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July 12, 2016

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

FROM: Timothy S. Keen, Director TK

SUBJECT: Monthly Financial Report

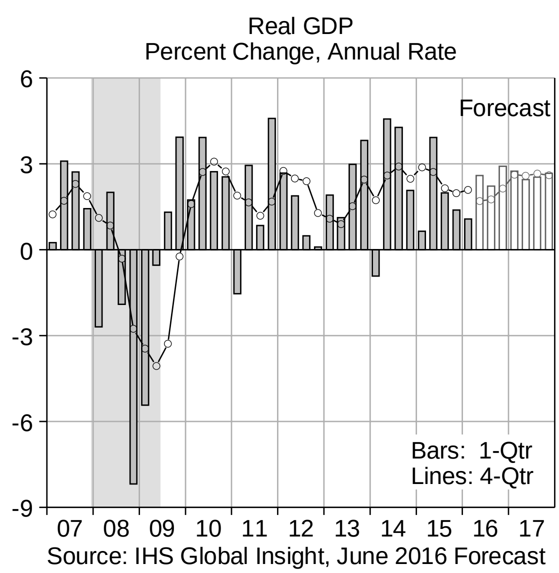
ECONOMIC SUMMARY

Economic Performance Overview

- First-quarter real GDP growth was revised up to 1.1%, but still reflects a slowdown from 1.4% in the fourth quarter. Forecasters call for a moderate pickup in growth during the balance of the year.
- U.S. employment growth rebounded to 287,000 jobs in June. The unemployment rate increased 0.2 points to 4.9%, as more workers entered the labor force without immediately finding jobs.
- Ohio nonfarm payroll employment increased by 9,200 jobs in May. The unemployment rate edged down to 5.1%, or 0.4% higher than the national rate in May.
- The consumer sector remains strong, while manufacturing continues to struggle. Construction activity pulled back in April and May, but the longer-term trend likely remains upward.

Economic Growth

Real GDP growth during the first quarter was revised slightly higher to 1.1%. The first, or "flash" GDP estimate of first quarter growth was 0.5%, the second was 0.8%, and now the third and final estimate is more than double the first estimate. Two things that are notable about the upward progression of the estimates. First, nominal GDP, not adjusted for inflation, went only from 1.2% in the initial estimate to 1.4% in the final estimate. This means that most of the upward adjustment in real GDP was due to lower inflation than originally estimated. Second, the estimate of real gross domestic income (GDI) growth was much higher, at 2.9%, than estimated real GDP growth. This could point to upward revisions in estimated GDP growth later on.



The economy grew 2.1% compared with a year earlier, matching the average since this expansion began in mid-2009. During the fall and winter quarters the economy decelerated to the slowest pace since the beginning of 2013, but key measures indicate that growth likely picked up to around 2.5% in the second quarter.

The increase in first-quarter real GDP primarily reflected increases in personal consumption expenditures (almost all of the growth was in services, not goods), residential fixed investment, and state and local government expenditures. Residential fixed investment (housing) has been a positive contributor to GDP growth in each of the last eight quarters.

Nonresidential fixed investment, private inventory investment, and federal government spending subtracted from growth during the first quarter. Imports, which are automatically included in these individual categories and then subtracted as a separate category, decreased, thus making a positive contribution to real GDP.

The **deceleration in GDP growth during the first quarter** reflected a deceleration in personal consumption expenditures (particularly in goods), a larger decrease in nonresidential fixed investment, and a downturn in federal government spending. Partly offsetting these effects were an upturn in state and local government spending and an acceleration in residential fixed investment. Growth in residential fixed investment has been 10% or more in 5 of the last 8 quarters, and has averaged 9.6% over that period.

Leading economic indicators continued to soften, but remain consistent with uninterrupted growth at a moderate pace through year-end. The Leading Economic Index (LEI) from the Conference Board decreased 0.2% in May, following a 0.6% increase the month before. Seven of the ten components made positive contributions in the most recent month, led by the interest rate spread. The only significant negative contribution came from initial jobless claims, which have since reversed the negative trend. No other components made meaningful contributions.

The year-over-year rate of change in the LEI slipped to 1.2% – the weakest since the stretch from mid-2012 through early 2013. While this is a weak reading, it is still positive, whereas the rate of change in the index regularly has turned negative in advance of recessions in the past. The weakness so far during this cycle appears to be related to manufacturing activity, which has been negatively affected by the strength of the dollar, weaker demand growth overseas, and the sharp pullback in the energy industry. Strength in labor markets and benefits from lower energy costs appear to be bolstering consumer income and spending.

The diffusion of changes in the **Coincident Economic Index** across the states has continued to weaken, indicating more broad-based deterioration in activity across the country. In May, the number of states with positive month-to-month changes fell to 38 – the lowest level since December 2010. The number was as high as all 50 states in September and October of 2014. The number of states for which the index increased over a 3-month span decreased to 42 in May, which also is the lowest since December 2010. The recent patterns over both horizons are not consistent with broadening economic strength across the country, but further deterioration still would be necessary to ring the recession alarm bell.

The **Ohio Leading Economic Index** from the Philadelphia Federal Reserve strengthened to 1.6% in April, which was previously reported as 0.4%, and 2.6% in May. The index is designed to predict the rate of change in the coincident index during the next six months. The recent pattern suggests that growth of the Ohio economy will remain moderate but accelerate somewhat through the summer and fall.

The number of states with a negative **Leading Economic Index** was unchanged at 10 in May, up from none in November 2014 and the highest level since January 2010. Still, the number of negative readings remains below the threshold reached before the three previous recessions. The number of states with negative readings has averaged 15 three months in advance of the most recent three recessions and 23 during the first month of those recessions.

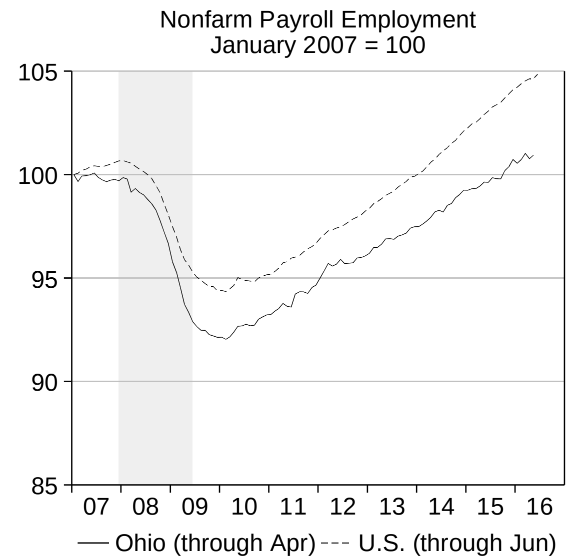
The **consensus of forecasters** is that economic growth will proceed throughout 2016 at a modest pace that is somewhat faster than over the turn of the year. Predictions center on 2.6% for the second quarter, according to a widely followed tracking estimate of GDP that is compiled by the Atlanta Federal Reserve Bank. The Blue Chip consensus is for 2.4%, with the averages of the lowest ten and highest ten forecasts ranging from 1.7% to 3.2%.

Employment

U.S. nonfarm payroll growth picked up in June to 287,000 jobs. The increase followed a downward revision to the May increase by 27,000 to 11,000 and an upward revision to the April change by 21,000 to 144,000. Job growth has averaged 147,000 jobs in the most recent three months, down from a gain of 282,000 during the three months ending last December. During the most recent twelve months, job growth has averaged 204,000 per month.

Employment increases were widespread across sectors, with leisure and hospitality and education and health services each adding 59,000 jobs. Employment in the Information sector increased by 44,000 jobs, most of which reflected the return of 35,000 workers who were not counted as employed in May because they were on strike. Other increases occurred in professional and business services (+38,000), retail (+29,900), and manufacturing (+14,000). Construction employment was unchanged after two monthly declines, and employment decreased in mining and logging (-5,600) and transportation and warehousing (-9,400).

The **unemployment rate** increased by 0.2 points to 4.9%, due to a large influx of workers into the labor force (+414,000), following two months of large declines that had pushed down the unemployment rate. The broadest measure of unemployment – the U-6 unemployment rate – edged down by 0.1 point to a new low for the expansion of 9.6%. The U-6 unemployment rate includes those who want to work but have stopped looking because they believe they cannot find a job, as well as those working part time who desire to work full time. Average hourly earnings rose 0.1% to 2.6% above the year earlier level.



Ohio nonfarm payroll employment increased by 9,200 jobs in May. All of the gains occurred in the service sector, led by educational and health services (+7,900), leisure and hospitality (+3,900), and other services (+2,500). Manufacturing employment decreased by 3,100 jobs – in the fourth consecutive decline – and construction employment declined by 1,300 jobs.

During the twelve months ending in May, Ohio employment increased by 70,900 jobs. Private-sector employment increased by 70,000 jobs, with more than all of the increase (+70,400) coming in services. Goods-producing employment declined by 400 jobs. The largest employment gains occurred in education and health services (+29,800), leisure and hospitality (+17,600), trade, transportation and utilities (+10,800), financial activities (+8,900), other services (+7,500), and construction (+7,400). Year-over-year declines occurred in manufacturing (-4,800), professional and business services (-4,400), and mining and logging (-3,000).

