Office of Budget and Management

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GOVERNOR KASICH'S EXECUTIVE BUDGET RECOMMENDATIONS FOR FISCAL YEARS 2016 AND 2017

TESTIMONY OF DIRECTOR TIMOTHY S. KEEN, OFFICE OF BUDGET AND MANAGEMENT

HOUSE FINANCE AND APPROPRIATIONS COMMITTEE FEBRUARY 3, 2015

Chairman Smith, Ranking Member Driehaus, and members of the Finance and Appropriations Committee, my name is Tim Keen, and I am Director of the Office of Budget and Management. I am pleased to be with you today to present Governor Kasich's Executive Budget Recommendations for fiscal years 2016 and 2017.

Traditionally in Ohio, the Governor's introduction of an Executive Budget proposal – followed the next day by the Budget Director's testimony to this committee – have together marked the formal start of the state's biennial budget deliberations. But for me, my staff and many others in the Governor's Administration, these days also mark the culmination of an equally important – and months long – process of budget and policy development.

With that in mind, I want to begin this morning by thanking my colleagues in Governor Kasich's cabinet, their staff; the employees of all other state agencies, boards and commissions; Governor's Office staff; and the employees of OBM who have been involved in the development of this budget. The Executive Budget recommendations I will discuss with you today are the result of work performed over many months by thousands of knowledgeable and dedicated state employees. It is my privilege to represent them here today.

As you know this is the third biennial budget to be presented by Governor Kasich. The first two biennial budgets and our two mid-biennium review processes have each in turn contributed to the restoration of stable state finances and structural balance and implemented reforms that have allowed us to increase state funding for education and other vital programs, rebuild the state's Rainy Day savings account to its target level and improve opportunities for Ohioans most in need, all while reducing and reforming taxes to increase our economic competitiveness. Taken together, these past budgets – and the fiscal management decisions they frame -- have built a strong and growing momentum that continues to strengthen and evolve with the budget before you today.

I refer to our shared accomplishments from the past in order to make an important point about the present: While Ohio's greatest budget challenges may have been overcome and our achievements to date have been impressive, we can all agree that there is more work to do. Building on our successes over the past four years, we are using this new Executive Budget as the *Blueprint for a New Ohio*.

As I will describe in this testimony – and as this committee and others will hear from my Cabinet colleagues in the weeks ahead, this is a budget that:

- continues to strengthen primary and secondary education opportunities for Ohio's children;
- makes college more affordable and career opportunities more attainable;
- reduces and reforms taxes to benefit all Ohioans and improve our increasingly positive business climate;
- supports life-long health with smarter, high-quality care; and
- creates opportunities to help Ohioans most in need recognize their full potential

In short, it is a budget that recognizes and builds what we have achieved together over the past four years and makes continued progress toward improving Ohio's economic competitiveness and ensuring every Ohioan the best possible quality of life. To reach those objectives, this budget – like the Governor's first two biennial budgets and his two MBRs – is based on four fundamental budget principles:

Retain Structural Balance and Strengthen Ohio's Financial Footing

Significant efforts have been made over the past four years to return Ohio's budget to structural balance, to stabilize the state's finances and to rebuild our budget reserves.

A Comprehensive Review of All Agencies, Programs and Line Items

In preparation for this budget – as with its predecessors – we undertook a careful review of all agency budgets and operations. We looked closely at every line item, GRF and non-GRF alike. Our obligation in each instance has been to be good stewards of state government resources, whether generated through taxes, fee charges or federal grants.

Continue to Reform and Restructure State Government and Services

Over the Governor's first Administration, we have made significant progress toward changing the way state agencies do business. We continue to build on those efforts. State agencies have been encouraged to look for operational efficiencies and other opportunities for cost-saving program reform and improvement.

The Budget Is a Means to an End

And for this Administration, that end is economic development and jobs growth. Our decisions on resource allocation and policy conform to that priority – and our goal is to reduce costs and

improve program delivery and service in ways that make Ohio an even more attractive place to work, live and raise our families. As Governor Kasich has said: "A balanced budget and fiscal restraint isn't an end unto itself, but a means to an end to allow us to cut taxes, invest in education and training, and free up funds to do a better job of taking care of those truly in need."

To describe the Executive Budget, in my testimony today I will:

- Discuss the current economic conditions and revenue assumptions in which this budget has been framed, including some specific areas of uncertainty that could impact the budget
- Describe the basis for expense and revenue estimates we have used to develop a balanced budget for the coming biennium
- And, in summary, outline the major policy areas that are the Governor's primary focus with this budget

ECONOMIC OVERVIEW

The economic forecast that forms the underlying basis for the revenue forecasts in the budget assumes continued economic growth, both nationally and in Ohio. That growth is expected to continue to be moderate, although there are factors that could cause an acceleration of growth in the near term.

Recent History

Since the Great Recession of 2007-09, U.S. real gross domestic product (GDP) has grown for 20 of 22 quarters, although growth has averaged only 2.3%, which is slow measured against other postwar expansions. This relatively slow growth has led to anxiety about the pace and

durability of the recovery and expansion. Lately, however, the economy seems to be accelerating. The second and third quarters of 2014 turned in the strongest back-to-back GDP growth since the third and fourth quarters of 2003. There is also encouraging news from the labor market and a variety of economic indicators have recently hit their highest levels since pre-recession days.

Labor demand took much longer to recover after the recession than the demand for goods and services. When I testified on the budget two years ago, I noted that real GDP had recovered its pre-recession peak in the fourth quarter of 2011, but the U.S. labor market was still millions of jobs below its pre-recession peak, and the U.S. unemployment rate was 8.0%.

The local and national labor market picture today has markedly improved from two years ago, both in the U.S. and in Ohio. The U.S. unemployment rate for December 2014 was down to 5.6%. This is already below the levels that many analysts estimated to be the new "full-employment" rates. The Ohio unemployment rate has also fallen sharply over that time, dropping from 7.3% to 4.8% in December 2014. Although there has been concern that the drop in unemployment rates has been driven by people dropping out of the labor force, in fact about 90% of the drop in unemployment has been explained by higher employment.

Unlike two years ago, the U.S. employment level has recovered its pre-recession peak. That milestone was reached in May 2014, 76 months after the previous high point in January 2008. The improvement in the labor market in 2014 was significant, as U.S. nonfarm employment increased by 2.95 million jobs, for an average of 246,000 jobs per month, up substantially from the average of 194,000 in 2013, and the best calendar year performance since 1999.

Ohio employment has also grown substantially over the past two years. Nonfarm employment has grown by an estimated 112,500 jobs, while private employment has actually grown somewhat faster. The Ohio labor market, like the national labor market, improved in 2014, with nonfarm job growth averaging 5,100 jobs per month, up from 4,300 per month in 2013.

The one aspect of the labor market that has not yet shown significant improvement is wage growth. Average hourly earnings of all private sector employees rose by only 1.65% in 2014, a lower increase than even the recession and early recovery years of 2009 and 2010, and well below the 3% to 3.5% range of earnings growth before the recession. Real wage inflation is effectively zero, since wages have grown more slowly than labor productivity. In fact, the Federal Reserve is watching wage growth very closely, along with a variety of other labor market indicators, in order to assess the state of the labor market and the overall economy as part of their deliberations about when short-term interest rates need to be increased.

There are other measures that show the economy returning to its former health. Ongoing improvements in the labor markets, low inflation, and the very large drop in the price of gasoline have continued to boost consumer confidence. Both the Conference Board and the Reuters/University of Michigan surveys have been increasing, and the Michigan Survey in December rose to its highest level since January 2007. In November, initial claims for unemployment insurance hit their lowest level since April 2000, although they have increased slightly since then. The number of job openings recorded by the Job Openings and Labor Turnover Survey (JOLTS) hit its highest level since 2001 in August, before decreasing slightly.

An exception to the litany of good news can be found in construction, which – despite steady increases since the low point of February 2011 – is still about 20% below its pre-recession peak.

Finally, before I wrap up the summary of recent history and move to the outlook, I must mention the recent sharp declines in crude oil and retail gasoline prices. As crude oil prices have fallen, so have retail gasoline prices. Energy Information Administration (EIA) data shows that national average gasoline prices have fallen by about 45% from their late June high of $3.70 per gallon. This has freed up significant amounts of dollars for consumers to spend on other items.

It is not clear whether this has yet had an impact on non-auto retail sales and tax revenues, but it is probably one of the factors that have contributed to very strong auto sales tax revenues. I would note that, although of course no oil or gasoline price decline of this magnitude was foreseen two years ago, even without that influence the last biennial budget forecast called for improved light vehicle sales as a driver of economic growth (it also called for a housing rebound which has largely not materialized, demonstrating again that economic forecasting is a risky business). I will address the outlook for oil prices and their impact on the economy and on sales tax revenues at greater length when I discuss the outlook.

Near-Term Outlook

OBM relies primarily on two sources for the macroeconomic forecasts that underlie the forecasts of GRF tax revenues that support the Executive Budget. The first source is the forecast of the national and Ohio economies by the economic research and forecasting firm Global Insight. The other source is the Governor's Council of Economic Advisors, a volunteer

group of industry economists with whom the state's relationship covers about three decades. The two sets of macroeconomic forecasts used as the foundation of the revenue forecasts were in very close agreement for this budget.

The baseline economic forecast is for continued growth for the nation and for Ohio. For 2010-2014, real GDP growth averaged 2.2% per year. Global Insight projects real GDP accelerating to an average of 2.8% over CY 2015-2017, with growth being a little faster (3.1%) in 2015 due to special factors such as the drop in oil and gasoline prices. Consumer spending is expected to grow at an average rate of 3.1% over CY 2015-2017, almost a percentage point higher than the 2.2% average over 2010-2014.

Stronger consumer spending – partially from lower gasoline prices and partially from improving economic conditions – is currently driving growth, and is projected to continue to do so through at least the first half of CY 2015. The benefit to consumers from lower oil prices is sometimes referred to by economists as the "gasoline price dividend." Currently it is difficult to tell exactly where this "dividend" is being spent. However, the benefits of lower gasoline prices on consumer spending generally are expected to continue as long as prices stay low.

While the economic outlook is generally good, there are two risk areas that I would mention before I close. The first risk is in international trade. The strengthening of the U.S. dollar and the economic weakness of U.S. trading partners is a concern for U.S. exports. Even in the baseline forecast, exports are expected to continue growing, but imports are expected to grow much faster, so that net exports are expected to be negative, and thus a subtraction from growth, in CY 2015-2017. Import growth is expected to be on average about 1.7% higher than export growth over those three years. U.S. export growth could be even weaker than in the

baseline case if the dollar appreciates more than expected, or the economies of our trading partners are weaker than expected.

The second risk is domestic, and involves both cyclical and longer-term demographic factors. If low wage growth continues and leads to lower than expected consumer spending, and is combined with demographic factors such as lower marriage rates, and longer-term credit market trends such as high student loan debt, that could lead to low rates of household formation and a return to a weak housing market. This could result in a return to falling house prices, which would cause even lower consumer spending, initiating a downward cycle until household formation began rising again.

Neither of these risks is in the baseline case, and the probability that they materialize and stall the expansion is well under 50%, but OBM always exercises caution in its revenue forecasting in light of these possible scenarios.

There are thousands of national and state variables in the Global Insight economic forecasts. OBM pays particular attention to a relatively small group of key variables that either summarize the broad economy or are directly used in the equations that are used to forecast GRF tax revenues. The FY 2015-2017 forecasts for those variables, along with the history for FY 2013-2014, are summarized in the table below.

History and Global Insight Baseline Forecast of Key Economic Variables, FY 2014-2017					
Annual percent change unless otherwise indicated					
Output	FY 2013 Actual	FY 2014 Actual	FY 2015 Estimate	FY 2016 Estimate	FY 2017 Estimate
U.S. Real GDP	2.0	2.5	3.1	2.6	2.9
Ohio Real GDP	1.7	1.3	1.4	1.9	2.2
Income					
U.S. nominal personal income	4.0	2.6	4.2	4.6	5.4
Ohio nominal personal income	3.3	2.7	3.9	3.8	4.4
Ohio nominal wage and salary income	3.3	2.8	4.1	4.3	4.3
Employment					
U.S. nonfarm employment	1.6	1.7	2.0	1.9	1.6
Ohio nonfarm employment	1.4	1.1	0.9	1.3	0.9
U.S. unemployment rate (percentage)	7.8	6.8	5.8	5.4	5.2
Ohio unemployment rate (percentage)	7.3	6.7	5.5	5.4	5.4
Consumer Spending					
U.S. real personal consumption expenditure	2.1	2.4	3.1	3.3	3.0
U.S. nominal personal consumption expenditure	3.5	3.7	3.9	4.6	4.9
U.S. retail and food service sales	4.5	3.8	3.9	4.2	5.1
Ohio retail and food service sales	3.8	4.0	3.3	3.0	4.4
U.S. light vehicle sales (millions of units)	15.03	15.85	16.78	17.07	17.37

GRF REVENUE FORECAST

Based on the economic forecast that I have described above, the Office of Budget and Management, in conjunction with the Department of Taxation, has developed the baseline GRF tax revenue forecasts that underlie the Executive Budget. We have then layered in the estimated impacts of changing the allocation of two taxes – the commercial activity tax (CAT) and the kilowatt-hour (KWH) tax – and the impacts of tax reform to come to a final forecast total. That final GRF tax total is $22.34 billion in FY 2016 and $23.26 billion in FY 2017. The final GRF revenue forecast displayed by source can be found on Attachment 1.

