OBM

July 11, 2018

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

FROM: Timothy S. Keen, Director TK

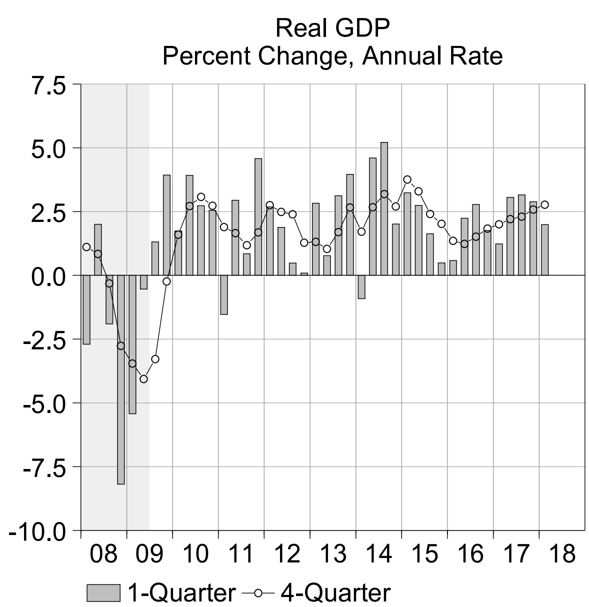
SUBJECT: Monthly Financial Report

## ECONOMIC SUMMARY

**Economic Performance Overview**

- Economic growth slowed to 2.0% in the first quarter after averaging 3.0% during the previous three quarters, but is widely estimated to have picked up in the second quarter.
- U.S. employment increased by 213,000 jobs in June for a 3-month average of 211,000 jobs per month. The unemployment rate increased to 4.0%, up from the expansion-low of 3.8% in May, due to a large expansion in the labor force.
- Ohio nonfarm payroll employment increased by 22,600 jobs in May and 76,200 from a year earlier. The unemployment rate was unchanged at 4.3% in May, remaining at 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 2.0% 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, which show signs of escalating.

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 the result of imperfections in seasonal adjustment. Other key indicators of current and future growth remain consistent with a faster pace of growth.

Sentiment among small businesses increased to the second-highest level in June, according to the Index of Small Business Optimism from the **National Federation of Independent Business (NFIB)**. The 3.0-point increase was widespread, as eight of the ten sub-indexes increased. The positive contributors were led by expectations of higher real sales, expectations for the economy, and whether now is a good time to expand.

National leading economic indicators continued to strengthen in May, and remain consistent with uninterrupted expansion through the end of 2018. The Conference Board's composite **Leading Economic Index** increased 0.2% after strong readings stretching back to the end of last summer. Eight of the ten components of the index increased, led by the ISM Index for New Orders and the interest rate spread. The index was held back by a decline in building permits, which can be volatile from month-to-month, and the average length of the workweek.

In addition, the diffusion of 1-month and 3-month changes in the coincident economic indexes for the fifty states remained very positive in May, 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.

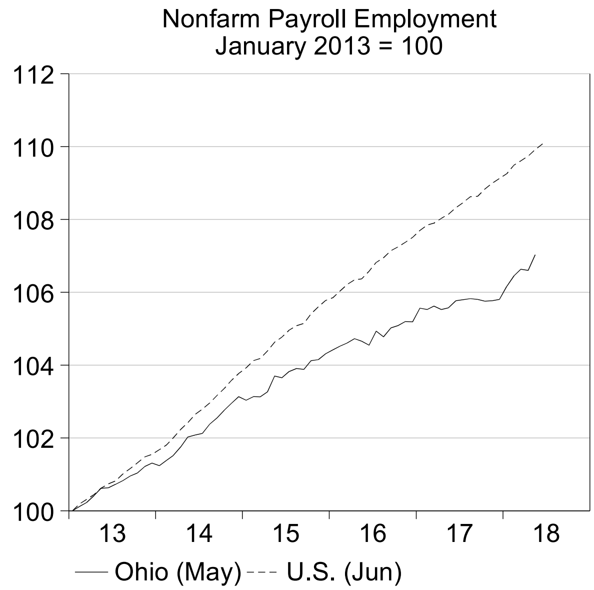
As shown in the table below, the **consensus among forecasters** is that real GDP growth picked up in the second quarter. The Federal Reserve Bank of Atlanta estimates growth of 3.8%, based on the recent trajectory of key indicators so far during the second quarter. The Federal Reserve Bank of New York "Nowcast" estimates growth of 2.8%. The latest projection from the Survey of Professional Forecasters, from the Philadelphia Federal Reserve Bank, calls for 3.0% growth. The Blue Chip consensus, which is an average from a different group of forecasters, is 3.8%, with a range of 3.2% to 4.4% from the average of the lowest ten to the highest ten forecasts. The IHS GDP Tracker projection for second-quarter growth is much higher at 4.8%.

| **Source** | **Date** | **2018-Q2 GDP Forecast** |
|---|---|---|
| Atlanta FRB (GDPNow) | 7/06/18 | 3.8% |
| New York FRB (Nowcast) | 7/06/18 | 2.8% |
| Philadelphia FRB (SPF*) | 5/11/18 | 3.0% |
| Blue Chip | 7/2/18 | 3.8% (3.2%-4.4%) |
| IHS | 7/3/18 | 4.8% |
| *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 edged downward in June, but was still at the second-highest level since April 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. The quality of available labor remained the number one problem of small businesses in June, as reported by the NFIB.

**Nonfarm payrolls** across the country increased by 213,000 jobs in June, slightly topping expectations for an increase of about 195,000 jobs. Private nonfarm payrolls increased by 202,000 jobs, with the 11,000 public sector job increase occurring at the local level, roughly split between education and non-education. Job gains were widespread across sectors, with only retail trade posting a decline (-22,000). Sector job gains were led by professional and business services (+50,000), manufacturing (+36,000), health care (+25,200), and construction (+13,000).




Job growth in each of the previous two months was revised upward by a total of 37,000 jobs. The average gain during the most recent three months was 211,000, which was slightly above the average during the previous twelve months of 198,000. During the first half of the year, employment increased by 1.287 million jobs, compared with a gain of 1.101 million jobs during the year-earlier period.

The **unemployment rate** edged up by 0.2 percentage points to 4.0%, after having reached 3.8% in May, which was the lowest level since December 1969. The increase occurred due to a large expansion in the labor force. The broadest measure of unemployment, the U-6 unemployment rate, also increased 0.2 percentage points, rising back to the April level of 7.8%, which was 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 0.2% in June 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** increased by 22,600 jobs in May, as all major sectors recorded increases. Gains during the month in construction (+6,000), trade, transportation and utilities (+5,300), and government (+2,500) led the way. Ohio employment is up by 64,300 jobs year-to-date to a new cycle-high of 5.6 million jobs.

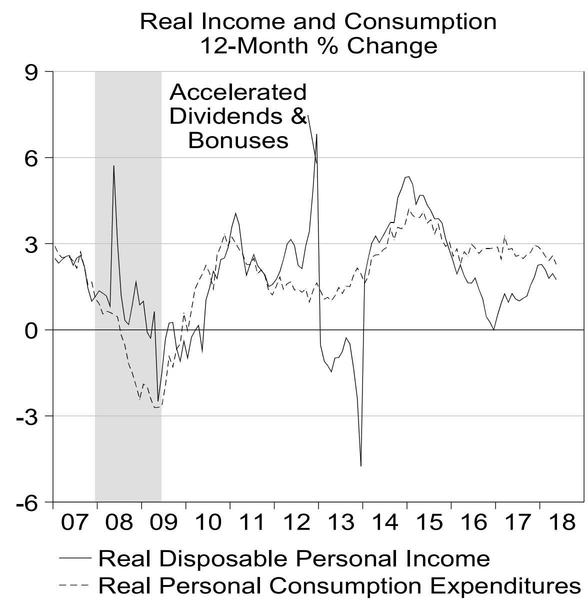
During the twelve months ending in May, Ohio employment increased by 76,200 jobs. The largest gains were in trade, transportation and utilities (+18,600), manufacturing (+10,200), and educational and health services (+8,000). Employment decreased only in the information category (-400).

Among the **contiguous states**, year-over-year employment growth increased in West Virginia (+2.3%), Ohio (+1.4%), Michigan and Pennsylvania (+1.3%), Indiana (+1.1%), and Kentucky (+0.8%). Manufacturing employment increased year-over-year in Ohio (1.5%), West Virginia (1.1%), Indiana (1.0%), and in Michigan and Pennsylvania (0,6%). It was unchanged in Kentucky.

The **Ohio unemployment rate** was unchanged at 4.3% in May – the lowest level since July 2001. Total employment increased by 8,900 workers, while the labor force increased by 10,000 workers and the number of unemployed increased by 1,100. The 0.8-point decline in the unemployment rate from 5.1% in July 2017 resulted from an increase of 38,000 workers, a 5,100 decline in the labor force, and a 43,100 person decline in the number of unemployed.