Among the **contiguous states**, year-over-year employment growth was strongest in Michigan (+1.9%), followed by Ohio and Indiana (+1.3%), Kentucky (+1.2%), Pennsylvania (+0.7%), and West Virginia (+0.2%), which posted its first year-over-year increase since June 2015. The year-over-year change in manufacturing employment was strongest in Michigan (+2.0%) and Kentucky (+1.2%), followed by Indiana (+0.1%). Manufacturing employment declined year-over-year in Ohio and Pennsylvania (-0.7%), and West Virginia (-0.8%).

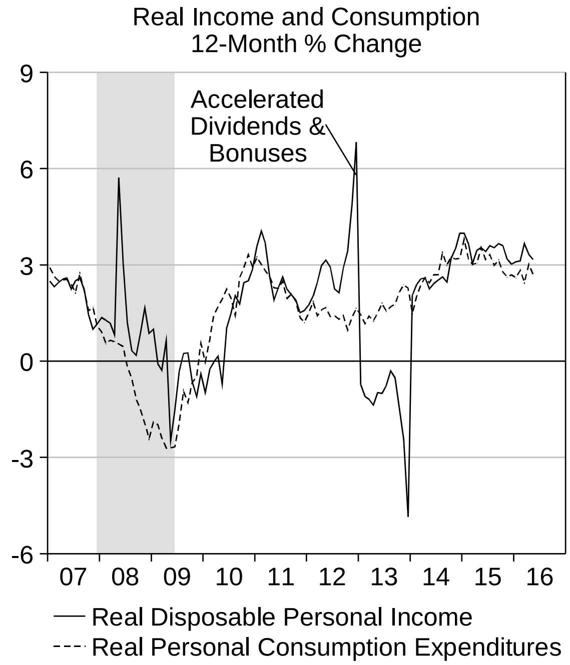
The **Ohio unemployment rate** edged down to 5.1% in May and has been near 5.0% since February. The rate is up 0.5 points from the cyclical low of 4.6% reached last September. The increase during the eight months since the cyclical low resulted from a larger increase in the Ohio labor force (+140,976) than in total employment (+103,914). The unemployment rate was 0.2 points higher than a year earlier.

Across the country in May, the unemployment rate increased by a statistically significant amount in 5 states, decreased in 4 states, and was not statistically different from the month before in 41 states. The unemployment rate was lower than a year earlier by a statistically significant margin in 16 states and meaningfully higher only in Wyoming.

Consumer Income and Consumption

The rebound in personal income during March and April carried into May at a slower pace and continued to show up in personal consumption expenditures. **Personal income** growth slowed to 0.2% in May but the April increase was revised up 0.1 percentage point to 0.5%. **Wage and salary disbursements** – the largest single component of personal income – also increased by

0.2% in May. Owing to the larger increase in spending than in income, the saving rate slipped 0.1 percentage point to 5.3% – the same as last December and in line with the average of 5.0% during the previous three years.



Inflation remains low, providing some support to consumer spending. The **Consumer Price Index** (CPI) increased 0.2% in May after an energy-fueled increase of 0.4% in April. The year-over-year rate of change remained at 1.1%. The price index has increased for three consecutive months after no change on balance between August and February, reflecting the decline in the price of oil over that period, which has since partially reversed.

Excluding the volatile food and energy categories as a means of assessing the underlying trend, the index increased 0.2% in May to 2.2% above its year earlier level. The Median CPI from the Federal Reserve Bank of Cleveland – an alternative measure of the trend in inflation – continued to track a little bit higher at 2.5% year-over-year. The measure of inflation that is most closely watched by the Federal Reserve, the personal consumption expenditure (PCE) deflator excluding food and energy (also known as the "core" PCE deflator) increased 0.2% in May to 1.6% above its year earlier level.

Personal consumption expenditures tacked on 0.4% in May following a 1.1% increase in April that was revised up by 0.1 percentage point – the fastest pace in a 2-month period since July 2005 when auto manufacturers extended employee discounts to the public. Increases were broad-based across categories. Spending on services increased 0.4%, while spending on non-durable goods increased 0.6% and spending on durable goods gained 0.3%. The increase in spending on durable goods essentially matched the 0.2% increase in purchases of **light motor vehicles**. However, in June vehicle sales fell below the 17 million unit annual pace from 17.37 million units in May.

Consumer confidence was largely positive in June. The Conference Board's index jumped from 92.4 to 98.0 – the highest level since last October. Assessments of both current and expected conditions improved. The University of Michigan/Reuters index retreated modestly but still stood at the highest level since June 2015. As with the Conference Board index, expectations were the weakest link, in this case dimming modestly. Assessment of present conditions improved slightly to the highest level since before the 2007-09 recession. What remains the same is that the main indexes are very near or above their averages during past periods of economic expansion, suggesting no imminent obstacles to continued growth in consumer spending.

Manufacturing

Industrial activity languished in May, as industrial production declined by 0.4%. Compared with a year earlier, industrial production was down 1.4% for the ninth straight reading below zero.

Recent patterns reflect continuing headwinds from the strengthening of the dollar during the past five years and the fallout from the big decline in the price of oil during the past two years.

Manufacturing production also decreased 0.4% after rising 0.2% in April and falling 0.4% in March. The index was essentially unchanged in February. Production of motor vehicles led the way with a decrease of 4.2%, but there were few areas of strength across industry groups. Among industries of particular importance to Ohio, primary metals production increased 0.6%, but production of fabricated metal products and machinery declined by 0.3% and 1.0%, respectively.

Mining output advanced 0.2%, ending an 8-month decline that totaled 10.4%. The approximately 50% rebound in the price of oil from February to May might have started to stabilize activity, although much of the May gain resulted from the first increase in coal output since last August. **Utility output** increased 1.0%, reflecting a return to trend after an outsized weather-related jump in April.

Reports from **purchasing managers** indicate that manufacturing production might have picked up during June. The PMI® increased by 0.9 points to 53.2 for the fourth month in a row above the neutral level of 50 and the highest level since February 2015. The important New Orders index increased by 1.3 points to 57.0, while the index for New Export Orders increased by 1.0 points to 53.5. The Production index increased by 2.1 points to 54.7. The Backlog of Orders index jumped 5.2 points to 52.5 and Supplier Deliveries moved up from 54.1 to 55.4.

Of the 18 industries tracked by the Manufacturing ISM® *Report on Business*, 13 reported growth in the latest month. Among the industries with a disproportionate effect on Ohio manufacturing employment, the machinery, fabricated metal products, and primary metals industries all expanded, according to purchasing managers. Activity in the transportation equipment industry contracted.

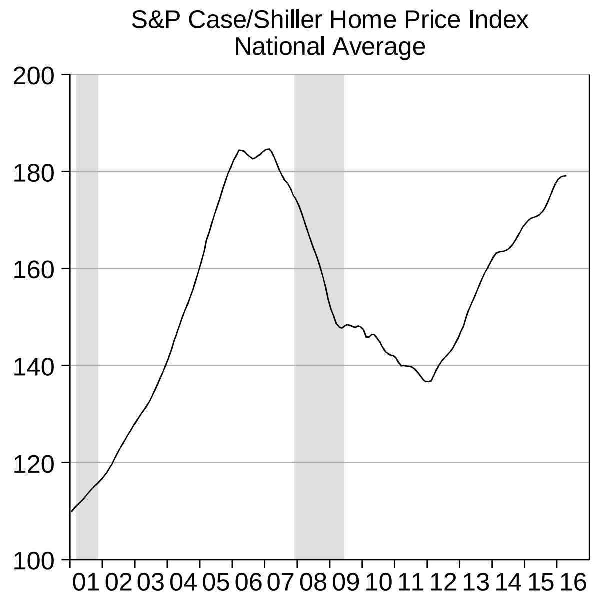
One respondent in the fabricated metal products industry referred to a “very good start of summer for business levels/orders.” A representative of the machinery industry reported that business is “steady with some signs of increase.” A purchasing manager in the transportation industry reported that “business is still good, but slowing slightly.”

Analysts anticipate that the recent rebound in the price of oil and partial retracement of the appreciation of the dollar will support manufacturing activity increasingly as the year progresses. The price of West Texas Intermediate crude has been trading just below 50 dollars per barrel, which is still well below the more than 100 dollars per barrel of mid-2014 but is up approximately 50% from the mid-20s level reached in February. Similarly, the trade-weighted foreign exchange value of the dollar is down about 6% from its peak in January and back to its level of a year ago, although still about 18% higher than two years ago.

Construction

Construction put-in-place decreased for the second month in a row in May, down 0.8% after a revised decline of 2.0% in April. The recent weakness is likely related to timing, as the categories that are source data for GDP increased at a rapid pace in the first quarter. Private construction decreased 0.3%, while public construction sank 2.3%. The setback in total construction put-in-place during May occurred entirely due to a 1.3% contraction in nonresidential construction, as residential construction was essentialy flat on the month. Compared with a year earlier, total construction grew 2.8%, down from 14.7% last September.

The decrease in **private nonresidential** construction put-in-place occurred in both residential (-0.3%) and nonresidential (-0.7%). The decrease in **private residential** construction put-in-place reflected a decrease in single-family construction that outweighed the increase in multi-family construction. Improvements were estimated to be little changed. **Private nonresidential** construction put-in-place decreased 0.7%, primarily reflecting declines in manufacturing (-1.9%), commercial (-1.6%), and education (-4.5%).