These amounts represent growth of 5.3% and 4.1%, respectively, from the revised FY 2015 forecast. If one removes the effects of tax reform, then forecasted tax revenues would be

$22.76 billion in FY 2016 and $23.78 billion in FY 2017, with estimated growth rates of 7.3% in FY 2016 and 4.5% in FY 2017. The FY 2016 growth rate is so large because of the proposed allocation to the GRF of increased shares of CAT and KWH tax revenues. Finally, if the impacts of the proposed tax reform and the allocation changes are removed, then estimated GRF tax revenues would be $22.29 billion in FY 2016 and $23.30 billion in FY 2017, for estimated growth rates of 5.1% in FY 2016 and 4.5% in FY 2017. These last figures represent OBM's baseline tax revenue forecast, which is shown on Attachment 2.

The progression from the baseline forecast to the final GRF revenue forecast that includes policy changes is shown on Attachment 3. This table shows that the Governor's tax reform proposal, which I discuss in detail in a later section, would reduce state revenues by $367 million in FY 2016 and $443 million in FY 2017. The impact is felt mostly by the GRF, but there is also a small impact on the Local Government Fund (LGF) and the Public Library Fund (PLF), since they each receive 1.66% of GRF tax revenues. Working in the other direction, the proposed allocation changes to the CAT and the KWH tax would increase the GRF share of tax revenues by $485 million in FY 2016 and $495 million in FY 2017. Again, this change also entails a small LGF and PLF impact.

My discussion of the tax revenue forecasts in this section of my testimony will refer to the baseline. I discuss the proposed tax reform and its impacts in a later section.

These GRF tax revenue forecasts are consistent with Governor Kasich's conservative fiscal management philosophy. I believe that this conservative philosophy has served us well over the past four years. GRF tax revenues have exceeded the forecasts in each year over the FY 2011-2014 period, with the overage ranging from 0.9% in FY 2014 to 5.8% in FY 2011. We

believe that we will finish FY 2015 with a fifth consecutive tax revenue overage. Although it is not easy to keep track of the experience of each of the 50 states over a multi-year span, we believe that Ohio is one of very few states that have not had to revise its revenue forecasts downward due to a shortfall over the FY 2011-2015 period.

OBM's biggest challenge in forecasting baseline GRF tax revenues for this budget is in the personal income tax, for some of the same reasons that it was the biggest challenge last budget as well. You may recall that in February of 2013, I devoted a fair amount of my testimony to the acceleration of income from tax year 2013 into 2012 because of the "fiscal cliff" phenomenon at the federal level. The threat, or in some cases the reality, of higher federal tax rates was thought to have caused taxpayers to have shifted income such as capital gains and dividends from tax year 2013 to tax year 2012 where possible. This affected not only federal tax revenues but also state tax revenues, since Ohio, like many states, has an income tax that uses federal income as its starting point.

After the fact, there is evidence, both direct and indirect, that confirms the hypothesis that such shifting occurred. Personal income tax revenues grew by 12.7% in FY 2013 because so much income was shifted into tax year 2012 and taxpayers paid tax on that income in the 2013 filing season. In FY 2014, personal income tax revenues fell by 15.2%, due to both to income being moved out of tax year 2013, and due to the significant income tax relief provided by the FY 2014-2015 budget bill (HB 59). The challenge for OBM, and for budget offices and revenue departments in every state, is trying to discern the underlying trend in taxable incomes if such federally induced shifting had not occurred, and to use that information to forecast the path of taxable incomes relative to the path of the underlying economy.

OBM's income tax revenue forecast is for baseline revenues to grow 7.1% in FY 2016 and 5.6% in FY 2017. However, to understand this forecast, one must be clear about the meaning of the term "baseline" in this context. For example, if not for the temporary increase in the small business exemption, the estimated baseline growth rates for the income tax would be 5.5% in FY 2016 and 5.4% in FY 2017.

I mentioned in my review of the economic forecasts that there is widespread expectation among both commentators and professional forecasters that the sharp reduction in gasoline prices, and the resulting savings to household budgets, will lead to additional spending on other items. For states like Ohio, this should result in some increase in sales tax revenues, because gasoline is not subject to the sales tax, whereas some of the redirected spending will be for items that are subject to sales tax.

Despite this expectation, you will see that OBM has been cautious in its estimates of sales tax revenue growth. Forecasted baseline growth is 4.3% in FY 2016 and 4.7% in FY 2017. Non-auto sales tax revenue is expected to grow by 4.9% per year.

Auto sales tax growth is expected to be flat in FY 2016 and to grow by 3.0% in FY 2017. The OBM estimate essentially assumes that auto sales growth will pause after a very strong FY 2015, when revenue growth is expected to be 8.0%, before resuming growth at a slower pace in FY 2017. The OBM estimate assumes that some of the current auto sales growth may still be the fulfillment of pent-up demand from the recession and its aftermath, and that a period of sales growth above trend may be followed by a period of low or no growth, despite improvement in the overall economy.

I have focused my discussion of GRF tax revenue forecasts on the income and sales tax because they represent about 87% of total baseline GRF tax revenues. I will also briefly discuss the other two taxes with the largest annual revenues, the commercial activity tax (CAT) and the cigarette and other tobacco products taxes.

The CAT forecast is for slow growth in FY 2016 (2.6%) and FY 2017 (2.5%). CAT revenue growth would be faster if not for a projected increase in credits claimed against the CAT. These credits, which encompass such activities as job creation, research and development, job retention, historic preservation, and film expenditure, as well as other purposes, may well be for worthy economic development goals. However, OBM would urge the General Assembly to be cautious about approving additional tax credits and further eroding the revenue base. I would note that the CAT revenue forecasts do not have receipts from petroleum products in the tax base, as those receipts are now subject to a separate but parallel "petroleum activity tax (PAT)."

As I mentioned earlier in my testimony, aside from tax reform, the Executive Budget changes the disposition of CAT revenue, increasing the GRF share of CAT revenue to 75% and reducing the property tax replacement of CAT revenue to 25%. This change is made in conjunction with the proposal, which I will discuss later, that would gradually reduce the replacement payments to schools and local governments for tangible personal property (TPP) tax repeal and utility deregulation. So, the Executive Budget would increase the GRF share of the CAT to 75%.

The baseline forecast of the cigarette and other tobacco products (OTP) taxes is based on the long-term downward trend in the revenues from these taxes, which OBM estimates is about

2.5%. The longer-term downward trend in cigarette tax revenues has actually been somewhat larger than 2.5%, although over the last three years (FY 2012-2014) the average decline has only been 2.0%. A new variable in forecasting the demand for cigarettes, e-cigarette consumption, is too new for OBM to be able to factor in an estimated impact.

Unlike cigarette revenue, OTP tax revenue has generally been growing. Because OTP revenue has grown, combined cigarette and OTP tax revenues have declined by only 1.6% on average over FY 2011-2014. However, given the uncertainty over the impact of e-cigarettes on traditional cigarette demand, and in light of the fact that state dollars are being committed to bolster smoking cessation campaigns, OBM believes that it is prudent to assume a more cautious 2.5% revenue decline for FY 2016-2017.

I will close this section with a brief discussion of the kilowatt-hour (KWH) tax. It would appear from the table that OBM is expecting a very high growth rate for KWH tax revenues in FY 2016. In fact, this is due solely to proposed changes that are very similar to those I just discussed in regard to the CAT. It is the disposition of revenues that is changing, not the total revenue amount. As I mentioned, the budget proposes that utility deregulation and tangible personal property (TPP) tax reimbursements be gradually reduced. It also proposes that the payments be combined, and that all such payments be made from CAT revenue. As a result, the two funds that now receive earmarked KWH tax revenue (9% for schools and 3% for local governments) and use that revenue to make replacement payments to schools and local governments would be eliminated, and all KWH tax revenue would go to the GRF.

FY 2016-2017 RECOMMENDED APPROPRIATIONS

The Executive Budget recommends GRF appropriations of $35.3 billion in FY 2016 and $37.0 billion in FY 2017. "All Funds" recommended appropriations total $68.5 billion in FY 2016 and $70.2 billion in FY 2017 [see Attachments 4 and 5].

Following legislative tradition, the Executive Budget will be introduced as four separate budget bills, known as the Main Operating, Transportation, Bureau of Workers Compensation, and Industrial Commission budgets. All GRF appropriations and a large majority of the non-GRF appropriations will be contained in the Main Operating Budget. The three other bills will contain only non-GRF appropriations.

Recommended state-only GRF appropriations total $22.7 billion in FY 2016 and $23.6 billion in FY 2017. This represents annual growth rates of 4.2% and 4.0%, respectively.

Most of the growth in state-only GRF appropriations is due to primary and secondary education and Medicaid, the first and second largest areas of state GRF spending, respectively. Education grows due to a continued, intentional increase in the amount of state resources provided to local school districts by updating and modifying the current formula. Medicaid reflects a restrained rate of growth due to the significant program reforms that have been successfully implemented in Governor Kasich's first term as well as additional improvements planned for the upcoming biennium.

Regarding total GRF appropriations, as you know, federal reimbursement for the majority of Medicaid spending is deposited into the GRF. As a result of increased federal GRF reimbursement, which I will discuss later in my testimony, federal GRF appropriations grow by

31.5% and 6.2%. This brings total GRF appropriation growth to 12.5% in FY 2016 and 4.8% in FY 2017.

KEY POINTS IN THIS BUDGET

The Governor's Executive Budget contains hundreds of changes and initiatives – far more than time permits me to discuss today. Over the next several weeks, OBM staff and I, as well as my Cabinet colleagues, will be available to provide this committee and its subcommittees with the information required to make a fair and informed assessment of these proposals.

Education Funding and Reform

Recommended GRF and lottery appropriations for the Department of Education total their largest amounts ever, at $8.7 billion in FY 2016 and $9.1 billion in FY 2017. This represents growth of $410.1 million, or 4.9%, in FY 2016, and another $345.8 million, or 4.0%, in FY 2017. The GRF portion of these appropriations is $7.7 billion in FY 2016 and $8.0 billion in FY 2017, representing growth of $441.2 million, or 6.1%, in FY 2016, and another $344.4 million, or 4.5%, in FY 2017. Lottery appropriations equal slightly more than $1.0 billion in both fiscal years. State education appropriations represent the largest commitment of state General Revenue Fund appropriations contained in the budget.

Foundation Formula

Total state resources allocated to the Foundation formula total $7.4 billion in FY 2016 and $7.7 billion in 2017. Of this amount, $877.7 million comes from the lottery. This includes an additional $700 million over the biennium in new state aid distributed to school districts and community schools through the formula.

The Executive Budget largely maintains the basic structure of the school funding formula enacted two years ago. We retain the nine primary aid categories: the core opportunity grant, targeted assistance, K-3 literacy funds, economically disadvantaged aid, limited English proficiency funding, gifted funding, transportation aid, special education aid, and career-technical education funding. Our commitment to ensuring that state aid is most effectively targeted to districts with the least capacity to generate local revenue compelled us to make several notable modifications, including the following:

- increasing the core opportunity grant per pupil amount to $5,900 in FY 2016 and $6,000 in FY 2017,
- increasing annual funding amounts for primary aid categories of assistance within the formula (2% increase for special education aid; 4% increase for career-technical education aid; 5% increase for K-3 literacy aid),
- updating various data elements to the most recently available data.

As the Administration began development of the education budget for FY 2016-17, it was our intention to work within the framework of the funding formula adopted two years ago. As noted earlier, in large part we have done so. However, we identified three areas where we felt modifications were necessary to achieve the objectives of efficiently and effectively distributing resources through the formula to the districts with less capacity to raise revenues locally.