Across the country in May, the unemployment rate decreased notably from the month before in fourteen states, led by New Mexico (-0.3pp). Changes in the unemployment rate in the remaining states and the District of Columbia were not statistically meaningful.

## Consumer Income and Consumption




Personal income picked up and spending slowed in May. **Personal income** increased 0.4%, reflecting a 0.3% increase in wage and salary disbursements and a 1.5% increase in personal dividend income. The April gain was revised down from 0.3% to 0.2%. Growth in wage and salary disbursements has been steady at an average of 0.3% per month for the most recent four months. Compared with a year earlier, personal income was up 4.0% and wage and salary disbursements were higher by 4.9%.

The **personal saving rate** remained low at 3.2%, down from 6.3% in October 2015. Other than a few readings since last November, the saving rate is the lowest since the eve of the last recession in November 2007. The large decrease since late 2015 resulted from personal consumption spending growing about half again as fast as personal income. The strength in spending growth has 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 must curtail consumption sharply to bring spending back into line with stagnant or reduced incomes.

Recent survey data clearly shows optimism about the economy, which fits with the low current saving rate. Personal **consumption expenditures** slowed to an increase of 0.2% in May from increases of 0.5% in April and 0.6% in March. Spending for non-durable goods increased 0.6% in May. The slowdown occurred mainly in durable goods and services. Durable goods spending was off in part due to a 1.8% decline in unit sales of light motor vehicles. Spending for services was held back by declines in utilities, recreational services, and accommodations. In contrast to May, motor vehicle sales increased from 16.8 million units in May to an estimated 17.4 million units in June, which likely sustained the momentum behind durable goods during the month.

**Consumer confidence** was mixed in June, but both the Conference Board and University of Michigan/Reuters surveys generally signaled a healthy household sector. The Conference Board Index of Consumer Confidence declined in June, mostly reversing the May increase. The weakness occurred in expectations, as assessments of current conditions were little changed. The percentage of respondents planning to purchase a vehicle during the next six months decreased to the lowest level since October 2015, and the percentage of respondents planning to buy a major appliance was the lowest since last July.

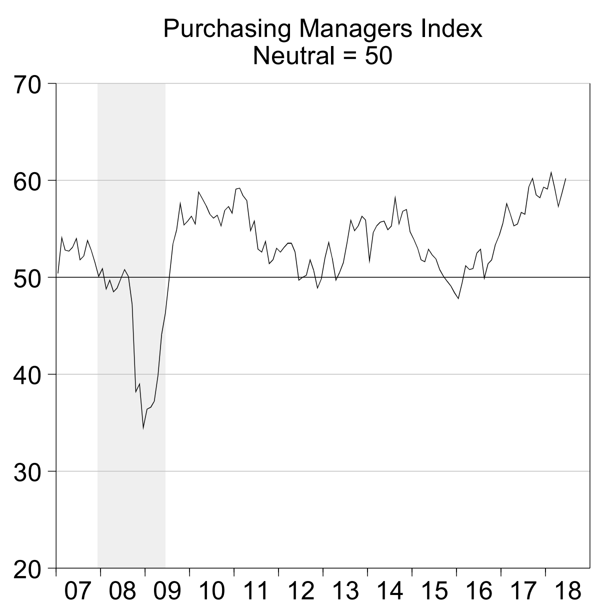
The University of Michigan/Reuters survey also revealed some dimming in expectations, but indicated that assessments of current conditions actually improved on the month. Consumers appear to feel that the current strength of the economy will not extend far into the future. It could be that the solid labor market and other sound economic fundamentals promote positive views of current conditions, while policy uncertainty has created concerns about the future. In contrast to the Conference Board survey, respondents indicated a greater willingness to buy vehicles and large household durable goods during the next six months.

## Industrial Activity

**Industrial production** decreased by 0.1% in May to 3.5% above its year earlier level. The April change was revised up from 0.7% to 0.9%. **Manufacturing** production was the cause of weakness during May, falling 0.7%. The decrease was largely due to a one-time event – a fire at a parts supplier that temporarily interrupted truck assemblies. Even outside motor vehicles and parts, however, manufacturing output declined by 0.2%. **Mining** output increased 1.8%, reflecting energy-related drilling. **Utilities** production increased 1.1% in May with a large upward revision to the increase in April from 1.9% to 3.2%.

Production across the country in some industries that are key employers in Ohio was uniformly weak. Output fell 6.5% in motor vehicles and parts, 2.0% in the primary metal, 0.9% in machinery, and 0.2% in fabricated metal products industries. Compared with a year ago, production increased 4.7% in fabricated metal products, 2.9% in primary metal, 2.3% in machinery, and declined 2.3% in motor vehicles and parts.

Reports of improving conditions from **purchasing managers** in manufacturing became even more widespread in June. The PMI® increased from 58.7 in May to 60.2 – strongly consistent with continuing expansion in the manufacturing sector. The important New Orders and Production sub-indexes remained above 60, compared with a neutral level of 50. The Supplier Deliveries sub-index jumped from 62.0 to 68.2 – its highest level since May 2004 and before that April 1979. The composite index has been above 55 in each of the last eighteen months, and the year-to-date average of 59.2 points to solid momentum in industrial production aside from the hiccup in May.



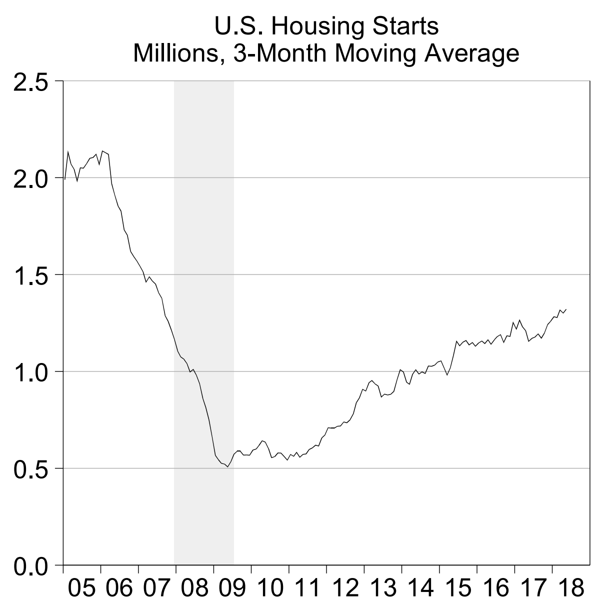

Of the eighteen industries tracked by the Manufacturing ISM® *Report on Business*, seventeen reported growth in the latest month. Among the industries with a disproportionate effect on Ohio manufacturing employment, fabricated metal products, transportation equipment, machinery, and primary metals, all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

One purchasing manager in the transportation industry said, “Electronic component supply issues continue to disrupt production.” A purchasing manager in the fabricated metals products industry said, “The Section 232 steel tariffs are now impacting domestic steel prices and capacity. Base steel prices have already increased 20 percent since March.” Finally, a contact in the machinery industry said, “The economy and product demand still continue to be strong.”

**Construction**

**Construction put-in-place** increased 0.4% in May. The previously announced increase of 1.8% in April was revised down to an increase of 0.9% as part of revisions that extended back through 2011. The revisions had essentially no impact on the big picture, but private nonresidential construction was a little weaker in recent months and state and local government construction was a little stronger.

Private construction advanced by 0.3%, and public construction increased 1.0%. Momentum among the categories that are used in calculating GDP – so called core construction – carried over into May, consistent with stronger-than-expected second-quarter activity and a sizable positive contribution to GDP growth during the quarter.




Total **housing starts** increased 1.5% in May on a 3-month moving average basis after a 1.2% decrease in April. Both single-family and multi-family starts increased. Midwest starts rose 22.4%, reflecting a 13.2% increase in single-family and a 45.5% increase in multi-family. Compared with a year earlier, national starts were higher by 14.3%, while Midwest starts were higher by 21.2% on a 3-month moving average basis.

The more-forward-looking permits were down slightly nationally but increased modestly in the Midwest on a 3-month moving average basis. Compared with a year earlier, permits rose 8.1% nationally and 8.4% in the Midwest.

**Home sales** were mixed in May on a 3-month moving average basis. Sales of existing homes decreased by 0.7% nationally but were higher by 1.1% in the Midwest. Both were down modestly from a year earlier. Sales of newly built homes increased 1.3% across the country and 2.8% in the Midwest on a 3-month moving average basis. Compared with a year earlier, new home sales were higher by 9.0% nationally and 19.8% in the Midwest.

Limited supply is raising home prices and limiting sales. **Home prices** nationally posted their 74th straight monthly increase in April to 6.4% above the year earlier level, 47.5% above the cyclical low reached in February 2012, and 10.2% above the previous peak in February 2007, according to the Case-Shiller index.