Housing starts weakened during the three months ending in May, due to a 3.4% decline in single-family starts that more than offset a 2.8% increase in multi-family starts. The pattern was the same in the Midwest, where a large decline in single-family more than offset a large increase in multi-family, leading to a 2.1% decline in the total. Compared with a year earlier, housing starts across the country were higher by 7.0% and higher by 23.0% in the Midwest on a 3-month moving average basis. The more-forward-looking housing permits data painted a similar picture.

Home sales increased in May on a 3-month moving average basis. Sales of newly built homes were up 1.6% on the month and 7.8% from a year earlier, while sales of existing homes rose 2.9% on the month and 4.1% from a year earlier. Sales of both new and existing homes have been stronger in the Midwest, rising 5.9% and 4.8% on the month, respectively, and 9.4% and 5.6% on the year, respectively. **Home prices** across the country posted their 51st consecutive increase in April, rising by 0.1% to 5.0% above the year earlier level, according to the Case-Shiller index.

Sentiment among home builders increased notably in June after being flat for several months, according to the National Association of Home Builders/Wells Fargo Housing Market Index. Assessments of current conditions improved modestly, while sales prospects improved significantly. In both cases, conditions are somewhat ahead of a year ago. Conditions in the Midwest, however, deteriorated in June to slightly below the year earlier level.

REVENUES

Note: This month's report includes the adjusted monthly and year-to-date revenue estimates that reflect the impacts of S.B. 208 and H.B. 340, which began with January revenue collections. S.B. 208, signed by Governor Kasich on November 15, included reductions in income tax and commercial activity tax revenues. There are also small increases in financial institutions tax revenue that will result from the repeal of a credit in H.B. 340, signed by Governor Kasich on December 22.

June GRF receipts totaled $2,663.5 million and were $131.2 million (4.7%) below the estimate. A $289.4 million positive variance in tax receipts was entirely offset by negative variances in non-tax receipts and transfers of $390.5 million (46.7%) and $30.2 million (21.1%), respectively.

Monthly tax receipts totaled $2,104.7 million and were $289.4 million (15.9%) above the estimate. Non-tax receipts totaled $446.1 million and were $390.5 million (46.7%) below the estimate, while transfers totaled $112.7 million and were $30.2 million or (21.1%) below the estimate. Within the tax revenue category, the domestic insurance tax variance ($238.4 million or 1,632.8%) represents approximately 82% of the overage. The cigarette and other tobacco tax also had a large positive variance of $75.4 million or 98.5%. Both of these June overages were related to changes made in H.B. 64, the biennial budget bill, which amended the payment processes for both taxes and resulted in significant payment amounts being made in June rather than in May as in prior years. These payment timing changes were not reflected in the OBM monthly estimates. The combined May/June revenue for the domestic insurance tax was $8.4 million (3.2%) below the combined estimate, while the cigarette and other tobacco tax was $9.6 million (9.6%) above the combined estimate. These overages were partially offset by lower than anticipated collections in the non-auto sales tax ($47.9 million or 6.1%). Within non-tax receipts federal grants were $388.3 million (47.2%) below the estimate, accounting for nearly the entirety of the June shortfall due to a payment scheduled for June that was instead made in May. Below estimate collections in the license and fees category ($6.3 million or 101.2%) also contributed to the monthly shortfall in non-tax receipts.

Monthly variances by category are summarized in the table below (data are shown as $ in millions).

Individual Revenue Sources Above Estimate		**Individual Revenue Sources Below Estimate**	
Domestic Insurance Tax	$238.4	Federal Grants	($388.3)
Cigarette & Other Tobacco	$75.4	Non-Auto Sales & Use	($47.9)
Personal Income Tax	$13.4	Transfers In - Other	($30.2)
Auto Sales & Use Tax	$8.1	License & Fees	($6.3)
Earnings on Investments	$3.2	Financial Institutions Tax	($3.3)
Kilowatt Hour Tax	$2.6	Commercial Activity Tax	($2.8)
Other Sources Above Estimate	$8.5	Other Sources Below Estimate	($2.1)
Total above	**$349.6**	**Total below**	**($480.9)**

For the fiscal year, tax revenues finished below the estimate, with a shortfall of $213.9 million (1.0%). More than the entirety of the shortfall was in the personal income tax ($217.7 million or 2.7%). Non-tax revenues finished $565.1 million (4.6%) below estimate, with more than the entire shortfall arising from federal grants, which were $587.9 million (4.8%) below estimate. Transfers were $12.3 million (3.7%) below 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	($213.9 million)	-1.0%
Non-tax receipts	Federal grants, earnings on investments, licenses & fees, other income, intrastate transfers	($565.1 million)	-4.6%
Transfers	Budget stabilization, liquor transfers, capital reserve, other	($12.3 million)	-3.7%
TOTAL REVENUE VARIANCE:		**($791.3 million)**	**-2.3%**

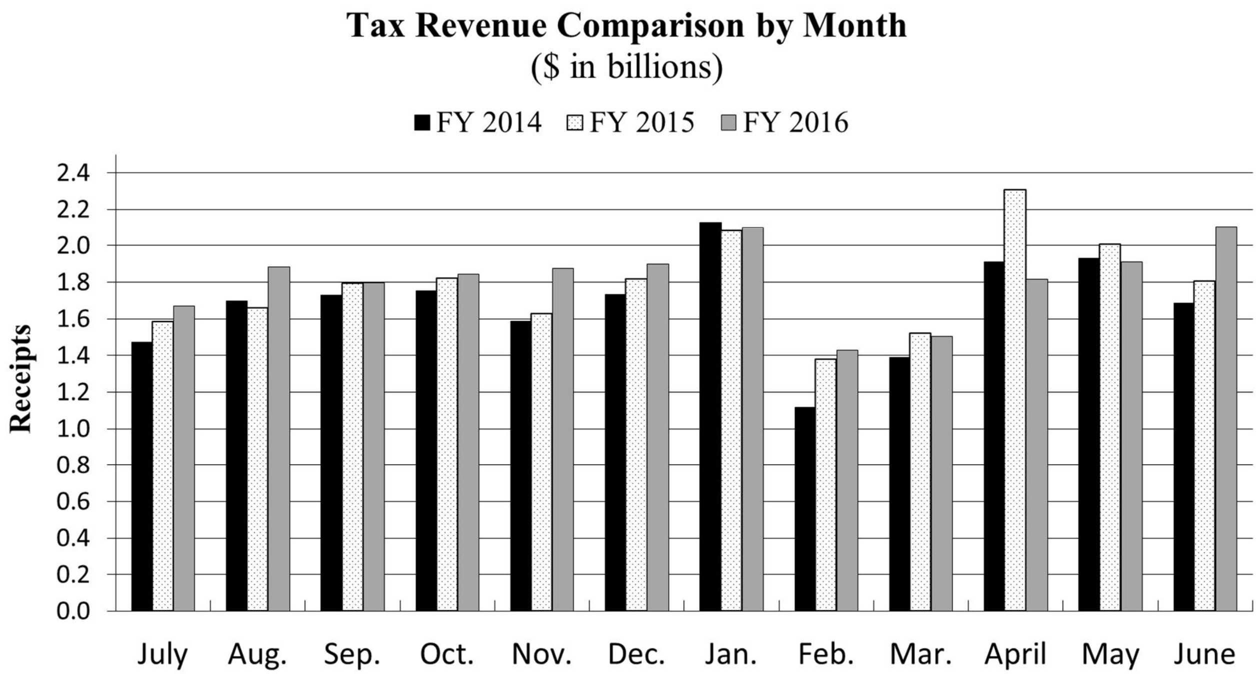
On a year-over-year basis, monthly receipts were $450.3 million (14.5%) lower than June of the previous fiscal year, as a result of the $504.6 million (81.7%) decrease in transfers and the $245.1 million (35.5%) decrease in non-tax receipts. The $299.5 million (16.6%) growth in tax receipts offset part of this decline. The domestic insurance tax ($181.0 million or 251.5%) and the cigarette and other tobacco product tax ($74.1 million or 95.2%) account for approximately 85% of the growth in tax receipts due to the payment date changes discussed previously. Non-auto sales and use tax collections also increased in June relative to last year by $44.7 million (6.5%). However, a decline in the personal income tax of $20.3 million (2.6%) partially offset the growth in other tax categories. A decline in federal grants ($243.6 million or 36.0%) represents nearly the entire decline in the non-tax receipts category.

Total GRF collections for fiscal year 2016 were $2,457.5 million or 7.8% above collections for fiscal year 2015 with nearly all of the growth a result of the increase in non-tax receipts ($2,361.1 million or 25.0%). The $415.7 million (1.9%) growth in tax receipts was the result of increases in non-auto sales and use collections ($358.1 million or 4.1%), the commercial activity tax ($401.3 million or 47.0%), and the cigarette and other tobacco products tax ($199.5 million or 24.7%). A decline in the personal income tax ($707.3 million or 8.3%) partially offset the growth in these other categories. Transfers were also $319.4 million (49.8%) lower than fiscal year 2015.

