OBM

February 13, 2017

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

FROM: Timothy S. Keen, Director TK

SUBJECT: Monthly Financial Report

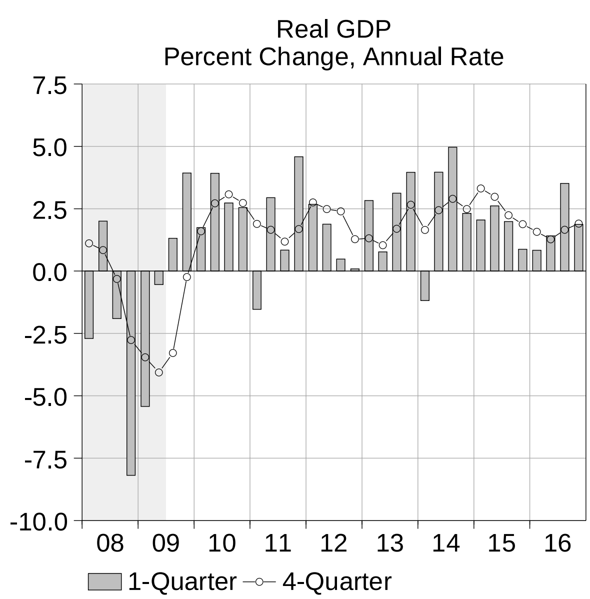
ECONOMIC SUMMARY

Economic Performance Overview

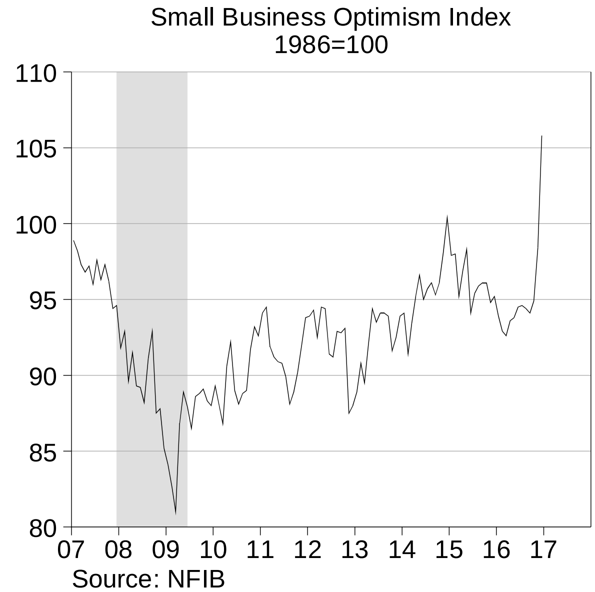
- Economic growth slowed to 1.9% in the fourth quarter and 1.6% for all of 2016. Forecasters project growth of 2% to 2.5% during 2017.
- U.S. employment increased by 227,000 jobs in January for a 3-month average of 183,000 jobs. The unemployment rate edged up 0.1 point to 4.8%.
- Ohio nonfarm payroll employment increased by 10,300 jobs in December and 41,800 for all of 2016. The unemployment rate was unchanged at 4.9%.
- Leading indicators point toward continued growth at a modest pace, fueled by a healthy household sector, possibly accompanied by some revival in investment. The uncertain timing and extent of policy changes in Washington, D.C. have widened the array of likely scenarios for future economic activity.

Economic Growth

Real GDP expanded at a 1.9% pace in the fourth quarter after a 3.5% rate of growth in the third quarter. For the entire year, real GDP increased only 1.6% from 2015, matching the slowest annual rate of increase during this expansion, which began in mid-2009. Economic growth has averaged 2.1% at an annual rate during the 30 quarters since the beginning of the current expansion. In contrast, growth averaged more than 4% during the other three expansions that lasted at least as long.



The **increase in fourth-quarter** real GDP primarily reflected an increase in personal consumption expenditures for both goods and services, particularly recreational goods and vehicles, motor vehicles and parts, and food and beverages purchased for off-premises consumption. Also adding to growth were private inventory investment, residential fixed investment, nonresidential fixed investment, and state and local government spending.



Partially offsetting the sources of growth were decreases in exports and federal government spending. Imports, which are automatically included in these individual categories and then subtracted as a separate category, increased, also detracting from growth.

The **deceleration during the fourth quarter** reflected a downturn in exports, an acceleration in imports, a deceleration in personal consumption expenditures, and a downturn in federal government spending. These negative factors were partially offset by an upturn in residential fixed investment, an acceleration in private inventory investment, an upturn in state and local government spending, and an acceleration in nonresidential fixed investment.

Despite the slowdown in the economy during the fall, attitudes among small business operators improved tremendously in December, confirming the large post-election increase in November. The Small Business Optimism Index compiled by the National Federation of Independent Business increased by 7.5% from November to December – the largest one-month gain since the start of monthly data in 1986. The increase primarily reflected higher expectations for real sales gains and the outlook for business conditions.

The Ohio economy showed some improvement again in December after slowing in late summer and early fall. For example, the Ohio coincident economic index from by the Philadelphia Federal Reserve edged higher by 0.2% in December after rising 0.1% in November. Nevertheless, the year-over-year rate of change was flat with the prior month at 2.3%, which is the slowest since 2010. The index is composed of four labor market indicators, and has represented general business conditions accurately over time.

According to a regular survey of businesses in and around Ohio by the Cleveland Federal Reserve Bank, economic activity in the region grew slightly on balance during the weeks heading into early January. Retailers reported disappointing sales, but automakers experienced increases in unit sales. The area housing market improved, as evidenced by both higher unit sales and higher prices. In contrast, commercial builders noted some pullback in inquiries and backlogs. Shale activity and coal production increased, and freight volume strengthened, albeit only back to the year ago level.

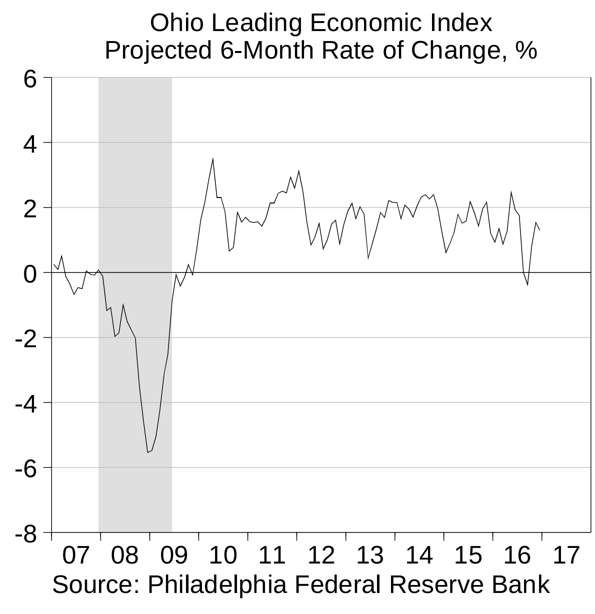
The actual fourth-quarter real GDP growth rate of 1.9% was at the lower end of expectations a month ago that ranged from approximately 1.5% to 3% and centered on 2% to 2.5%. High frequency projections for the first quarter range from as low as nearly 2% to as high as almost

3.5%. The Blue Chip consensus, which is an average of forecasts from a group of professional forecasters, is 2.2%, with a range of 1.8% to 2.7% from the average of the lowest ten to the highest ten.

Leading economic indicators picked up a bit in December, remaining consistent with a moderate pace of growth through mid-year. The Leading Economic Index (LEI) from the Conference Board increased 0.5% in December, and November was revised up from 0.1% to 0.2%. Six of the ten components made positive contributions, led by the interest rate spread, stock prices, and average consumer expectations for business conditions.

Compared with a year earlier, the LEI was higher by 1.5% – down considerably from the pace observed during 2015, but up from the low of 0.4% reached in June of last year. The indicator has shown to be useful as a recession warning, since the rate of change in the index regularly has turned negative in advance of recessions in the past. The recent lull appears to be related to manufacturing activity, which has been negatively affected by the strengthening of the dollar since 2011, weaker demand growth overseas, and the sharp pullback in the energy industry. On the other hand, strength in labor markets and savings from lower energy costs have continued to support consumer income and spending.