Calculating State Share

The school funding formula adopted in 2013 attempted to incorporate income into the calculation of the state share for districts where the income index was lower than the property index for that district. After almost two years of experience implementing the current school funding formula, we have determined that the manner in which the income adjustment is

constructed does not appropriately incorporate income into the formula for lower wealth districts. In fact, the current construction of the income adjustment does very little to account for income levels for lower-wealth and is more likely to benefit higher-valuation districts. Clearly, if our theory is that we should be allocating our limited state resources to districts with the least capacity to generate local revenue, this outcome is not acceptable and cannot be continued.

Accordingly, the Governor's school funding proposal includes a modification to the current wealth index (which we propose to call the capacity measure) and the state share index (which we propose to call the state share percentage). Our proposed changes are designed to more appropriately incorporate income as a factor into the distribution of state resources, allowing the formula to more effectively target state aid to districts with a lesser capacity to generate local revenue. In order to accomplish this, the proposal compares each district's income to the statewide median income. Districts that cluster around the median income do not receive an income-based adjustment. But for districts where income varies meaningfully from the median, the income index is used to adjust the state and local share contribution for both higher and lower income districts.

Under this approach, there are 321 districts whose income clusters around the median income (within 0.5 standard deviation) who receive no income adjustment to their capacity. There are 176 districts whose lower income levels result in an increase in the amount of aid that comes from the state. Conversely, there are 114 districts whose higher income results in a greater share of their aid being delivered from local contributions. The calculation that incorporates the income adjustment for lower wealth districts will be implemented immediately beginning in FY 2016. The calculation for higher wealth districts will be phased-in gradually over a five-year

period. Our analysis indicates that this approach is very effective at driving resources to districts with less capacity to generate local revenue and is a significant improvement over the income adjustment in current law.

Transportation

Under current law, each school district receives transportation funding based on either a cost-per-rider or cost-per-mile calculation. After a school district's transportation funding is calculated, as with other components of the formula, the greater of either the district's state share percentage or minimum state share of 60% is applied. However, if there are insufficient appropriations to pay the calculated amounts, the distributed amounts are prorated to fit within the appropriation. In the event of proration, a special set-aside for low density/low-mileage districts is relied upon to partially offset the reduction in formulaic amounts.

In our analysis of the transportation component, we noted several areas of concern. First, prorating the transportation funding to fit within the appropriation level adversely effects lower wealth districts by preventing school districts from receiving the full amount of transportation funding as calculated by the formula. Second, the use of a minimum state share of 60% disproportionally benefits wealthier districts, as any district with a state share percentage between 5% and 59% receives an upward adjustment to the minimum state share percentage factor for their transportation funding calculation.

As we set out to construct our transportation proposal, our primary objective was to fully fund the formula. This budget accomplishes that objective through a series of rational policy choices designed to most efficiently direct resources to districts with less capacity to generate local revenue. First, we determined that it was necessary to commit additional funding to the

transportation component. Second, we propose reducing the minimum state percentage for all districts from 60% to 50%. By reducing the state minimum share, funds that would have previously gone to wealthier districts in order to provide them with a 60% share of transportation funding will be available for distribution to lower wealth districts. Fully funding the formula and reducing the minimum state share within the formula eliminates the need to continue funding the low density/low mileage set-aside within the appropriation. These changes allowed us to accomplish our objective of fully funding the formula, thereby eliminating the need to prorate the appropriation in the Executive Budget, as introduced.

Transitional Aid

Transitional aid (or the "guarantee" as it is commonly referred to), has long been an element of the state's school funding formula. Most often, the guarantee in law has prevented a district's state aid from falling below the previous year's amount. However, because guarantees have been in place without interruption for many years, the guarantee is not necessarily to last year's amount, but perhaps to a formula calculation from a number of years prior. This means that the factors used to calculate guaranteed state aid levels are often the result of student population and/or property values that are dramatically different from what currently exists. The purpose of the school funding formula is to efficiently allocate state resources to school districts based on current local capacity. The guarantee short-circuits the formula and continues to direct limited state resources without regard to changing district circumstances.

The Executive Budget proposes to replace the 100% guarantee. This does not mean completely eliminating the guarantee, because we recognize that dramatic shifts in state aid could be disruptive to school programs. Instead, we propose a very modest reduction in state aid if factors indicate that a district's aid amount should be less than currently received. Under

our proposal, a school district's state aid would not be allowed to fall by an amount that is greater than 1% of the district's combined state and local resources. It is our belief that this proposal better fits the concept of "transitional" aid, buffering districts from adverse funding consequences in the short run.

Cap

The current formula contains a feature known as the cap that withholds calculated aid above a specified annual percentage growth rate. Like a guarantee, but with the opposite effect, the cap short-circuits the formula, in this case withholding earned formula aid.

The executive budget maintains a cap at 10.0% annual growth in each year. However, our formula development choices will reduce the number of districts on the cap and the amount of money withheld by the cap, and should position us to eliminate the cap in the next budget.

Other Education Initiatives

With my review of the Governor's school funding proposal complete, I will now turn to other education-related initiatives that are included in the Executive Budget. As I said earlier, while a significant amount of the Department of Education's budget growth is attributable to the school funding formula, a number of non-formula initiatives are also prioritized.

The Executive Budget maintains the Administration's commitment to the Straight A Fund by providing $100 million in both fiscal years from the Lottery Profits Education Fund for sustainable proposals that improve student achievement, reduce the cost of running a school or district, and drive more dollars to the classroom. Additionally, the budget proposes a new set-aside within the Straight A appropriation to allow for an Advanced Placement/College

Credit Plus incentive. The set aside would provide $13.5 million over the biennium to credential teachers in economically disadvantaged high schools as well as those schools with limited or no credentialed teachers to teach College Credit Plus courses and $5 million in FY 2017 to reward a limited number of districts who very aggressively increase the participation of their students in College Credit Plus or AP courses.

Early childhood education funding is prioritized in this budget through the addition of GRF resources and $40 million in resources appropriated from the casino operator settlement fund over the biennium. This brings total funding for early childhood initiatives in the Department of Education's budget to over $90 million each year. Additional funding will be used to provide preschool slots for economically disadvantaged four year olds, allow community schools sponsored by exemplary authorizers to offer preschool opportunities, and provide mental health counselors to work with teachers to address behavioral problems and reduce preschool expulsion rates (funding for this initiative – $5 million per fiscal year – is contained within the budget of the Department of Mental Health and Addiction Services).

The Executive Budget provides GRF appropriations of $23.5 million in FY 2016 and $31.5 million in FY 2017 to continue the income-based EdChoice Expansion to students at or below 200% of the federal poverty level in grades two and three. The proposal also increases the amount of the EdChoice Scholarship from $5,000 to $5,700 for high school students and revises the bottom ten percent rankings to more accurately reflect the buildings eligible for the EdChoice Scholarship.

The Executive Budget implements a series of community school reforms, including requiring every sponsor to be approved by the Department of Education and prohibiting a sponsor

evaluated as poor from continuing to sponsor schools, while providing funds for nine new staff positions at the Department of Education to increase community school oversight and accountability. Additionally, this budget doubles the per pupil funding amount for community school facilities from $100 to $200 and establishes a $25 million fund, appropriated to the Facilities Construction Commission, for building construction and renovation projects at community schools that are sponsored by an exemplary sponsor and serve unique, unmet student needs.

This budget provides funding for other education innovations and reforms, including:

- $7.5 million in FY 2016 and $10 million in FY 2017 to sustain the Adult Diploma Program while creating a second round of planning grants for up to five new pilot sites at community colleges or technical centers. The program is designed to create new initiatives to help adults earn credits toward a high school diploma while pursuing job training coupled with credential efforts.
- $2.5 million in new GRF appropriations to create a competency-based pilot program for up to ten schools and districts to transition to a system that advances students based upon their demonstrated competencies instead of the amount of time spent in the classroom. Selected pilot sites will receive up to $250,000 each year to help transition to competency-based education.
- $15 million in each fiscal year to expand the Community Connectors program to bring together families, community organizations, faith-based organizations, businesses and others in support of our schools and to mentor students.

Tangible Personal Property (TPP) Tax and Utility Deregulation Replacement Payments

State subsidy payments to some school districts will be reduced as a result of the proposal to phase out temporary replacement payments made under current law. These temporary payments were put into law as a result of the electric and gas deregulation changes to local property taxes on utility property in 1999-2000 and the gradual repeal of local property taxes on general business property that began in 2005.

The Executive Budget proposes to reduce fixed-rate operating levies by no more than 2% of the calculated total state and local resources per year over the next two years, and each year annually thereafter. You may recall that this process was actually begun in HB 153, for the FY 2012-2013 biennium, but the phase-out was suspended after FY 2013.

Actually the proposed phase-out is more nuanced than the original HB 153 phase-out proposal. In keeping with the philosophy that drove the Administration's K-12 education funding proposal, i.e. driving available state resources toward lower capacity districts, this proposal would reduce TPP and utility deregulation by only 1% of calculated resources annually for the lowest capacity districts, those in the first (poorest) quintile. Only those districts in the fifth (wealthiest) quintile would face an annual reduction of 2% of resources. For those districts in quintiles 2, 3, and 4 the phase-out percentages would be 1.25%, 1.50%, and 1.75% respectively.

Fixed-rate non-operating levies would be reimbursed at half the FY 2015 amounts in FY 2016, and then not be reimbursed in FY 2017 or thereafter. Emergency levy reimbursement, which under current law is scheduled to face total elimination in FY 2017 or 2018 (depending on

whether it is for TPP or utility property tax) will instead be phased out gradually over FY 2017-2022.

This TPP/deregulation phase-out also impacts local governments, with a phase-out schedule that reduces payments by no more than 2% of state and local resources each year.

As a reminder, temporary TPP reimbursement first was put in place in 2005, with payments beginning in FY 2007, to help districts adjust to the loss of local valuation and revenue that occurred as a result of tax reform that eliminated the taxation of TPP. Utility deregulation reimbursement was put in place in 2001, following the passage of electric and gas deregulation laws in 1999-2000.

TPP reimbursement was held constant for five years, followed by seven years of reduced payments, until payments fall to zero in FY 2019. In 2011, the Administration, through HB 153, replaced this original phase-out schedule with a mechanism that reduced payments based on a district's measured reliance on the payments. Reliance was, and under the proposal will again be, measured as the reimbursement payments as a percentage of state and local resources. As a result of the reductions in FY 2012-2013, only 260 school districts are still receiving fixed-rate operating levy reimbursement, while 352 districts have already seen their payments eliminated. There are 460 districts that are still receiving reimbursement for non-operating levies, but those amounts are very small. Total estimated reimbursement in FY 2015 for those non-operating levies is only $13.4 million, or about $29,000 per district.

The proposed phase-out of TPP and deregulation payments would actually re-conform the law to the original intent of these payments in the wake of utility deregulation and tax reform,

namely to provide temporary state subsidies that would give districts time to adjust their finances under the new tax laws. These reimbursements to school districts and local governments were never intended to be permanent. It does not make sense to continue to pay state compensation for local tax revenues received from a long-ago tax system based on economic conditions that in many if not most places are much different than conditions today.

Furthermore, with regard to schools, the continued use of state revenues to make TPP reimbursement payments is not consistent with the philosophy of targeting limited state resources to districts with a lesser local capacity to raise revenue. State TPP payments to schools are significantly tilted to districts with a higher local capacity.

The Administration proposal recognizes that it has taken and will take districts time to adjust to changing circumstances. That is why the phase-out for districts with high reliance on these TPP and deregulation payments will actually extend out beyond the original elimination date of FY 2019. It is why the emergency levy reimbursements, rather than disappearing all at once as they are scheduled to do under current law, will be gradually reduced until they are eliminated in FY 2022. It is why no reduction is made to bond levy reimbursements until the levy is expired or the debt is retired. However, providing for an easier transition for school districts should not be confused with simply continuing these payments indefinitely. Eventually everyone, school districts, local governments, taxpayers, and the state must adapt to the new economic and legal realities.

Transforming Higher Education

First, with regard to Higher Education, I should note at the outset that the Executive Budget proposes to rename the Board of Regents agency as the Department of Higher Education and

the title of Chancellor as the Director. These changes are suggested to more appropriately align the agency and associated personnel with the governance structure established in 2007. As a result, in my testimony today, I will use the terminology as proposed in the Executive Budget.

This budget contains numerous items in the higher education policy area, including the continued implementation of our nationally recognized, performance-based funding formula, restrained tuition policies, student debt reduction initiatives, prioritization of scholarship programs, and general system efficiencies and reforms. The Executive Budget includes total GRF appropriations of over $2.4 billion in FY 2016 and $2.5 billion in FY 2017 for higher education. By far the largest share of the funding is allocated to the State Share of Instruction (SSI), the primary line item in the Department of Higher Education's budget that provides operating support to our public institutions of higher education, which increases by $36 million (2.0%) in FY 2016, to $1.86 billion, and by $37 million (2.0%) in FY 2017, to $1.89 billion.