The increases in the CAT and cigarette and other tobacco taxes are both primarily due to law changes in H.B. 64, the biennial operating budget. Specifically, the commercial activity tax

(CAT) increase is due to the increase to 75% from 50% in the share of CAT receipts going to the GRF. The cigarette tax change is due to the tax rate increase enacted in the biennial budget and the payment of “floor stocks tax” for cigarettes held in inventory prior to the rate increase.

The decline in the income tax is also due to law changes in H.B. 64, where tax rates were reduced by 6.3% and the deduction for the profits of pass-through entities (the small business deduction) was substantially increased.



Personal Income Tax

June personal income tax receipts totaled $776.0 million and were $13.4 million or 1.8% above the estimate. The monthly overage is attributable to overages in withholding ($7.8 million or 1.2%), payments associated with annual returns ($5.7 million or 91.7%), miscellaneous collections ($1.2 million or 13.5%), and lower than anticipated refunds ($22.6 million or 41.7%). A negative variance in quarterly estimated payments ($30.5 million or 17.7%) partially offset the overages in the other components.

Fiscal year 2016 receipts totaled $7,799.3 million and were $217.7 million or 2.7% below the estimate. Negative variances in all personal income tax components contributed to the annual shortfall: payments associated with annual returns ($98.1 million or 12.6%), withholding collections ($64.9 million or 0.8%), refunds ($1.7 million or 0.1%), quarterly estimated payments ($51.7 million or 5.1%), trust payments ($1.9 million or 2.8%), and the miscellaneous category ($8.0 million or 7.2%).

FY2016 PERSONAL INCOME TAX RECEIPTS BY COMPONENT ($ in millions)						
	ESTIMATE JUNE	**ACTUAL JUNE**	**$ VAR JUNE**	**ESTIMATE Y-T-D**	**ACTUAL Y-T-D**	**$ VAR Y-T-D**
Withholding	$662.2	$670.0	$7.8	$8,307.0	$8,242.1	($64.9)
Quarterly Est.	$172.4	$141.9	($30.5)	$1,010.2	$958.5	($51.7)
Trust Payments	$6.5	$6.3	($0.2)	$70.0	$68.0	($2.0)
Annual Returns & 40 P	$6.2	$11.9	$5.7	$779.8	$681.7	($98.1)
Other	$8.9	$10.1	$1.2	$110.0	$102.0	($8.0)
Less: Refunds	($54.2)	($31.6)	$22.6	($1,881.6)	($1,883.3)	($1.7)
Local Distr.	($39.4)	($32.7)	$6.7	($378.4)	($369.7)	$8.7
Net to GRF	**$762.6**	**$775.9**	**$13.3**	**$8,017.0**	**$7,799.3**	**($217.7)**
Detail may not add to total due to rounding						

The fact that both withholding and all of the non-withholding categories of payment were below estimate suggests that both wage and salary income and non-wage income were lower in fiscal year 2016 and tax year 2015, respectively, than the revenue forecasts assumed. Evidence from other states suggests that declines in non-wage income, and in tax revenues based on non-wage income, were fairly widespread in fiscal year 2016. Similarly, while withholding generally grew in the states with income taxes, it grew relatively slowly. As the economic section of this report pointed out numerous times during the year, U.S. employment growth was fairly strong throughout fiscal year 2016 with the exception of a couple of slower months such as May, but wage growth was relatively slow, which may have held down withholding tax collections.

On a year-over-year basis, June 2016 GRF income tax collections were $20.3 million or 2.6% below June 2015 collections. Withholding ($28.1 million or 4.4%) and the miscellaneous category ($2.0 million or 24.6%) experienced year-over-year growth, while refunds ($13.3 million or 29.6%) declined relative to June 2015. Conversely, quarterly estimated payments ($63.1 million or 30.8%) and payments associated with annual returns ($2.8 million or 19.3%) fell below the amount collected in the same month of the previous fiscal year. Trust payments ($0.2 million or 2.9%) also registered small growth in June 2016.

Fiscal year 2016 income tax receipts were $707.3 million or 8.3% below collections in fiscal year 2015. The lower collections are a result of declines in quarterly estimated payments ($137.0 million or 12.5%), payments associated with annual returns ($318.5 million or 31.8%), trust payments ($2.6 million or 3.7%), miscellaneous collections ($5.8 million or 5.4%), and higher refunds ($369.4 million or 24.4%) relative to the previous fiscal year. Employer withholding ($130.2 million or 1.6%) was the only component that exhibited growth this fiscal year.

FY2016 PERSONAL INCOME TAX RECEIPTS GROWTH ($ in millions)			
Income Tax Components	**FY2015**	FY2016	**Year-over-year $ Change**
Withholding	$8,111.9	$8,242.1	$130.2
Quarterly Est.	$1,095.5	$958.5	($137.0)
Trust Payments	$70.6	$68.0	($2.6)
Annual Returns & 40 P	$1,000.2	$681.7	($318.5)
Other	$107.8	$102.0	($5.8)
Less: Refunds	($1,513.90)	($1,883.30)	($369.4)
Local Distr.	($365.50)	($369.70)	($4.2)
Net to GRF	**$8,506.6**	**$7,799.3**	**($707.3)**

The declines in quarterly estimated payments, as well as the shortfalls relative to estimate, were concentrated in the April and June payments, which were the first two payments against anticipated tax year 2016 liability. It is not clear at this point how much of this can be attributed to weakness (real or expected) in non-wage income, and how much can be attributed to changes in taxpayer behavior due to the expansion of the small business deduction.

It is to be expected that income tax collections were negative relative to fiscal year 2015. The decline in collections is partly the result of the reductions in withholding tax rates and overall tax rates, and the increase in the small business (pass-through entity) deduction adopted by H.B. 64, the biennial budget bill. The impact of the 3.1% withholding rate reduction was felt for the last eleven months of the fiscal year, since it went into effect on August 1. The impact of the 6.3% reduction in tax rates and the increase in the small business deduction began to be felt in January, as taxpayers made their fourth quarter estimated payments and also began to file income tax returns for tax year 2015. The rate reduction is also responsible, at least in part, for the decline in annual return payments.

As previously noted, GRF net income tax collections ended the fiscal year $707.3 million, or 8.3%, below last year's level. This annual change is greater than the anticipated $490.0 million, or 5.8%, decrease that was estimated to include the impact of all the H.B. 64 and S.B. 208 income tax reductions. As stated above, the working assumption is that, on top of the law changes that reduced collections in an anticipated way, there was also lower than expected non-wage income that added unanticipated revenue decreases to the anticipated ones.

Non-Auto Sales and Use Tax

June non-auto sales and use tax collections totaled $735.0 million and were $47.9 million (6.1%) below estimate. The June shortfall pushed annual collections $40.8 million, or 0.5%, below estimate. Annual collections had been over estimate in every month of fiscal year 2016 –

admittedly largely on the strength of being well over estimate in July and August – before the surprise June shortfall caused the final tally to fall short.

At first blush it may seem puzzling that June collections were far below estimate, even though they were 6.5% above collections last June. This can be explained by the fact that collections last June were artificially depressed by $55 million, due to the correction of an error last May that erroneously attributed $55 million in domestic insurance tax collections to the non-auto sales tax. When one adjusts for that correction, sales tax revenues this June were actually 1.4% below last year.

For the year, non-auto sales tax collections grew by $358.1 million, or 4.1%, from a year ago. As of the end of January, annual growth was 5.1%, so growth in collections was notably weaker in the last five months of the fiscal year than in the first seven months.

The 4.1% growth for fiscal year 2016 is the lowest growth since fiscal year 2010, which was immediately after the end of the recession. This does not seem to fit particularly well with the data earlier in the report that show consumption growth driving GDP, but that data is in real (inflation-adjusted) terms. The sales tax is, of course, based on actual dollars, and retail inflation has been very low, leading to rather low rates of growth in nominal expenditures. This may be partly responsible for the weak performance of the non-auto tax in the later part of fiscal year 2016. The fall in oil prices may also have hurt sales tax collections based on those business inputs tied to shale oil and gas exploration and drilling that are not exempt from the sales tax.

Auto Sales Tax

The auto sales tax rebounded from its May shortfall with an $8.1 million (7.0%) overage in June. For the year, the auto sales tax was $15.5 million, or 1.2%, above the estimate.

For the year, the auto sales tax increased by $29.7 million, or 2.3%, from a year ago. This is actually somewhat below the increase in national light vehicle sales, which increased by 4.2% in fiscal year 2016 over fiscal year 2015. There are a number of reasons that the auto sales tax may have lagged behind national unit sales. One potential reason that has been mentioned before in this report is that the auto sales tax numbers in Ohio exclude leasing transactions, which are instead counted as non-auto sales because of the mechanism by which those taxes are collected. Interestingly, motor vehicles and parts spending at the national level increased by only 0.9% in the first three quarters of fiscal year 2016 (2016q2 data is not yet available), much less than unit sales increased. Perhaps price competition is also working to keep auto sales tax revenue lower than unit sales data would imply.

Commercial Activity Tax

June CAT collections were $3.1 million, or $2.8 million below estimate. June is always a low collections month, as the final fiscal year payments are due in May and late payments activity in June is light.