Improved prospects for corporate profits also point to continued economic growth ahead and possibly increased investment. Earnings per share of S&P 500 companies during the fourth quarter increased 4.6% from the year earlier, based on reports from a little more than half of companies, according to FactSet. Analysts expect earnings per share to accelerate during 2017. Historically, business investment has followed movements in corporate profits.



Improvements in state-level coincident and leading composite indexes in recent months were sustained in December. This is a key positive development, because the deterioration during 2016 had begun to approach that of past inflection points prior to recessions. The **Coincident Economic Index** (CEI) for only two states declined compared with the month before. The index increased compared with three months before for 47 states – the broadest strength in almost two years.

In contrast, the diffusion of state leading indexes deteriorated somewhat. The number of states with positive readings decreased from 48 to 44 and the number of states with negative readings increased from two to six. These readings remain well short of recession levels, considering that the number of states with negative LEIs has reached fifteen on average three months before the last three recessions and twenty-three on average during the initial month of those recessions.

The **Ohio Leading Economic Index** from the Philadelphia Federal Reserve, which was negative in September, was in positive territory for the third month in a row in December, at 1.3%. The index is designed to predict the rate of change in the coincident index during the next six months, but can be volatile from month to month and is often revised significantly.

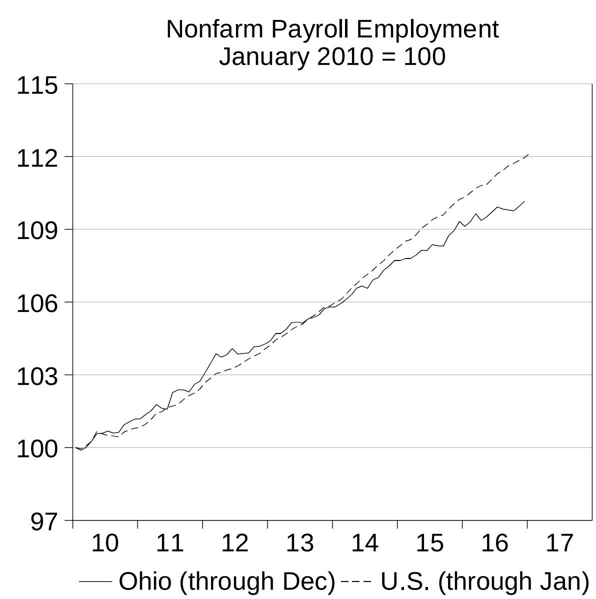
Employment

Nonfarm payrolls across the country increased by 227,000 jobs in January. The December increase was little changed, and the two previous month's changes were revised upward by a net 39,000 jobs. Growth averaged 183,000 jobs in the most recent three months and six months. During the most recent twelve months, job growth averaged 195,000 per month, which has pushed the unemployment rate slightly lower.

Employment increases were broad-based during January. Retail trade payrolls increased 45,900, reflecting an 18,300 job increase in clothing and clothing accessories. Professional and business services added a net 39,000 jobs. Construction added 36,000 jobs. Leisure and hospitality added 34,000 jobs, due in large part to a 25,700 increase in accommodations and food services. Health care and social assistance added 32,100 jobs. Financial activities added 32,000 jobs. Manufacturing employment increased by 5,000 jobs. Government employment fell by 10,000 jobs.

The **unemployment rate** ticked up by 0.1 point to 4.8%, as more job seekers entered the labor force. The unemployment rate has been at or below 5.0% since September 2015. The broadest measure of unemployment – the U-6 unemployment rate – increased 0.2 points to 9.4%, but remained below 10% for the sixteenth month in a row. 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 would prefer full time work.

Average hourly earnings of all employees on private nonfarm payrolls increased 0.1% to 2.5% above the year earlier level – down from 2.8% growth in December. Still, the acceleration in wages during the past year indicates that a long-awaited tightening in labor market conditions is unfolding, and is sure to hold the attention of monetary policymakers.



Ohio nonfarm payroll employment increased by 10,300 jobs in December after a gain of 9,600 jobs in November that was preceded by three monthly declines. Changes across sectors were mixed, with employment rising in professional and business services (+5,900), trade, transportation and utilities (3,200), and educational and health services (2,700). Employment declines occurred in construction (-2,800), other services (-2,000), and government (-1,400).

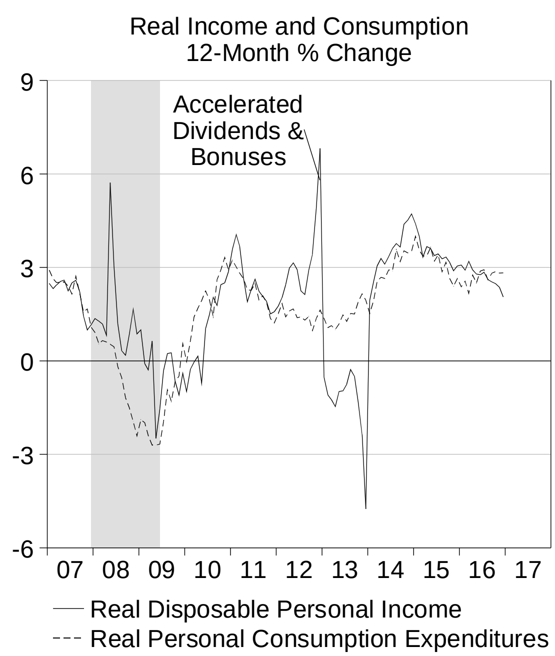
During the twelve months ending in December, Ohio employment increased by 41,800 jobs. The largest employment gains occurred in education and health services (+11,200), leisure and hospitality (+13,300), and financial activities (+10,000). Year-over-year declines occurred in professional and business services (-3,200), manufacturing (-2,900), and natural resources and mining (-1,500).

Among the **contiguous states**, year-over-year employment growth was strongest in Michigan (+1.7%), followed by Indiana and Ohio (+0.8%), Kentucky (+0.6%), Pennsylvania (+0.5%), and West Virginia (+0.3%). Gains in manufacturing were harder to come by. Manufacturing employment increased year-over-year in Michigan (+0.4%), Kentucky (+0.2%), and Pennsylvania (+0.1%) and decreased in Indiana (-0.2%), Ohio (-0.4%), and West Virginia (-1.1%). Manufacturing employment was held back in Ohio relative to a year ago in part by declines in the primary metal (-8.0%), fabricated metal (-4.9%), and transportation equipment (-2.2%) industries. Employment in the important machinery industry expanded (+2.3%) from a year earlier.

The **Ohio unemployment rate** was unchanged at 4.9% in December, remaining below 5.0% for the sixth straight month. The rate is up 0.3 points from the cyclical low of 4.6% reached in September 2015. The increase during that period resulted from a larger increase in the Ohio labor force (+23,600) than in total employment (+4,500). The unemployment rate has moved in a narrow range since the end of 2014.

Across the country in December, the unemployment rate decreased by a statistically significant amount in ten states. The only notable increase occurred in Alabama. The unemployment rates in other 39 states and the District of Columbia were not statistically different from the month before. The unemployment rate was lower than a year earlier by a statistically significant margin in eleven states and meaningfully higher in two states – Oklahoma and Pennsylvania.

Consumer Income and Consumption



Personal income and personal consumption expenditures picked up in December, after a one-month slowdown in November. **Personal income** increased 0.3% after a 0.1% rise the month before, reflecting a 0.4% rise in wage and salary disbursements. Compared with a year earlier, personal income and wage and salary disbursements were up 3.5% and 3.6%, respectively.

The **Consumer Price Index** (CPI) increased 0.3% in December, pushed higher by a 1.5% increase in energy prices that in turn was caused mainly by oil-based goods. The year-over-year change in the CPI increased to 2.1% – the highest since October 2012. Excluding the volatile food and energy categories, the CPI was up 2.2% year-over-year. The Median CPI from the Federal Reserve Bank of Cleveland, which is an alternative measure of the trend in inflation, continued to track a little bit higher at 2.6% year-over-year. The measure of inflation that is most closely watched by the Federal Reserve was 1.7% above its year earlier level – up from its low but still below the 2% threshold targeted by the Fed.

Personal consumption expenditures increased 0.5% in December after a 0.2% gain in November. Spending on durable goods increased 1.4%, in part due to the 3.4% increase in unit sales of light motor vehicles to an annual rate of 18.3 million. Light vehicle sales could stay at the recent level for an extended period, but are unlikely to move significantly and sustainably higher in this cycle. Sales fell to 17.5 million units in January. Spending on nondurable goods edged higher by 0.2% in December, and spending on services increased 0.4%.