## *REVENUES*

**June GRF revenues including transfers totaled $3,053.4 million** and were $39.4 million (1.3%) above estimate. As has been the case throughout the year, a more accurate picture is obtained by excluding federal revenues from the calculation. Federal revenues have been below estimate all year because Medicaid spending has been below estimate, but this is not a negative for the state GRF. Non-federal revenues were $70.1 million (3.2%) above estimate in June.

For all of fiscal year 2018, GRF revenues and transfers were $32,471.3 million and were $197.8 million (0.6%) above estimate. Tax revenues were $574.2 million (2.6%) above estimate. The income tax alone was $433.8 million (5.4%) above estimate. As noted in prior issues of this report, 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.

Tax revenues performed well in June, as 13 of the 17 categories were above estimate, and the overages far exceeded the few areas where revenues were below estimate. Tax revenues overall were $155.6 million (7.6%) above estimate, with an unusual source leading the way. The non-auto sales tax was $74.9 million (10.5%) above estimate in June, erasing the shortfall that had existed throughout the first 11 months and leading revenues to finish $39.0 million (0.5%) above estimate. The auto sales tax, meanwhile, continued its steady performance, posting an overage of $5.1 million (4.2%) in June, finishing fiscal year 2018 $81.2 million (6.0%) above estimate.

The income tax was again over estimate, although compared to April and May the overage was more muted, at $31.9 million (4.0%). Quarterly estimated payments led the overage, coming in $40.9 million (31.4%) above estimate. Most of the other categories of income tax payments were slightly below estimate in June, although trust tax payments – which may be an indicator of capital gains income growth – were above estimate by $9.3 million.

The other large tax revenue overage was in the domestic insurance tax, which was $61.2 million (31.7%) above estimate. Unlike the other overages, this was a timing matter, as the June overage did not quite make up for a $66.9 million May shortfall.

On the negative side, the foreign insurance tax was below estimate by $9.2 million as refunds exceeded the estimated amount. Financial institutions tax (FIT) revenues were $8.8 million below estimate in June, but this followed a $20.8 million overage in May, so combined May-June revenues – which are more relevant than either individual month because the tax is due May 31 – were $8.0 million above estimate.

The income tax, sales tax, CAT and FIT collectively finished $594.7 million above estimate for the year. All the other tax sources combined are $20.5 million below estimate for the year. The insurance taxes alone were $24.0 million below estimate, meaning that all other taxes were a small $3.5 million above estimate.

Non-tax revenues were $30.4 million (3.6%) below estimate in June, with slightly more than all of the category shortfall coming from federal grants, which were $30.6 million (3.8%) below estimate, a somewhat smaller shortfall than one might have expected given that GRF Medicaid spending for June was $75.2 million below estimate.

For the year, non-tax revenues lagged the estimate by $293.9 million (2.9%), with the main factor being that federal grants, which were $274.1 million (2.8%) below estimate. For the year, the federal Medicaid revenue variance has tracked closely with Medicaid underspending, as total federal Medicaid revenues for the year were approximately $17.4 million (0.2%) less than total Medicaid federal share spending for the year, which is well within the expected variance range (in prior years the difference between federal revenue and the federal share of GRF Medicaid spending has been in the $50 million to $60 million range).

The other significant variance in fiscal year 2018 non-tax revenues was in the "Other income" category, where revenues were $32.4 million (11.5%) below estimate for the year, owing to the fact that JobsOhio liquor enterprise payments have come 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). As mentioned above, the most informative category in the table from a pure revenue perspective is non-federal revenue, 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. For the year, non-federal revenues were $471.9 million (2.1%) above estimate.

| **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 | $574.2 | 2.6% |
| Non-tax receipts | Federal grants, earnings on investments, licenses & fees, other income, intrastate transfers | ($293.9) | -2.9% |
| Transfers | Budget stabilization, liquor transfers, capital reserve, other | ($82.5) | -30.4% |
| **TOTAL REVENUE VARIANCE:** | | **$197.8** | **0.6%** |
| **Non-federal revenue variance** | | **$471.9** | **2.1%** |
| **Federal grants variance** | | **($274.1)** | **-2.8%** |

In June, transfers to the GRF were $85.7 million (60.8%) below estimate, leading to a negative variance of $82.5 million (30.4%) for the year. This was primarily attributable to lower than estimated transfers from state dedicated purpose funds (DPFs). One of the larger transfers estimated but not made was the transfer from commercial activity tax (CAT) revenues. CAT transfers to the GRF, based on revenues in excess of the amount needed to pay for reimbursements to schools and local governments, are at the discretion of the OBM director, and were not executed because the overage in tax revenues made them unnecessary.

Comparing to last year, June GRF revenues and transfers were down by $408.0 million (11.8%) from the same month in fiscal year 2017. However, this decrease is due completely to:

(i) a decline of $227.3 million (22.5%) in federal grants received;
(ii) a decline of $192.6 million (77.7%) in transfers to the GRF.

Recurring non-federal revenues were actually up by $11.9 million from last June, with $2.8 million of the increase coming from tax revenues, $6.2 million from investment earnings, and the remaining $2.9 million from other income and ISTVs. Furthermore, tax revenues would have increased by approximately $73 million if not for the repeal of the sales tax on Medicaid Health Insuring Corporations (MHICs, see below for further discussion).

Year-to-date GRF revenues and transfers decreased by $1,706.8 million (5.0%) 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 by $513.0 million (5.6%) and federal grants, which were down by $2,291.3 million (19.5%) 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, sharply reducing both sales tax revenue and GRF federal grant revenue.

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 reduced GRF Medicaid spending and federal grant revenue for fiscal year 2018 as a whole.

Once adjusting for these policy and accounting changes, a more optimistic picture emerges. Non-federal revenues increased in fiscal year 2018 by $589.5 million (2.6%). If not for the loss of the sales tax on Medicaid premiums, GRF non-federal revenues would have increased by $1,326.9 million (6.1%). GRF tax revenues by themselves, absent the Medicaid premium sales tax change, would have increased by $1,279.9 million (6.1%).

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

| Individual Revenue Sources Above Estimate | | Individual Revenue Sources Below Estimate | |
|---|---|---|---|
| Non-auto sales tax | $74.9 | Transfers In | ($85.7) |
| Domestic insurance tax | $61.2 | Federal grants | ($30.6) |
| Personal income tax | $31.9 | Foreign insurance tax | ($9.2) |
| Auto sales tax | $5.1 | Financial institutions tax | ($8.8) |
| Earnings on investments | $1.6 | Cigarette and Other Tobacco Tax | ($3.6) |
| Commercial activity tax | $1.3 | Other Income | ($1.4) |
| Petroleum activity tax | $1.2 | Other Sources Below Estimate | ($0.8) |
| Kilowatt hour tax | $1.2 | | |
| Other Sources Above Estimate | $1.2 | | |
| | | | |
| **Total above** | **$179.5** | **Total below** | **($140.1)** |

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

June non-auto sales and use tax collections totaled $791.3 million and were $74.9 million (10.5%) above estimate. This was by far the best performance of the tax this fiscal year. June's collections left growth for the fiscal year, after adjusting for the elimination of the tax on MHIC premiums, at 2.7%, the best cumulative growth mark for the year (please see the table below). Year-over-year growth for March-June has averaged 5.7%, after being only 1.3% for July through February.

The June overage was large enough to make total fiscal year 2018 GRF receipts $39.0 million (0.5%) above estimate, this after the first 11 months had seen year-to-date revenues below estimate every month except for October.

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

| | Jun-17 | Jun-18 | FY 17 YTD | FY 18 YTD |
|---|---|---|---|---|
| Non-Auto sales tax GRF | 807.3 | 791.3 | $9,220.6 | $8,707.6 |
| Non-Auto sales tax PLF (Library Fund) | $17.1 | $18.1 | $191.8 | $194.81 |
| Non-Auto sales tax, all funds | $824.5 | $809.4 | $9,412.4 | $8,902.5 |
| MHIC revenues (state) | $69.7 | $0.0 | $815.5 | $71.7 |
| GRF and PLF revenues without MHIC | $754.8 | $809.4 | $8,596.9 | $8,830.8 |
| **Change from prior year in non-MHIC collections** | | $54.7 | | $233.9 |
| **Pct. change from prior year in non-MHIC collections** | | 7.2% | | 2.7% |

