Office of Budget and Management

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GOVERNOR KASICH'S EXECUTIVE BUDGET RECOMMENDATIONS FOR FISCAL YEARS 2018 AND 2019

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

SENATE FINANCE COMMITTEE
APRIL 5, 2017

Chairman Oelslager, Ranking Member Skindell, Vice Chair Manning, and members of the Finance 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 2018 and 2019.

I want to begin this afternoon 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 fourth biennial budget to be presented by Governor Kasich. The first three biennial budgets and our three mid-biennium reviews have each in turn contributed to the restoration of stable state finances and structural balance; implemented reforms that have allowed us to increase state funding for education and other vital programs, rebuild the state's Budget Stabilization Fund 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.

While proud of our successes over the past six years, we want to ensure that Ohio maintains its momentum and continues to experience success. This new Executive Budget sustains that momentum by *Building for Ohio's Next Generation*.

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:

- Maintains strong and stable state finances;
- Is structurally balanced;
- Prioritizes education and higher education;
- Focuses on workforce development;
- Protects Ohio's most vulnerable: the developmentally disabled, mentally ill and drug addicted;
- Emphasizes technology and innovation.

As with the development of previous budgets, four fundamental principles guided our work:

Retain Structural Balance and Strengthen Ohio's Financial Footing

Significant efforts have been made over the past six 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 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, fees, licenses or federal grants.

Continue to Reform and Restructure State Government and Services

The Kasich administration has made significant progress toward changing the way state agencies do business. We continue to build on these 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.

In my testimony today, I will focus on 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; and 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. OBM expects that growth to continue to be moderate. Although there are forecasts of faster growth on the horizon, past similar forecasts of accelerating growth have disappointed throughout this expansion. Therefore, the administration chooses to use a more conservative forecast.

Recent History

Since the Great Recession of 2007-09, U.S. real gross domestic product (GDP) has grown 28 of 30 quarters, including the fourth quarter of 2016. However, despite the fact this is now a long expansion at 7.5 years, it is also a relatively weak expansion. This is shown by both the long run and the short run data. The third estimate of real GDP for the fourth quarter of 2016 showed growth of 2.1%, and growth for all of CY 2016 was estimated to be only 1.6%. This was a significant slowdown from 2.6% growth in CY 2015. For the 30 quarters of the recovery and expansion as a whole, real GDP growth has averaged only 2.1%, which is much slower than the pace in other postwar expansions of the same or greater length. To further illustrate how comparatively weak this expansion has been, the three-quarter period from 2015q4 through 2016q2 had average growth of 1.0%. The three-quarter growth rate has been slower than this 1.0% in only three other years outside of recessions – in 1956, 2011, and 2012. So, three of the four slowest-growth periods outside of recession in the Post World War II era have all happened in this expansion.

On the other side, there is encouraging news from the labor market and some economic indicators have recently hit their highest levels since pre-recession days. However, this was also true when I testified two years ago, and overall economic growth did not accelerate as a result.

The good news in the labor market is that conditions have continued to improve over the last two years. The Ohio unemployment has held steady at 5.1% (with some periods below that), and the national unemployment rate fell from 5.6% to 4.7%. These rates are below what many analysts – and economists at the Federal Reserve – had thought were “full employment” levels. Job growth has continued at a fairly good pace, with monthly gains at the national level averaging over 200,000 during 2015-2016. This is a slower pace than the 246,000 job per month average in 2014, but that was the strongest hiring year since 1999.

Ohio employment has also continued to grow over the past two years. Employment in December 2016 was 110,000 jobs greater than two years before. However, Ohio employment growth slowed further in 2016, dropping to 50,000 jobs, the slowest pace of this expansion compared to approximately 77,000 new jobs per year between 2011 and 2015.

At the national level, wage growth has finally picked up. Average hourly earnings growth for all employees on private nonfarm payrolls accelerated to 2.9% in December 2016 compared with a year earlier, compared to 1.7% year-over-year growth at the end of 2014. While still below the pace of near 4% for periods in the 1990s and early 2000s, the increase in wages during 2016 is starting to make a difference in paychecks and is also attracting the attention of the Federal Reserve, which raised its target interest rate twice in the previous two years and again in March 2017, and more increases are expected in the balance of 2017.

In Ohio, however, wage and salary income growth fell from 4.5% in FY 2015 to 3.9% in FY 2016, and is now expected to fall to 2.7% in FY 2017, before rebounding in FY 2018-2019. This is slower wage and salary income growth than in the U.S., where growth was 5.3% in FY 2015 and 4.6% in FY 2016, and is currently expected to be 4.6% again in FY 2017.

Aside from the labor market, there are other measures that show the national economy returning to its former pre-recession vigor. Ongoing improvements in the labor markets, low inflation, and the very large drop in the price of gasoline have contributed to boost consumer confidence. In December 2016, the Conference Board index of consumer confidence increased to its highest level since August 2001 and the Reuters/University of Michigan index of consumer sentiment increased to its highest mark since January 2004. Initial claims for unemployment compensation, which had just fallen below 300,000 per week at the end of 2014, have remained below that level since then, recently dropping below the 250,000 level.

An exception to the wealth of positive economic news is the weakness in energy-producing segments of the economy and areas of the country that have been hurt by the still-low level of prices for oil and related commodities. Since falling sharply in the second half of 2014, the price of oil has fluctuated around the new lower level. While benefiting energy users, the low price environment has had lasting negative effects on employment and earnings in the energy industry, which have been concentrated in the regions where energy production takes place, but have also spilled into other regions and states as well. The drop in drilling and production has also negatively affected investment in that sector and in related sectors.

Despite the strength in economic indicators at the national level, the Ohio economy has, as I noted earlier, slowed markedly in CY 2016, with employment growth and income growth both decelerating. Not all the reasons for this are clear, but certainly the strong U.S. dollar has hurt U.S. manufacturing and led to slower growth in states such as Ohio that are heavily concentrated in manufacturing. In addition, Ohio has become in the past few years an energy producing state. Ohio's shale production is more concentrated in natural gas than in oil, and so has escaped the economic and revenue consequences that have befallen Oklahoma, North Dakota, Texas, and other oil-producing states, but certainly the drop in energy prices and reduced drilling activity has also led to slower Ohio growth, although the magnitude of the impact is hard to estimate.

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 IHS (formerly 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 CY 2010-2016, real GDP growth averaged 2.1% per year. IHS projects real GDP increasing somewhat to an average of 2.4% over CY 2017-2019. It seems that IHS and other professional forecasters (although not all) have finally dropped the expectation that GDP growth will accelerate to the 3% range "in the next couple of years."

Consumer spending growth is expected to tick up just slightly from average growth of 2.9% in CY 2014-2016 to 3.0% CY 2017-2019. After averaging only 1.8% annual growth in the early part of the expansion, consumer spending has become the steady growth engine of the economy, as investment growth has lagged (nonresidential investment actually fell in CY 2016).

The baseline IHS forecast has nonresidential investment picking back up in CY 2017-2019, with average annual increases of 4.4%, but it also has housing investment slowing, dropping to 2.8% average annual growth from an average of 9.1% over the five-year period CY 2012-2016. I will not discuss the numerical forecasts for exports and imports because U.S. trade policy is now obviously in flux and those forecasts are a matter of great uncertainty.

The Ohio baseline forecast is also generally for a reacceleration of growth after a painful slowdown in CY 2016. An exception, however, is employment growth, where the IHS forecast calls for growth of only about 0.5% in CY 2018-2019. Employment growth is expected to slow for the nation also, but to remain above 1%. The reason for this much slower forecasted Ohio employment growth is that economic models consider the following factors:

- The Ohio unemployment rate is very close to what is estimated to be full employment;
- Ohio is a slow-population growth state;
- Ohio's population skews older than the nation's, and so Ohio is more affected by the demographic trend of older workers retiring.

On the other hand, the models also predict that as almost all slack is gone from the Ohio labor market, average wages will increase faster than they have been, thus producing the result that wage and salary income growth accelerates even as the rate of employment growth falls.