This budget expands the Governor's commitment to ensuring that SSI allocations for higher education are tied to positive student outcomes, rather than simply student enrollment. At our four-year universities, the formula allocates 50% of the SSI for degree completions, slightly more than 28% for course completions, 21.5% for support of doctoral and medical education, and 0.3% for historical set-asides that will be phased out this biennium.

At our two-year colleges, the formula allocates 50% of the SSI for course completions, 25% for degree and certificate completions, and 25% for success points, which reward institutions for getting their students to identified milestones that lead to course, certificate, and/or degree completion. The Executive Budget also seeks to make several formula modifications,

developed and recommended by a collaborative working group of university and community college representatives, designed to allocate state resources in the most appropriate manner to incentivize student success while avoiding unintended outcomes.

Lastly, in sharp contrast to the “guarantee” structure that has been heavily relied upon in the K-12 area to shield districts from any funding loss resulting from changes in their individual characteristics, the proposal contains no stop-loss mechanism for higher education. Such mechanisms had been relied upon at various points in time to reduce university allocations in each fiscal year in order to mitigate formula funding losses at some institutions. Therefore, allocations to each institution of higher education are entirely dependent upon their performance within the structure of the higher education formula.

While national College Board data show that Ohio’s public colleges and universities have been among the nation’s best at restraining tuition increases over the past five years, the Executive Budget advances new proposals to further help control college costs. First, this budget ensures that college remains affordable for students and families by limiting in-state, undergraduate tuition and general fee increases in FY 2016 to no more than 2% over what the institution charged in the previous year. In FY 2017, the Executive Budget freezes tuition at each public college and university.

Governor Kasich has heard directly from many Ohioans about the student loan burden facing today’s college graduates. In response, the Executive Budget will establish a $120 million fund designed to reduce the student loan burden for need-based students who find employment in an in-demand job and agree to remain in Ohio for five years after graduation. The Director of

the Department of Higher Education will establish a program by September 2015 designed to allocate these resources in a manner that will have the greatest impact on the issue.

The Executive Budget also establishes a $20 million Higher Education Innovation Fund in FY 2017. The Innovation Fund provides resources for innovative administrative redesign proposals that result in long-term, sustainable cost savings to students. Additionally, the budget appropriates $4 million per fiscal year to support efforts to develop a model where students can receive competency-based credit for a limited number of courses based on their demonstrated, real-world competencies instead of the amount of time spent in the classroom. And finally, the boards of trustees at each of Ohio's public colleges and universities will be required to conduct an efficiency review at their institutions to identify ways to reduce costs and improve efficiencies, as well as examine low enrollment and poor-performing programs and courses.

Ohio currently invests nearly $130 million each year in various higher education scholarship programs to help keep college affordable for Ohio students. The Executive Budget provides for an increased allocation of resources to enhance several scholarship programs, including:

- Ohio College Opportunity Grant: In addition to adding $1 million in each fiscal year to this program, the Executive Budget will expand OCOG eligibility to those students at community colleges and regional campuses who attend school year round and have exhausted their Federal Pell benefits.
- War Orphans and Ohio National Guard: The Executive Budget proposes covering 100% of tuition and general fees at two- and four-year public institutions for those who are eligible for these important scholarship programs.

- Choose Ohio First: To bolster Ohio's economic strength in science, technology, engineering, math, and medicine, the Governor's budget will add $1 million to this program in order to enroll an additional cohort of high-performing students in these in-demand fields.

The Kasich Administration is grateful to Ohio's college and university leaders for the valuable partnership that has developed over the last four years throughout the development and implementation of state capital and operating budget bills. We look forward to continuing our collaborative relationship as we work to implement the numerous policy-based reforms contained in this budget.

Health Care Transformation

This budget builds on the momentum of Governor Kasich's first term, which greatly improved the design and delivery of the Medicaid program as well as the underlying administrative structure through which it is managed. Office of Health Transformation Director Greg Moody and Medicaid Director John McCarthy will be testifying before this committee next week, and they will undoubtedly discuss the trends, opportunities, and challenges of the program in much greater detail; so I will generally focus my comments on the budgetary aspects of Medicaid.

As was the case with the Administration's previous executive budgets, this proposal will further transform the state's health care landscape through reform and innovation. The budget enhances funding for developmental disabilities services and creates more opportunities for individuals to live in the community, rather than in institutions. It also includes new initiatives to encourage personal responsibility and assist people in transitioning off the Medicaid rolls. Of

course, the bill before you continues the state's effort to change the way we pay health care providers, by finding new ways to reward quality and value – rather than volume.

As you know, Medicaid spending occurs through the Department of Medicaid as well as five other so-called "sister agencies:" the departments of Aging, Developmental Disabilities, Health, Job and Family Services, and Mental Health and Addiction Services. While all six agencies support the administration of the program, the vast majority of Medicaid expenditures are made by the Department of Medicaid. Today, almost four out of every five Ohioans enrolled in Medicaid receive coverage through private health insurance plans under contract with the Department of Medicaid. The department pays these managed care plans directly for covering Medicaid consumers through their own provider networks. Additionally, the department pays its own network of providers for care administered via the traditional fee-for-service model.

Efforts to bring more of the Medicaid population into the managed care model have resulted in greater value for Ohio taxpayers. As care has improved, costs have been lowered. In fact, the Executive Budget holds Medicaid's per member per month cost growth to less than 3% in the next fiscal year.

In this budget, recommended state-share GRF Medicaid appropriations across the six agencies total $5.97 billion in FY 2016, which is 4.4% higher than estimated spending in FY 2015. FY 2017 recommended appropriations total $6.33 billion, an increase of 6.1% over FY 2016. "Baseline" projections – that is, the estimates of what the Medicaid program would cost in the upcoming biennium assuming current eligibility, benefit, and payment policies remain unchanged – were expected to increase at higher rates. However, additional cost containment efforts have held down costs below those levels.

Cost-containment initiatives of note include: reforms to physician, hospital, and nursing home payment methodologies that improve value, as well as expanded efforts to fight fraud, waste and abuse. Savings associated with these efforts have been partially offset by increased funding in targeted areas such as services for individuals with developmental disabilities, which I will discuss later; enhanced maternal services through Medicaid health plans for women living in neighborhoods most at risk for poor infant health outcomes; and improved delivery of mental health and addiction services through managed behavioral health care. While these and other initiatives require additional resources in the upcoming biennium, particularly in FY 2017, they are intended to improve outcomes and hold down costs over time. When all factors are taken together, the resulting growth rates of Medicaid in this budget are manageable.

Leading up to this budget, there has been much public discussion about the coverage of newly eligible individuals, also known as “Group 8.” As you all know, Ohio amended its Medicaid State Plan in September 2013 to include this new population as a covered eligibility group. Costs to cover Group 8, and other eligibility categories, have been included within the Executive Budget’s recommended appropriations for Medicaid. No further action is necessary to cover any particular medical service or coverage group. Rather, all that is needed is sufficient appropriation authority to support the estimated Medicaid program costs over the next two years.

In the current biennium, no state dollars were used to cover individuals enrolled through the new eligibility group. It has been funded from the Federal Fund Group exclusively. However, beginning in January of FY 2017, the state will start paying a 5% share of the cost of covering these individuals. Because of this, recommended appropriations for the upcoming biennium include Group 8 in the GRF. The fact that Group 8 is being moved completely to the GRF is

the main factor that causes federal share GRF appropriations to increase by 31.7% in FY 2016, which not only causes Total GRF Medicaid appropriations to increase at rate well beyond the state share growth rate, it creates a similar phenomenon for the GRF as a whole. Total GRF Medicaid appropriations grow by 21.4% to $18.50 billion in FY 2016. In FY 2017, Federal GRF appropriations grow by 6.3% in FY 2017, which is more in line with the Total Medicaid GRF appropriations growth rate of 6.2% (to $19.65 billion) in that fiscal year.

From an all funds perspective, Medicaid appropriations total $27.29 billion in FY 2016 and $28.16 billion in FY 2017 (amounts exclude the double-count, non-GRF interagency pass-through).

Earlier I referenced that the recommended budget for Medicaid includes substantial increased funding for the Department of Developmental Disabilities. The historic funding level will create more choice for Ohio residents living with developmental disabilities and their families. Our proposal prioritizes strengthening the community system by adding approximately 3,000 new community “waiver” slots for individuals with developmental disabilities and increasing community provider wages. Ohio’s Employment First initiative will also be expanded through a partnership with Opportunities for Ohioans with Disabilities to offer supported employment in the community to any individual who wants to work. Initiatives such as these will allow more of our friends and neighbors to live with dignity in the settings they prefer, rather than in institutions.

This budget also provides additional funding to treat Ohioans who struggle with mental illness or addiction. New funding in the Executive Budget crosses a broad spectrum, such as early childhood mental health intervention services and housing for individuals with serious mental

illness and individuals in need of sober living opportunities while recovering from substance abuse. And for individuals and families in or on the verge of crisis, the funding in this budget will save lives through suicide prevention services, as well as crisis aversion/intervention services for families struggling to support young individuals who may be a danger to themselves or others. Furthermore, because of the prevalence of mental illness and addiction within the corrections system, including their impact on recidivism, the Department of Mental Health and Addiction Services is acquiring the Department of Rehabilitation and Correction's Recovery Services program where they will be expanding recovery services for inmates within prison walls and providing seamless recovery services through release and beyond.

Tax Cuts and Reform

The tax reform proposal in this budget continues the themes that Governor Kasich set out two years ago. The overall goal is to change the tax system so that it will make Ohio more competitive in attracting investment and jobs, while also spreading the tax burden more fairly across industries and sectors. In broad terms, the reform proposal provides a net tax cut of $500 million over two years – although the impact on the state is actually about $800 million – while continuing to shift some of the tax burden from income to consumption in order to increase the after-tax rates of return on investment in Ohio. The reform package also proposes again to take advantage of the discovery of significant oil and gas reserves in eastern Ohio to both provide additional revenues for infrastructure and long-term economic growth in the shale region and also to cut taxes for all Ohioans.

To summarize the impacts of the reform package, the proposal would cut all marginal income tax rates by 23% and create a new small business deduction. To help pay for these significant cuts, offsetting revenues would be generated by increasing the state sales tax rate from 5.75%

to 6.25%, subjecting a subset of services to the sales tax, reducing the motor vehicle trade-in allowance, increasing the commercial activity tax (CAT) rate, and increasing tax rates on cigarettes and other tobacco products (OTP). Also, a small set of income tax deductions and credits would be eliminated for taxpayers with incomes in excess of $100,000.

Finally, the Administration is proposing a severance tax on oil, natural gas, and other hydrocarbons extracted from shale wells at tax rates from 4.5% to 6.5%. As I stated already, the new revenues from all the proposed reform changes are less than the income tax relief proposed, so that the package results in a net tax cut of over $250 million per year when all state and local impacts are considered.

Income Tax Cuts

Governor Kasich has been clear that he believes that Ohio must reduce its personal income tax rates in order to improve its competitive position relative to other states. While HB 59 and the most recent MBR made progress in this regard, reducing income tax rates by 10%, the Governor believes that more progress is necessary. Even after the most recent cuts, Ohio's combined state and local income tax rates are still relatively high, when taking into consideration municipal income tax rates of 2% or more levied by many Ohio cities and the school income tax rates levied by 189 school districts,.

The proposed income tax cut has three parts. First, the Administration proposes a new tax cut targeted at small businesses. The reform proposal would continue the existing 50% deduction enacted two years ago, but add to it a second deduction for 100% of business income realized from pass-through businesses with under $2 million in annual gross receipts. The Administration estimates that this will eliminate Ohio taxes on profits for 98% of small

businesses. The estimated additional tax relief from this proposal is $338 million in FY 2016 and $358 million in FY 2017.

The second part is a cut in all nine marginal tax rates of 15% in tax year 2015 and 23% in tax year 2016. As With the HB 59 tax rate cuts, withholding rates would also be cut by the same percentages. These cuts would reduce the lowest marginal income tax rate to under 0.5%, and the top marginal rate to 4.1%, the lowest top income tax rate Ohio has had since 1981. These cuts would provide tax relief of $2.03 billion in FY 2016 and $2.60 billion in FY 2017.