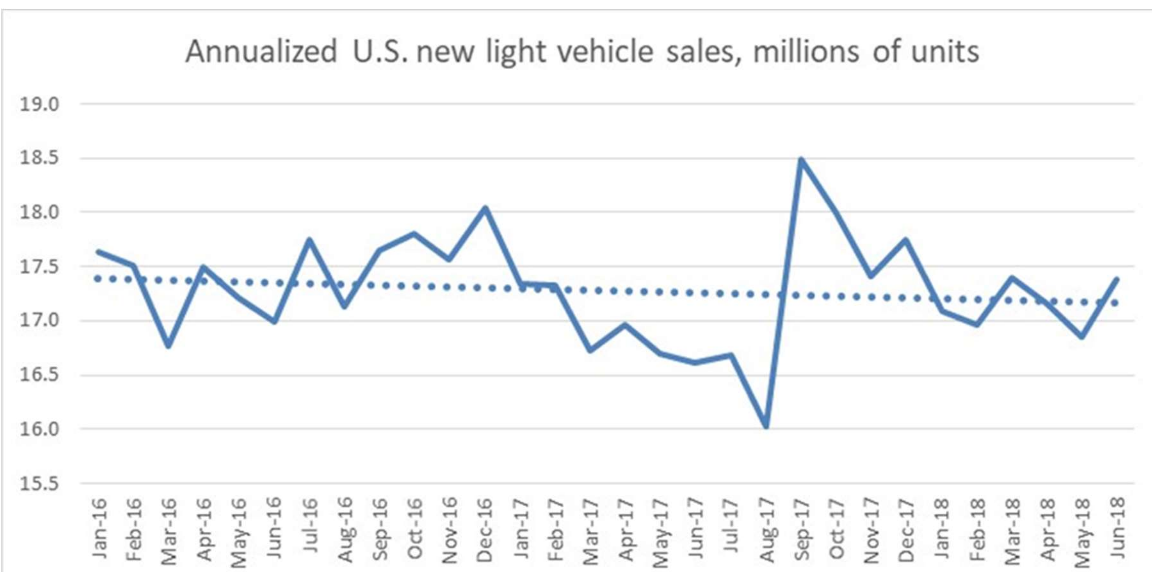
July was the last month of Medicaid Health Insuring Corporations (MHIC) sales tax collections, as mentioned above. Beginning in August, the sales tax on MHIC capitation payments was replaced by a Medicaid related provider tax on member months of both Medicaid and non-Medicaid major medical managed care organizations, which is being deposited into a non-GRF dedicated purpose fund. As a result, fiscal year 2018 non-auto sales tax collections were negative relative to fiscal year 2017 in all of the months following July. After one adjusts for sales tax collections from MHICs, estimated growth for all of fiscal year 2018 was 2.3%, while actual growth was 2.7%.

The acceleration in non-auto sales tax growth in June narrowed the gap between income tax withholding growth and non-auto sales tax growth. The prior 12 months had seen income tax withholding growth exceed non-auto sales tax growth (on a 6-month moving average basis) by an average of 2.2% per month; In June, that gap narrowed to 1.3%.

**Auto Sales Tax**

Auto sales tax revenues in June totaled $128.3 million and were $5.1 million (4.2%) above estimate revenues. Auto sales tax revenues finished the year $81.2 million (6.0%) above estimate and were $46.6 million (3.3%) above their fiscal year 2017 level.

The auto sales tax continued 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, although they rebounded to 17.4 million units in June. The trend over the past 2.5 years is slightly downward, as illustrated by the graph below.




Several factors may support sales tax revenue growth even as new unit sales flatten. First, as noted in prior issues 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. Since 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**

June GRF personal income tax receipts totaled $829.0 million and were $31.9 million (4.0%) above estimate. Although June's performance relative to estimate was more modest than the rather large income tax overages experienced during the last several months, this month's positive outcome shares an important commonality with the months of January and April – very strong growth in quarterly estimated payments.

Like January and April (as well as September), June is a month in which quarterly estimated tax payments are due. Estimated payments exceeded the June estimate by $40.9 million (31.4%). The magnitude of this overage is similar to that for April, when revenue exceeded estimate by $29.7 million (34.1%). This is notable because both April and June reflect tax year 2018 activity. For the entire fiscal year, quarterly estimated payments were $247.5 million (32.6%) over estimate, and were $270.1 million (36.7%) over fiscal year 2017.

Trust tax return payments were the other source of above estimate June income tax revenue. Such payments exceeded estimate by $9.3 million (620.2%) for the month. For the entire year, trust tax payments exceeded estimate by $20.4 million (36.5%) and exceeded fiscal year 2017 by $21.7 million (39.8%). In the past, high percentage growth in trust tax payments has coincided with a strong increase in capital gains income. Whether this holds true for tax year 2017 will not be known for some time, as federal return data on capital gains and other sources of income will not be known until mid-year 2019.

Other income tax sources did not reach estimate during the month. Withholding fell short of estimate by $4.1 million but, for the year, withholding is $138.0 million (1.6%) above estimate. It increased by 4.5% from last year, compared to an estimate of 2.9%. June was the first month since December 2017 in which withholding did not exceed estimate.

Annual return tax payments are not significant during the month of June, so the $4.3 million (33.7%) shortfall compared to estimate is not particularly noteworthy. For the fiscal year, annual return payments were $55.2 million (7.9%) 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). This source demonstrated $90.5 (13.6%) growth over fiscal year 2017.

May refunds were $7.5 million (23.0%) above estimate. Nonetheless, for the January-June filing season, refunds were $42.2 million (2.7%) below estimate. For the entire fiscal year, refunds were $13.8 million (0.7%) below estimate, and were $53.2 million (2.7%) below fiscal year 2017.

On a year-over-year basis, June GRF income tax collections were $39.9 million (5.1%) above June 2017 collections. For the year, collections are up by $804.6 million (10.6%). Except for the "other" return category, all payment categories improved from last year. Growth in withholding and estimated payments accounted for $650.6 million of the increase, thereby accounting for over 80% of GRF income tax growth.

| FY2018 PERSONAL INCOME TAX RECEIPTS BY COMPONENT ($ in millions) | | | | | | |
|---|---|---|---|---|---|---|
| | Estimate June | Actual June | $ Var | Actual June 2018 | Actual June 2017 | $ Var Y-0ver-Y |
| Withholding | $709.9 | $705.8 | ($4.1) | $705.8 | $706.2 | ($0.5) |
| Quarterly Est. | $129.9 | $170.8 | $40.9 | $170.8 | $124.9 | $45.9 |
| Trust Payments | $1.5 | $10.8 | $9.3 | $10.8 | $5.1 | $5.7 |
| Annual Returns & 40 P | $12.7 | $8.4 | ($4.3) | $8.4 | $12.1 | ($3.7) |
| Other | $10.2 | $9.0 | ($1.2) | $9.0 | $9.9 | ($0.9) |
| Less: Refunds | ($32.5) | ($40.0) | ($7.5) | ($40.0) | ($35.7) | ($4.3) |
| Local Distr. | ($34.6) | ($35.8) | ($1.2) | ($35.8) | ($33.5) | ($2.3) |
| Net to GRF | $797.1 | $829.0 | $31.9 | $829.0 | $789.1 | $39.9 |

## Commercial Activity Tax

June commercial activity tax (CAT) receipts deposited in the GRF totaled $10.9 million and were $1.3 million (13.4%) above estimate. June revenues are from “straggler” payments, since the last quarterly payment of the tax was due May 10.

Monthly CAT revenues did not display a consistent trend in fiscal year 2018, with seven of the 12 months over the 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 eight other months fell short of the estimate by $26.7 million, yielding a net all funds overage for the year $34.2 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 first and last quarters of fiscal year 2018 had the highest year-over-year growth rates.

| 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 | $474.9 | $41.7 | 9.6% | $459.3 | 3.4% |

GRF CAT revenues were $221.3 million (17.0%) above collections last 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 increased by $54.7 million (3.1%) 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 $41.1 million from a year ago. The remaining $180.2 million of increase is due to the H.B. 49 law change.

**Financial Institutions Tax**

June financial institutions tax (FIT) collections were $17.2 million and were $8.8 million (33.8%) below estimate. However, combined May and June collections (since the last estimated payment is due May 31, one must look at combined May and June collections relative to estimate) were $8.0 million above estimate, and for the year, collections were $12.1 million (6.4%) above estimate.

FIT revenues in 2018 were up $13.8 million (7.3%) higher than fiscal year 2017. The FIT has a very brief history, as it has only been collected for the five-year period of fiscal years2014-2018. It is difficult to discern any longer-term trends in revenues at this point. The fiscal year 2018 collections of $201.1 million were slightly above the average annual revenues of $196.4 million.

**GRF Non-Tax Receipts**

GRF non-tax revenues in June totaled $804.0 million and were $30.4 million (3.6%) below estimate. Year-to-date non-tax revenues were $293.9 (2.9%) below estimate.

Federal grants were below estimate in June by $30.6 million (3.8%) due to underspending in the GRF Medicaid category. For FY 2018, federal Medicaid revenues tracked relatively closely with Medicaid underspending, as year-to-date federal Medicaid revenues were $17.4 million (0.2%) less than year-to-date GRF spending for Medicaid federal share, which is within the expected variance range. For the year, federal grants were $274.1 million (2.8%) below estimate.