While the economic outlook is for continued growth, and recession probabilities from IHS and other professional forecasters are low, I would like to briefly discuss the risks to the forecast. Obviously federal policy under a new administration is an unknown, and generates both upside and downside economic risks. On the upside, federal policies that reduce unnecessary regulation and cut taxes should, all else constant, improve economic growth. On the other hand, federal policies that increase the deficit and increase long-run interest rates will have a negative impact in the longer run. And of course, policies that reduce U.S. exports, such as those that would cause retaliatory tariffs from other countries, would reduce growth, as would policies that significantly drove up the price of imports, whether those imports were consumer goods or business inputs.

Ohio would be affected by any of these possible outcomes. But in addition to those risks, a strong dollar, which already has hurt Ohio by making U.S. exports more expensive and thus being a negative for manufacturing, would intensify those negative impacts if it were to appreciate even further.

There are thousands of national and state variables in the IHS 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 2017-2019 forecasts for those variables, along with the history for FY 2014-2016, are summarized in the table below.

Table B-1: History and HIS/Global Insight Baseline Forecast of Key Economic Variables, FY 2015-2019						
Annual percent change unless otherwise indicated						
Output	FY 2014 Actual	FY 2015 Actual	FY 2016 Actual	FY 2017 Estimate	FY 2018 Forecast	FY 2019 Forecast
U.S. Real GDP	2.1	2.9	1.7	2.0	2.4	2.6
Ohio Real GDP	1.9	3.5	1.5	1.8	1.6	1.6
Income						
U.S. nominal personal income	2.6	5.3	3.8	4.0	4.9	5.4
Ohio nominal personal income **	1.9	4.1	3.2	2.8	4.0	4.4
Ohio nominal wage and salary income **	2.7	4.5	3.9	2.7	3.8	3.8
Employment						
U.S. nonfarm employment	1.7	2.1	1.9	1.5	1.1	1.3
Ohio nonfarm employment	1.3	1.6	1.4	0.9	0.4	0.5
U.S. unemployment rate (percentage)	6.8	5.7	5.0	4.7	4.5	4.2
Ohio unemployment rate (percentage)	6.6	5.2	4.9	4.8	4.7	4.7
Consumer Spending						
U.S. real personal consumption expenditure	2.0	3.4	2.7	2.9	2.8	3.2
U.S. nominal personal consumption expenditure	3.5	4.4	3.4	4.5	4.5	5.2
U.S. retail and food service sales	3.7	3.5	2.4	3.8	4.1	5.3
Ohio retail and food service sales	2.5	2.0	1.7	2.2	3.6	3.9
U.S. light vehicle sales (millions of units)	15.89	16.85	17.49	17.48	17.50	17.57
** indicates variables from a forecast reduced below the baseline						

GRF REVENUE FORECAST

Based on the economic forecast that I have described above, the Office of Budget and Management (OBM), in conjunction with the Department of Taxation, has developed the baseline GRF tax revenue forecasts, and also the final GRF tax revenue forecasts after proposed accounting and policy changes. These final forecasts support the appropriations in the Executive Budget.

The baseline revenue forecast provides an estimate of what tax revenues would be if current laws remain unchanged. This is done to isolate the impact of economic changes on the forecasts, as distinct from the impacts of any proposed accounting and policy changes (but below I discuss why the baseline forecast must be adjusted to truly represent economic impacts on revenues). It is important to note, however, that many recent policy changes are incorporated in the baseline, because they are now current law, so recent history in GRF tax revenues is not solely due to economic forces.

Beyond the baseline, there are three sets of proposed accounting and policy changes whose impacts must be added to or subtracted from the baseline forecast in order to derive the final GRF tax revenue forecasts that are in Table 1, attached. These final GRF tax forecasts are $22.24 billion in FY 2018 and $22.92 billion in FY 2019. These amounts represent annual growth of 0.4% in FY 2018 from the revised FY 2017 forecast, and 3.1% growth in FY 2019. I will discuss the revised FY 2017 GRF tax forecast later in my testimony.

The three sets of accounting and policy changes are as follows:

- First, as was the case for FY 2016-2017, the shrinking obligation for tangible personal property tax replacement payments in FY 2018-2019 means that a greater share of commercial activity tax (CAT) revenues can be deposited in the GRF. The Executive Budget increases the GRF share of CAT revenues from 75% to 85%, while reducing the share going to school district and local government replacement funds from 25% to 15%. It is important to note that while this change creates an increase in GRF tax revenues, it leaves overall GRF revenues essentially neutral, because if the GRF share of CAT revenues were left at 75%, then the excess amounts deposited into the property tax replacement funds would eventually come to the GRF as transfers from those funds. In fact, there is a small loss to the GRF from this accounting change because tax revenue is shared with the Local Government Fund (LGF) and the Public Library Fund (PLF), while transfers are not.

- Second, the lost revenue from the repeal of the sales tax on Medicaid managed care plan premiums, which is a change that is necessitated by federal policy of the Centers for Medicare and Medicaid Services (CMS) declaring that revenues from such taxes cannot draw federal matching funds and must be subtracted from non-auto sales tax revenues. This change causes sales tax revenues to decline by an estimated $839.7 million in FY 2018 and by $986 million in FY 2019 (the FY 2018 impact is for 11 months of revenue).

- Third, the proposed tax reform package includes changes in six different taxes, with varying revenue impacts. The tax reform proposals are discussed in detail in another section of my testimony. The impact on GRF tax revenues from tax reform is a revenue reduction of $48.2 million in FY 2018 and $61.8 million in FY 2019. The LGF and PLF combined also have very small losses from the reform package of $1.6 million in FY 2018 and $2.1 million in FY 2019. The impact of tax reform on state revenues is a larger negative than the overall impact of tax reform, because local permissive sales tax revenues increase due to the proposed base broadening of the sales tax.

Table 2 shows all the estimating steps in moving from the baseline forecast to the final forecast for FY 2018-2019. The total impact of all changes to the baseline is a decrease of $695 million in FY 2018 and a decrease of $848 million in FY 2019.

Since the net impact of the accounting and policy changes is a large negative, the baseline GRF tax forecast totals are substantially higher than the total tax forecasts. The baseline forecasts are $22.93 billion in FY 2018 and $23.77 billion in FY 2019. The forecasted annual growth rates are 3.6% for both FY 2018 and FY 2019. However, I must discuss an important downward adjustment that needs to be made to the baseline forecast in order to isolate the impact of economic forces on revenues.

The baseline forecast assumes that there are no changes to current law. This means that the baseline forecast assumes that the sales tax on MHICs continues for a full year in both FY 2018 and FY 2019, and so the baseline assumes that $916 million in MHIC revenues would be collected in FY 2018 and $986 million would be collected in FY 2019, up from an estimated $803 million in FY 2017. But these large revenue increases in FY 2018-2019 are not the product of economic forces that affect other sales tax collections: rather, they are projections by the Department of Medicaid of what MHIC sales tax collections would be based on trends in Medicaid managed care caseloads and monthly charges. If one looks at just GRF tax revenues outside of MHIC sales tax collections, baseline GRF tax revenue growth would be only 3.1% in FY 2018 and 3.5% in FY 2019.

These GRF baseline tax revenue forecasts, with growth rates of 3.5% or less, are consistent with Governor Kasich's conservative fiscal management philosophy. I believe that this conservative philosophy has generally served us well over the past six years. GRF tax revenues exceeded the forecasts in each year over the FY 2011-2015 period, with the overage ranging from 0.9% in FY 2014 to 5.8% in FY 2011. Tax revenues were above estimate through the first half of FY 2016 also, by a very slight margin, but in the last half of FY 2016 and in the first three quarters of FY 2017 revenues were below estimate, as growth came in below target partly due to the economic slowdown in CY 2016 that I referenced in the prior section of my testimony.

In the past, I have stated that OBM's biggest challenge in forecasting baseline GRF tax revenues is in the personal income tax. For this budget, I believe that forecasting the sales tax, particularly the non-auto sales tax, is just as difficult, or perhaps even more so. Both these taxes have underperformed estimates in the last half of FY 2016 and the first three quarters of FY 2017, showing very slow year-over-year growth. For both these taxes, the slowing Ohio economy in CY 2016 is clearly a factor, but they appear to have even underperformed what one would expect given the weak economic performance. I discuss this disconnect between economic statistics and revenue collections at greater length later in my testimony.