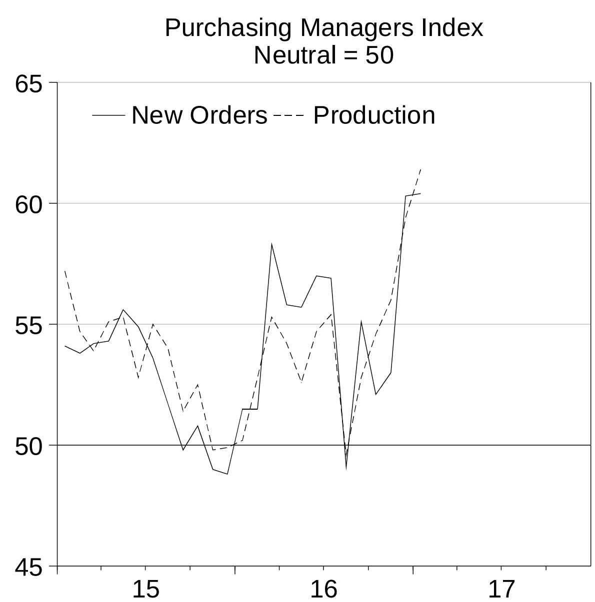
Consumer attitudes were generally sustained at high levels in January after marked increases in the fall. **Consumer confidence** eased modestly, according to the Conference Board, but remained near very long time highs. A dip in expectations outweighed brighter assessments of current conditions. The University of Michigan/Reuters index improved marginally, as a small improvement in expectations just outweighed a modest decline in the assessment of current conditions.

Manufacturing

Continuing the pattern in place for more than a year, industrial activity remained lackluster again in December. **Industrial production** increased 0.8%, but the strength was due to a weather-related jump in utility output. Mining output was unchanged. Manufacturing production increased 0.2% to end the year higher by the same amount, extending the period of essentially flat manufacturing activity to two full years.

The industrial sector continues to be affected by the ongoing headwinds from the strengthening of the dollar since 2011 and the renewed increase since July and the fallout from the big decline in the price of oil. The higher foreign exchange value of the dollar undermines foreign demand for U.S.-made goods and services by making them more expensive in foreign currencies. The price of oil has stabilized for the time being above $50 per barrel, which has revived activity somewhat in the mining sector.

Production across some industries of special importance to Ohio increased in December. Production in primary metals, fabricated metal products, machinery, and motor vehicles and parts increased by 1.4%, 0.7%, 0.9%, and 1.8%, respectively. Compared with a year earlier, production in only the fabricated metal products segment was lower. The largest increase occurred in motor vehicles and parts (+6.6%).



Purchasing managers in the manufacturing sector reported more broad-based increases in activity again during January, suggesting that the long lull in manufacturing activity may finally be ending. The PMI® increased by 1.5 points to 56.0, the fifth monthly increase in a row to the highest level in more than two years. The New Orders index essentially held its ground just above 60 and the Production index increased by two full points from 59.4 to 61.4.

Of the eighteen industries tracked by the Manufacturing ISM® *Report on Business*, twelve reported growth in the latest month. Among the industries with a disproportionate effect on Ohio manufacturing employment, all of them – primary metals, machinery, fabricated metal products, and transportation equipment – reported expansion in January. One respondent in the primary metals industry reported that "business looks stronger heading into the first quarter of 2017." A contact in the fabricated metal products industry noted "steady demand from automotive." A respondent in the machinery industry said that "sales bookings are exceeding expectations."

Construction

Construction put-in-place ended 2016 on a weak note, decreasing 0.2%, due to a 1.7% decrease in public construction that more than offset a 0.2% increase in private construction. Compared with a year earlier, total construction was up 4.2%, reflecting a 6.3% year-over-year increase in private construction and a 1.8% decrease in public construciton.

The small decrease in **private** construction in December resulted from a 0.7% decrease in nonresidential construciton that more than offset a 0.4% increase in residential construciton. The third monthly gain in a row in single-family construction (+0.5%) combined with an increase in multi-family construction (+2.8%) to lift overall residential construction. The weakness in nonresidential construction resulted mainly from the fourth straight decrease in manufacturing (-3.5%) and the second decrease in the last three months in lodging (-4.4%). Increases in power (+1.6%), office (+2.0%), and commercial (+5.2%) construction offset the declines in other areas. Most of the growth in private construction during 2016 occurred in nonresidential construction, but increases in residential construction in the closing months of the year lifted activity above the year-end 2015 pace by 3.7%.

Housing starts increased 5.0% in December on a 3-month moving average basis, continuing the see-saw pattern in place since the end of last winter. The 16.0% rise in multi-family starts was responsible for the gain, as single-family starts only inched higher (+0.6%). The pattern was the same, if more accentuated, across the Midwest, where multi-family starts jumped 46.8% following four large declines in the previous five months, and single-family starts rose a moderate 3.4%. Compared with a year earlier, starts were 7.2% higher across the country and 17.3% higher in the Midwest on a 3-month moving average basis.

Home sales ended the year on a soft note. Existing home sales were flat across the country and fell 1.2% in the Midwest on a 3-month moving average basis. New home sales were down 1.8% nationally and 11.1% in the Midwest. The severe cold weather that gripped much of the country in December is a likely cause of the weakness in sales, considering that permits remained stable and housing industry fundamentals still appear sound.

Among those fundamentals, pricing continued to be strong. **Home prices** across the country rose by 0.8% for the third month in a row in November for the 58th consecutive monthly increase, judging by the Case-Shiller National Index. The gain lifted the increase since the low-point in January 2012 to 36.1% and the level beyond the all-time high set in February 2007. After adjusting for inflation, however, the November level remains well below the historical peak.

Executive Budget Revisions to the FY 2017 Revenue Forecast

As part of the revenue forecasting process for the fiscal years 2018-2019 Executive Budget, OBM in conjunction with the Department of Taxation, not only developed GRF revenue forecasts for fiscal years 2018-2019, but also revised the fiscal year 2017 revenue forecasts. The fiscal year 2017 forecast revisions are provided in Table A, below. A version of this table also appeared in the OBM Director's testimony on the Executive Budget before the House Finance committee.

The majority of the forecast revisions are concentrated in three tax sources: the non-auto sales tax, the auto sales tax, and the personal income tax. The downward revisions in these three taxes total $593.2 million. There is also a downward revision in the commercial activity tax of $32.0 million, and an upward revision in the kilowatt hour tax of $33.0 million. Total tax revenues are therefore revised downward by $592.2 million.

Non-tax revenues excluding federal grants are revised upward by $17.0 million, while transfers from non-GRF funds to the GRF are revised upward by $179.4 million. In total, non-federal GRF sources are revised downward by $395.8 million.

Federal grants are revised downward based on the expectation of lower than estimated Medicaid spending. Medicaid spending through January is $699.0 million below estimate. Federal grants for all of fiscal year 2017 are revised downward by $604.3 million. All GRF sources are thus revised downward by almost exactly $1 billion.

Although the fiscal year 2017 GRF revenues were revised as part of the Executive Budget, the revenue estimates provided in the July 2016 monthly financial report will continue to be used for the purposes of this report for the remaining months of fiscal year 2017. Each month's actual revenues will continue to be compared to the July 2016 estimates in order to ensure continuity and comparability between all monthly issues of this report in fiscal year 2017.

Similarly, the GRF fund balance table at the end of this report will not be revised on the basis of the updated revenue estimates. However, as the OBM Director stated in his testimony about the Executive Budget, OBM estimates that the ending fiscal year 2017 GRF balance will still be positive. To be more specific, the large GRF balance that was carried into fiscal year 2017, along with significant estimated underspending in Medicaid and more moderate underspending in property tax reimbursement and debt service, is expected to result in an ending GRF balance that is $174.4 million, or 0.5% of GRF revenues.