The third part of the income tax cut is an increase in the personal exemptions for lower and middle income taxpayers. The personal exemptions were increased in the most recent MBR, but these exemption increases would be much larger. For taxpayers with income lower than $40,000, the exemption would increase from $2,200 to $4,000 (the federal personal exemption currently is $3,950), and for taxpayers with income between $40,000 and $80,000, the exemption increases from $1,950 to $2,850. These exemption increases result in $184 million in tax relief in FY 2016 and $188 million in FY 2017.

Sales Tax Changes

The Governor believes that it is generally preferable to tax consumption rather than income, because taxing consumption provides greater incentives for saving and investment, and thus greater potential for economic growth, than taxing income. So, more than half of the offsetting revenue increase in the reform proposal comes from the sales tax, through a combination of a tax rate increase and base broadening. The tax rate would be increased from 5.75% to 6.25%, while the tax base would be broadened mainly by including certain currently exempt services.

The proposed increase in sales tax revenue is estimated to fall about equally on businesses and households. Certain elements of the base-broadening proposal, such as the imposition of sales tax on cable television subscriptions and the 50% reduction in the motor vehicle trade-in allowance, would fall primarily on households. Other elements of the proposed base-broadening, such as the imposition of sales tax on management consulting, public relations, opinion polling, and lobbying services, would fall on business. Still other base-broadening features such as the imposition of sales tax on parking and travel services would be borne by both households and businesses.

The estimated revenue raised by the package of sales tax proposals is $1.14 billion in FY 2016 and $1.48 billion in FY 2017. The Administration believes that even with this increase in sales tax revenues, Ohio's sales tax would remain competitive with other states.

Commercial Activity Tax (CAT) Changes

The tax reform proposal would raise the CAT rate from 0.26% to 0.32%. The CAT rate was originally set by HB 66, the 2005 tax reform/budget bill. The tax rate is very low, lower than that of any other major Ohio tax, because the tax was designed to meet the oft-stated public finance goal of taxation with a broad base and a low rate. The CAT rate was set so low, in fact, that it produced much less revenue than the taxes it replaced, the tangible personal property (TPP) tax and the corporate franchise tax, thus producing a large net tax cut to Ohio businesses.

The Administration believes that even after the CAT rate increases to 0.32%, it will still be low enough to not distort business decisions in the way that a corporate income tax or a business property tax would, and that Ohio's business tax structure will remain competitive

Finally, in keeping with the Administration's goal of promoting small business, the CAT minimum tax from $150 to $800 for taxpayers with between $1 million and $2 million in annual gross receipts.

The CAT changes are estimated to result in revenue increases of $290 million in FY 2016 and $402 million in FY 2017.

Cigarette and Other Tobacco Products (OTP) Tax Changes

The Administration proposal would raise the cigarette tax rate by $1.00 per pack to $2.25 per pack. Research shows that increasing cigarette tax rates can accomplish the twin goals of raising revenue and reducing cigarette consumption. The reform proposal also increases the tax rate on the wholesale value of OTP (such as cigars, snuff, etc.) from 17% to 60%, to equalize the OTP tax rate with the estimated average cigarette tax burden as a percent of price. Finally, the proposal would introduce a new "vapor products tax" on so-called e-cigarettes, also at 60% of value. These changes are estimated to increase revenues by $528 million in FY 2016 and $463 million in FY 2017.

Severance Tax Changes

Finally, a severance tax is put in place for high-volume horizontal wells operating in the Utica-Point Pleasant shale formation. The basic tax rate would be 6.5%, on a tax base that is computed as the volume of oil or gas multiplied by "spot prices," such as those found on exchanges where these commodities are traded. However, for commodities such as natural gas liquids (NGLs such as ethane, butane, etc.) where the producer incurs processing costs to separate the NGLs from the dry gas, the tax rate will be only 4.5%.

As I stated in my budget testimony two years ago, and again last year in my MBR testimony, the Administration has researched the severance tax structures of other states with significant oil and gas production, particularly those states with shale resources. We have found that tax rates of 6.5% and 4.5% would make us competitive, and we do not believe that the proposed tax would deter drilling or production in Ohio.

The severance tax changes produce an estimated gain to the GRF of $76 million in FY 2016 (less than a full year's worth of revenue) and $183 million in FY 2017. In addition, 20% of horizontal well severance tax revenue would be earmarked for local governments for infrastructure and long-term economic development purposes. Local government severance tax revenues are estimated to be $19 million in FY 2016 and $46 million in FY 2017.

Net Tax Cut

As I mentioned earlier, the package results in a net tax cut, estimated to equal $247 million in FY 2016 and $276 million in FY 2017. The net state revenue loss is actually significantly larger than that, at an estimated $367 million in FY 2016 and $443 million in FY 2017. The difference between the two sets of estimates is that local tax revenues increase as a result of the reform. First, as mentioned earlier, local governments would gain severance tax revenue of $19 million in FY 2016 and $46 million in FY 2017. Second, the broadening of the sales tax base would result in counties and transit authorities gaining an estimated $101 million in FY 2016 and $121 million in FY 2017. I am pleased to state that the Administration's careful stewardship of state resources and general restraint of state spending growth has allowed us to have enough budget capacity to reduce state tax revenues by enough to offset these local revenue increases to taxpayers, and to provide a significant cut on top of that.

Human Services Innovation

Governor Kasich created the Office of Human Services Innovation to enact changes that low-income families need to break out of the cycle of poverty – or better yet – avoid it all together. That office is working to create incentives for public assistance programs focused on person-centered case management, designed in part to avoid the detrimental benefit "cliffs" that the working poor encounter as their economic situations improve.

The budget is allocating $310 million in existing federal and state funding to create the framework for a comprehensive case management and employment initiative that can wrap unique collections of services around individuals based on their needs. Funding from Temporary Assistance for Needy Families and Workforce Innovation and Opportunity Act, will be integrated to serve low-income individuals ages 16-24 beginning this calendar year. What is learned from that age group will inform how comprehensive case management is rolled out to all age groups involved in these programs by July 2016.

County agencies will appoint a lead to manage this initiative and the state will apply metrics to measure their progress in the comprehensive delivery of services to those who need it most. For too long the system has been too complex and inefficient, but these changes should truly help people move up and out of poverty.

There are hundreds of other initiatives in this budget proposal designed to provide the best services and quality of life for all Ohioans that our time today simply does not permit me to cover. But I know you'll be hearing from some other members of the Governor's Cabinet in the coming weeks who can provide the necessary insights about all of them.

Now that I have discussed the Governor's recommendations for fiscal years 2016 and 2017, I would like to briefly review the current fiscal condition of the state.

FISCAL YEAR 2015 REVIEW

Through the first seven months of FY 2015, state finances continue to slightly outperform the budget plan [see Attachment 7]. Tax revenues are $214.4 million, or 1.8% above estimates. At this point, the major tax sources are all over the estimate. The personal income tax is over the estimate by $141.2 million, or 2.8%. The sales and use tax is over the estimate by $49.8 million, or 0.8%. The CAT is over estimate by $51.6 million, or 12.8%. On the other side, the GRF has been hit by some fairly large refunds that have dampened the revenue overage somewhat. The corporate franchise tax, which was eliminated by tax year 2009, and which was completely eliminated after tax year 2013, is still subject to refunds under the statute of limitations, and refunds are $27.4 million larger than anticipated. There have also been large refunds earlier this year in the public utility excise tax.

On the expenditure side, actual disbursements are running modestly below estimate. Total disbursements and transfers are $280.4 million, or 1.4% below estimates. The largest part of this underspending by far is in the Medicaid program, where GRF spending is running $354.7 million (3.7%) below estimate. Conversely, primary and secondary education spending is $172.1 million over the estimate. Most of that overspending came in January and we believe it is the result of temporary factors that will be reversed by year's end. All other spending is approximately $105 million below estimate. There are areas like property tax relief and debt service where underspending is expected to persist, but for most other spending, I would expect disbursements and encumbrances to finish the fiscal year near the estimates.

Based on the year-to-date results and expectations for the remaining five months of FY 2015, OBM has revised revenue and spending estimates, which results in a new projected GRF ending balance of $970.4 million [see Attachment 8].

The projected ending balance is after any encumbrances to reserve resources for state payments due, but not made, before the end of the fiscal year. The Executive Budget proposes the following disposition of the projected ending balance to be as follows:

- First, one-half of one percent of FY 2015 resources (estimated to be $175.9 million) would be reserved as a GRF carryover balance.
- Second, $200 million would be reserved in the GRF to help support the 15% income tax cut in FY 2016;
- Third, an estimated transfer of $374 million to the Budget Stabilization Fund would be used to bring the balance of the fund to the statutory target of 5% of FY 2017 revenues. Current law only requires action to bring the balance to equal 5% of FY 2015 revenue. But given the ample projected surplus and to avoid the possibility that cash for transfers may not be available in future years, the Executive Budget recommends transferring the funds at the end of FY 2015.
- Finally, the Executive Budget proposes FY 2015 year-end transfers totaling $227 million in order to set aside resources for several purposes. These include $120 million for the student loan debt reduction program I mentioned earlier, $40 million for unemployment compensation interest payments that are expected over the next three years, $20 million to replenish the Disaster Services Fund, $25 million for the newly proposed Department of Developmental Disabilities Systems Transformation Fund, $12 million for DNR in reserve for possible court judgments and $10 million for the Local Government

Innovation Fund, to replace funds used to enhance LGF payments for townships in the last General Assembly.

At this time I would like to add a note of caution on these FY 2015 numbers. The revised revenues, spending projections, and the resulting fund balance that I have just reviewed are estimates based on current information. These numbers are subject to change based on actual results throughout the remainder of the fiscal year. Nonetheless, it is OBM's responsibility as part of the budget process to make such estimates to inform the decisions of the Governor and the General Assembly.

CONCLUSION

In summary, the Administration looks forward to working with you as the House considers, and has questions about, the *Blueprint for a New Ohio*.

The Governor's Executive Budget for fiscal years 2016 and 2017 builds on the proven success that Governor Kasich and the General Assembly have together accomplished over the past four years. It is a budget designed to take Ohio to the next level in terms of economic and personal opportunity for every Ohioan by reforming and reducing taxes to improve economic competitiveness and job growth, ensuring better schools and more college graduates, keeping Ohio health care strong, innovating the ways we deliver human services.

Mr. Chairman, members of the committee, I am happy to answer any questions you may have.

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ATTACHMENTS:
1: FY 2016-17 Revenue Estimates
2: Baseline Revenues
3a/b: GRF Distribution Changes & Tax Reform Impacts
4: FY 2016-17 GRF by Agency
5: FY 2016-17 All Funds by Agency
6: Fund Balance
7: FY 2015 Year-to-Date Revenue
8: FY 2015 Revisions

Attachment 1
Actual and Estimated Revenues for the General Revenue Fund
Fiscal Years 2014 to 2017
(dollars in millions)

	Actual	Estimated					
Revenue Source	**FY 2014**	**FY 2015**	**% Chg**	**FY 2016**	**% Chg**	**FY 2017**	**% Chg**
Tax Revenue							
Auto Sales and Use	1,209.9	1,307.0	8.0%	1,468.1	12.3%	1,565.9	6.7%
Non-Auto Sales and Use	7,955.9	8,714.0	9.5%	10,116.7	16.1%	10,857.9	7.3%
Subtotal Sales and Use	9,165.8	10,021.0	9.3%	11,584.8	15.6%	12,423.8	7.2%
Personal Income	8,064.9	8,308.8	3.0%	6,503.4	-21.7%	6,428.5	-1.2%
Corporate Franchise	(11.4)	0.0	-100.0%	0.0	0.0%	0.0	0.0%
Financial Institutions Tax	197.8	176.0	-11.0%	190.0	8.0%	190.0	0.0%
Commercial Activity Tax	794.2	818.4	3.0%	1,474.6	80.2%	1,589.3	7.8%
Petroleum Activity Tax	0.0	6.0	N/A	8.0	33.3%	8.0	0.0%
Public Utility	106.0	92.0	-13.2%	100.3	9.0%	101.9	1.6%
Kilowatt Hour Tax	306.3	296.5	-3.2%	352.1	18.8%	344.2	-2.2%
Natural Gas Consumption	76.1	62.0	-18.5%	62.0	0.0%	62.0	0.0%
Foreign Insurance	286.5	298.0	4.0%	307.0	3.0%	319.0	3.9%
Domestic Insurance	196.9	244.8	24.3%	277.6	13.4%	289.3	4.2%
Severance Tax	0.0	0.0	0.0%	76.5	N/A	183.4	139.6%
Business and Property	0.8	0.0	-100.0%	0.0	0.0%	0.0	0.0%
Cigarette	814.0	793.6	-2.5%	1,301.9	64.1%	1,217.1	-6.5%
Alcoholic Beverage	55.5	55.0	-0.9%	56.5	2.7%	56.5	0.0%
Liquor Gallonage	41.8	41.9	0.2%	42.0	0.2%	43.0	2.4%
Estate	39.4	0.0	-100.0%	0.0	0.0%	0.0	0.0%
Total of Tax Revenue	20,134.7	21,213.9	5.4%	22,336.8	5.3%	23,256.1	4.1%
Non-Tax Revenue							
Earnings on Investments	17.3	20.0	15.6%	44.0	120.0%	54.8	24.5%
Licenses and Fees	57.3	62.0	8.2%	57.0	-8.1%	57.0	0.0%
Other Income	21.8	32.0	46.6%	29.0	-9.4%	30.6	5.5%
Interagency Transfers	20.4	4.5	-77.9%	9.8	117.8%	9.7	-1.0%
Total of Non-Tax Revenue	116.8	118.5	1.4%	139.8	18.0%	152.1	8.8%
Transfers							
BSF Transfer	0.0	0.0	0.0%	0.0	0.0%	0.0	0.0%
Transfers In - Other	400.2	653.2	63.2%	237.8	-63.6%	410.4	72.6%
Transfers In - Temporary	5.5	0.0	-100.0%	0.0	N/A	0.0	0.0%
Total Transfers	405.7	653.2	61.0%	237.8	-63.6%	410.4	72.6%
Total Sources Excl. Federal Grants	20,657.2	21,985.6	6.4%	22,714.5	3.3%	23,818.6	4.9%
Federal Grants	8,575.6	9,562.3	11.5%	12,451.9	30.2%	13,228.8	6.2%
Total Sources	29,232.8	31,547.9	7.9%	35,166.3	11.5%	37,047.4	5.3%