For the fiscal year, GRF CAT collections were $1,255.3 million, or $25.6 million (2.0%) below estimate. CAT collections were well below estimate through October, rebounded through March, but fell short again in the last three months of the year. Since payments in April through June are based on January-March activity, the weak first quarter of economic activity presumably weighed down collections. The second quarter rebound should help CAT collections in the first quarter of fiscal year 2017.

Previous issues of this report have mentioned that strong growth in tax credits may have been pushing CAT collections below estimate. Final fiscal year 2016 data suggests that this is one part of the explanation, as credits claimed against the CAT grew by about 20% in fiscal year 2016, from $176 million to $211 million, whereas anticipated credit growth was about 15%. However, it appears that weaker than expected growth in taxable receipts was also a problem, as the unanticipated growth in credits was not enough to explain the CAT shortfall.

Despite the variance from the estimate, GRF CAT revenues increased substantially from fiscal year 2015. Fiscal year 2016 GRF collections increased by $401.3 million, or 47.0%, from the previous fiscal year. This increase is due to the law change in H.B. 64 (the biennial budget bill) that increased the GRF share of total CAT receipts from 50 percent to 75 percent, as the needed funds for property tax replacement payments have declined.

Since GRF CAT revenues are 75% of the total, one would expect GRF and all funds revenues to move essentially in tandem with respect to the estimates, and this is the case. All funds CAT revenues were $35.4 million, or 2.1%, below estimate for the year. Growth from the prior year in all funds CAT revenue was actually negative, at -2.0%. All funds collections declined by $34.8 million from fiscal year 2015. Credits against the CAT grew by $35.3 million, meaning that tax before credits increased by a scant $0.5 million from the year before.

Financial Institutions Tax

Financial institutions tax (FIT) collections were slightly below estimate ($3.3 million) in June, but for the fiscal year were $17.6 million, or 9.0%, above estimate.

Since fiscal year 2016 was only the third fiscal year that this tax was in operation, there is still not much data with which to put the fiscal year 2016 performance in context. One important factor in the overage, however, is that tax credits against the FIT behaved very differently than CAT tax credits. Business development FIT credits actually declined by $13.2 million from fiscal year 2015 to fiscal year 2016, which was not anticipated in the estimate.

Kilowatt Hour Tax

The kilowatt hour tax was $2.6 million above estimate in June, which reduced the fiscal year 2016 shortfall to $11.3 million (-3.2%). Since data on kilowatt hour tax from type of customer – residential, commercial, industrial – is available only with a significant lag, OBM cannot at this time discern which of these types of consumers (or what combination of them) is responsible for the shortfall.

Despite the shortfall, GRF kilowatt hour tax collections grew by $45.7 million, or 15.6%, from fiscal year 2015. This was the result of law changes in H.B. 64 that dedicated 100% of kilowatt hour tax collections (aside from the portion of collections subtracted for the Public Library Fund) to the GRF. As with the CAT, this increased share of collections going to the GRF was tied to the declining obligation for replacement payments for tangible property and electric utility property taxes.

Cigarette and Other Tobacco Products Tax

Cigarette and other tobacco product (OTP) tax collections were $75.4 million above estimate in June, more than making up for the $65.8 million shortfall in May.

As mentioned previously, the May shortfall was attributable to the law change in H.B. 64, the operating budget, that gave taxpayers until June 23 to "settle up" for tax stamps purchased on credit. Under prior law, such settlement was due in May, and so May revenues were generally about double what they were in an average month of the fiscal year. This year, that double revenue month was realized in June rather than May. June revenues were $151.9 million, or not quite twice the $77.8 million average over the July-May period.

For the year, cigarette and OTP revenues were $37.8 million, or 3.9%, above estimate. Revenues increased by $199.5 million, or 24.7%, from the prior year. Most of that increase was in the "regular" cigarette stamp tax, which increased by $180.7 million, or 24.2%, due to a tax rate increase of $0.35 per pack, or 28.0%, adopted in H.B. 64. The cigarette floor stocks tax, imposed on cigarettes held in inventory at the time of the rate increase, brought in $17.5 million, all of which was an increase from fiscal year 2015. Finally, revenues from OTP increased by $1.2 million from fiscal year 2015.

Domestic Insurance Tax

Domestic insurance tax collections in June were $253.0 million, or $238.4 million above estimate. This overage mostly, but not completely, reversed a May shortfall that, similar to the cigarette tax, was due to a H.B. 64 law change that pushed the final payment into June rather than May.

For the fiscal year, domestic insurance tax collections were close to the mark, finishing $6.5 million, or 2.2%, below estimate. It is possible that the shortfall will be made up in the early months of fiscal year 2017, as apparently not all amounts billed were timely paid in fiscal year 2016.

Domestic insurance tax collections grew by $6.6 million, or 2.6%, from the prior year.

GRF Non-Tax Receipts and Transfers

GRF non-tax receipts totaled $446.1 million in June and were $390.5 million (46.7%) below the estimate. Almost all of the June shortfall was in federal grants, which were $388.3 million (or 47.2%) below the estimate. The June shortfall is tied to Medicaid spending being $654.9 million below estimate, as payments that had been scheduled to be made out of the GRF were instead made from hospital assessment revenues, which were received later in the year than originally expected. Below estimate collections in the license and fees category ($6.3 million or 101.2%) also contributed to the monthly shortfall in non-tax receipts.

For the year, non-tax receipts were $565.1 million, or 4.6%, below estimate. More than the total shortfall was in federal grants, which were $587.9 million (4.8%) below estimate. Partially offsetting the federal revenue shortfall, earnings on investments finished $12.7 million above estimate, and other income was $20.6 million above estimate. The other income category finished over estimate largely due to higher than expected liquor profit transfers from JobsOhio to the GRF, due to strong liquor sales.

Transfers in to the GRF were $30.2 million below estimate for the month, although only $12.3 million (3.7%) below estimate for the fiscal year. The variance in transfers for the year was primarily due to transfers of Petroleum Activity Tax (PAT) revenues to the GRF being lower than expected, since PAT total revenues were well below estimate for the year, despite the fact that GRF PAT revenues were slightly above estimate.

Table 1
GENERAL REVENUE FUND RECEIPTS
ACTUAL FY 2016 VS ESTIMATE FY 2016
($ in thousands)

REVENUE SOURCE	MONTH				YEAR-TO-DATE			
	ACTUAL JUNE	ESTIMATE JUNE	$ VAR	% VAR	ACTUAL Y-T-D	ESTIMATE Y-T-D	$ VAR	% VAR
TAX RECEIPTS								
Non-Auto Sales & Use	735,031	782,900	(47,869)	-6.1%	9,001,684	9,042,500	(40,816)	-0.5%
Auto Sales & Use	123,715	115,600	8,115	7.0%	1,346,315	1,330,800	15,515	1.2%
Subtotal Sales & Use	858,747	898,500	(39,753)	-4.4%	10,347,999	10,373,300	(25,301)	-0.2%
Personal Income	775,976	762,600	13,376	1.8%	7,799,334	8,017,000	(217,666)	-2.7%
Corporate Franchise	348	0	348	N/A	33,234	0	33,234	N/A
Financial Institutions Tax	26,235	29,550	(3,315)	-11.2%	213,451	195,900	17,551	9.0%
Commercial Activity Tax	3,061	5,900	(2,839)	-48.1%	1,255,325	1,280,900	(25,575)	-2.0%
Petroleum Activity Tax	1,289	1,000	289	28.9%	6,888	5,900	988	16.7%
Public Utility	1,740	200	1,540	770.1%	103,253	105,400	(2,147)	-2.0%
Kilowatt Hour	21,212	18,600	2,612	14.0%	338,007	349,300	(11,293)	-3.2%
Natural Gas Distribution	13	100	(87)	-86.9%	60,725	68,000	(7,275)	-10.7%
Foreign Insurance	(43)	(2,100)	2,057	98.0%	293,526	300,000	(6,474)	-2.2%
Domestic Insurance	252,994	14,600	238,394	1632.8%	258,276	271,000	(12,724)	-4.7%
Other Business & Property	2,077	0	2,077	N/A	2,176	0	2,176	N/A
Cigarette and Other Tobacco	151,882	76,500	75,382	98.5%	1,007,643	969,800	37,843	3.9%
Alcoholic Beverage	4,938	5,800	(862)	-14.9%	54,446	55,000	(554)	-1.0%
Liquor Gallonage	3,891	4,000	(109)	-2.7%	45,130	44,000	1,130	2.6%
Estate	297	0	297	N/A	2,154	0	2,154	N/A
Total Tax Receipts	2,104,658	1,815,250	289,408	15.9%	21,821,565	22,035,500	(213,935)	-1.0%
NON-TAX RECEIPTS								
Federal Grants	433,528	821,826	(388,299)	-47.2%	11,645,735	12,233,679	(587,945)	-4.8%
Earnings on Investments	8,967	5,750	3,217	56.0%	35,134	22,400	12,734	56.9%
License & Fees	(74)	6,213	(6,287)	-101.2%	56,021	57,000	(979)	-1.7%
Other Income	4,345	2,429	1,916	78.9%	49,617	29,000	20,616	71.1%
ISTV'S	(638)	400	(1,038)	-259.4%	229	9,800	(9,571)	-97.7%
Total Non-Tax Receipts	446,128	836,618	(390,490)	-46.7%	11,786,736	12,351,880	(565,144)	-4.6%
TOTAL REVENUES	2,550,786	2,651,868	(101,082)	-3.8%	33,608,301	34,387,380	(779,079)	-2.3%
TRANSFERS								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Liquor Transfers	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	112,735	142,900	(30,165)	-21.1%	322,243	334,500	(12,257)	-3.7%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	112,735	142,900	(30,165)	-21.1%	322,243	334,500	(12,257)	-3.7%
TOTAL SOURCES	2,663,521	2,794,768	(131,247)	-4.7%	33,930,544	34,721,880	(791,336)	-2.3%