The other significant variance in FY 2018 non-tax revenues was in the "Other income" category, where revenues were $32.4 million (11.5%) below estimate for the year, owing to the fact that JobsOhio liquor enterprise payments have come in lower than estimated due to costs associated with modernization of the liquor information technology infrastructure.

In June, transfers to the GRF were $85.7 million (60.8%) below estimate, leading to a negative variance of $82.5 million (30.4%) for the year, primarily due to lower than estimated transfers from state dedicated purpose funds (DPFs). One of the larger transfers estimated but not made was the transfer from commercial activity tax (CAT) revenues. CAT transfers to the GRF, based on revenues in excess of the amount needed to pay for reimbursements to schools and local governments for personal property tax revenues no longer collected, are at the discretion of the OBM director, and were not executed because the overage in tax revenues made them unnecessary.

7/11/2018

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

| | MONTH | | | | YEAR-TO-DATE | | | |
|---|---|---|---|---|---|---|---|---|
| REVENUE SOURCE | ACTUAL JUNE | ESTIMATE JUNE | $ VAR | % VAR | ACTUAL Y-T-D | ESTIMATE Y-T-D | $ VAR | % VAR |
| TAX RECEIPTS | | | | | | | | |
| Non-Auto Sales & Use | 791,324 | 716,400 | 74,924 | 10.5% | 8,707,648 | 8,668,600 | 39,048 | 0.5% |
| Auto Sales & Use | 128,340 | 123,200 | 5,140 | 4.2% | 1,440,526 | 1,359,300 | 81,226 | 6.0% |
| Subtotal Sales & Use | 919,664 | 839,600 | 80,064 | 9.5% | 10,148,174 | 10,027,900 | 120,274 | 1.2% |
| Personal Income | 828,975 | 797,100 | 31,875 | 4.0% | 8,411,020 | 7,977,200 | 433,820 | 5.4% |
| Corporate Franchise | 169 | 0 | 169 | N/A | 2,185 | 0 | 2,185 | N/A |
| Financial Institutions Tax | 17,221 | 26,000 | (8,779) | -33.8% | 201,067 | 189,000 | 12,067 | 6.4% |
| Commercial Activity Tax | 10,885 | 9,600 | 1,285 | 13.4% | 1,522,817 | 1,494,300 | 28,517 | 1.9% |
| Petroleum Activity Tax | 2,402 | 1,200 | 1,202 | 100.2% | 7,844 | 6,000 | 1,844 | 30.7% |
| Public Utility | 110 | 900 | (790) | -87.8% | 119,242 | 110,000 | 9,242 | 8.4% |
| Kilowatt Hour | 22,296 | 21,100 | 1,196 | 5.7% | 342,353 | 352,700 | (10,347) | -2.9% |
| Natural Gas Distribution | 2 | 0 | 2 | N/A | 69,551 | 65,500 | 4,051 | 6.2% |
| Foreign Insurance | (15,451) | (6,300) | (9,151) | -145.2% | 276,522 | 293,000 | (16,478) | -5.6% |
| Domestic Insurance | 254,000 | 192,800 | 61,200 | 31.7% | 278,449 | 286,000 | (7,551) | -2.6% |
| Other Business & Property | 480 | 0 | 480 | N/A | 217 | 0 | 217 | N/A |
| Cigarette and Other Tobacco | 143,459 | 147,100 | (3,641) | -2.5% | 939,757 | 944,400 | (4,643) | -0.5% |
| Alcoholic Beverage | 5,469 | 5,400 | 69 | 1.3% | 55,673 | 57,000 | (1,327) | -2.3% |
| Liquor Gallonage | 4,314 | 4,000 | 314 | 7.8% | 48,139 | 46,000 | 2,139 | 4.6% |
| Estate | 67 | 0 | 67 | N/A | 213 | 0 | 213 | N/A |
| Total Tax Receipts | 2,194,064 | 2,038,500 | 155,564 | 7.6% | 22,423,223 | 21,849,000 | 574,223 | 2.6% |
| NON-TAX RECEIPTS | | | | | | | | |
| Federal Grants | 783,354 | 813,972 | (30,618) | -3.8% | 9,469,932 | 9,744,031 | (274,099) | -2.8% |
| Earnings on Investments | 17,560 | 16,000 | 1,560 | 9.8% | 64,218 | 60,000 | 4,218 | 7.0% |
| License & Fees | 669 | 620 | 49 | 7.9% | 59,200 | 57,000 | 2,200 | 3.9% |
| Other Income | 2,421 | 3,840 | (1,419) | -37.0% | 250,388 | 282,780 | (32,392) | -11.5% |
| ISTV'S | 0 | 0 | 0 | N/A | 15,683 | 9,500 | 6,183 | 65.1% |
| Total Non-Tax Receipts | 804,004 | 834,432 | (30,428) | -3.6% | 9,859,421 | 10,153,311 | (293,890) | -2.9% |
| **TOTAL REVENUES** | **2,998,068** | **2,872,932** | **125,137** | **4.4%** | **32,282,644** | **32,002,311** | **280,333** | **0.9%** |
| TRANSFERS | | | | | | | | |
| Budget Stabilization | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| Transfers In - Other | 55,297 | 141,000 | (85,703) | -60.8% | 188,623 | 271,129 | (82,506) | -30.4% |
| Temporary Transfers In | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| Total Transfers | 55,297 | 141,000 | (85,703) | -60.8% | 188,623 | 271,129 | (82,506) | -30.4% |
| **TOTAL SOURCES** | **3,053,365** | **3,013,932** | **39,433** | **1.3%** | **32,471,267** | **32,273,440** | **197,827** | **0.6%** |

7/11/2018

# Table 2

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

| REVENUE SOURCE | MONTH JUNE FY 2018 | MONTH JUNE 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 | 791,324 | 807,320 | (15,996) | -2.0% | 8,707,648 | 9,220,607 | (512,959) | -5.6% |
| Auto Sales & Use | 128,340 | 127,972 | 368 | 0.3% | 1,440,526 | 1,393,968 | 46,558 | 3.3% |
| Subtotal Sales & Use | 919,664 | 935,291 | (15,627) | -1.7% | 10,148,174 | 10,614,575 | (466,401) | -4.4% |
| Personal Income | 828,975 | 789,072 | 39,902 | 5.1% | 8,411,020 | 7,606,452 | 804,568 | 10.6% |
| Corporate Franchise | 169 | (4,860) | 5,030 | 103.5% | 2,185 | (1,211) | 3,396 | 280.5% |
| Financial Institutions Tax | 17,221 | 26,789 | (9,568) | -35.7% | 201,067 | 187,309 | 13,759 | 7.3% |
| Commercial Activity Tax | 10,885 | 16,199 | (5,314) | -32.8% | 1,522,817 | 1,301,539 | 221,278 | 17.0% |
| Petroleum Activity Tax | 2,402 | 1,376 | 1,027 | 74.6% | 7,844 | 6,390 | 1,454 | 22.8% |
| Public Utility | 110 | 433 | (323) | -74.6% | 119,242 | 106,902 | 12,340 | 11.5% |
| Kilowatt Hour | 22,296 | 21,187 | 1,109 | 5.2% | 342,353 | 347,436 | (5,082) | -1.5% |
| Natural Gas Distribution | 2 | 5 | (3) | -59.5% | 69,551 | 61,790 | 7,760 | 12.6% |
| Foreign Insurance | (15,451) | (23,539) | 8,088 | 34.4% | 276,522 | 301,542 | (25,020) | -8.3% |
| Domestic Insurance | 254,000 | 261,832 | (7,832) | -3.0% | 278,449 | 268,567 | 9,882 | 3.7% |
| Other Business & Property | 480 | 213 | 268 | N/A | 217 | (466) | 683 | 146.7% |
| Cigarette and Other Tobacco | 143,459 | 157,811 | (14,352) | -9.1% | 939,757 | 980,506 | (40,748) | -4.2% |
| Alcoholic Beverage | 5,469 | 5,276 | 193 | 3.7% | 55,673 | 57,220 | (1,547) | -2.7% |
| Liquor Gallonage | 4,314 | 4,069 | 245 | 6.0% | 48,139 | 46,460 | 1,679 | 3.6% |
| Estate | 67 | 88 | (21) | -23.7% | 213 | 756 | (543) | -71.9% |
| Total Tax Receipts | 2,194,064 | 2,191,242 | 2,823 | 0.1% | 22,423,223 | 21,885,767 | 537,456 | 2.5% |
| NON-TAX RECEIPTS | | | | | | | | |
| Federal Grants | 783,354 | 1,010,667 | (227,313) | -22.5% | 9,469,932 | 11,761,183 | (2,291,251) | -19.5% |
| Earnings on Investments | 17,560 | 11,351 | 6,210 | 54.7% | 64,218 | 48,653 | 15,565 | 32.0% |
| License & Fee | 669 | (1,425) | 2,094 | 146.9% | 59,200 | 57,419 | 1,781 | 3.1% |
| Other Income | 2,421 | 1,552 | 869 | 56.0% | 250,388 | 50,132 | 200,255 | 399.5% |
| ISTV'S | 0 | 69 | (69) | N/A | 15,683 | 18,967 | (3,284) | -17.3% |
| Total Non-Tax Receipts | 804,004 | 1,022,212 | (218,209) | -21.3% | 9,859,421 | 11,936,354 | (2,076,933) | -17.4% |
| **TOTAL REVENUES** | **2,998,068** | **3,213,454** | **(215,386)** | **-6.7%** | **32,282,644** | **33,822,121** | **(1,539,477)** | **-4.6%** |
| TRANSFERS | | | | | | | | |
| Budget Stabilization | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| Transfers In - Other | 55,297 | 247,918 | (192,621) | -77.7% | 188,623 | 355,937 | (167,314) | -47.0% |
| Temporary Transfers In | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| Total Transfers | 55,297 | 247,918 | (192,621) | N/A | 188,623 | 355,937 | (167,314) | -47.0% |
| **TOTAL SOURCES** | **3,053,365** | **3,461,372** | **(408,007)** | **-11.8%** | **32,471,267** | **34,178,058** | **(1,706,791)** | **-5.0%** |