Source: Ohio Office of Budget and Management, February 2015

Attachment 2
Baseline Estimated Revenues for the General Revenue Fund Tax Sources
Fiscal Years 2016 to 2017
(dollars in millions)

Revenue Source	FY 2015	FY 2016	$ Chg	% Chg	FY 2017	$ Chg	% Chg
Tax Revenue							
Auto Sales and Use	1,307.0	1,307.0	0.0	0.0%	1,346.0	39.0	3.0%
Non-Auto Sales and Use	8,714.0	9,141.6	427.6	4.9%	9,591.9	450.3	4.9%
Subtotal Sales and Use	10,021.0	10,448.6	427.6	4.3%	10,937.9	489.3	4.7%
Personal Income	8,308.8	8,903.2	594.4	7.2%	9,405.9	502.6	5.6%
Financial Institutions Tax	176.0	190.0	14.0	8.0%	190.0	0.0	0.0%
Commercial Activity Tax	818.4	839.5	21.1	2.6%	860.4	20.9	2.5%
Petroleum Activity Tax	6.0	8.0	2.0	33.3%	8.0	0.0	0.0%
Public Utility	92.0	100.3	8.3	9.0%	101.9	1.6	1.6%
Kilowatt Hour Tax	296.5	287.2	(9.3)	-3.1%	278.5	(8.7)	-3.0%
Natural Gas Consumption	62.0	62.0	0.0	0.0%	62.0	0.0	0.0%
Foreign Insurance	298.0	307.0	9.0	3.0%	319.0	12.0	3.9%
Domestic Insurance	244.8	277.6	32.8	13.4%	289.3	11.7	4.2%
Severance Tax	0.0	0.0	0.0	0.0%	0.0	0.0	0.0%
Cigarette and Other Tobacco	793.6	773.8	(19.8)	-2.5%	754.4	(19.3)	-2.5%
Alcoholic Beverage	55.0	55.0	0.0	0.0%	55.0	0.0	0.0%
Liquor Gallonage	41.9	42.0	0.1	0.2%	43.0	1.0	2.4%
Total of Tax Revenue	21,213.9	22,294.2	1,080.3	5.1%	23,305.3	1,011.1	4.5%

Source: Ohio Office of Budget and Management, February 2015

Attachment 3a
General Revenue Fund Distribution Changes and Tax Reform Impacts
Fiscal Years 2016 and 2017
(dollars in millions)

Fiscal Year 2016

Tax Source:	Baseline	TPP/KWH Policy Changes			Tax Reform Changes			Proposed GRF Total
		Tax Distribution Changes	PLF/LGF GRF Impact	**Policy Adjusted GRF**	Tax Reform Changes All Funds	Tax Reform Distribution Impact	PLF/LGF GRF Impact	
Auto Sales and Use	1,307.0			1,307.0	161.1			1,468.1
Non-Auto Sales and Use	9,141.6		(4.0)	9,137.6	975.5		3.7	10,116.7
Personal Income	8,903.2		(8.1)	8,895.2	(2,399.1)		7.3	6,503.4
Commercial Activity (CAT)	839.5	419.8		1,259.3	289.7	(74.3)		1,474.6
Kilowatt Hour (KWH)	287.2	65.3	(4.0)	348.5	0.0		3.7	352.1
Cigarette and Other Tobacco	773.8			773.8	528.1			1,301.9
Alcoholic Beverage	55.0			55.0	1.5			56.5
Severance	0.0			0.0	76.5			76.5
Other Taxes	986.9			986.9	0.0			986.9
Total	**22,294.2**	485.1	(16.1)	**22,763.2**	(366.7)	(74.3)	14.6	**22,336.8**
CAT Excess Transfer In	235.3	(242.3)		(7.1)	71.8			64.7
KWH Excess Transfer In	8.5	(8.5)		0.0				0.0

Fiscal Year 2017

Tax Source:	Baseline	TPP/KWH Policy Changes			Tax Reform Changes			Proposed GRF Total
		Tax Distribution Changes	PLF/LGF GRF Impact	**Policy Adjusted GRF**	Tax Reform Changes All Funds	Tax Reform Distribution Impact	PLF/LGF GRF Impact	
Auto Sales and Use	1,346.0			1,346.0	219.9			1,565.9
Non-Auto Sales and Use	9,591.9		(4.1)	9,587.8	1,265.6		4.5	10,857.9
Personal Income	9,405.8		(8.2)	9,397.6	(2,978.2)		9.1	6,428.5
Commercial Activity (CAT)	860.4	430.2		1,290.6	401.7	(103.0)		1,589.3
Kilowatt Hour (KWH)	278.5	65.3	(4.1)	339.7	0.0		4.5	344.2
Cigarette and Other Tobacco	754.4			754.4	462.7			1,217.1
Alcoholic Beverage	55.0			55.0	1.5			56.5
Severance Tax	0.0			0.0	183.4			183.4
Other Taxes	1,013.2			1,013.2	0.0			1,013.2
Total	**23,305.3**	495.5	(16.5)	**23,784.4**	(443.4)	(103.0)	18.1	**23,256.1**
CAT Excess Transfer In	256.1	(115.9)		140.2	99.6			239.8
KWH Excess Transfer In	8.5	(8.5)		0.0				0.0

Source: Ohio Office of Budget and Management, February 2015.
Note: See list of definitions for a detailed explanation of this table.

Attachment 3b

Definitions:
Baseline: The forecast of GRF tax receipts absent any law changes or tax reform.

TPP/KWH Policy Changes:
Tax Distribution Changes: As a result of the TPP/KWH replacement phase out, the distribution of CAT and KWH taxes to the GRF would increase from 50% to 75% of CAT receipts and from 82% to 100% of KWH tax receipts. This column shows the marginal gain to the GRF.
PLF/LGF GRF Impact: The Public Library Fund (PLF) and Local Government Fund (LGF) each receive 1.66% of total GRF receipts. The tax distribution changes increase the size of the GRF, in turn increasing the PLF and LGF distributions, which are made from the non-auto sales tax, personal income tax, and KWH tax. Therefore, these gains to the PLF and LGF are shown as subtractions from GRF tax receipts.
Policy Adjusted GRF: The forecast of GRF tax receipts after TPP/KWH policy changes to payments and distributions.
CAT and KWH Excess Transfers In: When the amount of required payments to TPP/KWH replacement funds is less than the amounts deposited in the funds from the CAT and the KWH tax, a transfer of the excess in these funds to the GRF is allowed. The TPP/KWH policy changes have the effect of reducing deposits to the replacement funds, thus reducing the overall CAT and KWH transfers into the GRF. In short, CAT and KWH tax revenues that come to the GRF indirectly as transfers after being held in the replacement funds under the current law baseline will now come directly to the GRF as tax revenues.

Tax Reform Changes:
Tax Reform Changes All Funds: The forecasted marginal impact of the tax reform package on total tax receipts, before distributions to the LGF and PLF or to TPP/KWH replacement funds.
Tax Reform Distribution Impact: The growth in CAT receipts resulting from tax reform would be subject to the 0.85% administrative charge by the Department of Taxation. After this subtraction, 25% of the remaining CAT receipts would be distributed for TPP/KWH replacement payments. This column shows the portion of tax reform gains in CAT receipts that would go toward these two purposes.
PLF/LGF GRF Impact: The tax reform package has the net effect of reducing total GRF tax receipts, thus decreasing PLF and LGF distributions. This change is shown as an addition to the non-auto sales tax, personal income tax, and KWH tax forecasts.
CAT and KWH Excess Transfers In: When the amount of required payments to TPP/KWH replacement funds is less than the amounts deposited in the funds from the CAT and the KWH tax, a transfer of the excess in these funds to the GRF is allowed. Tax reform policies that increase CAT receipts also increase deposits to the replacement funds, thus increasing the amount of revenues in excess of the required distributions.

Proposed GRF Total: The forecast of GRF tax receipts after TPP/KWH policy changes and tax reform.

Attachment 4
Estimated Expenditures and Recommendations by Agency
General Revenue Fund, FYs 2015, 2016, 2017

State Agency	FY 2015 Estimate	FY 2016 Recommendations	% Change	FY 2017 Recommendations	% Change
Primary and Secondary Education					
Education, Department of	7,255,955,295	7,697,170,506	6.1%	8,041,580,485	4.5%
Total Primary and Secondary Education	**7,255,955,295**	**7,697,170,506**	**6.1%**	**8,041,580,485**	**4.5%**
Higher Education					
Higher Education, Department of	2,379,887,812	2,428,257,219	2.0%	2,487,889,271	2.5%
Total Higher Education	**2,379,887,812**	**2,428,257,219**	**2.0%**	**2,487,889,271**	**2.5%**
Other Education					
Arts Council	11,349,204	11,972,050	5.5%	12,472,050	4.2%
Broadcast Education Media Commission	7,813,706	7,847,422	0.4%	7,847,422	0.0%
Facilities Construction/School Facilities Comm	390,464,951	415,674,700	6.5%	422,532,700	1.6%
Historical Society	10,549,625	10,149,625	-3.8%	10,149,625	0.0%
Library Board	5,759,947	5,759,947	0.0%	5,759,947	0.0%
Ohioana Library Association	140,000	155,000	10.7%	160,000	3.2%
State School for The Blind	7,278,579	8,242,799	13.2%	8,488,609	3.0%
State School for The Deaf	8,727,657	10,254,435	17.5%	10,678,878	4.1%
Total Other Education	**442,083,669**	**470,055,978**	**6.3%**	**478,089,231**	**1.7%**
Medicaid					
Aging, Department of [1]	3,385,057	3,385,057	0.0%	3,385,057	0.0%
Developmental Disabilities, Department of [1]	444,511,179	485,572,594	9.2%	542,921,324	11.8%
Health, Department of [1]	3,300,000	3,300,000	0.0%	3,300,000	0.0%
Job and Family Services, Department of [1]	68,948,465	73,348,465	6.4%	76,148,465	3.8%
Medicaid, Department of	14,710,099,360	17,931,797,285	21.9% [a]	19,022,178,639	6.1%
Medicaid State	*5,192,911,829*	*5,401,120,281*	4.0%	*5,706,462,818*	5.7%
Medicaid Federal	*9,517,187,531*	*12,530,677,004*	31.7%	*13,315,715,821*	6.3%
Mental Health and Addiction Services, Department of [1]	1,736,600	1,736,600	0.0%	1,736,600	0.0%
Total Medicaid	**15,231,980,661**	**18,499,140,001**	**21.4%**	**19,649,670,085**	**6.2%**
State Total	*5,714,793,130*	*5,968,462,997*	*4.4%*	*6,333,954,264*	*6.1%*
Federal Total	*9,517,187,531*	*12,530,677,004*	*31.7%*	*13,315,715,821*	*6.3%*
Health and Human Services					
Aging, Department of [1]	11,262,368	11,262,368	0.0%	11,262,368	0.0%
Developmental Disabilities, Department of [1]	89,292,234	97,082,884	8.7%	96,167,184	-0.9%
Health, Department of [1]	85,957,614	87,450,078	1.7%	87,450,078	0.0%
Hispanic-Latino Affairs, Commission on	392,776	413,383	5.2%	413,375	0.0%
Job and Family Services, Department of [1]	724,834,207	744,887,863	2.8%	745,012,222	0.0%
Job and Family Services State	*686,631,650*	*706,685,306*	*2.9%*	*706,809,665*	*0.0%*
Job and Family Services Federal	*38,202,557*	*38,202,557*	*0.0%*	*38,202,557*	*0.0%*
Mental Health and Addiction Services, Department of [1]	364,058,109	381,179,156	4.7%	387,203,502	1.6%
Minority Health, Commission on	1,580,637	1,678,319	6.2%	1,728,319	3.0%
Opportunities for Ohioans with Disabilities Agency	15,711,070	16,250,894	3.4%	16,250,894	0.0%
Service and Volunteerism, Commission on	294,072	305,834	4.0%	304,547	-0.4%
Veterans' Services, Department of	39,393,644	38,705,121	-1.7%	52,964,821	36.8%
Veterans' Organizations	1,887,986	1,887,986	0.0%	1,887,986	0.0%
Total Health and Human Services	**1,334,664,717**	**1,381,103,886**	**3.5%**	**1,400,645,296**	**1.4%**
State Total	*1,296,462,160*	*1,342,901,329*	*3.6%*	*1,362,442,739*	*1.5%*
Federal Total	*38,202,557*	*38,202,557*	*0.0%*	*38,202,557*	*0.0%*
Justice and Public Protection					
Adjutant General	8,594,883	9,879,883	15.0%	9,879,883	0.0%
Attorney General	45,803,589	45,803,589	0.0%	45,803,589	0.0%
Civil Rights Commission	4,725,784	5,406,444	14.4%	5,406,444	0.0%
Court of Claims	2,501,052	2,568,582	2.7%	2,609,680	1.6%
Ethics Commission	1,381,556	1,381,556	0.0%	1,381,556	0.0%
Judicial Conference	847,200	999,000	17.9%	1,038,000	3.9%
Judiciary/Supreme Court	143,818,909	153,368,942	6.6%	161,592,239	5.4%
Public Defender Commission	14,566,485	14,704,112	0.9%	14,727,653	0.2%
Public Safety, Department of	10,500,000	18,624,300	77.4%	18,624,300	0.0%
Rehabilitation and Correction, Department of	1,539,011,322	1,591,188,402	3.4%	1,640,972,422	3.1%
Tax Appeals, Board of	1,700,000	1,925,001	13.2%	1,925,001	0.0%
Youth Services, Department of	233,323,163	217,003,154	-7.0%	212,733,454	-2.0%
Total Justice and Public Protection	**2,006,773,943**	**2,062,852,965**	**2.8%**	**2,116,694,221**	**2.6%**