For the sales and use tax, there are three factors other than just slow income growth that appear to be drags on revenue growth. First, there is retail deflation. It may surprise you to know that while the U.S. has been in a period of slow price inflation, in the retail sector there has actually been deflation, but it is no surprise to anyone who works or invests in the retail sector. Changes in the price index for retail sales excluding motor vehicles have been negative since the fourth quarter of 2014. Even if one excludes drops in gasoline prices, retail price trends are still negative. This may be good for consumers, but since sales tax collections are based on dollars spent, it is a negative for sales tax collections. OBM has revamped its sales tax forecasts to try to explicitly take account of retail price trends. In the FY 2018-2019 period, retail price changes are predicted to slowly turn positive, taking away some of the drag on sales tax growth.

Second, there is the impact of e-commerce sales on tax collections. Amazon publicly announced almost two years ago that it would begin collecting Ohio sales tax in June 2015. There were those who expected at that time that sales and use tax collections would exceed the estimates in FY 2016-2017 as a result. As we have seen, that has not been the case. Although having Amazon collect Ohio tax on its own sales is helpful, one must keep in mind that third-party sellers who use Amazon’s technology platform may or may not collect Ohio sales tax, and although Amazon is large, there are many other online sellers, some of whom do not collect Ohio sales tax. Also, as members of the Governor’s Council reminded us, e-commerce puts pressure on sales tax collections through price competition, as many shoppers now do price research on smart phones when in brick and mortar stores, and may walk out without purchasing if they feel a better deal can be had online.

Third, U.S. households have continued to adjust to the shock of the Great Recession, saving more and taking on less debt for purchases. A variable tracked by the Federal Reserve, the household obligations ratio, which measures consumer debt service payments as well as other payments such as rent and property taxes, has fallen to 15.5% of disposable income, the lowest such level since the early 1980s. Since the recession, the personal savings rate has consistently averaged around 6%, the highest it has been since the late 1990s. OBM has adjusted its forecasting equations to try to explicitly incorporate this changed household behavior.

In spite of all these developments that have slowed the growth in sales tax collections and made them hard to forecast, OBM's baseline forecast still shows modest sales tax growth of 4.1% each year for FY 2018-2019. Non-auto sales tax growth is projected to be somewhat faster than that, at 4.5% and 4.2%, but I must clarify exactly what baseline means in this context. Referring to my discussion of the MHIC adjustment to the overall GRF baseline earlier, if we make the same adjustment to the non-auto sales tax, taking out MHIC collections, then adjusted baseline non-auto sales tax collections are projected to grow by a much more modest 3.5% and 3.8%.

The personal income tax still presents challenges, but for this budget a large part of the challenge comes from an unexpected area, namely withholding. Usually, OBM and Taxation are able to predict withholding quite accurately, often with an error of less than

1%. Since the end of CY 2015, however, that performance has deteriorated, and actual withholding revenue has been below the estimate by between 2% and 4% in the last 5 quarters. Part of the reason for this underperformance is that wage and salary income growth has been lower than the prior IHS forecasts. Yet withholding collections have fallen short by more than the slower growth in wage and salary income would imply. In response, OBM has used a wage and salary income forecast for FY 2018-2019 that is lower than the IHS baseline. This customized forecast has lower manufacturing employment (due to the strong dollar) and lower growth in annual wages per employee than the baseline. OBM has also hedged the withholding forecast by averaging the results of different forecasting models, including some that are designed to produce lower growth forecasts.

The traditional challenge of forecasting the income tax, that of forecasting non-withholding collections that are based on non-wage income, also remains. Data on non-wage income comes to our analysts from the IRS with a considerable lag. At present, only taxable year 2014 data is available, while we are currently receiving revenues based on what happened in taxable year 2016. So OBM and Taxation must not only do a true forecast of non-wage income, but also estimate what it is at present, because what is known is two years old. OBM has chosen to use low growth forecasts of the various components of non-wage income, such as capital gains, dividends, interest, and profits of non-corporate business, much of which are now tax-exempt due to the small business deduction.

OBM’s income tax revenue forecast is for baseline revenues to grow 4.2% in FY 2018 and 4.4% in FY 2019.

The CAT forecast is for slow growth in FY 2018 (2.7%) and FY 2019 (2.6%). In FY 2016, CAT all funds revenue fell by 3.6% and is now estimated to fall by 0.1% in FY 2017. CAT revenues have been affected by the same deflationary pressures that I discussed earlier in the context of the sales tax. Retailing and manufacturing are the two most important sectors in terms of CAT revenues, and both have seen deflationary pressure since the end of 2014. However, as with the sales tax, those trends are expected to change in FY 2018-2019. The growth in tax credits, which reduce net revenues, is also expected to slow somewhat, although they remain a significant concern. Forecasted growth in credits is estimated to reduce tax collections growth by over a percentage point each year.

OBM's baseline forecast of the cigarette and other tobacco products (OTP) taxes is for an annual decline of 2.5%. This is a deliberately conservative forecast. When one decomposes the revenue into its cigarette and OTP components, one sees that only the cigarette tax is declining. For the four years from FY 2011-2015, the annual decline in cigarette revenues was only 1.85%. The data from FY 2016 is harder to interpret because it contains not just the trend but also the behavioral response to the tax rate increase from $1.25 to $1.60 per pack. Unlike cigarette revenue, OTP tax revenue has been growing. Over the FY 2010-2016 period, OTP revenues have grown by about 4.5% per year. Because OTP revenue has grown, combined cigarette and OTP tax revenues have declined by only 1.8% on average over FY 2010-2015. However, given the uncertainty over the impact of e-cigarettes on traditional cigarette demand, and in light of the fact state dollars continue to be used to bolster smoking cessation campaigns, OBM believes that it is prudent to assume a more cautious 2.5% revenue decline for FY 2018-2019.

APRIL 2017 UPDATE

Based on the continuing poor performance of GRF tax collections in FY 2017, there is now significant downside risk to the FY 2017 forecast, presented with the Executive Budget on January 31, 2017, particularly in the personal income tax. I discuss this at some length later in my testimony. The high likelihood of GRF tax revenues falling short of the executive budget forecast in FY 2017 puts downward pressure on the FY 2018-2019 GRF revenue forecasts as well. First, even if forecasted growth rates were to remain the same, revenues would be growing from a lower starting point than the executive budget forecasts assume. Second, it may not be realistic to assume that growth rates remain the same as in the Executive Budget forecast, because FY 2017 growth rates are turning out to be so low that the current FY 2018 growth forecast may represent too fast an acceleration. Due to these factors, it is likely OBM will have to revise downward its conference committee revenue forecasts from the executive budget forecasts. I discuss this further later in my testimony.

FY 2018-2019 RECOMMENDED APPROPRIATIONS

Recommended appropriations in the Executive Budget are made across 813 funds grouped by similarity of revenue and purposes of expenditure into 14 budget fund groups. Table 3 displays recommended appropriations by budget fund group. The largest fund group is made up of only one fund, the General Revenue Fund. The GRF receives most general purpose tax revenues of the state, and is the fund where the Governor and General Assembly have the greatest discretion in resource allocation.

The second largest fund group is Federal, which receives most but not all federal grant revenue. As you will recall, federal grant revenue for Medicaid expenditures funded from the GRF are deposited into the GRF. The third largest fund group is the Fiduciary group, which consists of cash receipts held by the state as custodian or agent. Expenditures in this group are not operating, program, or subsidy costs of the state. Attached to this testimony are Tables 4 and 5, which display appropriations by agency for all funds and GRF.

The Executive Budget was introduced as four separate budget bills, referred to 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 are contained in the Main Appropriation Act. The three other bills contain only non-GRF appropriations. The Transportation budget consists primarily of dedicated highway purpose revenues and related federal funds. Bureau of Workers Compensation and Industrial Commission budgets are funded through assessments against businesses covered through the workers' compensation system.

The Executive Budget recommends total agency appropriations of $71.46 billion in FY 2018 (a 4.4% increase over FY 2017), and increases to $72.78 billion in FY 2019 (1.8%). In dollar terms, the all funds budget grows by $2.99 billion in FY 2018 and $1.32 billion in FY 2019. More than half of the all funds budget growth is in Medicaid, which grows by $1.64 billion (6.2%) in FY 2018 and $0.75 billion (2.7%) in FY 2019.

The GRF budget, in contrast, actually declines in FY 2018, falling from $35.07 billion to $33.10 billion (-5.6%). The GRF budget grows in FY 2019, to $33.82 billion (2.2%), but remains $1.24 billion below its FY 2017 level.