## *DISBURSEMENTS*

June GRF disbursements, across all uses, totaled $2,161.0 million and were $228.7 million (9.6%) below estimate. This was primarily attributable to below estimate disbursements in the Primary and Secondary Education, Medicaid, Property Tax Reimbursements, and Debt Service categories, which were partially offset by higher than estimated disbursements for Operating Transfers Out. On a year-over-year basis, June total uses were $2.8 million (0.1%) lower than those of the same month in the previous fiscal year, with disbursements in the Medicaid category primarily responsible for the decrease. These decreases were partially offset by year-over-year growth in disbursements for Primary and Secondary Education. Year-to-date variances from estimate by category are provided in the table below.

While fiscal year 2018 disbursements were $522.9 million (1.6%) below estimate, it is important to note that disbursements reflect spending that occurred within the fiscal year. In addition to disbursements, agencies are also permitted to encumber resources for obligations incurred in fiscal year 2018 for which spending will occur within the first few months of fiscal year 2019. Actual fiscal year 2018 encumbrances were $371.2 million versus an estimate of $276.7 million. While these encumbrances are not reflected in the disbursements, resources must be reserved for the actual payment of these obligations in the future.

| 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) | ($536.9 million) | -1.7% |
| Transfers | Temporary or permanent transfers out of the GRF that are not agency expenditures | $14.0 million | 21.2% |
| **TOTAL DISBURSEMENTS VARIANCE:** | | **($522.9 million)** | **-1.6%** |

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. June disbursements for this category totaled $594.7 million and were $81.2 million (12.0%) below estimate. This variance was primarily attributable to below estimate spending in Foundation Funding, where expenditures totaled $563.9 million and were $74.6 million (11.7%) below estimate due to data updates and payment reconciliations that offset overspending in prior months. Additionally the Early Childhood Education line items was $4.0 million below estimate due to the shifting of payments to a non-GRF funding source in June.

On a year-over-year basis, disbursements in this category were $235.7 million (65.7%) higher than for the same month in the previous fiscal year. Actual fiscal year 2018 disbursements were $7,993.8 million, which was $33.3 million (0.4%) below estimate and $120.2 million (1.5%) higher than fiscal year 2017 disbursements. The year-over-year variance is primarily attributable to one foundation payment being disbursed in June of the previous fiscal year whereas two foundation payments were disbursed in June of the current fiscal year.

Including encumbrances, fiscal year 2018 obligations (disbursements plus encumbrances) totaled $8,096.5 million and were $7.2 million (0.1%) below estimate. The fiscal year 2018 obligations total reflects encumbrances of $102.7 million made by the Department of Education for payments that will be made against fiscal year 2018 funds in fiscal year 2019. These encumbrances are necessary as the final reconciliation payments to schools occur after the fiscal year ends.

**Higher Education**

June disbursements for the Higher Education category, which includes non-debt service GRF spending by the Department of Higher Education, were $179.7 million and were $0.02 million above the estimate. This variance reflects $2.4 million in above estimate spending in the Choose Ohio First Scholarship program, which was offset by $2.6 million in below estimate spending in the National Guard Scholarship Program, both due to the timing of requests from higher education institutions.

On a year-over-year basis, disbursements in this category were $0.9 million (0.5%) lower than for the same month in the previous fiscal year. Actual fiscal year 2018 disbursements were $2,304.8 million, which was $7.4 million (0.3%) below estimate and $10.0 million (0.4%) higher than in fiscal year 2017.

Including encumbrances, fiscal year 2018 obligations (disbursements plus encumbrances) totaled $2,337.6 million and were $0.6 million (0.03%) above estimate. The fiscal year 2018 obligations total reflects encumbrances of $32.8 million made by the Department of Higher Education for payments that will be made against fiscal year 2018 funds in fiscal year 2019.

**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.

June disbursements in this category totaled $3.8 million and were $0.6 million (20.2%) above estimate. On a year-over-year basis, disbursements in this category were $0.8 million (28.4%) higher than for the same month in the previous fiscal year. Total fiscal year 2018 disbursements were $69.8 million, which was $0.8 million (1.1%) below estimate and $2.4 million (3.4%) lower than total fiscal year 2017 disbursements.

Including encumbrances, fiscal year 2018 obligations (disbursements plus encumbrances) for the category totaled $80.1 million and were $0.3 million (0.4%) below estimate. The fiscal year 2018 obligations total reflects encumbrances of $10.3 million made by agencies within the category for payments that will be made against fiscal year 2018 funds in fiscal year 2019.

**Medicaid**

This category includes all Medicaid spending on services and program support by the following eight agencies: the Department of Medicaid, the Department of Mental Health and Addiction Services, the Department of Developmental Disabilities, the Department of Health, the Department of Job and Family Services, the Department of Aging, the Department of Education, and the State Board of Pharmacy.

Expenditures

June GRF disbursements for the Medicaid Program totaled $1,138.8 million and were $75.2 million (6.2%) below estimate, and $191.5 million (14.4%) 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.

Fiscal year 2018 GRF disbursements totaled $14,482.5 million and were $340.5 million (2.3%) below estimate, and $2,954.8 million (16.9%) below fiscal year 2017 disbursements, due primarily to the replacement of the sales tax on MHICs as described above. Including encumbrances, fiscal year 2018 GRF obligations (disbursements plus encumbrances) totaled $14,542.4 million and were $330.4 million (2.2%) below the estimate. The fiscal year 2018 GRF obligations total reflects encumbrances of $59.9 million made by Medicaid agencies for payments that will be made against fiscal year 2018 funds in fiscal year 2019.

June all funds disbursements for the Medicaid Program totaled $2,020.5 million and were $130.5 million (6.1%) below the estimate, and $71.5 million (3.4%) below disbursements for the same month in the previous fiscal year. Fiscal year 2018 all funds disbursements totaled $26,342.6 million and were $678.7 million (2.5%) below the estimate, and $792.6 million (3.1%) above fiscal year 2017 disbursements. Including encumbrances, fiscal year 2018 all funds obligations (disbursements plus encumbrances) total $26,822.9 million and were $616.7 million (2.2%) below the estimate. The fiscal year 2018 all funds obligations total reflects encumbrances of $480.3 million made by Medicaid agencies for payments that will be made against fiscal year 2018 funds in fiscal year 2019.

The June all-funds variance was primarily attributable to underspending in the fee-for-service and managed care programs, as well as administrative expenses. In the fee-for-service and managed care programs, these variances were the result of program enrollment being 18.8% and 3.5%, respectively, below estimate. Underspending in June was also reported in administrative expenses, particularly for contractual services.

The year-to-date, all-funds variance is due 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 an average of 8.5%, 2.5%, and 5.1%, respectively, below estimate for each month on an average monthly enrollment basis. Year-to-date underspending also includes the Care Innovation program which is behind schedule, but is expected to be fully implemented in fiscal year 2019. 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)*

| | June Actual | June Projection | Variance | Variance % |
|---|---|---|---|---|
| GRF | $ 1,138.8 | $ 1,214.0 | $ (75.2) | -6.2% |
| Non-GRF | $ 881.7 | $ 937.0 | $ (55.3) | -5.9% |
| All Funds | $ 2,020.5 | $ 2,151.0 | $ (130.5) | -6.1% |

Enrollment

Total June enrollment for the program was 2.94 million, which was 186,076 (6.0%) below the estimate and 160,008 (5.2%) below enrollment for the same period last fiscal year. Fiscal year 2018 average monthly enrollment was 3.00 million and was 108,081 (3.5%) below estimate.

June enrollment by major eligibility category was: Covered Families and Children, 1.65 million; Aged, Blind and Disabled (ABD), 489,542; Group VIII Expansion, 664,439; and Other Full Benefits, 15,230 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.