Table A: Executive Budget Revisions to the FY 2017 Revenue Forecast				
Revenue Source	**Jul-2016 OBM Estimate**	**Jan-2017 Exec Budget Revision**	**$ Change**	**% Change**
Tax Revenue				
Non-Auto Sales & Use	$9,407.6	$9,208.4	-$199.2	-2.1%
Auto Sales & Use	$1,400.0	$1,339.9	-$60.1	-4.3%
Subtotal Sales & Use	$10,807.6	$10,548.3	-$259.3	-2.4%
Personal Income	$8,260.0	$7,926.1	-$333.9	-4.0%
Financial Institutions Tax	$223.0	$223.0	$0.0	0.0%
Commercial Activity Tax	$1,287.0	$1,255.0	-$32.0	-2.5%
Petroleum Activity Tax	$6.0	$6.0	$0.0	0.0%
Public Utility	$103.5	$103.5	$0.0	0.0%
Kilowatt Hour	$332.2	$365.2	$33.0	9.9%
Natural Gas Distribution	$66.0	$66.0	$0.0	0.0%
Foreign Insurance	$301.5	$301.5	$0.0	0.0%
Domestic Insurance	$278.0	$278.0	$0.0	0.0%
Other Business & Property	$0.0	$0.0	$0.0	NA
Cigarette and Other Tobacco	$970.0	$970.0	$0.0	0.0%
Alcoholic Beverage	$55.0	$55.0	$0.0	0.0%
Liquor Gallonage	$45.0	$45.0	$0.0	0.0%
Total of Tax Revenue	**$22,734.8**	**$22,142.6**	**-$592.2**	**-2.6%**
Non-Tax Revenue				
Earnings on Investments	$35.0	$45.0	$10.0	28.6%
Licenses and Fees	$57.0	$57.0	$0.0	0.0%
Other Income	$52.3	$59.3	$7.0	13.4%
Interagency Transfers (ISTVs)	$18.5	$18.5	$0.0	0.0%
Total of Non-Tax Revenue	**$162.8**	**$179.8**	**$17.0**	**10.4%**
Transfers				
Budget Stabilization	$0.0	$0.0	$0.0	NA
Transfers In - Other	$309.1	$488.5	$179.4	58.0%
Temporary Transfers In	$0.0	$0.0	$0.0	NA
Total Transfers	**$309.1**	**$488.5**	**$179.4**	**58.0%**
Total Sources Excluding Federal Grants	$23,206.7	$22,810.9	-$395.8	-1.7%
Federal Grants	$12,683.0	$12,078.7	-$604.3	-4.8%
Total Sources	**$35,889.7**	**$34,889.6**	**-$1,000.1**	**-2.8%**
Source: Ohio Office of Budget and Management, January 2017				

REVENUES

NOTE: The revenue tables in this report contain OBM's July 2016 revised estimates of fiscal year 2017 tax revenues, non-tax revenues, and transfers. These revisions incorporate both changes to the baseline and law changes enacted since January, 2016.

January **GRF receipts totaled $2,915.6 million** and were $234.4 million (7.4%) below the estimate. Monthly tax receipts totaled $2,061.0 million and were $91.6 million (4.3%) below the estimate, while non-tax receipts totaled $794.5 million and were $193.4 million (19.6%) below the estimate. Lastly, transfers to the GRF were $50.6 million above estimate.

As one might expect, such a large variance in non-tax receipts is due to federal grants, which were $191.1 million (19.7%) below estimate. This variance is about what one would expect given that Medicaid spending was $294.4 million below estimate in January.

The January tax revenue shortfall was again primarily the result of a shortfall in the income tax, which was $92.3 million (9.8%) below estimate. A mix of positive and negative variances in other taxes essentially offset each other, as the $15.3 million shortfall in the sales tax was nearly matched by $13.5 million of overages in the financial institutions, commercial activity, and cigarette and other tobacco taxes.

The overage in transfers to the GRF was due to earlier than expected transfers of part of the large balances existing in three non-GRF funds.

For the fiscal year, GRF receipts were 845.7 million (4.1%) below estimate. A little less than half of the overall variance is from tax receipts, which are $388.1 million (2.9%) below estimate. Over 70% of the tax shortfall is from the income tax. Federal grants are about 62% of the overall shortfall, and are now $527.8 million, or 7.1%, below estimate, due primarily to Medicaid spending being $699.0 million (6.4%) below estimate. Finally, transfers are above estimate by $60.4 million, mostly due to the January overage discussed above.

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	($388.1 million)	-2.9%
Non-tax receipts	Federal grants, earnings on investments, licenses & fees, other income, intrastate transfers	($518.0 million)	-6.9%
Transfers	Budget stabilization, liquor transfers, capital reserve, other	$60.4 million	189.9%
TOTAL REVENUE VARIANCE:		**($845.7 million)**	**-4.1%**
Non-Federal Revenue Variance:		**($317.9 million)**	**-2.4%**
Federal Grants Variance:		**($527.8 million)**	**-7.1%**

On a year-over-year basis, monthly receipts were $113.3 million (3.7%) below January of the previous fiscal year. Federal grants fell by $127.5 million, or 14.0%, while all other sources combined eked out a $14.2 million gain from last January. Tax receipts decreased by $35.7 million (1.7%), while transfers increased by $52.9 million.

For the fiscal year, tax revenues have fallen by $173.9 million, or 1.3%, from a year ago. As has been the case throughout the first seven months of the fiscal year, the income tax is responsible for more than that entire decline, dropping by $292.3 million, or 5.7%. The decline in income tax revenues was partly anticipated, and was mostly due to a decline of $205.4 million (29.2%) in quarterly estimated payments. Briefly, the estimated payment decrease is the result of an ongoing shift in taxpayer behavior to reduce estimated payments to better match lower expected tax liability due to rate cuts and the expansion of the small business deduction. The whole year fiscal year 2017 income tax forecasts expect the drop in estimated payments to be offset by a decline in refunds in the second half of the fiscal year. If in fact some of the decline in estimated payments is due to economic factors – lower non-wage income – rather than behavior due to Ohio law changes, this expectation may not be met.

The other big area responsible for the year-to-date decline in income tax revenues is refunds, which have increased by $109.4 million, or 32.2%, from last year. Unlike the estimated payment decline, this increase in refunds was not expected. Refunds through December were based on tax year 2015 (or earlier year) liability and are not necessarily indicative of what to expect for refunds in the spring filing season. January refunds are in part based on tax year 2016 liability, but OBM believes that timing factors increased those refunds relative to last year, as is explained in more detail below.

On the non-tax side, federal grants have fallen for the year by $303.1 million, or 4.2%. Despite the fact that individual month results have frequently been driven by factors other than Medicaid underspending, over the seven months of the fiscal year those factors have mostly washed out, and the Medicaid spending decline from last year is the major factor driving the federal grants decrease.

GRF Revenue Sources Relative to Monthly Estimates – January 2017
($ in millions)

Individual Revenue Sources Above Estimate		Individual Revenue Sources Below Estimate	
Transfers to the GRF	$50.6	Federal Grants	($191.1)
Cigarette and Other Tobacco Tax	$6.1	Personal Income Tax	($92.3)
Commercial Activity Tax	$4.7	Non-Auto Sales and Use Tax	($12.5)
Financial Institutions Tax	$2.7	Auto Sales and Use Tax	($2.8)
Other Sources Above Estimate	$4.0	Other Income	($3.6)
		Other Sources Below Estimate	($0.1)
Total above	**$68.1**	**Total below**	**($302.4)**

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

Non-Auto Sales and Use Tax

January non-auto sales and use tax collections totaled $888.1 million and were $12.5 million (1.4%) below estimate. However, December and January non-auto collections combined, which are essentially holiday season collections, were only $6.0 million, or 0.3%, below estimate. Although this performance is still below estimate, it is a marked improvement from the first five months of the fiscal year, when collections were $102.1 million, or 2.6%, below estimate, an average shortfall of over $20 million per month. There is room for some cautious optimism that the non-auto sales tax may be improving. If non-auto collections are close to the mark again in February – which is a much smaller collections month, with estimated revenues of only about 74% of the January amount – the evidence for that hypothesis would be much stronger.

For the fiscal year-to-date, non-auto revenues are $108.1 million, or 1.9%, below estimate. Year-over-year growth has improved from 0.9% at the end of November to 2.0% at the end of January.

OBM's revised estimates for fiscal year 2017 assume that by year's end the shortfall with respect to the July estimates will grow to about $199 million, or 2.1%. This estimate essentially assumes that monthly shortfalls over the remainder of fiscal year 2017 will average about $18 million. December and January performance was better than that, while July-November performance was worse, making February an important test of which trend will prevail in the remainder of the year.