The decline in the GRF budget in FY 2018 is clearly attributable to Medicaid, where appropriations drop by $2.24 billion (-12.6%) in FY 2018 before rising by a much smaller amount, $0.43 billion (2.7%) in FY 2019. The GRF budget aside from Medicaid, in contrast, grows by a restrained $273 million (1.6%) in FY 2018 and $297 million (1.7%) in FY 2019.

The sharp drop in Medicaid GRF appropriations is predominantly due to the elimination of the sales tax on Medicaid managed care companies – prompted by actions by CMS – and the adoption of a provider assessment on managed care member months, which unlike the sales tax will be deposited into a dedicated purposes fund. Not only will the provider assessment revenues be spent out of a non-GRF fund, but also the federal matching funds associated with that spending will be received in a federal revenue fund and spent out of that fund, rather than going to the GRF. The Federal fund group that spends Medicaid match funds increases by $2.69 billion (64.8%) in FY 2018 and by $0.22 billion (3.2%) in FY 2019. The shift from the managed care sales tax to the new provider assessment is discussed in greater detail later in this testimony.

ALL FUNDS BUDGET

Governor Kasich has consistently advocated attention to appropriations authorized across all funds of the state. All funds in the state treasury, no matter the source, are public funds, and as such, deserve careful review and attention. In fact, an all funds perspective is enshrined in the Ohio constitution, Article II, Section 22:

> *No money shall be drawn from the treasury, except in pursuance of a specific appropriation, made by law: and no appropriation shall be made for a longer period than two years.*

Attention to only one, or several, of our funds or fund groups does not provide a complete picture of revenues collected or services provided by the state. There are a number of agencies that receive little to no GRF appropriations. And even among agencies that receive GRF allocations, there are other funds that contribute significantly to services provided by those agencies.

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.

Primary and Secondary Education

State resources allocated Primary and Secondary Education total $10.51 billion in FY 2018 and $10.62 billion in FY 2019; the highest levels ever, $199.8 million during the biennium and an overall increase of $1.6 billion since our first budget. State resources include GRF, Lottery Profits, TPP/kWh reimbursement, and property tax reimbursement paid to school districts. The GRF portion of these appropriations is $8.05 billion in FY 2018 and $8.19 billion in FY 2019, representing growth of $143.5 million, or 1.8%, in FY 2018, and another $136.9 million, or 1.7%, in FY 2019. Lottery appropriations equal slightly more than $1.0 billion in both fiscal years. State education appropriations represent the largest commitment of state appropriations contained in the budget.

Foundation Formula

Total state resources allocated to the Foundation formula total $7.93 billion in FY 2018 and $8.05 billion in FY 2019. This includes an additional $282.9 million over the biennium in new state aid distributed to school districts and community schools through the formula.

It has long been stated that a principle issue with the state's school funding formula is that it is subject to significant change and restructuring with each new biennium. Many have expressed concerns that constant changes to the formula are disruptive, and make it difficult for school districts to plan and develop their local budgets. The Executive Budget addresses these concerns by recommending only one change to the formula.

Transportation

Under current law, each school district receives transportation funding based on either a cost-per-rider or cost-per-mile calculation. Unlike other components of the formula, the transportation calculation includes a provision for a 50% minimum state share for school districts. The use of a minimum state share of 50% disproportionally benefits wealthier districts, as any district with a state share percentage between 5% and 49% - the upper half of local capacity - receives an upward adjustment for their transportation funding calculation.

The budget proposes reducing the minimum state percentage for districts from 50% to 37.5% in FY 2018 and 25% in FY 2019. This modification reduces the upward adjustment for higher capacity districts. This change allows us to better target limited state resources to districts with lower capacity, which is the intent of the formula.

The adjustment to the transportation calculation is the only proposed change to the formula. However, we are recommending changes to the transitional aid guarantee and the gain cap, both of which I consider to be post-formula adjustments.

Transitional Aid

Transitional aid (or the "guarantee" as it is commonly referred to), has long been an element of school funding. 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 and the current number of students. The guarantee short-circuits the intent of the formula and continues to direct limited state resources without regard to changing district circumstances.

Our proposal builds from the current 100 percent guarantee but adds a feature that takes into account declining student population. The proposal examines school districts' changes in total ADM over a five-year period. Any district that experienced a decline of greater than 5% in total ADM between FY 2011 and FY 2016 will now have its guarantee base adjusted downward on a sliding scale.

School districts with a five-year total ADM decline greater than 5.0% and up to 10.0% will have a reduction in their guarantee base up to 5.0%. For example, a school district with a 5-year ADM decline of 6.0% would receive a 1.0% reduction in their guarantee base from the FY 2017 level to 99%; a district with a 7.5% ADM decline would receive a 2.5% reduction in their guarantee base from FY 2017 level to 97.5%. These incremental reductions apply up to a maximum of 5.0% for any district with a decline of 10.0% or more in total ADM. Any district with a total ADM decline of greater than 10.0% receives the maximum 5.0% reduction to its guarantee base (95%). School districts with a five-year total ADM decline up to 5.0% will have no reduction in their guarantee base.

The Executive Budget takes into account the concern that losing a small number of students does not have a material impact on a school district's costs. However, if a district loses an appreciable number of students, it no longer makes sense to continue to pay state aid to districts for students who no longer exist.

Additionally, our proposal shifts the third-grade reading proficiency bonus and graduation bonus off the guarantee. These payments are made to school districts based on student performance and should not be guaranteed for future years. Finally, as enacted in HB 64, payments for the career technical education component of the formula will also remain outside of the guarantee.

Gain Cap

The gain cap is a provision that withholds calculated aid above a specified annual percentage growth rate. Like a guarantee, but with the opposite effect, the cap short-circuits the intent of the formula, in this case by withholding earned formula aid.

The Executive Budget recommends a gain cap of 5.0% each year. Similar to the guarantee, the previously mentioned performance bonuses and career technical education components will be outside the cap. We propose including the capacity aid and transportation supplement components under the cap. In H.B. 64, capacity aid and the transportation supplement were outside of cap as new components of the formula. This placement could be justified because placing them as new provisions under the cap would have denied additional resources they were designed to deliver. As these provisions are now established components of the formula, it is appropriate to include them in the gain cap.

Other Education Initiatives

With my review of the Foundation formula and related provisions complete, I will turn to other education-related initiatives that are included in the Executive Budget. 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 again includes the Straight A Fund, designed to help Ohio schools launch creative new ideas for improving education with appropriations of $15 million in both fiscal years from the Lottery Profits Education Fund.

The proposed budget recommends $10 million in each fiscal year to continue 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.

The Executive Budget continues to prioritize early childhood education with funding of $70.2 million each year and creates a parent choice pilot program to provide parents with options for high-quality early education program for eligible children. Between funding to Education and Job and Family Services during the past six years, we have tripled the number of early childhood education slots.

The Executive Budget also supports the income-based EdChoice Expansion scholarship that provides students in fourth and fifth grades who are at or below 200% of the federal poverty level the opportunity to attend participating private schools through tuition vouchers. The proposal calls for GRF appropriations of $38.4 million in FY 2018 and $47.7 million in FY 2019.

Higher Education

The Executive Budget contains a number of higher education policy provisions including the continued implementation of our nationally recognized, performance-based funding formula; proposals to restrain tuition; and several targeted scholarship programs. This budget includes total GRF appropriations for higher education of more than $2.60 billion in FY 2018 and $2.65 billion in FY 2019. 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. The SSI increases by $19.8 million (1.0%) in FY 2018, to $1.99 billion, and by $20 million (1.0%) in FY 2019, to $2.02 billion.

This budget maintains 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, 30% for course completions, and approximately 20% for support of doctoral and medical education

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. And, unlike K-12 school funding, there is no "guarantee" which short-circuits the intent of the 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 during the past seven years, the Executive Budget proposes to further help control college costs. This budget aims to keep college affordable for students and families by freezing undergraduate tuition and fee increases, excluding room and board, in both fiscal years. Starting in 2019, all Ohio public colleges and universities will be required to share the cost of textbooks with students. To partially offset the cost of this requirement, colleges and universities are permitted to charge $300 per student. The average Ohio student spends $600 a year on textbooks and this proposal will cut that expense in half.