Attachment 4
Estimated Expenditures and Recommendations by Agency
General Revenue Fund, FYs 2015, 2016, 2017

State Agency	FY 2015 Estimate	FY 2016 Recommendations	% Change	FY 2017 Recommendations	% Change
General Government					
Administrative Services, Department of	164,387,951	166,589,928	1.3%	165,685,873	-0.5%
Agriculture, Department of	15,254,231	16,329,231	7.0%	16,254,231	-0.5%
Auditor of State	28,234,452	28,479,072	0.9%	28,479,072	0.0%
Budget and Management, Office of	4,601,054	4,796,898	4.3%	4,796,898	0.0%
Capital Square Review and Advisory Commission	3,578,565	3,578,565	0.0%	3,578,565	0.0%
Controlling Board	475,000	475,000	0.0%	475,000	0.0%
Development Services Agency	134,012,966	132,926,362	-0.8%	147,946,162	11.3%
Elections Commission	333,117	333,117	0.0%	333,117	0.0%
Environmental Protection Agency	10,923,093	10,923,093	0.0%	10,923,093	0.0%
Environmental Review Appeals	545,530	612,435	12.3%	612,435	0.0%
Expositions Commission	920,000	250,000	-72.8%	250,000	0.0%
Governor, Office of the	2,851,552	2,851,552	0.0%	2,851,552	0.0%
House of Representatives	25,024,667	23,272,941	-7.0%	23,272,941	0.0%
Inspector General, Office of	1,525,598	1,327,759	-13.0%	1,327,759	0.0%
Joint Committee on Agency Rule Review	456,376	493,139	8.1%	512,253	3.9%
Joint Committee on Medicaid Oversight	500,000	321,995	-35.6%	490,320	52.3%
Joint Legislative Ethics Committee	550,000	550,000	0.0%	550,000	0.0%
Legislative Service Commission	28,961,103	24,670,478	-14.8%	24,670,478	0.0%
Natural Resources, Department of	99,068,536	102,401,636	3.4%	103,412,136	1.0%
Public Works Commission (Operating)	261,396,600	264,112,300	1.0%	272,028,900	3.0%
Secretary of State	2,612,422	2,378,226	-9.0%	2,378,226	0.0%
Senate	13,460,369	12,518,143	-7.0%	12,518,143	0.0%
State Employment Relations Board	3,761,457	3,761,457	0.0%	3,761,457	0.0%
Taxation, Department of	68,828,532	69,565,985	1.1%	69,565,985	0.0%
Transportation, Department of (Operating)	10,050,000	11,050,000	10.0%	11,050,000	0.0%
Treasurer of State	29,206,559	30,243,959	3.6%	30,243,359	0.0%
Total General Government	**911,519,730**	**914,813,271**	**0.4%**	**937,967,955**	**2.5%**
General Revenue Distributions					
Property Tax Subsidies - Education	1,159,810,000	1,181,760,000	1.9%	1,201,340,000	1.7%
Property Tax Subsidies - Local	652,390,000	664,740,000	1.9%	675,760,000	1.7%
Total General Revenue Distributions	**1,812,200,000**	**1,846,500,000**	**1.9%**	**1,877,100,000**	**1.7%**
Grand Total	**31,375,065,827**	**35,299,893,826**	**12.5%**	**36,989,636,544**	**4.8%**
State Total	***21,819,675,739***	***22,731,014,265***	***4.2%***	***23,635,718,166***	***4.0%***
Federal Total	***9,555,390,088***	***12,568,879,561***	***31.5%***	***13,353,918,378***	***6.2%***

[1] For these agencies, Medicaid related lines are included in the Medicaid category; non-Medicaid lines are included in the Health and Human Service category.
[a] FY16 and FY17 appropriations reflect the shift of funding for Group 8 enrollees from non-GRF to the GRF.

Note: The following agencies were affected by the shifting of GRF rent from DAS: ART, BOR, BTA, CIV, CSV, DAS, MHA, DDD, DOH, DRC, DVS, DYS, EBR, EDU, ETC, IGO, JFS, MIH, OBM, OOD, SPA, and TAX.

Source: Ohio Office of Budget and Management

Attachment 5
Estimated Expenditures and Appropriations by Agency
All Funds, FYs 2015, 2016, 2017

State Agency	FY 2015 Estimate	FY 2016 Recommendations	% Change	FY 2017 Recommendations	% Change
Primary and Secondary Education					
Education, Department of	10,941,102,376	10,784,327,048	-1.4% [b]	11,132,522,528	3.2%
Total Primary and Secondary Education	**10,941,102,376**	**10,784,327,048**	**-1.4%**	**11,132,522,528**	**3.2%**
Higher Education					
Higher Education, Department of	2,436,753,748	2,523,939,826	3.6%	2,567,738,380	1.7%
Total Higher Education	**2,436,753,748**	**2,523,939,826**	**3.6%**	**2,567,738,380**	**1.7%**
Other Education					
Arts Council	12,471,204	13,497,050	8.2%	13,997,050	3.7%
Broadcast Education Media Commission	8,026,266	7,953,422	-0.9%	7,953,422	0.0%
Career Colleges and Schools, Board of	579,328	579,328	0.0%	579,328	0.0%
Facilities Construction/School Facilities Comm	408,678,293	424,174,700	3.8%	431,032,700	1.6%
Higher Education Facilities Commission	12,500	12,500	0.0%	12,500	0.0%
Historical Society	10,799,625	10,409,625	-3.6%	10,409,625	0.0%
Library Board	21,548,736	22,176,021	2.9%	22,272,763	0.4%
Ohioana Library Association	140,000	155,000	10.7%	160,000	3.2%
State School for The Blind	11,003,204	11,967,424	8.8%	12,213,234	2.1%
State School for The Deaf	11,214,902	12,741,681	13.6%	13,166,124	3.3%
Total Other Education	**484,474,058**	**503,666,751**	**4.0%**	**511,796,746**	**1.6%**
Medicaid					
Aging, Department of [1]	6,770,114	6,770,114	0.0%	6,770,114	0.0%
Developmental Disabilities, Department of [1]	2,402,716,757	2,611,019,417	8.7%	2,876,185,877	10.2%
Health, Department of [1]	25,692,094	25,692,094	0.0%	25,692,094	0.0%
Job and Family Services, Department of [1]	173,948,465	195,628,960	12.5%	201,228,960	2.9%
Medicaid, Department of	24,033,188,234	24,531,320,607	2.1% [a]	25,129,010,938	2.4%
Mental Health and Addiction Services, Department of [1]	17,266,217	13,736,600	-20.4%	13,736,600	0.0%
Total Medicaid	**26,659,581,881**	**27,384,167,792**	**2.7%** [a]	**28,252,624,583**	**3.2%**
Health and Human Services					
Aging, Department of [1]	83,179,071	83,379,071	0.2%	83,379,071	0.0%
Developmental Disabilities, Department of [1]	146,805,086	164,704,264	12.2%	168,788,564	2.5%
Health, Department of [1]	641,592,900	631,183,596	-1.6%	631,339,192	0.0%
Hispanic-Latino Affairs, Commission on	417,334	437,941	4.9%	437,933	0.0%
Industrial Commission	49,638,213	50,687,479	2.1%	51,753,389	2.1%
Job and Family Services, Department of [1]	2,925,732,583	3,269,564,364	11.8%	3,261,380,352	-0.3%
Mental Health and Addiction Services, Department of [1]	644,481,257	678,974,305	5.4%	684,998,651	0.9%
Minority Health, Commission on	1,770,637	1,855,152	4.8%	1,869,248	0.8%
Opportunities for Ohioans with Disabilities Agency	254,533,418	262,631,699	3.2%	261,631,698	-0.4%
Service and Volunteerism, Commission on	7,554,072	7,518,733	-0.5%	7,513,177	-0.1%
Veterans' Organizations	1,887,986	1,887,986	0.0%	1,887,986	0.0%
Veterans' Services, Department of	92,546,895	88,440,941	-4.4%	103,423,580	16.9%
Workers' Compensation, Bureau of	279,483,900	276,242,967	-1.2%	276,242,967	0.0%
Total Health and Human Services	**5,129,623,352**	**5,517,508,498**	**7.6%**	**5,534,645,808**	**0.3%**
Justice and Public Protection					
Adjutant General	55,863,958	53,795,633	-3.7%	53,795,633	0.0%
Attorney General	264,944,339	273,749,911	3.3%	276,379,670	1.0%
Civil Rights Commission	7,502,680	8,213,204	9.5%	8,358,426	1.8%
Court of Claims	2,917,005	2,995,766	2.7%	3,043,699	1.6%
Ethics Commission	2,022,556	2,022,556	0.0%	2,022,556	0.0%
Judicial Conference	1,282,200	1,336,000	4.2%	1,375,000	2.9%
Judiciary/Supreme Court	152,957,622	162,574,186	6.3%	170,774,948	5.0%
Public Defender Commission	78,696,680	80,136,507	1.8%	81,551,849	1.8%
Public Safety, Department of	693,977,457	686,287,971	-1.1%	685,810,371	-0.1%
Rehabilitation and Correction, Department of	1,627,633,274	1,670,903,612	2.7%	1,716,218,299	2.7%
Tax Appeals, Board of	1,700,000	1,925,001	13.2%	1,925,001	0.0%
Youth Services, Department of	247,160,392	231,356,649	-6.4%	226,667,949	-2.0%
Total Justice and Public Protection	**3,136,658,163**	**3,175,296,996**	**1.2%**	**3,227,923,401**	**1.7%**

Attachment 5
Estimated Expenditures and Appropriations by Agency
All Funds, FYs 2015, 2016, 2017