Auto Sales Tax

Auto sales tax collections totaled $102.5 million in January and were $2.8 million (2.7%) below estimate. The January shortfall was the fourth in five months, despite strong unit sales of new autos at the national level, including new light vehicle sales of 18.3 million units in December. Year-to-date collections are now $12.2 million (1.5%) below the estimate.

Auto sales tax collections for the year are now up 2.5% from last year at this point, growth that is similar to the 2.0% for non-auto collections. This is a change from earlier in the year when auto sales growth was markedly better than non-auto sales growth.

OBM's revised estimates for fiscal year 2017 assume that by year's end the shortfall will grow to about $60 million, or 4.3%. This estimate assumes that performance will be markedly worse over the last five months of the year than over the first seven months. If new vehicle sales remain strong, there could be some upside risk to the estimate.

Personal Income Tax

January GRF personal income tax receipts totaled $845.9 million and were $92.3 million (9.8%) below the estimate. Employer withholding and refunds were responsible for more than the entire shortfall, falling $101.3 million below estimate. All other payment categories combined were $9.0 million above estimate.

Employer withholding was $28.4 million below estimate in January, or 3.5%. This was a little worse performance than the average shortfall of $24.0 million, or 3.4%, over the first six months of the fiscal year. Withholding collections for the year are now $172.6 million, or 3.4%, below estimate.

January refunds were $149.1 million, or $72.9 million, above estimate. Although refunds have been running above estimate for the year, the January variance was much larger than the monthly average of roughly $9 million over the first half of the fiscal year.

January refunds are generally rather volatile. Over the fiscal year 2010-2016 period, January refunds averaged about $79 million, but have varied from $41 million in fiscal year 2013 to $113 million in fiscal year 2012. The $149 million amount this January is thus something of an outlier, but may be tied to the IRS, and thus Ohio as well, accepting returns and paying refunds earlier than in prior years. Over the last four days of this January, $71.7 million in refunds were paid out, vs. $20.8 million in the last four days of last January. Without this nearly $51 million increase in refunds, January refunds would have been about $98 million, higher than the 7 year average but less than the fiscal year 2012 maximum.

For the year, GRF income tax collections are now $275.3 million (5.4%) below estimate. The year-to-date variance, like the monthly variance, is due to withholding and refunds. Withholding is $172.6 million, or 3.4%, below estimate, and refunds are $116.8 million, or 35.2%, above estimate. All other payments are a combined $14.1 million above estimate.

FY2017 PERSONAL INCOME TAX RECEIPTS BY COMPONENT ($ in millions)						
	ESTIMATE JAN	ACTUAL JAN	$ VAR JAN	ACTUAL JAN 2017	ACTUAL JAN 2016	$ VAR Y-over-Y
Withholding	$808.5	$780.1	($28.4)	$780.1	$727.1	$53.0
Quarterly Est.	$213.5	$213.1	($0.4)	$213.1	$284.6	($71.5)
Trust Payments	$11.3	$9.4	($1.9)	$9.4	$12.3	($2.9)
Annual Returns & 40 P	$7.9	$12.8	$4.9	$12.8	$11.2	$1.6
Other	$6.1	$11.7	$5.6	$11.7	$5.5	$6.2
Less: Refunds	($76.2)	($149.1)	($72.9)	($149.1)	($84.6)	($64.5)
Local Distr.	($32.9)	($32.1)	$0.8	($32.1)	($32.6)	$0.5
Net to GRF	$938.2	$845.9	($92.3)	$845.9	$923.6	($77.7)

There was some good news in the January income tax collections. Quarterly estimated payments were very close to the estimate, falling short by only $0.4 million. Combined December and January estimated payments were $3.0 million, or 1.0%, short of the estimate. This is important because the estimated payment due in January, which is received over December and January, often serves as an indicator of how collections will perform in the income tax filing season. This is because the January payment is the last payment due against a tax year, and thus for many taxpayers is used to perform a rough reconciliation, in the sense that taxpayers who feel they have underpaid through their first three payments often pay more in January, while those taxpayers who feel they have overpaid often pay less in January. A January payment that differs significantly from the first three payments in terms of growth from the prior year can thus be an indicator that the filing season net settlements (payments minus refunds) will overperform or underperform the estimates. Since the January payment was close to the estimate, and growth from the prior year was similar to the first three payments, this may be an indicator that the filing season results will also be close to the estimate.

That said, there is still some downside risk to the filing season forecast. Some analysts have stated that high-income taxpayers may have delayed the realization of income such as capital gains or business profit distributions into tax year 2017 in the hope of having that income taxed at lower federal rates. This is speculative, but if it occurred to any significant degree, tax year 2016 non-wage income will have been lower than estimated, and so the fiscal year 2017 tax collections may also be lower than estimated.

OBM’s revised estimates for fiscal year 2017 assume that collections will end the year about $334 million below estimate. Given that collections at the end of January are already $275.3 million estimate, there is some downside risk to the revised estimate. However, one must also take into account that refunds through January seem to be inflated by roughly $50 million based on timing. This increase in refunds may well be made up over the remainder of the fiscal year, although not necessarily in February.

On a year-over-year basis, January personal income tax receipts were $77.7 million (8.4%) below January 2016 collections. For the year-to-date, income tax collections are $292.3 million (5.7%) below fiscal year 2016 collections. The main culprits in the year-to-date decline are a large decline in quarterly estimated payments and an increase in refunds. Fiscal year 2017 estimated payments are down $205.4 million, or 29.2% from last year. This is despite the fact that estimated payments are $6.1 million above the estimate.

The explanation for this is that the fiscal year 2017 estimates assumed a large drop in estimated payments, and there has in fact been a large decrease, just not quite as large as expected in the estimates. The decrease in estimated payments is a result of taxpayers adjusting their behavior to the tax rate cuts and especially to the increased small business deduction, so that rather than making overly large estimated payments and then filing for very large refunds in the January-June filing season, they have instead cut back on their estimated payments by more than 29%. All else constant, this should be offset by smaller refunds paid out in January through June. So, income tax revenues are expected to be lower than last fiscal year all the way through February, before finally turning positive in March as lower expected refunds finally outweigh lower estimated payments. Of course, January refunds did not conform to this expectation, but as we have pointed out above, this may be a timing factor. February is the next test of this hypothesis.

Although withholding is not one of the categories of payment that have declined from last year, the fact that collections have grown by only $59.0 million, or 1.2%, has contributed to the decline in overall income tax revenues. It was expected that withholding would have grown by about $232 million from last year at this point, which would have offset much of the expected decline in estimated payments and other categories such as annual returns.

Commercial Activity Tax

January is not a due date for the commercial activity tax, but as with the other months that precede the quarterly due dates, estimated and actual collections are still significant. Actual January GRF collections were $4.7 million, or 9.9%, above the estimate. This overage shrank the year-to-date GRF shortfall to $16.3 million, or 2.4%.

The GRF receives 75% of CAT revenues, so all funds (total) CAT collections follow the same general pattern as GRF collections. Through January total CAT collections are $21.5 million, or 2.3%, below estimate. CAT collections have declined by $14.1 million, or 1.5%, from last year, whereas the expectation was that at this point they would have grown by $7.4 million, or 0.8%.

Cigarette and Other Tobacco Products Tax

The cigarette and other tobacco products (OTP) tax was $6.1 million (8.5%) above estimate in January, almost making up for the December shortfall. This overage brought year-to-date collections back above the estimate by $2.2 million, or 0.4%.

Year-to-date collections have now decreased by $22.8 million, or 4.2%. Part of this decline, about $16 million, is due to the fact that there was one-time revenue in fiscal year 2016 from the floor stocks tax associated with the cigarette tax rate increase.

GRF Non-Tax Receipts

GRF non-tax receipts totaled $794.5 million in January and were $193.4 million, or 19.6% below the estimate. There was very little January activity in this category except for federal grants. Federal grants were $191.1 million, or 19.7% below estimate. GRF Medicaid spending being $294.4 million below estimate was the major factor in federal grants being below estimate in January. For the year-to-date, Medicaid spending is $699.0 million below estimate, and federal grants are $527.8 million below estimate.

Transfers to the GRF from other state funds were $60.1 million or $50.6 million above the estimate of $9.5 million in January. This overage was due to authorized transfers to the GRF from non-GRF funds being made in January rather than in June as had been expected.