Ohio currently allocates nearly $140 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.

Funding for the Ohio College Opportunity Grant, which is the largest need-based scholarship in Ohio, is increased to $100 million in FY 2018 and $102 million in FY 2019.

Funding for the War Orphans Scholarship, which awards tuition assistance to the children of deceased or severely disabled Ohio veterans who served in the armed forces during a period of declared war or conflict, is increased to $8.2 million in FY 2018 and $8.5 million in FY 2019.

Funding for the Ohio National Guard Scholarship, which provides access to higher education for members of the Guard with scholarships that cover the full tuition at Ohio public colleges and universities and a portion of these charges at private, independent and proprietary institutions, is increased to $19.4 million for both years of the biennium.

Funding for the Choose Ohio First Scholarship, a merit-based program awarded to high achieving academic students who want to specialize in a STEMM field, will continue with current funding levels of $16.7 million for both years of the biennium.

The Executive Budget includes two new targeted scholarship programs that focus on completion and retention, with the goal of helping more of Ohio's students obtain a degree and reduce the amount of student debt they accumulate.

The Completion and Retention for Educational Success (OHIO CARES) scholarship offers emergency scholarships for students who encounter a short-term problem that would result in them leaving college. State colleges and universities will have access to OHIO CARES funds that will then be matched by the institution up to $500 per student and will keep them moving toward completion of their degree. The proposal provides $1.3 million in the biennium for this scholarship program.

The Finish for Your Future Scholarship Program, addresses the issue of completion and the student loan burden. This scholarship seeks to alleviate the student loan burden by helping students who have incurred education debt and have left school within one year of graduation return to school to complete their degree. The scholarship is appropriated for $2 million in FY 2018 and $4 million in FY 2019 to provide a maximum scholarship of up to $3,500 that will be matched by the institution and the student. This scholarship will help students with debt complete their degree, which should increase future earnings to support payment of the debt.

This budget also includes a new program that was previously piloted at Cuyahoga Community College, Cincinnati State and Technical College, and Lorain County Community College with tremendous success. The Accelerated Completion of Technical Studies (ACTS) program provides comprehensive support services and some financial assistance to low-income community college students to encourage degree completion. Funds will cover one-time startup costs at six community colleges to implement the program that will provide support such as advising, waivers to cover tuition gaps, and suppling textbooks at no cost.

Workforce

In 2011 Governor Kasich established the Governor's Executive Workforce Board, comprised of business leaders and workforce development stakeholders, to guide the work of the newly created Office of Workforce Transformation. The Board and the Office of Workforce Transformation work together to ensure that business needs are at the forefront of any continuous improvements to the state workforce development system.

In September of 2016, the Governor challenged the Executive Workforce Board to identify ways to prepare and continuously retrain Ohioans of all ages for the jobs of today and tomorrow. The purpose of this undertaking was to identify the most prominent challenges in early, primary, secondary, postsecondary, and adult education, with the goal of identifying actionable solutions to ensure Ohio's businesses have access to a skilled and productive workforce.

The members of the Governor's Executive Workforce Board worked together to seek feedback from local business, education, workforce, and development leaders within the communities they represent. As a result of this collaboration, in December of 2016 the "Building Ohio's Future Workforce" report was issued. The recommendations outlined in the report are all scalable, based on data and research, and will be cost and budget neutral. The Executive Budget proposal includes provisions to implement many of the recommendations contained within this report:

- Placing three non-voting, business people on each school board and requiring teacher externships;
- Making it easier for schools to provide work experience;
- Positioning libraries as "continuous learning centers."

Tax Cuts and Reform

The tax reform proposal in this budget continues the themes that Governor Kasich set out four 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.

Income Tax Reductions

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. The Executive Budget continues to make progress in reducing income tax rates.

It also proposes to reduce the number of income tax brackets, which have only increased since the adoption of the income tax in its original 6 bracket form in 1972.The current 9 brackets would be collapsed to 5 brackets displayed in the chart below.

The reduction in the number of brackets and the reduction in the rates results in a new structure that produces effective tax rates that give the same result as if the 9 bracket system were maintained and taxpayers were given a 17% rate cut over two years (tax years 2017 and 2018).

Current Brackets	Rates		New Brackets	2017 Rates	2018 Rates
$0-$5,250	0.495%		Up to $10,000	0.50%	0.456%
$5,250-$10,500	0.990%		$10,000-$25,000	1.50%	1.367%
$10,500-$15,800	1.980%		$25,000-$100,000	3.25%	2.963%
$15,800-$21,100	2.476%		$100,000-$200,000	4.25%	3.874%
$21,100-$42,100	2.969%		More than $200,000	4.75%	4.33%
$42,100-$84,200	3.465%				
$84,200-$105,300	3.960%				
$105,300-$210,600	4.597%				
More than $210,600	4.997%				

In order to achieve the desired equivalence to a 17% rate cut for all taxpayers, there are also changes to the low-income tax credit and to the personal exemptions.

Personal exemptions are increased for low and middle income taxpayers. For taxpayers with Ohio adjusted gross income (OAGI) between $0 and $40,000, the personal exemption will be increased from $2,250 to $3,000. For taxpayers with OAGI between $40,000 and $80,000, the exemption will be increased from $2,000 to $2,500. For taxpayers with OAGI above $80,000, the exemption will remain at $1,750.

The threshold for the low-income credit is increased from $10,000 to $15,000. This means that taxpayers with less than $15,000 in Ohio taxable income will owe no Ohio income tax. Since Ohio taxable income is calculated after personal exemptions are subtracted from OAGI, this means that a married couple without children could have income up to $21,000 and owe no Ohio income tax (OAGI of $21,000 minus two personal exemptions of $3,000 each = $15,000).

The income tax proposal has been carefully calibrated such that simulations of the impact show less than 500 Ohio taxpayers would experience any increase in tax liability, and for those few that experienced an increase it would average less than $4.

The entire package of income tax reductions reduces revenues by $1,244 million in FY 2018 and $1,883 million in FY 2019.

Offsetting Revenue

To offset the revenue foregone as a result of the income tax changes, the Executive Budget also proposes an expansion of the sales tax base to certain services not previously covered, with this expansion accompanied by a 0.5% increase in the state sales tax rate. In addition, there are proposals to adopt a severance tax and to increase the tax rates for cigarettes and other tobacco products. There are also minor increases in revenues from the alcoholic beverage tax and the commercial activity tax.

The offsetting revenue from all the proposed changes is approximately $1,194 million in FY 2018 and $1,819 in FY 2019. Thus, there is a net tax cut, when one considers only state funds, of $50 million in FY 2018 and $64 million in FY 2019. The net tax cut is smaller when one also considers the effect of sales tax base broadening on county and transit authority sales tax revenues.

Sales and Use Tax

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 sales tax base expansion would raise an estimated $136 million in FY 2018 and $206 million in FY 2019. Over half of this new revenue would result from broadening the tax base to include cable television services. This addition would create parity with satellite broadcasting services, which have been subject to the Ohio sales and use tax since 2003. Other base broadening items include lobbying, repossession services, non-medically necessary cosmetic procedures, landscape design, interior design and travel agent services.

The state sales tax rate would increase from 5.75% to 6.25%, starting October 1, 2017. This change would raise an estimated $571 million in FY 2018 and $897 million in FY 2019. The new state tax rate would be below that of Indiana, which is 7.0%, and slightly above the state rates in Ohio's other contiguous states, which are all 6.0%. It would also be slightly above the median for all U.S. states, which is 6.0%.

Cigarette and Other Tobacco Products Tax

There are three major elements to the cigarette and other tobacco products (OTP) restructuring. The cigarette tax would be increased from $1.60 to $2.25 per pack, which is estimated to raise $184 million in FY 2018 and $198 million in FY 2019.

The OTP tax rate would be increased from 17% of wholesale price, which has been the rate since the adoption of the tax in 1992, to 69%. This will make the tax rate equivalent to the new $2.25 per pack tax rate on cigarettes, if the cigarette tax were expressed as a percentage of wholesale price. The increase would raise an estimated $84 million in FY 2018 and $125 million in FY 2019.

In addition, the OTP tax would be extended to vapor products (primarily e-cigarettes), at the new 69% tax rate raising an estimated $5 million in FY 2018 and $10 million in FY 2019.