June disbursements in this category totaled $53.8 million and were $8.3 million (18.2%) above estimate. On a year-over-year basis, disbursements in this category were $16.4 million (44.0%) higher than for the same month in the previous fiscal year. Total fiscal year 2018 disbursements were $1,251.8 million, which was $58.8 million (4.5%) below estimate and $37.8 million (2.9%) lower than fiscal year 2017 disbursements.

Including encumbrances, fiscal year 2018 obligations (disbursements plus encumbrances) for the category totaled $1,316.1 million and were $40.2 million (3.0%) below estimate. The fiscal year 2018 obligations total reflects encumbrances of $64.3 million made by agencies within the category for payments that will be made against fiscal year 2018 funds in fiscal year 2019.

Department of Aging
Including encumbrances, fiscal year 2018 obligations (disbursements plus encumbrances) totaled \$13.9 million and were on target with estimate. The fiscal year 2018 obligations total reflects encumbrances of \$2.5 million made by the Department of Aging for payments that will be made against fiscal year 2018 funds in fiscal year 2019.

Department of Job and Family Services
June disbursements for the Department of Job and Family Services totaled \$28.4 million and were \$6.8 million (31.8%) above estimate. This variance was primarily attributable to above estimate disbursements in several line items: The Families and Children Programs line item was \$4.3 million above estimate due to unanticipated additional funding in Supplemental State Child Protection; the TANF State/Maintenance of Effort line item was \$3.1 million above estimate due to the timing of payments as the agency sought full utilization of funding to meet requirements for maintenance of effort; the Family Assistance – Local line item was \$1.9 million above estimate due to higher than estimated county draws; the Disability/Other Assistance line item was \$1.7 million above estimate due to an accounting adjustment; and the Unemployment Insurance Admin. line item was \$1.6 million above estimate due to later than anticipated payments for IT charges. These variances were partially offset by disbursements in the Early Care and Education line item, which were \$5.3 million below estimate due to a change in the subsidy disbursement schedule for the Child Care Development Fund in order to efficiently utilize a variety of funding sources, and disbursements in the Technology Projects line item, which were below estimate by \$2.0 million due to the timing of DAS charges.

Including encumbrances, fiscal year 2018 obligations (disbursement plus encumbrances) totaled \$706.6 million and were \$31.3 million (4.2%) below estimate. The fiscal year 2018 obligations total reflects encumbrances of \$39.6 million for payments that will be made against fiscal year 2018 funds in fiscal year 2019.

Department of Mental Health and Addiction Services
June disbursements for the Department of Mental Health and Addiction Services totaled \$15.1 million and were \$2.8 million (22.6%) above estimate. The variance was primarily attributable to the Hospital Services line item, which was \$5.3 million above estimate as the agency balances utilization of GRF and non-GRF funding to close the fiscal year. Additionally, the Addiction Services Partnership with Corrections line item was \$3.4 million (140%) above estimate due an unplanned disbursement to the community for mental health related transitions activity. This variance was partially offset by the Continuum of Care Services line item, which was \$3.5 million (87.4%) below estimate due to the delay of a payment to communities, which was encumbered instead of disbursed and the Criminal Justice Services line item, which was \$1.3 million (75.4%) below estimate due to the timing of payments where funding was disbursed earlier than estimated causing June to be below estimate as payments leveled out.

Including encumbrances, fiscal year 2018 obligations (disbursements plus encumbrances) totaled \$387.3 million and were \$6.6 million (1.8%) below estimate. The fiscal year 2018 obligations total reflects encumbrances of \$6.6 million made by the Department of Mental Health and Addiction Services for payments that will be made against fiscal year 2018 funds in fiscal year 2019.

Department of Health

June disbursements for the Department of Health totaled $6.3 million and were $0.9 million (12.5%) below estimate. This variance was primarily attributable to disbursements in the Infant Vitality line item, which were $1.1 million above estimate due to the timing of payments. This variance was partially offset by disbursements in the Help Me Grow line item, which were $0.9 million below estimate due to delayed payments on contracts and grants throughout the fiscal year resulting in funds being encumbered rather than disbursed.

Including encumbrances, fiscal year 2018 obligations (disbursements plus encumbrances) totaled $83.0 million and were $1.2 million (1.5%) below estimate. The fiscal year 2018 obligations total reflects encumbrances of $12.9 million made by the Department of Health for payments that will be made against fiscal year 2018 funds in fiscal year 2019.

**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.

June disbursements in this category totaled $144.4 million and were $9.1 million (5.9%) below estimate. On a year-over-year basis, disbursements in this category were $3.1 million (2.1%) lower than for the same month in the previous fiscal year. Fiscal year 2018 disbursements were $2,130.4 million, which was $32.9 million (1.5%) below estimate and $77.6 million (3.8%) higher than fiscal year 2017 disbursements.

Including encumbrances, fiscal year 2018 obligations (disbursements plus encumbrances) for the category totaled $2,186.6 million and were $8.1 million (0.4%) below estimate. The fiscal year 2018 obligations total reflects encumbrances of $56.2 million made by agencies within the category for payments that will be made against fiscal year 2018 funds in fiscal year 2019.

Adjutant General's Department

Including encumbrances, fiscal year 2018 obligations (disbursements plus encumbrances) totaled $11.4 million and were $1.7 million (18.0%) above estimate. The fiscal year 2018 obligations total reflects encumbrances of $0.5 million made by the Adjutant General's Department for payments that will be made against fiscal year 2018 funds in fiscal year 2019.

Department of Rehabilitation and Correction

June disbursements for the Department of Rehabilitation and Correction totaled $109.3 million and were $7.3 million (6.2%) below estimate. This variance was primarily attributable to below estimate disbursements in several line items: The Institutional Operations line item was below estimate by $4.6 million; the Community Nonresidential programs line item was below estimate by $2.5 million; and the Institution Medical Services line item was below estimate by $2.0 million. These variances were all largely due to lower than estimated participation in community non-residential programs and funds being encumbered rather than disbursed.

Fiscal year 2018 obligations (disbursements plus encumbrances) totaled $1,703.8 million and were $3.7 million (0.2%) below estimate. The fiscal year 2018 obligations total reflects encumbrances of $47.8 million made by the Department of Rehabilitation and Correction for payments that will be made against fiscal year 2018 funds in fiscal year 2019.

**General Government**

This category includes non-debt service GRF expenditures by the Department of Administrative Services, 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.
June disbursements in this category totaled $21.2 million and were $3.4 million (13.7%) below estimate. On a year-over-year basis, disbursements in this category were $5.5 million (20.7%) lower than for the same month in the previous fiscal year. Fiscal year 2018 disbursements were $347.9 million, which was $27.7 million (7.4%) below estimate and $22.4 million (6.0%) lower fiscal year 2017 disbursements.

Including encumbrances, fiscal year 2018 obligations (disbursements plus encumbrances) for the category totaled $392.8 million and were $21.2 million (5.1%) below estimate. The fiscal year 2018 obligations total reflects encumbrances of $44.9 million made by agencies within the category for payments that will be made against fiscal year 2018 funds in fiscal year 2019.

<u>Department of Administrative Services</u>
Including encumbrances, fiscal year 2018 obligations (disbursements plus encumbrances) totaled $32.4 million and were $1.4 million (4.3%) below estimate. The fiscal year 2018 obligations total reflects encumbrances of $5.5 million made by the Department of Administrative Services for payments that will be made against fiscal year 2018 funds in fiscal year 2019.

<u>Development Services Agency</u>
June disbursements for the Development Services Agency totaled $1.5 million and were $1.4 million (47.3%) below estimate. This variance was primarily attributable to disbursements in the Technology Programs and Grants line item, which were $1.1 million below estimate due to slower than estimated spending on encumbered grants.

Including encumbrances, total GRF obligations (disbursements plus encumbrances) totaled $49.1 million and were $1.9 million (3.8%) below estimate. The GRF obligations total reflects encumbrances of $22.1 million made by the Development Services Agency for payments that will be made against fiscal year 2018 funds in fiscal year 2019.

<u>Department of Taxation</u>
June disbursements for the Department of Taxation totaled $5.7 million and were $1.0 million (22.1%) above estimate. This variance in the Operating Expense line item is primarily attributable to a delayed invoice from DAS OIT for server and storage costs.

Including encumbrances, fiscal year 2018 obligations (disbursements plus encumbrances) totaled $68.7 million and were $1.5 million (2.1%) above estimate. The fiscal year 2018 obligations total reflects encumbrances of $2.2 million made by the Department for payments that will be made against fiscal year 2018 funds in 2019.

Department of Transportation
Including encumbrances, fiscal year 2018 obligations (disbursements plus encumbrances) totaled $26.9 million and were $0.3 million (1.1%) below estimate. The fiscal year 2018 obligations total reflects encumbrances of $11.7 million made by the Department of Transportation for payments that will be made against fiscal year 2018 funds in fiscal year 2019.