Table 1

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

REVENUE SOURCE	MONTH ACTUAL JANUARY	MONTH ESTIMATE JANUARY	MONTH $ VAR	MONTH % VAR	YEAR-TO-DATE ACTUAL Y-T-D	YEAR-TO-DATE ESTIMATE Y-T-D	YEAR-TO-DATE $ VAR	YEAR-TO-DATE % VAR
TAX RECEIPTS								
Non-Auto Sales & Use	888,075	900,600	(12,525)	-1.4%	5,530,536	5,638,600	(108,064)	-1.9%
Auto Sales & Use	102,491	105,300	(2,809)	-2.7%	791,728	803,900	(12,172)	-1.5%
Subtotal Sales & Use	990,566	1,005,900	(15,334)	-1.5%	6,322,264	6,442,500	(120,236)	-1.9%
Personal Income	845,851	938,200	(92,349)	-9.8%	4,833,745	5,109,000	(275,255)	-5.4%
Corporate Franchise	143	0	143	N/A	(123)	0	(123)	N/A
Financial Institutions Tax	53,791	51,100	2,691	5.3%	38,599	43,100	(4,501)	-10.4%
Commercial Activity Tax	52,002	47,300	4,702	9.9%	670,716	687,000	(16,284)	-2.4%
Petroleum Activity Tax	0	0	0	N/A	2,860	3,000	(140)	-4.7%
Public Utility	66	(100)	166	166.4%	47,621	51,000	(3,379)	-6.6%
Kilowatt Hour	28,679	28,500	179	0.6%	211,385	191,300	20,085	10.5%
Natural Gas Distribution	1,576	1,700	(124)	-7.3%	18,505	18,700	(195)	-1.0%
Foreign Insurance	1,709	100	1,609	1608.6%	162,740	156,200	6,540	4.2%
Domestic Insurance	0	0	0	N/A	53	400	(347)	-86.7%
Other Business & Property	0	0	0	N/A	(678)	0	(678)	N/A
Cigarette and Other Tobacco	77,464	71,400	6,064	8.5%	516,369	514,200	2,169	0.4%
Alcoholic Beverage	4,295	3,800	495	13.0%	35,026	32,300	2,726	8.4%
Liquor Gallonage	4,862	4,700	162	3.4%	28,093	27,100	993	3.7%
Estate	33	0	33	N/A	490	0	490	N/A
Total Tax Receipts	2,061,037	2,152,600	(91,563)	-4.3%	12,887,667	13,275,800	(388,133)	-2.9%
NON-TAX RECEIPTS								
Federal Grants	781,119	972,174	(191,055)	-19.7%	6,928,319	7,456,128	(527,809)	-7.1%
Earnings on Investments	9,862	8,700	1,162	13.4%	24,042	17,200	6,842	39.8%
License & Fees	2,938	2,850	88	3.1%	14,951	13,680	1,271	9.3%
Other Income	604	4,230	(3,626)	-85.7%	44,382	43,018	1,365	3.2%
ISTV'S	3	0	3	N/A	9,131	8,800	331	3.8%
Total Non-Tax Receipts	794,525	987,954	(193,429)	-19.6%	7,020,825	7,538,825	(518,000)	-6.9%
TOTAL REVENUES	2,855,562	3,140,554	(284,992)	-9.1%	19,908,492	20,814,625	(906,133)	-4.4%
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	60,085	9,500	50,585	532.5%	92,187	31,800	60,387	189.9%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	60,085	9,500	50,585	532.5%	92,187	31,800	60,387	189.9%
TOTAL SOURCES	2,915,647	3,150,054	(234,407)	-7.4%	20,000,679	20,846,425	(845,746)	-4.1%

Table 2
GENERAL REVENUE FUND RECEIPTS
ACTUAL FY 2017 VS ACTUAL FY 2016
($ in thousands)

REVENUE SOURCE	MONTH JANUARY FY 2017	MONTH JANUARY FY 2016	MONTH $ VAR	MONTH % VAR	YEAR-TO-DATE ACTUAL FY 2017	YEAR-TO-DATE ACTUAL FY 2016	YEAR-TO-DATE $ VAR	YEAR-TO-DATE % VAR
TAX RECEIPTS								
Non-Auto Sales & Use	888,075	864,441	23,634	2.7%	5,530,536	5,422,968	107,568	2.0%
Auto Sales & Use	102,491	96,131	6,360	6.6%	791,728	772,102	19,627	2.5%
Subtotal Sales & Use	990,566	960,571	29,994	3.1%	6,322,264	6,195,069	127,195	2.1%
Personal Income	845,851	923,559	(77,707)	-8.4%	4,833,745	5,126,037	(292,292)	-5.7%
Corporate Franchise	143	17,405	(17,262)	-99.2%	(123)	30,475	(30,597)	-100.4%
Financial Institutions Tax	53,791	43,672	10,118	23.2%	38,599	35,312	3,287	9.3%
Commercial Activity Tax	52,002	44,376	7,626	17.2%	670,716	657,132	13,585	2.1%
Petroleum Activity Tax	0	0	0	N/A	2,860	3,362	(503)	-14.9%
Public Utility	66	(322)	388	120.6%	47,621	51,297	(3,676)	-7.2%
Kilowatt Hour	28,679	26,927	1,752	6.5%	211,385	198,544	12,841	6.5%
Natural Gas Distribution	1,576	1,402	174	12.4%	18,505	18,566	(61)	-0.3%
Foreign Insurance	1,709	255	1,454	570.4%	162,740	146,166	16,574	11.3%
Domestic Insurance	0	0	0	N/A	53	344	(291)	-84.5%
Other Business & Property	0	0	0	N/A	(678)	42	(720)	-1723.5%
Cigarette and Other Tobacco	77,464	71,059	6,405	9.0%	516,369	539,150	(22,781)	-4.2%
Alcoholic Beverage	4,295	3,011	1,285	42.7%	35,026	31,986	3,040	9.5%
Liquor Gallonage	4,862	4,754	108	2.3%	28,093	27,161	932	3.4%
Estate	33	95	(62)	-65.1%	490	918	(428)	-46.6%
Total Tax Receipts	2,061,037	2,096,764	(35,727)	-1.7%	12,887,667	13,061,561	(173,894)	-1.3%
NON-TAX RECEIPTS								
Federal Grants	781,119	908,607	(127,488)	-14.0%	6,928,319	7,231,395	(303,076)	-4.2%
Earnings on Investments	9,862	8,665	1,197	13.8%	24,042	16,580	7,461	45.0%
License & Fee	2,938	2,995	(57)	-1.9%	14,951	12,832	2,120	16.5%
Other Income	604	4,742	(4,138)	-87.3%	44,382	41,999	2,383	5.7%
ISTV'S	3	4	(1)	-30.7%	9,131	862	8,269	959.6%
Total Non-Tax Receipts	794,525	925,012	(130,487)	-14.1%	7,020,825	7,303,668	(282,843)	-3.9%
TOTAL REVENUES	2,855,562	3,021,776	(166,214)	-5.5%	19,908,492	20,365,229	(456,737)	-2.2%
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	60,085	7,172	52,913	737.8%	92,187	189,860	(97,673)	-51.4%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	60,085	7,172	52,913	737.8%	92,187	189,860	(97,673)	-51.4%
TOTAL SOURCES	2,915,647	3,028,948	(113,300)	-3.7%	20,000,679	20,555,089	(554,410)	-2.7%

DISBURSEMENTS

January GRF disbursements, across all uses, totaled $2,503.5 million and were $389.4 million (13.5%) below estimate. This was primarily attributable to lower than estimated disbursements in the Medicaid, Primary and Secondary Education, and Justice and Public Protection categories. On a year-over-year basis, January total uses were $176.5 million (6.6%) lower than those of the same month in the previous fiscal year, with the Medicaid and Justice and Public Protection categories largely responsible for the decrease. Year-to-date variances from estimate by category are provided in the table below.

Category	Description	YTD Variance	% Variance
Expenditures and transfers between agencies (ISTVs)	State agency operations, subsidies, tax relief, debt service payments, and pending payroll (if applicable)	($782.7 million)	-3.6%
Transfers	Temporary or permanent transfers out of the GRF that are not agency expenditures	($11.3 million)	-3.8%
TOTAL DISBURSEMENTS VARIANCE:		**($793.9 million)**	**-3.6%**

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. January disbursements for this category totaled $661.9 million and were $33.3 million (4.8%) below estimate. Expenditures for the school foundation program totaled $628.3 million and were $34.4 million (5.2%) below estimate. This variance was primarily attributable to timing of payments in the foundation funding and pupil transportation line items. A College Credit Plus payment to colleges, which was estimated to occur in January will now occur in future months. Disbursements in the pupil transportation line item were below estimate due to the use of updated, current year transportation data. This variance was partially offset by above estimate disbursements in the student assessment line item due to higher than projected autumn assessment costs. Year-to-date disbursements were $4,744.9 million, which was $41.9 million (0.9%) above estimate.