Besides these three major changes, the bill would also eliminate the 2.5% early payment discount for the OTP tax and reduce the cigarette tax stamp credit to $1.25. These changes would raise an estimated $11 million in FY 2018 and $13 million in FY 2019.

In addition, there is an element that brings in revenue only in FY 2018: the floor stock tax. That is a tax on cigarettes held in inventory at the time the rate increases. This is provision is expected to raise $24 million in FY 2018.

Severance Tax on Horizontal Wells

The Executive Budget proposes enacting a tax on high-volume horizontal wells on severance of oil, gas, condensate, and natural gas liquids. The new tax is estimated to generate $137 million in FY 2018 and $311 million in FY 2019.

Under the current tax structure, Ohio continues to have the lowest severance taxes in the country on oil and gas; 20 cents on a barrel of oil and 3 cents on an MCF (1,000 cubic feet) of gas. The rates have essentially remained the same for more than 30 years. The oil and gas industry continues to extract Ohio’s natural resources while paying virtually no severance tax. Total severance tax paid on these products in calendar year 2015 was about $29 million on oil and gas with an estimated market value of at least $3.9B, meaning that the effective tax rate was less than 0.75%.

The basic tax rate proposed is 6.5% on the volume of oil or gas multiplied by spot prices at the exchanges where these commodities are traded. For commodities such as natural gas liquids, however, (ethane, butane, etc.) a lower tax rate of 4.5% would be applied to reflect the additional processing costs incurred in separating natural gas liquids from the dry gas, and other costs involved in bringing the product to market. These rates are lower than those levied by other major state producers, such as Texas, Oklahoma and North Dakota, and will place Ohio squarely in the middle of the pack of all state tax rates.

Alcoholic Beverage Tax

The proposal increases the tax rates for most kinds of alcohol, other than spirituous liquor, by approximately 70%, an increase equal to the combined inflation rate since the last tax rate increase in 1992. This change, along with three other minor changes, would generate estimated gains of $26 million in FY 2018 and $31 million in FY 2019.

On the most common products, beer & table wine, the tax increase is about a penny per serving. On a standard 12 oz. beer, the increase is $0.012, meaning that on a 24 can case of 12 ounce cans, the increase is 29 cents. For wine, for a standard pour (which is 5 ounces), the increase is 8/10ths of one cent. On a standard bottle of wine (750ml) the increase is 4.2 cents.

The proposal would also have some simplification features. The proposal would simplify the tax on beer by applying a per-ounce rate without regard to the container volume. In addition, vermouth and sparkling wine will be grouped with wine by alcohol content. This will reduce the number of rates and product classifications.

Commercial Activity Tax

The CAT rate is left unchanged at 0.26%, and there is no general base broadening. However, there are two provisions that would increase revenue from particular subsets of taxpayers by closing tax loopholes.

Since the inception of the CAT, there has been an exclusion for interest income (as well as other types of intangible property income). This was designed to exempt income that companies earned from their investment operations, outside their core trade or business. However, there are companies subject to the CAT for whom generating interest income is the major part of their trade or business (lenders of various kinds) and so the exemption essentially allows them to pay zero or minimal CAT. This proposal would eliminate the exclusion for those lenders, thus generating gains of about $3 million in FY 2018 and $4 million in FY 2019.

In addition, companies that sell to qualified distribution centers (QDCs) have been allowed a special provision that reduces their taxable receipts to only that percentage of sales that eventually are distributed to Ohio purchasers. While this provision originally reduced the taxable receipts of suppliers to a small percentage of sales to QDCs, in recent years it has been used as a tax planning device by the suppliers to QDCs to reduce their Ohio percentage and their CAT liability to zero. The proposal would institute a minimum taxable sales percentage on such suppliers of 10% of their sales to QDCs, thus generating estimated gains of $5 million in FY 2018 and $21 million in FY 2019.

Medicaid

This budget builds on the momentum of Governor Kasich's previous budgets and work of the General Assembly, which greatly improved the design and delivery of the Medicaid program as well as the administrative structure through which it is managed. Office of Health Transformation Director Greg Moody and Medicaid Director Barbara Sears will be testifying in the coming weeks, 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. As with all Medicaid budgets, in order to control spending, we have included certain cost containment measures in the budget before you today. There is also a series of program initiatives that increases 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. Of course, the bill before you continues the state's effort to change the way we pay health care providers, by expanding the areas in which we reward quality and value – rather than volume.

As you know, Medicaid spending occurs through the Department of Medicaid as well as six other so-called "sister agencies": the departments of Aging, Developmental Disabilities, Health, Job and Family Services, and Mental Health and Addiction Services and Education. Education recently joined the list of sister agencies as the department has established a program and line item to oversee and assist school districts participating in the Medicaid in schools initiative. While all six agencies support the administration of the program, the vast majority of Medicaid expenditures are made by the Department of Medicaid.

In this budget, recommended all fund appropriations across the seven agencies is $27.96 billion or 6.3% higher than estimated spending in FY 2017. FY19 recommended all funds total is $28.71 billion or 2.7% increase over FY 2018. This increase in spending for the upcoming biennium can be attributed to several factors:

- Projected increases in Medicare costs that Medicaid is responsible for paying to the federal government, particularly in Medicare Part B, payment for physician services and Medicare Part D, prescription drug benefit;
- Projected increase in the Aged Blind and Disabled enrollment;
- Projected increase in pharmacy costs.

Recommended state-share GRF Medicaid appropriations across the seven agencies total 5.31 billion in FY2018, which is $2.24 million or 8.5% lower than estimated spending in FY2017. FY2019 recommended appropriations total is $5.54 billion, an increase of 230.8 million or 4.3 percent higher than FY2018. As I mentioned earlier, the reduction in GRF is the result of the loss of the Medicaid managed care sales tax revenue which has been deposited in the GRF and thus was able to help support the Medicaid program. To offset this loss, the Executive Budget recommends adoption of a health insuring corporation provider assessment, which I will detail later in my testimony. The revenues of this assessment will be deposited into a dedicated purpose fund (DPF). Expenditures of these revenues in FY18/19 result in a substantial increase in appropriations from DPF line items. Federal Medicaid reimbursement for the increase in expenditures from the DPF will be deposited and expended from a federal line. Appropriations in the Federal fund group, significantly contribute to the large increase there.

“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 than the recommended appropriations. However, additional cost containment efforts have held down costs below those levels. Cost-containment initiatives of note include: performance payments for comprehensive primary care; a reduction in hospital reimbursement; reduction in nursing home reimbursement rates and moving nursing facility reimbursement into managed care; improved tools to combat fraud, waste and abuse; and finally, a single preferred drug list for the Medicaid pharmacy benefit.

The Executive Budget also contains initiatives that will target additional resources to important program priorities. Several of the more significant include:

- All-in Managed care – since Governor Kasich took office, Ohio has made improving care coordination for those on Medicaid a top priority. Today, over 90 percent of Ohioans enrolled in Medicaid receive care through a private-sector managed care plan. Beginning July 2018, the Executive Budget requires the aged, blind and disabled community and those on waivers to enroll in managed care. Enrollment will be optional for individuals served through the Department of Developmental Disabilities.
- Brokered transportation – we propose to transition from a county based system to a state based brokerage model for non-emergency medical transportation. Under this new model, Ohio Medicaid will contract with a third-party transportation broker to manage these services. Once implemented, this new model will provide consistent transportation services for Medicaid enrollees, more efficiently arrange for their transportation needs, and reduce costs.
- Home and Community Based Services – as in our previous budgets, we continue to prioritize and direct resources, including additional waiver slots to expand community options for the developmental disabled population.

- Bureau of Children with Medical Handicaps (BCMH) – the budget proposes to reform and improve the BCMH program while preserving medically necessary services for every child currently enrolled in the BCMH program. For families above 200% of poverty, they will continue to receive services exactly as they do today. The Ohio Department of Health will administer the existing BCMH program until these children age out. Another 20,000 children enrolled in both BCMH and Medicaid will receive BCMH services solely through their Medicaid health plan beginning January 1, 2018. Ohio Medicaid will establish a new state administered BCMH program and begin enrolling children in families with income above the Medicaid income limit beginning January 1, 2018. Medicaid administered BCMH services will be comparable to the current ODH program. The new Medicaid BCMH program begins January 1, 2018 for any children who apply beginning July 1, 2017. County millage will continue to be used to support the children through the ODH program but Ohio Medicaid – not the counties – will cover the cost of the new program.
- Personal responsibility – we propose a personal responsibility premium for recipients above 100% of the federal poverty level. These premiums would apply to childless, non-pregnant adults. Premiums are estimated at approximately $20 per month and will be capped not to exceed 2% of household income. As an individual’s financial situation improves, enabling them to move from Medicaid, paying a premium will help prepare them for a successful transition to a private insurance plan.