State Agency	FY 2015 Estimate	FY 2016 Recommendations	% Change	FY 2017 Recommendations	% Change
General Government					
Administrative Services, Department of	712,690,672	663,568,777	-6.9%	660,426,495	-0.5%
Agriculture, Department of	52,612,978	57,777,617	9.8%	57,702,617	-0.1%
Air Quality Development Authority	1,108,033	1,117,984	0.9%	1,104,216	-1.2%
Auditor of State	72,453,464	74,776,584	3.2%	74,982,584	0.3%
Budget and Management, Office of	27,599,772	28,642,814	3.8%	28,651,537	0.0%
Capital Square Review and Advisory Commission	7,710,596	7,781,305	0.9%	7,781,305	0.0%
Casino Control Commission	13,546,674	12,465,000	-8.0%	12,465,000	0.0%
Commerce, Department of	185,897,707	189,617,737	2.0%	191,047,692	0.8%
Consumers' Counsel, Office of	5,641,093	5,641,093	0.0%	5,641,093	0.0%
Controlling Board	475,000	10,475,000	2105.3%	10,475,000	0.0%
Deposit, Board of	1,876,000	1,876,000	0.0%	1,876,000	0.0%
Development Services Agency	1,197,457,272	1,269,903,713	6.1%	1,284,523,513	1.2%
Elections Commission	518,117	527,617	1.8%	527,617	0.0%
Employee Benefits Funds	1,538,079,486	1,608,712,278	4.6%	1,683,969,956	4.7%
Environmental Protection Agency	199,606,723	183,226,886	-8.2%	185,898,047	1.5%
Environmental Review Appeals Commission	545,530	612,435	12.3%	612,435	0.0%
Expositions Commission	14,243,000	14,130,000	-0.8%	14,370,000	1.7%
Governor, Office of the	3,151,552	3,151,552	0.0%	3,151,552	0.0%
House of Representatives	26,496,180	24,744,454	-6.6%	24,744,454	0.0%
Housing Finance Agency	12,477,665	12,111,500	-2.9%	12,176,700	0.5%
Inspector General, Office of	2,350,598	2,152,759	-8.4%	2,152,759	0.0%
Insurance, Department of	36,545,157	36,841,409	0.8%	37,543,853	1.9%
Joint Committee on Agency Rule Review	456,376	493,139	8.1%	512,253	3.9%
Joint Committee on Medicaid Oversight	500,000	321,995	-35.6%	490,320	52.3%
Joint Legislative Ethics Committee	700,000	700,000	0.0%	700,000	0.0%
Lake Erie Commission	666,637	659,000	-1.1%	667,000	1.2%
Legislative Service Commission	29,201,103	24,780,478	-15.1%	24,680,478	-0.4%
Liquor Control Commission	796,368	796,368	0.0%	796,368	0.0%
Lottery Commission	470,489,928	362,302,329	-23.0%	364,663,457	0.7%
Natural Resources, Department of	325,298,171	342,891,727	5.4%	346,483,985	1.0%
Petrol. Undergd Storage Tank Release Comp. Bd.	1,141,971	1,257,155	10.1%	1,258,914	0.1%
Professional Licensing Boards	43,199,758	44,119,784	2.1%	44,451,771	0.8%
Public Utilities Commission	53,431,274	53,254,528	-0.3%	53,254,528	0.0%
Public Works Commission (Operating)	262,891,800	265,589,807	1.0%	273,514,956	3.0%
Public Works Commission (Capital)	52,000,000	56,000,000	7.7%	58,000,000	3.6%
Racing Commission	53,429,086	43,635,000	-18.3%	43,635,000	0.0%
Secretary of State	21,008,911	17,942,826	-14.6%	17,440,826	-2.8%
Senate	14,346,867	12,978,440	-9.5%	12,978,440	0.0%
Sinking Fund, Commissioners of	1,159,347,600	1,160,357,700	0.1%	1,226,079,300	5.7%
Southern Ohio Agriculture Redevelopment	325,000	426,800	31.3%	426,800	0.0%
State Employment Relations Board	3,846,457	3,836,457	-0.3%	3,836,457	0.0%
Taxation, Department of	1,897,144,182	1,693,158,745	-10.8%	1,692,956,245	0.0%
Transportation, Department of (Operating & Maint)	939,014,005	973,832,714	3.7%	989,262,547	1.6%
Transportation, Department of (Capital)	2,195,735,993	1,915,474,269	-12.8%	2,012,205,366	5.0%
Treasurer of State	40,826,616	41,864,016	2.5%	41,863,416	0.0%
Total General Government	**11,678,881,372**	**11,226,527,791**	**-3.9%**	**11,511,982,852**	**2.5%**
State Revenue Distributions					
General Revenue Distributions	1,812,200,000	1,846,500,000	1.9%	1,877,100,000	1.7%
Fiduciary Collections and Distributions	2,938,937,800	3,189,525,000	8.5%	3,314,925,000	3.9%
State Holding Funds and Internal Distributions	73,100,000	143,100,000	95.8%	163,100,000	14.0%
State Revenue Subsidy and Distributions	1,875,449,000	2,193,955,551	17.0%	2,087,669,263	-4.8%
Total State Revenue Distributions	**6,699,686,800**	**7,373,080,551**	**10.1%**	**7,442,794,263**	**0.9%**
Grand Total	**67,166,761,750**	**68,488,515,253**	**2.0%**	**70,182,028,561**	**2.5%**

[1] For these agencies, Medicaid related lines are included in the Medicaid category; non-Medicaid lines are included in the Health and Human Service category.

[a] Beginning in FY16, appropriations in 651655 are significantly reduced due to an accounting improvement that will remove most double counting between Medicaid agencies. Total Medicaid appropriations grow by 10.2% to $27.3 billion in FY16 and then by 3.2% to $28.2 billion in FY17 when this line item is excluded.

[b] Decrease in FY 16 due to the transfer of Property Tax Replacement Phase Out - Education from the Department of Education to State Revenue Distributions.

Source: Ohio Office of Budget and Management

Note: Does Not Include Reissued Warrants, Capital Spending or Capital Appropriations

Attachment 6
Estimated General Revenue Fund Balances
For Fiscal Years 2016 and 2017
(dollars in millions)

FY 2016	
Estimated FY 2016 Beginning Balance	**357.7**
Plus Estimated FY 2016 Revenues and Transfers to the GRF	35,166.3
Total Sources Available for Expenditure and Transfer	35,524.1
Less Recommended FY 2016 Appropriations	35,299.9
Less GRF Transfers Out	34.6
Total Uses	35,334.5
Estimated FY 2016 Ending Balance	**189.6**

FY 2017	
Estimated FY 2017 Beginning Balance	**189.6**
Plus Estimated FY 2017 Revenues and Transfers to the GRF	37,047.4
Total Sources Available for Expenditure and Transfer	37,237.0
Less Recommended FY 2017 Appropriations	36,989.6
Less GRF Transfers Out	34.3
Total Uses	37,023.9
Net Estimated Unreserved, Undesignated FY 2017 Ending Balance	**213.0**

Source: Ohio Office of Budget and Management, February 2015

Preliminary

Attachment 7

GENERAL REVENUE FUND RECEIPTS
ACTUAL FY 2015 VS ESTIMATE FY 2015
($ 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	804,583	833,200	(28,617)	-3.4%	5,161,596	5,149,100	12,496	0.2%
Auto Sales & Use	93,890	93,900	(10)	0.0%	747,807	710,500	37,307	5.3%
Subtotal Sales & Use	898,473	927,100	(28,627)	-3.1%	5,909,403	5,859,600	49,803	0.8%
Personal Income	1,008,532	991,300	17,232	1.7%	5,150,440	5,009,200	141,240	2.8%
Corporate Franchise	(1,627)	0	(1,627)	N/A	(27,365)	0	(27,365)	N/A
Financial Institutions Tax	44,957	27,800	17,157	61.7%	22,131	27,800	(5,669)	-20.4%
Commercial Activity Tax	32,393	31,300	1,093	3.5%	454,329	402,700	51,629	12.8%
Petroleum Activity Tax	0	500	(500)	N/A	1,944	7,300	(5,356)	-73.4%
Public Utility	1	(200)	201	100.4%	36,838	48,600	(11,762)	-24.2%
Kilowatt Hour	26,127	24,500	1,627	6.6%	170,457	177,000	(6,543)	-3.7%
Natural Gas Distribution	2,034	1,100	934	84.9%	20,461	17,400	3,061	17.6%
Foreign Insurance	(15)	200	(215)	-107.5%	153,819	148,100	5,719	3.9%
Domestic Insurance	(276)	0	(276)	N/A	7,362	1,800	5,562	309.0%
Other Business & Property	0	0	0	N/A	20	0	20	N/A
Cigarette and Other Tobacco	63,542	62,200	1,342	2.2%	428,680	419,800	8,880	2.1%
Alcoholic Beverage	4,370	3,800	570	15.0%	33,294	32,000	1,294	4.0%
Liquor Gallonage	4,537	4,300	237	5.5%	26,112	24,600	1,512	6.1%
Estate	171	0	171	N/A	2,356	0	2,356	N/A
Total Tax Receipts	2,083,218	2,073,900	9,318	0.4%	12,390,281	12,175,900	214,381	1.8%
NON-TAX RECEIPTS								
Federal Grants	740,951	716,087	24,864	3.5%	5,649,435	5,899,362	(249,927)	-4.2%
Earnings on Investments	6,340	5,000	1,340	26.8%	11,393	9,500	1,893	19.9%
License & Fees	2,675	4,906	(2,231)	-45.5%	11,942	16,718	(4,776)	-28.6%
Other Income	884	2,329	(1,445)	-62.0%	22,373	14,279	8,094	56.7%
ISTV'S	2	1	1	208.9%	261	9,618	(9,357)	-97.3%
Total Non-Tax Receipts	750,852	728,322	22,530	3.1%	5,695,404	5,949,477	(254,073)	-4.3%
TOTAL REVENUES	**2,834,070**	**2,802,222**	**31,848**	**1.1%**	**18,085,685**	**18,125,377**	**(39,692)**	**-0.2%**
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	11,915	200	11,715	N/A	23,700	6,400	17,300	270.3%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	11,915	200	11,715	N/A	23,700	6,400	17,300	270.3%
TOTAL SOURCES	**2,845,985**	**2,802,422**	**43,562**	**1.6%**	**18,109,385**	**18,131,777**	**(22,392)**	**-0.1%**

Attachment 8
General Revenue Fund Revenues
Fiscal Year 2015
(dollars in millions)

Revenue Source	Jan, 2015 Monthly Financial Report	Feb, 2015 Executive Budget	MFR vs Executive Budget $ Change	MFR vs Executive Budget % Change
Tax Revenue				
Auto Sales and Use	1,264.5	1,307.0	42.5	3.4%
Non-Auto Sales and Use	8,644.5	8,714.0	69.5	0.8%
Subtotal Sales and Use	9,909.0	10,021.0	112.0	1.1%
Personal Income	8,227.9	8,308.8	80.9	1.0%
Financial Institutions Tax	205.0	176.0	(29.0)	-14.1%
Commercial Activity Tax	772.5	818.4	45.9	5.9%
Petroleum Activity Tax	20.0	6.0	(14.0)	-70.0%
Public Utility	105.0	92.0	(13.0)	-12.4%
Kilowatt Hour Tax	298.2	296.5	(1.7)	-0.6%
Natural Gas Consumption	60.0	62.0	2.0	3.3%
Foreign Insurance	289.2	298.0	8.8	3.0%
Domestic Insurance	238.7	244.8	6.1	2.6%
Cigarette	794.1	793.6	(0.5)	-0.1%
Alcoholic Beverage	55.0	55.0	0.0	0.0%
Liquor Gallonage	41.0	41.9	0.9	2.2%
Total of Tax Revenue	21,015.6	21,213.9	198.3	0.9%
Non-Tax Revenue				
Earnings on Investments	20.0	20.0	0.0	0.0%
Licenses and Fees	62.0	62.0	0.0	0.0%
Other Income	32.0	32.0	0.0	0.0%
Interagency Transfers	10.0	4.5	(5.5)	-55.0%
Total of Non-Tax Revenue	124.0	118.5	(5.5)	-4.4%
Transfers				
BSF Transfer	0.0	0.0	0.0	0.0%
Transfers In - Other	648.4	653.2	4.8	0.7%
Transfers In - Temporary	0.0	0.0	0.0	0.0%
Total Transfers	648.4	653.2	4.8	0.7%
Total Sources Excl. Federal	**21,788.0**	**21,985.6**	**197.7**	**0.9%**
Federal Grants	8,990.8	9,562.3	571.5	6.4%
Total Sources	**30,778.8**	**31,547.9**	**769.2**	**2.5%**

Source: Ohio Office of Budget and Management, February 2015