On a year-over-year basis, disbursements in this category were $0.1 million (0.0%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $3.4 million (0.1%) lower than the same point in fiscal year 2016.

Higher Education

January disbursements for the Higher Education category, which includes non-debt service GRF spending by the Department of Higher Education, totaled $181.9 million and were $3.4 million (1.8%) below estimate. This variance was primarily attributable to disbursements for the Choose Ohio First Scholarship Program, which were $2.8 million below the monthly estimate as a result of realigning the payment schedules.

Year-to-date disbursements were $1,327.4 million, which was $13.4 million (1.0%) below estimate. On a year-over-year basis, disbursements in this category were $0.6 million (0.3%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $33.0 million (2.5%) higher than at the same point in fiscal year 2016.

Other Education

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

January disbursements in this category totaled $4.8 million and were $4.0 million (45.2%) below estimate. This variance was primarily attributable to the timing of $2.5 million in subsidy payments to the Ohio History Connection, which occurred in December instead of January as estimated. Year-to-date disbursements were $51.1 million, which was $2.7 million (4.9%) below estimate. On a year-over-year basis, disbursements in this category were $5.4 million (52.6%) lower than for the same month in the previous fiscal year while year-to-date expenditures were $2.4 million (4.8%) higher than at the same point in fiscal year 2016.

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.

Expenditures
January GRF disbursements for the Medicaid Program totaled $1,162.7 million and were $294.4 million (20.2%) below the estimate, and $163.2 million (12.3%) below disbursements for the same month in the previous fiscal year. Year-to-date GRF disbursements totaled $10,272.9 million and were $699.0 million (6.4%) below the estimate, and $355.5 million (3.3%) below disbursements for the same point in the previous fiscal year.

January all funds disbursements for the Medicaid Program totaled $1,949.5 million and were $294.7 million (13.1%) below the estimate, and $130.4 million (7.2%) above disbursements for the same month in the previous fiscal year. Year-to-date all funds disbursements totaled $14,276.3 million and were $979.5 million (6.4%) below the estimate, and $66.4 million (0.5%) above disbursements for the same point in the previous fiscal year.

The January all funds variance was primarily attributable to underspending in the managed care program. A mid-fiscal year reconciliation of payments to the managed care organizations resulted in a one-time payment reduction to the state in January. Fee-for-service program expenses were also below estimate due to enrollment in that program being 5.4% below estimate for the month. This underspending was offset in part by greater than anticipated spending in the premium assistance program due to higher rates for the Medicare Buy-In and Medicare Part D components.

The year-to-date all funds variance included underspending in the managed care program due to the payment adjustment described above and lower than budgeted monthly capitation rates which began in January. Fee-for-service program costs were below estimate due to enrollment being below estimate by an average of 6.6% per month, year-to-date. Payments to hospitals under the upper payment limit program are below estimate year-to-date. Finally, lower administrative costs are the result of lower costs for information technology projects, volume-based service contracts, and reimbursement requests from county departments of job and family services. This underspending was partially offset by higher rates paid by the premium assistance program each month, as described above.

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

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

	January Actual	January Projection	Variance	Variance %
GRF	$ 1,162.7	$ 1,457.1	$ (294.4)	-20.2%
Non-GRF	$ 786.8	$ 787.0	$ (0.3)	0.0%
All Funds	$ 1,949.5	$ 2,244.2	$ (294.7)	-13.1%

<u>Enrollment</u>

Total January enrollment across all categories was 3.05 million. The most significant components are the Covered Families and Children/Modified Adjusted Gross Income (CFC/MAGI) category, which increased by 4,836 persons to a January total of 2.49 million persons, and the Aged, Blind and Disabled (ABD) category, which increased by 5,618 persons to a January total of 419,766 covered lives.

Total enrollment across all categories for the same period last year was 3.00 million covered persons, including 2.47 million persons in the CFC/MAGI category and 380,790 people in the ABD category.

Please note that these data are subject to revision.

Health and Human Services

This category includes non-debt service GRF expenditures by the following state agencies: Job and Family Services, Health, Aging, Developmental Disabilities, Mental Health and Addiction

Services, and others. Examples of expenditures in this category include: child care, TANF, administration of the state's psychiatric hospitals, operating subsidies to county boards of developmental disabilities, various immunization programs, and Ohio's long term care ombudsman program. To the extent that these agencies spend GRF to support Medicaid services, that spending is reflected in the Medicaid category.

January disbursements in this category totaled $162.6 million and were $3.2 million (2.0%) above estimate. Year-to-date disbursements were $836.4 million, which was $49.5 million (5.6%) below estimate. On a year-over-year basis, disbursements in this category were $20.1 million (14.1%) higher than for the same month in the previous fiscal year while year-to-date expenditures were $31.4 million (3.9%) higher than at the same point in fiscal year 2016.

Department of Job and Family Services
January disbursements for the Department of Job and Family Services totaled $88.7 million and were $10.6 million (13.6%) above estimate. This variance was primarily attributable to disbursements for Early Care and Education, which were $18.4 million (62.2%) above estimate due to a change in the disbursement schedule. Disbursements for Family and Children services were $1.6 million (15.2%) above estimate due to higher than estimated disbursements for the State Child Protective Allocation. These variances were partially offset by several line items. First, disbursements for Child Care State/Maintenance of Effort were $5.3 million below estimate due to the Child Care MOE requirement being met for federal fiscal year 2017. Second, disbursements for Information Technology Projects were $1.4 million (34.5%) below estimate due to non-receipt of vendor invoices for several contracts related to SNAP, Child Support, and Child Welfare. Finally, disbursements for TANF State/Maintenance of Effort were $1.1 million (6.9%) below estimate due to a decrease in cash assistance payment requests.

Department of Mental Health and Addiction Services
January disbursements for the Department of Mental Health and Addiction Services totaled $46.0 million and were $4.5 million (8.9%) below estimate. This variance was partially attributable to Specialized Docket Support disbursements, which were $2.9 million (100.0%) below estimate as payments originally scheduled for January were made in September. Addiction Services Partnership with Corrections disbursements were $1.3 million (33.4%) below estimate as payments originally scheduled for January will be made in future months. These variances were partially offset by higher than estimated disbursements for Hospital Services, which were $1.5 million (7.8%) above estimate as a drug purchase originally planned for future months was made in January.

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.

January disbursements in this category totaled $184.8 million and were $25.4 million (12.1%) below estimate. Year-to-date disbursements were $1,292.9 million, which was $15.4 million (1.2%) below estimate. On a year-over-year basis, disbursements in this category were $39.5

million (17.6%) lower than for the same month in the previous fiscal year while year-to-date expenditures were $51.5 million (4.2%) higher than at the same point in fiscal year 2016.

Department of Rehabilitation and Correction
January disbursements for the Department of Rehabilitation and Correction totaled $137.2 million and were $22.8 million (14.2%) below estimate. This variance was primarily attributable to lower than estimated disbursements for Community Residential Programs – Community-Based Correctional Facilities, Community Misdemeanor Programs, and Community Nonresidential Programs due to payments being made in December instead of January as estimated. Disbursements for Halfway Houses were also below estimate as some payments estimated to occur in January will now occur in future months. These variances were partially offset by higher than estimated disbursements for Institutional Operations and Institution Medical Services due to the timing of payments.

Department of Youth Services
January disbursements for the Department of Youth Services totaled $26.3 million and were $3.6 million (12.0%) below estimate. This variance was primarily attributable to the timing of disbursements for Community Correctional Facilities (CCFs) and RECLAIM subsidies, which will occur in future months instead of January as estimated.

Public Defender Commission
January disbursements for the Public Defender Commission totaled $2.7 million and were $2.2 million (462.4%) above estimate. This variance was primarily attributable to the timing of county reimbursement payments, which occurred in January instead of December as estimated.