During the last six years, 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 one percent over the next two years. When all factors are taken together, the resulting growth rates of Medicaid in this budget are manageable.

Medicaid Managed Care Sales Tax

Since the spring of last year, the Kasich Administration has been discussing with the General Assembly, local government groups and the public, the fact that CMS ruled that as of July 2017, it will no longer accept Ohio's Medicaid managed care sales tax as a permissible source of state funds to draw down federal matching funds for Medicaid.

The loss of the sales tax has a significant impact on state GRF tax receipts which supports a range of state services including Medicaid. The loss of Medicaid managed care services in the sales tax base also impacts counties and transit authorities that impose a local option sales tax. The administration has acknowledged that the loss of this revenue source would be impactful to these entities and would be too difficult for most to absorb in a single year.

It has been suggested that the state should extend the sales tax base to all managed care plans, which would not only avoid state and local sales tax loss, but would, in fact, increase local revenue. The problem with that approach is it would increase, by more than 7% on average, the cost of health care to non-Medicaid managed care customers. The administration did not consider that a viable option. Instead we propose a Health

Insuring Corporation (HIC) provider assessment with similarities to a plan that California received federal approval for in June of 2016.

In December 2016, Ohio Medicaid received approval from CMS to impose a HIC provider assessment. The assessment that will be paid by Medicaid HICs is $26 to $56 per member per month and by non-Medicaid HICs is $1 to $2 per member per month. This assessment is projected to raise slightly more state revenue in FY18 than the current sales tax is projected to raise in FY 2017. However, since this provider assessment is not a sales tax, it will not produce any local revenue.

Consistent with our pledge to provide assistance to help counties and transit authorities manage through the loss of this sales tax, we have developed a transitional support payment proposal. It consists of two components; a calculated replacement payment intended to cover the last quarter of this calendar year and a formula based payment intended to distribute transitional support above amounts we have determined would be reasonable for counties and transit authorities to absorb based on their reliance on the managed care sales tax and local sales tax capacity. The calculated replacement payment will be larger for counties and transit authorities where the managed care sales tax is a greater share of the total local sales tax receipts, and the sales tax capacity per capita is below the statewide average. This proposal will provide a total of $207 million to all 88 counties and eight transit authorities and will be paid in October of 2017.

Some will suggest that the state should permanently replace the lost local Medicaid sales tax revenue. But I would point out that these revenues have only been collected since 2010. So in my view, a permanent replacement for what was a short term revenue source does not make sense.

OTHER INITIATIVES

Beyond the key priorities, I have covered in this testimony, there are many other initiatives worth mentioning if time would permit. However, it does not, so let me highlight just a few of these now.

- A proposal to divert from state prisons non-violent, non-sexual felony five offenders. A new DRC grant will provide funds to counties to support community supervision programs and services.
- A series of initiatives that emphasize the importance of technology and innovation to the state economy and state government, including the use of data analytics, creation of a cyber range, and the establishment of the Ohio Institute of Technology lead by a chief innovation officer.
- Continued commitment of significant resources for the programs and services for the mentally ill and drug addicted.
- A proposal to distribute a portion of the Local Government Fund based on the relative tax capacity of counties, cites, villages and townships.

FISCAL YEAR 2017 REVENUE REVISION

As is traditionally the case, OBM's presentation of the executive budget at the end of January included an updated FY 2017 revenue forecast, as well as forecasts of the FY 2018-2019 GRF revenues. That revised FY 2017 forecast was based not only on the updated economic outlook, but also on actual revenue performance through December. At this point, actual revenues are available through March, and this new information includes the first three months of the income tax filing season. This provides OBM with additional information to assess the likely outcomes for FY 2017 GRF revenues, although even with only one quarter remaining of course there is still uncertainty in this endeavor.

Through the first nine months of FY 2017, state finances have lagged the July 2017 budget estimates (see Table 6). Tax revenues are $615 million, or 3.7% below estimates. At this point, the major tax sources are all below the estimate. The biggest shortfall is in the personal income tax, which is $448 million, or 7.6%, below the estimate. Most of the underperformance is in refunds, which are $271 million, or 25.8% below estimate. The sales and use tax is below the estimate by $161 million, or 2.0%, with the shortfall concentrated in the non-auto tax, which is $158 million, or 2.3% below estimate. The CAT is below estimate by $28 million, or 2.8%.

Earlier in my testimony I discussed how income tax withholding fell short of the estimate not only for the first six months of FY 2017, but for all of CY 2016, and how the non-auto sales tax also lagged the estimate over all of CY 2016. For some time I have been saying, consistently, that OBM expected the sales and income tax to fall well short of estimate for FY 2017, and also expected tax revenues as a whole to fall short. The revised FY 2017 GRF tax revenue estimates that are incorporated into the Governor's budget are in fact $592.2 million, or 2.6% below the July FY 2017 estimates in the OBM Monthly Financial Report (see Table 7).

Since OBM released its revised forecast with the introduction of the Governor's budget in late January, the news has actually gotten somewhat worse. February sales and use tax results collections were just about at the July estimate, but the income tax and the CAT performance fell well short. Income tax collections fell far short of estimate again in March, as refunds continue to run much higher than projected, and the non-auto sales tax also fell far short of the March estimate. While OBM does not have another revised FY 2017 revenue forecast at this time, clearly the risks are now to the downside for FY 2017 GRF tax revenues. The current year-to-date shortfall of $615 million already exceeds the $592 million shortfall anticipated in the executive budget revised estimates.

The continued weak revenue performance in FY 2017 presents a vexing and very significant puzzle. The growth in employer withholding, which is only 1.3% for FY 2017, is well below what one would expect given estimates by the Bureau of Economic Analysis (BEA) of Ohio wage and salary income growth. This is true for wage income in total, and is particularly notable in certain sectors. Similarly, Ohio non-auto sales tax collections growth has been well below what U.S. retail sales data from the U.S. Census Bureau would lead one to expect. This leaves policymakers to confront the question, should the revenue shortfalls be treated as an aberration, which would lead one to expect that revenue growth will align with economic growth in the future? Or should the fact that revenue performance has lagged behind the official economic statistics for 15 months now – counting the last half of FY 2016 as well as the first three quarters of FY 2017 – lead one to conclude that whatever is causing the disconnect between revenues and income and sales statistics may continue for some time?

OBM's thinking is that the underperformance of revenues has gone on long enough that it is unwise to treat it as a temporary aberration. Therefore, it is likely that OBM's FY 2018-2019 revenue forecasts for conference committee, unlike in prior biennia, will probably be revised downward from the executive budget estimates, rather than upward. The fact that the income tax filing season has so far gone poorly only adds to the pressure to revise downward. In prior biennia, OBM's upward revisions were based largely on income tax filing season revenues outperforming OBM's cautious initial estimates. This time, as refunds continue to run far above estimate, we will be forced to move in the opposite direction.

On the expenditure side, actual disbursements are running 3.3% below estimate, compared with the 4.7% shortfall in GRF revenues (the 3.7% shortfall I cited earlier was for tax revenues only). Total disbursements and transfers are $892.4 million, or 3.2% below estimates. The largest part of this underspending by far is in the Medicaid program, where GRF spending is running $871.5 million (6.1%) below estimate. The state share of that underspending is $247 million.

All other GRF spending, including transfers, is approximately $21 million below estimate. Although property tax reimbursements are $91 million over estimate, this is the result of state reimbursement to locals being made earlier than the estimates assumed. By year's end, as I have stated before, OBM expects property tax reimbursement to be below the estimate. Debt service payments are also expected to end the year below estimate. For most other spending, I would expect disbursements and encumbrances to finish the fiscal year at or slightly below the estimates.