Table 2
GENERAL REVENUE FUND RECEIPTS
ACTUAL FY 2016 VS ACTUAL FY 2015
($ in thousands)

	MONTH				YEAR-TO-DATE			
REVENUE SOURCE	JUNE FY 2016	JUNE FY 2015	$ VAR	% VAR	ACTUAL FY 2016	ACTUAL FY 2015	$ VAR	% VAR
TAX RECEIPTS								
Non-Auto Sales & Use	735,031	690,306	44,726	6.5%	9,001,684	8,643,630	358,054	4.1%
Auto Sales & Use	123,715	124,942	(1,227)	-1.0%	1,346,315	1,316,600	29,715	2.3%
Subtotal Sales & Use	858,747	815,248	43,499	5.3%	10,347,999	9,960,230	387,769	3.9%
Personal Income	775,976	796,319	(20,343)	-2.6%	7,799,334	8,506,665	(707,332)	-8.3%
Corporate Franchise	348	1,126	(778)	-69.1%	33,234	2,496	30,738	1231.6%
Financial Institutions Tax	26,235	28,755	(2,520)	-8.8%	213,451	182,134	31,317	17.2%
Commercial Activity Tax	3,061	3,926	(865)	-22.0%	1,255,325	853,987	401,338	47.0%
Petroleum Activity Tax	1,289	1,097	192	17.5%	6,888	5,533	1,354	24.5%
Public Utility	1,740	559	1,181	211.2%	103,253	97,473	5,780	5.9%
Kilowatt Hour	21,212	16,388	4,824	29.4%	338,007	292,327	45,680	15.6%
Natural Gas Distribution	13	83	(70)	-84.2%	60,725	74,735	(14,011)	-18.7%
Foreign Insurance	(43)	(17,911)	17,868	99.8%	293,526	266,627	26,899	10.1%
Domestic Insurance	252,994	71,980	181,015	251.5%	258,276	251,647	6,628	2.6%
Other Business & Property	2,077	293	1,784	608.5%	2,176	794	1,381	173.9%
Cigarette and Other Tobacco	151,882	77,815	74,067	95.2%	1,007,643	808,164	199,479	24.7%
Alcoholic Beverage	4,938	5,598	(660)	-11.8%	54,446	56,574	(2,128)	-3.8%
Liquor Gallonage	3,891	3,855	37	0.9%	45,130	43,365	1,765	4.1%
Estate	297	43	254	583.5%	2,154	3,071	(917)	-29.9%
Total Tax Receipts	2,104,658	1,805,175	299,484	16.6%	21,821,565	21,405,823	415,742	1.9%
NON-TAX RECEIPTS								
Federal Grants	433,528	677,146	(243,618)	-36.0%	11,645,735	9,301,325	2,344,410	25.2%
Earnings on Investments	8,967	5,244	3,723	71.0%	35,134	23,141	11,993	51.8%
License & Fee	(74)	504	(578)	-114.7%	56,021	57,519	(1,498)	-2.6%
Other Income	4,345	8,461	(4,116)	-48.6%	49,617	33,647	15,969	47.5%
ISTV'S	(638)	(79)	(559)	-711.3%	229	10,005	(9,776)	-97.7%
Total Non-Tax Receipts	446,128	691,276	(245,148)	-35.5%	11,786,736	9,425,637	2,361,099	25.0%
TOTAL REVENUES	2,550,786	2,496,450	54,336	2.2%	33,608,301	30,831,460	2,776,841	9.0%
TRANSFERS								
Budget Stabilization	0	0	0	N/A	0	0	0	N/A
Liquor Transfers	0	0	0	N/A	0	0	0	N/A
Transfers In - Other	112,735	617,356	(504,621)	-81.7%	322,243	641,628	(319,385)	-49.8%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	112,735	617,356	(504,621)	-81.7%	322,243	641,628	(319,385)	-49.8%
TOTAL SOURCES	2,663,521	3,113,806	(450,285)	-14.5%	33,930,544	31,473,088	2,457,456	7.8%

DISBURSEMENTS

June GRF disbursements, across all uses, totaled $1,255.9 million and were $836.0 million (40.0%) below estimate. This was primarily attributable to lower than estimated disbursements in the Medicaid and Property Tax Reimbursements categories being partially offset by higher than estimated disbursements in the Primary and Secondary Education and Health and Human Services categories. On a year-over-year basis, June total uses were $576.4 million (31.5%) lower than those of the same month in the previous fiscal year. Year-to-date variances by category are provided in the table below. While fiscal year 2016 disbursements were $1,136.0 million (3.2%) below the estimate, it is important to note that the disbursement estimates only consider expected spending within the fiscal year. In addition to disbursements, agencies are also permitted to encumber resources for obligations incurred in fiscal year 2016. Actual fiscal year 2016 encumbrances were $428.6 million versus an estimate of $339.1 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)	($1,180.9 million)	-3.4%
Transfers	Temporary or permanent transfers out of the GRF that are not agency expenditures	$44.9 million	5.5%
TOTAL DISBURSEMENTS VARIANCE:		**($1,136.0 million)**	**-3.2%**

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

Primary and Secondary Education

This category contains GRF spending for the Ohio Department of Education, minus property tax reimbursements. June disbursements for this category totaled $337.0 million and were $22.1 million (7.0%) above estimate. Expenditures for the school foundation program totaled $297.7 million and were $17.1 million (6.1%) above estimate. This variance was primarily attributable to the timing of payments in the foundation funding line item due to a $40 million payment for catastrophic cost reimbursement estimated to occur in May that disbursed in June.

Actual fiscal year 2016 disbursements were $7,555.9 million, which was $74.5 million (1.0%) below estimate and $309.4 million (4.3%) higher than fiscal year 2015. On a year-over-year basis, disbursements in this category were $12.2 million (3.7%) higher than for the same month in the previous fiscal year. Including encumbrances, fiscal year 2016 obligations (disbursements plus encumbrances) totaled $7,709.9 million and were $4.4 million (0.1%) below the estimate. The fiscal year 2016 obligations total reflects encumbrances of $153.9 million made by the Department of Education for payments that will be made against fiscal year 2016 funds in fiscal year 2017. 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, totaled $181.6 million and were $8.0 million (4.6%) above estimate for the month. The majority of the monthly variance was the result of spending in the National Guard Tuition Grant Program that was above the monthly estimates by $6.8 million due to the timing of requests for reimbursement from higher education institutions. In addition, Choose Ohio First Scholarship Program disbursements were above the monthly estimates by $1.7 million as a result of higher than expected requests for reimbursement from higher education institutions.

Actual fiscal year 2016 disbursements were $2,222.8 million, which was $12.5 million (0.6%) below the estimate and $83.2 million (3.9%) higher than in fiscal year 2015. On a year-over-year basis, disbursements in this category were $10.9 million (6.4%) higher than for the same month in the previous fiscal year. Including encumbrances, fiscal year 2016 obligations (disbursements plus encumbrances) totaled $2,243.1 million and were $9.4 million (0.4%) below the estimate. The fiscal year 2016 obligations total reflects encumbrances of $20.3 million made by the Department of Higher Education for payments that will be made against fiscal year 2016 funds in fiscal year 2017.

Other Education

This category includes non-debt service 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 $3.5 million and were $1.1 million (24.3%) below estimate. Actual fiscal year 2016 disbursements were $68.2 million, which was $0.2 million (0.3%) below estimate and $15.2 million (28.8%) higher than in fiscal year 2015. On a year-over-year basis, disbursements in this category were $1.3 million (56.7%) higher than for the same month in the previous fiscal year. Including encumbrances, fiscal year 2016 obligations (disbursements plus encumbrances) for the category totaled $78.8 million and were $0.3 million (0.4%) below the estimate. The fiscal year 2016 obligations total reflects encumbrances of $10.7 million made by agencies within the category for payments that will be made against fiscal year 2016 funds in fiscal year 2017.

Medicaid

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

Please note that beginning in fiscal year 2016 Medicaid GRF disbursements include expenditures related to persons enrolled under the “Group 8” expansion program that were previously funded from non-GRF sources. Although these persons were 100% federally-funded during fiscal year 2016, during the last six months of the biennium the state will be required to assume five percent of their costs. For this reason the costs and related federal reimbursement for these persons were shifted into the GRF for the biennium.