General Government

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

January disbursements in this category totaled $37.4 million and were $0.7 million (1.9%) below estimate. Year-to-date disbursements were $235.9 million, which was $12.4 million (5.0%) below estimate. On a year-over-year basis, disbursements in this category were $1.1 million (3.0%) lower than for the same month in the previous fiscal year while year-to-date expenditures were $12.6 million (5.7%) higher than at the same point in fiscal year 2016.

Department of Administrative Services
January disbursements for the Department of Administrative Services totaled $3.9 million and were $3.0 million (346.2%) above estimate. This variance was attributable to the timing of quarterly rent payments for certain GRF-supported agencies as payments occurred in January instead of February as estimated.

Department of Transportation
January disbursements for the Department of Transportation totaled $0.6 million and were $3.5 million (85.1%) below estimate. This variance was primarily attributable to Public

Transportation disbursements, which were $2.4 million (87.3%) below estimate due to the timing of project expenditures and payments to grantees.

Property Tax Reimbursements

Payments from the property tax reimbursement category are made to local governments and school districts to reimburse these entities for revenues foregone as a result of the 10.0 percent and 2.5 percent rollback, as well as the homestead exemption. January property tax reimbursements totaled $1.0 million and were $1.0 million above estimate. Year-to-date disbursements totaled $902.0 million and were $18.0 million (2.0%) below estimate. Aggregate disbursements for the second half of the fiscal year are expected to continue to be below estimate, driven primarily by declines in the homestead exemption program.

Debt Service

January payments for debt service totaled $106.2 million and were $13.4 million (11.2%) below estimate. Year-to-date debt service payments were $1,013.3 million and were $14.2 million (1.4%) below estimate. The monthly and year-to-date variances are primarily attributable to bond premiums from previous issuances used to offset January debt service payments.

Transfers Out

January transfers out totaled $0.0 million and were $18.9 million (99.9%) below estimate. Year-to-date transfers out were $287.8 million and were $11.3 million (3.8%) below estimate. The monthly and year-to-date variances are primarily attributable to the timing of transfers out to the Medicaid Managed Care Performance Payments Fund.

Table 3

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

	MONTH				YEAR-TO-DATE			
Functional Reporting Categories Description	ACTUAL JANUARY	ESTIMATED JANUARY	$ VAR	% VAR	YTD ACTUAL	YTD ESTIMATE	$ VAR	% VAR
Primary and Secondary Education	661,905	695,231	(33,326)	-4.8%	4,744,916	4,702,973	41,943	0.9%
Higher Education	181,908	185,269	(3,361)	-1.8%	1,327,411	1,340,764	(13,353)	-1.0%
Other Education	4,843	8,837	(3,994)	-45.2%	51,142	53,793	(2,651)	-4.9%
Medicaid	1,162,744	1,457,129	(294,385)	-20.2%	10,272,922	10,971,945	(699,023)	-6.4%
Health and Human Services	162,648	159,484	3,164	2.0%	836,447	885,971	(49,524)	-5.6%
Justice and Public Protection	184,823	210,244	(25,422)	-12.1%	1,292,946	1,308,329	(15,383)	-1.2%
General Government	37,391	38,128	(737)	-1.9%	235,914	248,341	(12,427)	-5.0%
Property Tax Reimbursements	995	0	995	N/A	901,983	919,983	(18,000)	-2.0%
Capital Outlay	0	0	0	N/A	0	0	0	N/A
Debt Service	106,193	119,599	(13,406)	-11.2%	1,013,333	1,027,572	(14,239)	-1.4%
Total Expenditures & ISTV's	2,503,449	2,873,922	(370,473)	-12.9%	20,677,015	21,459,672	(782,658)	-3.6%
Transfers Out:								
BSF Transfer Out	0	0	0	N/A	29,483	29,483	0	0.0%
Operating Transfer Out	18	18,918	(18,900)	-99.9%	258,283	269,541	(11,258)	-4.2%
Temporary Transfer Out	0	0	0	N/A	0	0	0	N/A
Total Transfers Out	18	18,918	(18,900)	-99.9%	287,765	299,023	(11,258)	-3.8%
Total Fund Uses	2,503,467	2,892,839	(389,373)	-13.5%	20,964,780	21,758,696	(793,916)	-3.6%

Table 4

GENERAL REVENUE FUND DISBURSEMENTS
ACTUAL FY 2017 VS ACTUAL FY 2016
($ in thousands)

Functional Reporting Categories Description	MONTH JANUARY FY 2017	MONTH JANUARY FY 2016	MONTH $ VAR	MONTH % VAR	YEAR-TO-DATE ACTUAL FY 2017	YEAR-TO-DATE ACTUAL FY 2016	YEAR-TO-DATE $ VAR	YEAR-TO-DATE % VAR
Primary and Secondary Education	661,905	661,762	143	0.0%	4,744,916	4,748,335	(3,419)	-0.1%
Higher Education	181,908	181,341	567	0.3%	1,327,411	1,294,460	32,951	2.5%
Other Education	4,843	10,212	(5,369)	-52.6%	51,142	48,786	2,356	4.8%
Medicaid	1,162,744	1,325,944	(163,200)	-12.3%	10,272,922	10,628,450	(355,527)	-3.3%
Health and Human Services	162,648	142,576	20,072	14.1%	836,447	805,063	31,385	3.9%
Justice and Public Protection	184,823	224,324	(39,501)	-17.6%	1,292,946	1,241,411	51,535	4.2%
General Government	37,391	38,530	(1,138)	-3.0%	235,914	223,291	12,622	5.7%
Property Tax Reimbursements	995	(1,614)	2,609	161.7%	901,983	897,181	4,802	0.5%
Capital Outlay	0	0	0	N/A	0	0	0	N/A
Debt Service	106,193	96,871	9,322	9.6%	1,013,333	977,669	35,665	3.6%
Total Expenditures & ISTV's	2,503,449	2,679,944	(176,495)	-6.6%	20,677,015	20,864,646	(187,632)	-0.9%
Transfers Out:								
BSF Transfer	0	0	0	N/A	29,483	425,500	(396,017)	-93.1%
Operating Transfer Out	18	26	(8)	-31.8%	258,283	388,260	(129,977)	-33.5%
Temporary Transfer Out	0	0	0	N/A	0	0	0	N/A
Total Transfers Out	18	26	(8)	-31.8%	287,765	813,760	(525,995)	-64.6%
Total Fund Uses	2,503,467	2,679,970	(176,504)	-6.6%	20,964,780	21,678,406	(713,626)	-3.3%

FUND BALANCE

Table 5 describes the estimated General Revenue Fund (GRF) unencumbered ending fund balance for FY 2017. Based on the estimated revenue sources for FY 2017 and the estimated FY 2017 disbursements, transfers, and encumbrances, the GRF unencumbered ending fund balance for FY 2017 is an estimated $458.8 million.

The GRF unencumbered ending fund balance should not be considered as a balance available for expenditure in FY 2017 nor should it be considered as equivalent to the FY 2017 surplus calculation as defined in Section 131.44 of the Ohio Revised Code.

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

NOTE: As stated in the Executive Budget Revisions section of this report, the Fund Balance Table is based on the fiscal year 2017 estimates prepared in July 2016 and does not reflect revised fiscal year 2017 estimates contained in the Executive Budget for fiscal years 2018-2019.

Table 5
FUND BALANCE
GENERAL REVENUE FUND
FISCAL YEAR 2017
($ in thousands)

July 1, 2016 Beginning Cash Balance*	**$ 1,193,327**
Plus FY 2017 Estimated Revenues	22,897,600
Plus FY 2017 Estimated Federal Revenues	12,682,980
Plus FY 2017 Estimated Transfers to GRF	309,100
Total Sources Available for Expenditures & Transfers	**37,083,007**
Less FY 2017 Estimated Disbursements**	35,893,614
Less FY 2017 Estimated Total Encumbrances as of June 30, 2017	312,696
Less FY 2017 Estimated Transfers Out	417,875
Total Estimated Uses	**36,624,185**
FY 2017 ESTIMATED UNENCUMBERED ENDING FUND BALANCE	**458,822**

* Includes reservations of $428.6 million for prior year encumbrances and $54.5 million for transfers from the fiscal year 2016 ending balance executed during fiscal year 2017. After accounting for these amounts, the estimated unencumbered beginning fund balance for fiscal year 2017 is $710.2 million.

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

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