.

General Government

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

May disbursements in this category totaled $25.2 million and were $3.1 million (10.9%) below estimate. Year-to-date disbursements were $326.6 million, which was $24.3 million (6.9%) below estimate. On a year-over-year basis, disbursements in this category were $0.5 million (2.1%) lower than for the same month in the previous fiscal year while year-to-date expenditures were $16.8 million (4.9%) lower than at the same point in fiscal year 2017.

Department of Administrative Services
May disbursements for the Department of Administrative Services totaled $1.7 million and were $2.8 million (62.2%) below estimate. This variance was primarily attributable to disbursements for the State Agency Support Services line item, which were $3.4 million below estimate due to the timing of some quarterly rent payments for certain GRF-supported agencies and vacant space in state buildings managed by the department that occurred in April instead of May. This variance was partially offset by disbursements for the MARCS Fee Offset line item, which were $1 million above an estimate of zero due to the MARCS radio rate subsidy for local governments disbursing all at once instead of two times during the year as estimated.

Property Tax Reimbursements

Payments from the property tax reimbursement category are made to local governments and school districts to reimburse these entities for revenues foregone as a result of the 10.0 percent and 2.5 percent rollback, as well as the homestead exemption. May property tax reimbursements totaled $402.2 million and were $8.2 million (2.0%) below estimate. Year-to-date disbursements totaled

$1,788.4 million and were $27.3 million (1.6%) above estimate. Total fiscal year 2018 disbursements are projected to be slightly below original estimates.

Debt Service

May payments for debt service totaled $63.2 million and were $42.6 million (207.1%) above estimate. Year-to-date debt service payments were $1,343.9 million and were $16.0 million (1.2%) above estimate. The monthly variance is due to a debt service transfer on state bonds for K-12 schools being scheduled for June but occurring in May. Total fiscal year 2018 debt service payments are projected to be below original estimates due to a portion of bond premiums being used to offset debt service payments and savings achieved by several refunds of prior debt.

Transfers Out

There were no estimated transfers out for May and none occurred. Year-to-date transfers out were $69.5 million and were $4.0 million (6.1%) 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.

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Table 3

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

Functional Reporting Categories Description	MONTH ACTUAL MAY	MONTH ESTIMATED MAY	MONTH $ VAR	MONTH % VAR	YEAR-TO-DATE YTD ACTUAL	YEAR-TO-DATE YTD ESTIMATE	YEAR-TO-DATE $ VAR	YEAR-TO-DATE % VAR
Primary and Secondary Education	553,010	586,225	(33,214)	-5.7%	7,399,118	7,351,233	47,885	0.7%
Higher Education	201,050	196,688	4,362	2.2%	2,125,141	2,132,610	(7,469)	-0.4%
Other Education	3,090	3,479	(389)	-11.2%	65,978	67,384	(1,406)	-2.1%
Medicaid	938,180	982,977	(44,797)	-4.6%	13,343,736	13,608,991	(265,255)	-1.9%
Health and Human Services	69,359	75,646	(6,286)	-8.3%	1,197,992	1,265,102	(67,110)	-5.3%
Justice and Public Protection	142,938	153,697	(10,760)	-7.0%	1,985,929	2,009,717	(23,788)	-1.2%
General Government	25,249	28,350	(3,100)	-10.9%	326,640	350,942	(24,301)	-6.9%
Property Tax Reimbursements	402,186	410,424	(8,238)	-2.0%	1,788,406	1,761,090	27,315	1.6%
Debt Service	63,205	20,580	42,625	207.1%	1,343,895	1,327,923	15,972	1.2%
Total Expenditures & ISTV's	**2,398,267**	**2,458,065**	**(59,798)**	**-2.4%**	**29,576,835**	**29,874,992**	**(298,157)**	**-1.0%**
Transfers Out:								
BSF Transfer Out	0	0	0	N/A	0	0	0	N/A
Operating Transfer Out	0	0	0	N/A	69,486	65,514	3,972	6.1%
Temporary Transfer Out	0	0	0	N/A	0	0	0	N/A
Total Transfers Out	**0**	**0**	**0**	**N/A**	**69,486**	**65,514**	**3,972**	**6.1%**
Total Fund Uses	**2,398,267**	**2,458,065**	**(59,798)**	**-2.4%**	**29,646,321**	**29,940,506**	**(294,185)**	**-1.0%**

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Table 4

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

	MONTH				YEAR-TO-DATE			
Functional Reporting Categories Description	**MAY FY 2018**	**MAY FY 2017**	**$ VAR**	**% VAR**	**ACTUAL FY 2018**	**ACTUAL FY 2017**	**$ VAR**	**% VAR**
Primary and Secondary Education	553,010	558,245	(5,235)	-0.9%	7,399,118	7,514,697	(115,579)	-1.5%
Higher Education	201,050	195,165	5,885	3.0%	2,125,141	2,114,160	10,981	0.5%
Other Education	3,090	3,324	(234)	-7.0%	65,978	69,266	(3,288)	-4.7%
Medicaid	938,180	1,603,682	(665,502)	-41.5%	13,343,736	16,107,091	(2,763,354)	-17.2%
Health and Human Services	69,359	86,763	(17,404)	-20.1%	1,197,992	1,252,229	(54,237)	-4.3%
Justice and Public Protection	142,938	138,572	4,366	3.2%	1,985,929	1,905,164	80,765	4.2%
General Government	25,249	25,780	(531)	-2.1%	326,640	343,482	(16,842)	-4.9%
Property Tax Reimbursements	402,186	457,955	(55,770)	-12.2%	1,788,406	1,750,318	38,088	2.2%
Debt Service	63,205	15,690	47,515	302.8%	1,343,895	1,291,746	52,148	4.0%
Total Expenditures & ISTV's	**2,398,267**	**3,085,176**	**(686,909)**	**-22.3%**	**29,576,835**	**32,348,153**	**(2,771,318)**	**-8.6%**
Transfers Out:								
BSF Transfer	0	0	0	N/A	0	29,483	(29,483)	N/A
Operating Transfer Out	0	0	0	N/A	69,486	288,480	(218,994)	-75.9%
Temporary Transfer Out	0	0	0	N/A	0	0	0	N/A
Total Transfers Out	**0**	**0**	**0**	**N/A**	**69,486**	**317,963**	**(248,477)**	**-78.1%**
Total Fund Uses	**2,398,267**	**3,085,176**	**(686,909)**	**-22.3%**	**29,646,321**	**32,666,116**	**(3,019,795)**	**-9.2%**

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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