Expenditures

June GRF disbursements for the Medicaid Program totaled $390.1 million and were $654.9 million (62.7%) below the estimate, and $476.6 million (55.0%) below disbursements for the same month in the previous fiscal year. This variance is largely attributable to a delay in the receipt of non-GRF hospital assessment revenue that temporarily shifted spending to the GRF in prior months, but was reversed in June when hospital assessments were collected and spending shifted back to the non-GRF funds. Actual fiscal year 2016 GRF disbursements totaled $16,995.9 million and were $925.9 million (5.2%) below the estimate, and $2,132.6 million (14.3%) higher than fiscal year 2015. This year-over-year increase is largely attributed to the shifting of expenditures for persons enrolled under the “Group 8” expansion program to the GRF. Including encumbrances, fiscal year 2016 GRF obligations (disbursement plus encumbrances) totaled $17,071.9 million and were $953.7 million (5.6%) below the estimate. The fiscal year 2016 GRF obligations total reflects encumbrance of $76.0 million made by Medicaid agencies for payments that will be made against fiscal year 2016 funds in fiscal year 2017.

June all funds disbursements for the Medicaid Program totaled $2,995.6 million and were $973.9 million (48.2%) above the estimate, and $1,093.6 million (57.5%) higher than fiscal year 2015. Actual fiscal year 2016 all funds disbursements totaled $25,293.8 million and were $1,265.8 million (4.8%) below the estimate, and $1,826.8 million (7.8%) higher than fiscal year 2015. Including encumbrances, fiscal year 2016 all funds obligations (disbursement plus encumbrances) totaled $25,770.4 million and were $1,324.1 million (5.1%) below the estimate. The fiscal year 2016 all funds obligations total reflects encumbrance of $476.5 million made by Medicaid agencies for payments that will be made against fiscal year 2016 funds in fiscal year 2017.

The June all funds variance was primarily attributable to payments to hospitals through the Hospital Upper Payment Limit (UPL) Program and the Hospital Care Assurance Program (HCAP). The UPL program reimburses hospitals for allowable costs that exceed the amount which would be paid by Medicare. HCAP compensates hospitals that provide a disproportionally high amount of uncompensated care. These payments had been scheduled in prior months, but were delayed until June pending the collection of the hospital assessments described above, which were delayed while the state awaited federal approval for program changes. This variance was partially offset by savings from lower-than-expected enrollment, notably in the more expensive Aged, Blind, and Disabled category, as well as lower-than-projected managed care rates that went into effect in January.

The fiscal year 2016 all funds variance results from below estimate spending on both services and administration. Underspending on services was driven by below estimate enrollment and managed care rates. Spending in program administration, primarily related to information technology improvement projects, was below estimate for the year.

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	$ 390.1	$ 1,045.0	$ (654.9)	-62.7%
Non-GRF	$ 2,605.5	$ 976.6	$ 1,628.9	166.8%
All Funds	$ 2,995.6	$ 2,021.7	$ 973.9	48.2%

<u>Enrollment</u>
Total June enrollment across all categories was 3.00 million. The most significant components are the Covered Families and Children/Modified Adjusted Gross Income (CFC/MAGI) category, which decreased by 8,314 persons to a June total of 2.47 million persons, and the Aged, Blind and Disabled/Dual Eligible (ABD/Dual) category, which decreased by 2,656 persons to a June total of 369,392 covered lives.

Total enrollment across all categories for the same period last year was 3.07 million covered persons, including 2.48 million persons in the CFC/MAGI category and 407,351 people in the ABD/Dual category.

Please note that these data are subject to revision.

Health and Human Services

This category includes non-debt service GRF expenditures for the following state agencies: Job and Family Services, Health, Aging, Developmental Disabilities, Mental Health and Addiction Services, and others. Examples of expenditures in this category include: child care, TANF, administration of the state's psychiatric hospitals, operating subsidies to county boards of developmental disabilities, various immunization programs, and Ohio's long term care ombudsman program. To the extent that these agencies spend GRF to support Medicaid services, that spending is reflected in the previous category.

June disbursements in this category totaled $73.9 million and were $19.7 million (36.2%) above estimate for the month. Actual fiscal year 2016 disbursements were $1,283.6 million, which was $59.7 million (4.4%) below estimate and $33.8 million (2.7%) higher than in fiscal year 2015. On a year-over-year basis, disbursements in this category were $23.4 million (46.5%) higher than for the same month in the previous fiscal year. Including encumbrances, fiscal year 2016 obligations (disbursements plus encumbrances) for the category totaled $1,358.1 million and were $28.7 million (2.1%) below the estimate. The fiscal year 2016 obligations total reflects encumbrances of $74.5 million made by agencies within the category for payments that will be made against fiscal year 2016 funds in fiscal year 2017.

Department of Health

June disbursements for the Department of Health totaled $10.9 million and were $4.9 million (81.5%) above estimate for the month. This variance was primarily attributable to AIDS Prevention & Treatment disbursements being $2.1 million (485.9%) above estimate and Federally Qualified Health Centers disbursements being $1.2 million above estimate due to subsidy payments distributed later in the fiscal year than originally estimated. Including encumbrances, fiscal year 2016 obligations (disbursements plus encumbrances) totaled $94.4 million and were $4.6 million (5.2%) above the estimate. The fiscal year 2016 obligations total reflects encumbrances of $13.9 million made by the Department of Health for payments that will be made against fiscal year 2016 funds in fiscal year 2017.

Department of Job and Family Services

June disbursements for the Department of Job and Family Services totaled $37.7 million and were $5.2 million (16.1%) above estimate. This variance was primarily attributable to several lines. First, Unemployment Insurance Administration disbursements were $3.3 million (306.1%) above estimate due to a shift of expenditures from prior months. Second, Early Care and Education disbursements were $3.1 million (140.3%) above estimate due to higher than estimated TANF-eligible child care services. Third, Information Technology Projects were $2.6 million (64.3%) above estimate due to the timing of DAS invoices and a shift of IT payroll expenditures from two federal workforce grants to the GRF. Fourth, Program Support disbursements were $1.6 million (92.2%) above estimate due to disbursements for the Dave Thomas Wendy's Wonderful Kids program and an audit settlement payment which were not originally estimated for June. These variances were partially offset by TANF State/Maintenance of Effort disbursements which were $3.7 million (36.3%) below estimate due to a change in the disbursement schedule in order to meet TANF MOE. Including encumbrances, fiscal year 2016 obligations (disbursements plus encumbrances) totaled $751.3 million and were $21.3 million (2.8%) below estimate. The fiscal year 2016 obligations total reflects encumbrances of $39.4 million that will be made against fiscal year 2016 funds in fiscal year 2017.

Department of Mental Health and Addiction Services

June disbursements for the Department of Mental Health and Addiction Services totaled $19.4 million and were $7.5 million (63.2%) above estimate. This variance was attributable to the following: the Addiction Services Partnership with the Department of Rehabilitation and Corrections being $4.1 million (308.8%) above estimate due to the timing of a payment made for the Community Transitions Program; Criminal Justice Services being $2.2 million above estimate due to the timing of a payment made to counties in the Addiction Treatment Program; Continuum of Care Services being $1.4 million above estimate due to a later than expected transfer of funds to Ohio Pharmacy Services for the purchase of prescription drugs; and Residential State Supplement being $1.0 million above estimate. The variance was partially offset by spending in Hospital Services, which was below the monthly estimate by $1.5 million (15.7%) due to increases in overall hospital services payments. Including encumbrances, fiscal year 2016 obligations (disbursements plus encumbrances) totaled $370.5 million and were $5.2 million (1.4%) below the estimate. The fiscal year 2016 obligations total reflects encumbrances of $14.9 million made by the Department of Mental Health and Addiction Services for payments that will be made against fiscal year 2016 funds in fiscal year 2017.

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 $138.6 million and were $0.6 million (0.5%) below estimate for the month. Actual fiscal year 2016 disbursements were $1,983.8 million, which was $1.3 million (0.1%) above estimate and $133.5 million (7.2%) higher than in fiscal year 2015. On a year-over-year basis, disbursements in this category were $10.3 million (8.0%) higher than for the same month in the previous fiscal year. Including encumbrances, fiscal year 2016 obligations (disbursements plus encumbrances) for the category totaled $2,024.7 million and were $2.0 million (0.1%) above the estimate. The fiscal year 2016 obligations total reflects encumbrances of $41.0 million made by agencies within the category for payments that will be made against fiscal year 2016 funds in fiscal year 2017.

Department of Rehabilitation & Correction

June disbursements for the Department of Rehabilitation and Correction totaled $100.6 million and were $2.3 million (2.3%) below estimate. This variance was primarily attributable to lower than estimated disbursements for Institutional Operations due to the timing of payments. Additionally, payments for Community Nonresidential Programs were below estimate due to an agency-requested transfer of appropriation earlier in the fiscal year. Including encumbrances, fiscal year 2016 obligations (disbursements plus encumbrances) totaled $1,556.9 million and were $3.7 million (0.2%) above estimate. The fiscal year 2016 obligations total reflects encumbrances of $31.1 million that will be made against fiscal year 2016 funds in fiscal year 2017.

Department of Youth Services

June disbursements for the Department of Youth Services totaled $19.7 million and were $3.5 million (21.6%) above estimate. This variance was primarily attributable to greater than estimated disbursements for RECLAIM Ohio due to the timing of payments for Community Corrections Facilities and other community subsidies. Including encumbrances, fiscal year 2016 obligations (disbursements plus encumbrances) totaled $195.9 million and were $1.2 million (0.6%) below estimate. The fiscal year 2016 obligations total reflects encumbrances of $4.4 million that will be made against fiscal year 2016 funds in fiscal year 2017.