**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. June property tax reimbursements totaled $14.0 million and were $31.5 million (69.2%) below estimate. Fiscal year 2018 disbursements of $1,802.4 million were $4.2 million (0.2%) below estimate and $12.2 million higher than fiscal year 2017 disbursements.

**Debt Service**
June payments for debt service totaled $9,000 and were $47.3 million (100%) below estimate. Fiscal year 2018 disbursements were $1,344.0 million and were $31.3 million (2.3%) below estimate. The monthly variance is due to a debt service payment being scheduled for June but occurring in May. The total fiscal year variance is primarily attributable to savings achieved by refunding prior debt and a portion of bond premiums being used to partially offset debt service payments.

**Transfers Out**

June transfers out totaled $10.5 million and were $10.0 million above estimate. Fiscal year 2018 transfers out were $80.0 million and were $14.0 million (21.2%) below estimate. The monthly variance is primarily due to a planned transfer to the OAKS Support Organization Fund occurring later in the year than anticipated. The total fiscal year variance is primarily due to an erroneous transfer-in that occurred in July and required an unplanned transfer-out in August to correct.

7/11/2018

# Table 3

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

| | MONTH | | | | YEAR-TO-DATE | | | |
|---|---|---|---|---|---|---|---|---|
| **Functional Reporting Categories Description** | **ACTUAL JUNE** | **ESTIMATED JUNE** | **$ VAR** | **% VAR** | **YTD ACTUAL** | **YTD ESTIMATE** | **$ VAR** | **% VAR** |
| Primary and Secondary Education | 594,665 | 675,850 | (81,185) | -12.0% | 7,993,783 | 8,027,083 | (33,300) | -0.4% |
| Higher Education | 179,680 | 179,651 | 29 | 0.0% | 2,304,821 | 2,312,261 | (7,440) | -0.3% |
| Other Education | 3,811 | 3,171 | 640 | 20.2% | 69,789 | 70,555 | (766) | -1.1% |
| Medicaid | 1,138,779 | 1,214,020 | (75,241) | -6.2% | 14,482,515 | 14,823,011 | (340,496) | -2.3% |
| Health and Human Services | 53,804 | 45,517 | 8,288 | 18.2% | 1,251,797 | 1,310,619 | (58,822) | -4.5% |
| Justice and Public Protection | 144,448 | 153,577 | (9,129) | -5.9% | 2,130,377 | 2,163,294 | (32,917) | -1.5% |
| General Government | 21,240 | 24,619 | (3,380) | -13.7% | 347,880 | 375,561 | (27,681) | -7.4% |
| Property Tax Reimbursements | 14,013 | 45,483 | (31,470) | -69.2% | 1,802,419 | 1,806,573 | (4,155) | -0.2% |
| Debt Service | 9 | 47,318 | (47,309) | -100.0% | 1,343,903 | 1,375,240 | (31,337) | -2.3% |
| **Total Expenditures & ISTV's** | **2,150,449** | **2,389,206** | **(238,757)** | **-10.0%** | **31,727,284** | **32,264,198** | **(536,914)** | **-1.7%** |
| **Transfers Out:** | | | | | | | | |
| BSF Transfer Out | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| Operating Transfer Out | 10,547 | 500 | 10,047 | 2009.5% | 80,034 | 66,014 | 14,020 | 21.2% |
| Temporary Transfer Out | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| **Total Transfers Out** | **10,547** | **500** | **10,047** | **2009.5%** | **80,034** | **66,014** | **14,020** | **21.2%** |
| **Total Fund Uses** | **2,160,996** | **2,389,706** | **(228,710)** | **-9.6%** | **31,807,318** | **32,330,212** | **(522,894)** | **-1.6%** |

7/11/2018

# Table 4

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

| Functional Reporting Categories Description | MONTH JUNE FY 2018 | MONTH JUNE FY 2017 | MONTH $ VAR | MONTH % VAR | YEAR-TO-DATE ACTUAL FY 2018 | YEAR-TO-DATE ACTUAL FY 2017 | YEAR-TO-DATE $ VAR | YEAR-TO-DATE % VAR |
|---|---|---|---|---|---|---|---|---|
| Primary and Secondary Education | 594,665 | 358,935 | 235,730 | 65.7% | 7,993,783 | 7,873,632 | 120,151 | 1.5% |
| Higher Education | 179,680 | 180,625 | (945) | -0.5% | 2,304,821 | 2,294,785 | 10,036 | 0.4% |
| Other Education | 3,811 | 2,969 | 842 | 28.4% | 69,789 | 72,235 | (2,445) | -3.4% |
| Medicaid | 1,138,779 | 1,330,263 | (191,484) | -14.4% | 14,482,515 | 17,437,354 | (2,954,839) | -16.9% |
| Health and Human Services | 53,804 | 37,355 | 16,449 | 44.0% | 1,251,797 | 1,289,584 | (37,788) | -2.9% |
| Justice and Public Protection | 144,448 | 147,587 | (3,139) | -2.1% | 2,130,377 | 2,052,750 | 77,627 | 3.8% |
| General Government | 21,240 | 26,784 | (5,544) | -20.7% | 347,880 | 370,266 | (22,386) | -6.0% |
| Property Tax Reimbursements | 14,013 | 39,943 | (25,930) | -64.9% | 1,802,419 | 1,790,260 | 12,158 | 0.7% |
| Debt Service | 9 | 30,910 | (30,901) | -100.0% | 1,343,903 | 1,322,657 | 21,247 | 1.6% |
| **Total Expenditures & ISTV's** | **2,150,449** | **2,155,370** | **(4,921)** | **-0.2%** | **31,727,284** | **34,503,523** | **(2,776,239)** | **-8.0%** |
| **Transfers Out:** | | | | | | | | |
| BSF Transfer | 0 | 0 | 0 | N/A | 0 | 29,483 | (29,483) | N/A |
| Operating Transfer Out | 10,547 | 8,398 | 2,149 | 25.6% | 80,034 | 281,290 | (201,256) | -71.5% |
| Temporary Transfer Out | 0 | 0 | 0 | N/A | 0 | 0 | 0 | N/A |
| **Total Transfers Out** | **10,547** | **8,398** | **2,149** | **25.6%** | **80,034** | **310,772** | **(230,739)** | **-74.2%** |
| **Total Fund Uses** | **2,160,996** | **2,163,768** | **(2,772)** | **-0.1%** | **31,807,318** | **34,814,295** | **(3,006,978)** | **-8.6%** |

## *FUND BALANCE*

Table 5 describes the General Revenue Fund (GRF) actual ending fund balance for FY 2018 and is based on the actual revenue for FY 2018 and the actual FY 2018 disbursements, transfers, and encumbrances. The GRF ending fund balance for FY 2018 is $849.9 million.

The calculation and disposition of the GRF ending fund balance for FY2018 is governed by the provisions of Ohio Revised Code Section 131.44 and Section 5 of HB 69 of the 132nd General Assembly. After reserving $371.2 million for outstanding encumbrances, the unencumbered ending fund balance includes a carryover balance of 0.5% of FY 2018 GRF revenues, or $162.4 million. Of the remaining amount, $30.0 million is transferred to the Medicaid Local Sales Tax Transition Fund pursuant to Section 5 of HB 69 of the 132nd General Assembly and $657.5 million is transferred to the Budget Stabilization Fund (BSF) pursuant to Ohio Revised Code Section 131.44.

The table below shows the disposition of the FY 2018 ending cash balance.

**Disposition of FY 2018 Ending Cash Balance**
($ in thousands)

| | |
|---|---|
| Ending Cash Balance as of June 30, 2018 | $1,221,040 |
| Less Outstanding Encumbrances | $371,180 |
| Total Unencumbered Cash Balance | $849,859 |
| | |
| Less 0.5% Requirement | $162,356 |
| Actual Surplus Ending Balance | $687,503 |
| | |
| Disposition of Surplus: | |
| Designated End of Year Transfers Out | $30,000 |
| Budget Stabilization Fund Transfers | $657,503 |

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

| | |
|---|---|
| **July 1, 2017 Beginning Cash Balance*** | **$ 557,090** |
| Plus FY 2018 Actual Revenues | 22,812,712 |
| Plus FY 2018 Actual Federal Revenues | 9,469,932 |
| Plus FY 2018 Actual Transfers to GRF | 188,623 |
| **Total Sources Available for Expenditures & Transfers** | **33,028,357** |
| Less FY 2018 Actual Disbursements** | 31,727,284 |
| Less FY 2018 Actual Total Encumbrances as of June 30, 2018 | 371,180 |
| Less FY 2018 Actual Transfers Out | 80,034 |
| **Total Actual Uses** | **32,178,498** |
| **FY 2018 UNENCUMBERED ENDING FUND BALANCE** | **849,859** |

* Includes reservations of $386.2 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 spending against current year appropriations and prior year encumbrances.

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