Public Defender Commission

June disbursements for the Public Defender Commission totaled $0.7 million and were $2.3 million (76.9%) below estimate. This variance was primarily attributable to the timing of disbursements for County Reimbursement payments, which were planned for June but were processed in May. Including encumbrances, fiscal year 2016 obligations (disbursements plus encumbrances) totaled $27.6 million and were $0.7 million (2.3%) below estimate. The fiscal year 2016 obligations total reflects encumbrances of $0.1 million that will be made against fiscal year 2016 funds in fiscal year 2017.

General Government

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

June disbursements in this category totaled $26.6 million and were $0.2 million (0.9%) below estimate. Actual fiscal year 2016 disbursements were $362.4 million, which was $25.3 million (6.5%) below estimate and $22.2 million (6.5%) higher than in fiscal year 2015. On a year-over-year basis, disbursements in this category were $6.2 million (30.3%) higher than for the same month in the previous fiscal year. Including encumbrances, fiscal year 2016 obligations (disbursements plus encumbrances) for the category totaled $414.6 million and were $11.8 million (2.8%) below the estimate. The fiscal year 2016 obligations total reflects encumbrances of $52.2 million made by agencies within the category for payments that will be made against fiscal year 2016 funds in fiscal year 2017.

Department of Natural Resources

June disbursements for the Department of Natural Resources totaled $4.2 million and were $2.5 million (149.8%) above estimate. This variance was primarily attributable to Parks and Recreation disbursements being $1.5 million above estimate due to the timing of hiring personnel for the summer season. Including encumbrances, fiscal year 2016 obligations (disbursements plus encumbrances) totaled $52.2 million and were $0.9 million (1.7%) above the estimate. The fiscal year 2016 obligations total reflects encumbrances of $0.6 million made by the Department of Natural Resources for payments that will be made against fiscal year 2016 funds in fiscal year 2017.

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 $28.2 million and were $246.4 million (89.7%) below estimate. Fiscal year 2016 disbursements totaled $1,786.7 million and were $59.8 million (3.2%) below estimate. This modest underspending is primarily attributable to conservative disbursement estimates. Based on preliminary data from the Department of Taxation, it appears that all three of the property tax relief programs – the 10.0% credit (non-business credit), the 2.5% credit (owner occupancy credit), and the homestead exemption, were below estimate in fiscal year 2016. Most of the variance was in the 10.0% credit, which is allowed for all non-business real property. One of the reasons for the 10.0% credit costing less than estimated is that taxes charged, against which the 10.0% credit is applied, were less than estimated, largely because effective tax rates charged against real property actually declined in tax year 2015 rather than increasing as expected by the estimates.

Debt Service

June payments for debt service totaled $57.1 million and were $1.3 million (2.4%) above estimate. Fiscal year 2016 disbursements totaled $1,333.9 million and were $24.3 million (1.8%) below estimate. The fiscal year 2016 variance is primarily attributable to refunding savings and continued low market interest rates.

Table 3

GENERAL REVENUE FUND DISBURSEMENTS
ACTUAL FY 2016 VS ESTIMATE FY 2016
($ in thousands)

Functional Reporting Categories Description	MONTH ACTUAL JUNE	MONTH ESTIMATED JUNE	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	337,033	314,971	22,062	7.0%	7,555,949	7,630,489	(74,541)	-1.0%
Higher Education	181,562	173,612	7,950	4.6%	2,222,774	2,235,239	(12,466)	-0.6%
Other Education	3,470	4,581	(1,111)	-24.3%	68,153	68,339	(186)	-0.3%
Medicaid	390,088	1,045,032	(654,944)	-62.7%	16,995,860	17,921,724	(925,864)	-5.2%
Health and Human Services	73,880	54,226	19,654	36.2%	1,283,641	1,343,369	(59,728)	-4.4%
Justice and Public Protection	138,639	139,280	(640)	-0.5%	1,983,765	1,982,473	1,291	0.1%
General Government	26,624	26,853	(229)	-0.9%	362,353	387,679	(25,325)	-6.5%
Property Tax Reimbursements	28,242	274,609	(246,367)	-89.7%	1,786,704	1,846,500	(59,796)	-3.2%
Capital Outlay	0	20	(20)	N/A	0	20	(20)	N/A
Debt Service	57,055	55,734	1,321	2.4%	1,333,866	1,358,161	(24,295)	-1.8%
Total Expenditures & ISTV's	1,236,593	2,088,918	(852,325)	-40.8%	33,593,065	34,773,994	(1,180,929)	-3.4%
Transfers Out:								
BSF Transfer Out	0	0	0	N/A	425,500	425,500	0	0.0%
Operating Transfer Out	19,304	3,000	16,304	543.5%	430,331	385,431	44,900	11.6%
Temporary Transfer Out	0	0	0	N/A	0	0	0	N/A
Total Transfers Out	19,304	3,000	16,304	543.47%	855,831	810,931	44,900	5.5%
Total Fund Uses	1,255,898	2,091,918	(836,021)	-40.0%	34,448,896	35,584,925	(1,136,029)	-3.2%

Table 4

GENERAL REVENUE FUND DISBURSEMENTS
ACTUAL FY 2016 VS ACTUAL FY 2015
($ in thousands)

Functional Reporting Categories Description	MONTH JUNE FY 2016	MONTH JUNE FY 2015	MONTH $ VAR	MONTH % VAR	YEAR-TO-DATE ACTUAL FY 2016	YEAR-TO-DATE ACTUAL FY 2015	YEAR-TO-DATE $ VAR	YEAR-TO-DATE % VAR
Primary and Secondary Education	337,033	324,868	12,165	3.7%	7,555,949	7,246,517	309,432	4.3%
Higher Education	181,562	170,647	10,915	6.4%	2,222,774	2,139,555	83,219	3.9%
Other Education	3,470	2,214	1,256	56.7%	68,153	52,934	15,219	28.8%
Medicaid	390,088	866,686	(476,598)	-55.0%	16,995,860	14,863,212	2,132,649	14.3%
Health and Human Services	73,880	50,445	23,435	46.5%	1,283,641	1,249,822	33,819	2.7%
Justice and Public Protection	138,639	128,317	10,323	8.0%	1,983,765	1,850,280	133,485	7.2%
General Government	26,624	20,430	6,194	30.3%	362,353	340,119	22,234	6.5%
Property Tax Reimbursements	28,242	215,190	(186,947)	-86.9%	1,786,704	1,801,479	(14,775)	-0.8%
Capital Outlay	0	0	0	N/A	0	0	0	N/A
Debt Service	57,055	48,899	8,157	16.7%	1,333,866	1,287,681	46,185	3.6%
Total Expenditures & ISTV's	1,236,593	1,827,695	(591,102)	-32.3%	33,593,065	30,831,598	2,761,466	9.0%
Transfers Out:								
BSF Transfer	0	0	0	N/A	425,500	0	425,500	N/A
Operating Transfer Out	19,304	4,614	14,690	318.4%	430,331	629,876	(199,545)	-31.7%
Temporary Transfer Out	0	0	0	N/A	0	0	0	N/A
Total Transfers Out	19,304	4,614	14,690	318.4%	855,831	629,876	225,955	35.9%
Total Fund Uses	1,255,898	1,832,309	(576,412)	-31.5%	34,448,896	31,461,475	2,987,421	9.5%

FUND BALANCE

Table 5 describes the General Revenue Fund (GRF) ending fund balance for FY 2016 and is based on the actual revenue for FY 2016 and the actual FY 2016 disbursements, transfers, and encumbrances. The GRF ending fund balance for FY 2016 is $764.7 million.

The calculation and disposition of the GRF ending fund balance is governed by the provisions of Ohio Revised Code Section 131.44 and Section 515.10 of H.B. 390 of the 131st General Assembly. The ending balance carried forward into FY 2017 will support FY 2017 budgeted appropriations and transfers, including $275.0 million in non-recurring transfers, and provide for a FY 2017 GRF ending balance. The FY 2017 ending balance is expected to exceed the target of 0.5% of the previous year's revenue. The specific amounts attributed to each element will not be known until FY 2017 revenue revisions and disbursement estimates are completed for inclusion in the August Monthly Financial Report.

Table 5
FUND BALANCE
GENERAL REVENUE FUND
FISCAL YEAR 2016
($ in thousands)

July 1, 2015 Beginning Cash Balance*	**$ 1,711,679**
Plus FY 2016 Actual Revenues	21,962,567
Plus FY 2016 Actual Federal Revenues	11,645,735
Plus FY 2016 Actual Transfers to GRF	322,243
Total Sources Available for Expenditure & Transfer	**35,642,224**
Less FY 2016 Actual Disbursements**	33,593,065
Less FY 2016 Actual Total Encumbrances as of June 30, 2016	428,603
Less FY 2016 Actual Transfers Out	855,831
Total Actual Uses	**34,877,499**
FY 2016 UNENCUMBERED ENDING FUND BALANCE	**764,725**

* Included reservations of $425.2 million for prior year encumbrances and $736.1 million for transfers from the fiscal year 2015 ending balance executed during fiscal year 2016. After accounting for these amounts, the estimated unencumbered beginning fund balance for fiscal year 2016 was $550.4 million.

** Disbursements include actual spending against fiscal year 2016 appropriations and prior year encumbrances.

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