Despite the bad news on GRF tax revenues, the restraint shown by the administration and the General Assembly in budgeting and managing the state's resources in prior years means that the GRF is still expected to end FY 2017 in positive territory. To be more specific, the large GRF balance that was carried into FY 2017, along with additional transfers to the GRF authorized in the Transportation budget, significant estimated underspending in Medicaid and more moderate underspending in property tax reimbursement and debt service, should result in an ending GRF balance that is not only positive but very close to the targeted 0.5% of prior-year revenues.

Nevertheless, even here I must inject an additional note of caution. In the two months since I testified before the House Finance Committee, conditions have worsened, despite a spate of what seems to be better economic data at the national level. I stated in late January that the revised revenues, revised spending projections, and the resulting fund balance were only estimates based on the information available at the time, and that further deterioration of sales tax receipts in the second half of the fiscal year, or a weak personal income tax filing season, could result in actual receipts below these estimates. It now appears that the negative downside scenario that I outlined then is likely to materialize. Notwithstanding this bad news, I still believe that the fiscal situation for FY 2017 is manageable and that the GRF balance at year's end will be positive. However, OBM will closely monitor revenues over the remainder of the filing season and fiscal year and present a plan to ensure balance should conditions deteriorate even further.

CONCLUSION

Mr. Chairman, members of the committee, I appreciate the opportunity to review *Building for Ohio's Next Generation*, Governor Kasich's Executive Budget recommendations for FY 2018 and 2019. The Administration looks forward to working with you as the Senate considers this budget proposal. At this time I am happy to answer any questions you may have today.

Table 1
Actual and Estimated Revenues for the General Revenue Fund
Fiscal Years 2016 to 2019
(dollars in millions)

Revenue Source	Actual FY 2016	Estimated FY 2017	% Chg	FY 2018	% Chg	FY 2019	% Chg
<u>Tax Revenue</u>							
Auto Sales and Use	1,346.3	1,339.9	-0.5%	1,432.9	6.9%	1,515.4	5.8%
Non-Auto Sales and Use	9,001.7	9,208.4	2.3%	9,420.9	2.3%	10,033.9	6.5%
Subtotal Sales and Use	10,348.0	10,548.3	1.9%	10,853.8	2.9%	11,549.3	6.4%
Personal Income	7,799.3	7,926.1	1.6%	7,027.1	-11.3%	6,755.8	-3.9%
Corporate Franchise	33.2	0.0	-100.0%	0.0	N/A	0.0	0.0%
Financial Institutions Tax	213.5	223.0	4.5%	227.3	1.9%	231.6	1.9%
Commercial Activity Tax	1,255.3	1,255.0	0.0%	1,467.1	16.9%	1,519.2	3.6%
Petroleum Activity Tax	6.9	6.0	N/A	6.0	0.0%	6.0	0.0%
Public Utility	103.3	103.5	0.2%	103.5	0.0%	103.5	0.0%
Kilowatt Hour Tax	338.0	365.2	8.0%	375.1	2.7%	375.2	0.0%
Natural Gas Consumption	60.7	66.0	8.7%	66.0	0.0%	66.0	0.0%
Foreign Insurance	293.5	301.5	2.7%	306.0	1.5%	310.0	1.3%
Domestic Insurance	258.3	278.0	7.6%	286.0	2.9%	292.0	2.1%
Business and Property	2.2	0.0	-100.0%	0.0	N/A	0.0	0.0%
Cigarette	1,007.6	970.0	-3.7%	1,258.1	29.7%	1,268.3	0.8%
Alcoholic Beverage	54.4	55.0	1.0%	81.4	48.0%	85.6	5.2%
Liquor Gallonage	45.1	45.0	-0.3%	45.0	0.0%	45.0	0.0%
Estate	2.2	0.0	-100.0%	0.0	N/A	0.0	0.0%
Severance	0.0	0.0	N/A	136.6	N/A	310.6	127.4%
Total of Tax Revenue	21,821.6	22,142.6	1.5%	22,238.9	0.4%	22,918.1	3.1%
<u>Non-Tax Revenue</u>							
Earnings on Investments	35.1	45.0	28.2%	60.0	33.3%	80.0	33.3%
Licenses and Fees	56.0	57.0	1.8%	57.0	0.0%	57.0	0.0%
Other Income	49.6	59.3	19.5%	282.8	376.9%	86.5	-69.4%
Interagency Transfers	0.2	18.5	7978.6%	9.5	-48.6%	9.5	0.0%
Total of Non-Tax Revenue	141.0	179.8	27.5%	409.3	127.6%	233.0	-43.1%
<u>Transfers</u>							
BSF Transfer	0.0	0.0	0.0%	0.0	0.0%	0.0	0.0%
Transfers In - Other	322.2	488.5	51.6%	200.9	-58.9%	257.4	28.1%
Transfers In - Temporary	0.0	0.0	N/A	0.0	N/A	0.0	0.0%
Total Transfers	322.2	488.5	51.6%	200.9	-58.9%	257.4	28.1%
Total Sources Excl. Federal Grants	22,284.8	22,810.9	2.4%	22,849.1	0.2%	23,408.5	2.4%
Federal Grants	11,645.7	12,078.7	3.7%	10,261.2	-15.0%	10,458.1	1.9%
Total Sources	33,930.5	34,889.6	2.8%	33,110.3	-5.1%	33,866.6	2.3%

Source: Ohio Office of Budget and Management, January 2017

Table 2
General Revenue Fund Distribution Changes and Tax Reform Impacts
Fiscal Years 2018 and 2019
(dollars in millions)

Fiscal Year 2018

		CAT/TPP Accounting Changes			Tax Policy Changes All Funds			
	Baseline	Tax Distribution Changes	PLF/LGF GRF Impact	Policy Adjusted GRF	Tax Reform Changes All Funds	MHIC repeal	PLF/LGF GRF Impact	Proposed GRF Total
Auto Sales	$1,359.3			$1,359.3	$73.6			$1,432.9
Non-Auto Sales & Use	$9,620.9		($1.4)	$9,619.5	$633.7	($839.7)	$7.4	$9,420.9
Personal Income Tax	$8,255.5		($2.8)	$8,252.7	($1,240.4)		$14.8	$7,027.1
Commercial Activity Tax * **	$1,288.6	$171.8		$1,460.4	$6.8			$1,467.1
Kilowatt-Hour Tax	$369.1		($1.4)	$367.7			$7.4	$375.1
Cigarette and Other Tobacco	$945.8			$945.8	$312.4			$1,258.1
Alcoholic Beverage	$55.0			$55.0	$26.4			$81.4
Severance Tax	$0.0			$0.0	$136.6			$136.6
Other Taxes	$1,039.8			$1,039.8				$1,039.8
Total	$22,934.0	$171.8	($5.7)	$23,100.1	($51.0)	($839.7)	$29.6	$22,238.9
CAT Excess Transfer In to GRF	$196.6	-$171.7		$24.9	$1.2			$26.0

* CAT tax reform impacts do not include the 15% impact on property tax replacement funds

** The increase in the GRF share of CAT revenues increases GRF tax revenues but reduces excess CAT transfers to the GRF. The two changes would exactly offset each other if not for the LGF and PF impacts.

Fiscal Year 2019

		CAT/TPP Accounting Changes			Tax Policy Changes All Funds			
	Baseline	Tax Distribution Changes	PLF/LGF GRF Impact	Policy Adjusted GRF	Tax Reform Changes All Funds	MHIC repeal	PLF/LGF GRF Impact	Proposed GRF Total
Auto Sales	$1,399.9			$1,399.9	$115.6			$1,515.4
Non-Auto Sales & Use	$10,025.6		($1.5)	$10,024.1	$987.0	($986.0)	$8.7	$10,033.9
Personal Income Tax	$8,620.1		($2.9)	$8,617.2	($1,878.9)		$17.5	$6,755.8
Commercial Activity Tax * **	$1,321.8	$176.2		$1,498.0	$21.3			$1,519.2
Kilowatt-Hour Tax	$368.0		($1.5)	$366.5			$8.7	$375.2
Cigarette and Other Tobacco	$922.2			$922.2	$346.2			$1,268.3
Alcoholic Beverage	$55.0			$55.0	$30.6			$85.6
Severance Tax	$0.0			$0.0	$310.6			$310.6
Other Taxes	$1,054.1			$1,054.1				$1,054.1
Total	$23,766.6	$176.2	($5.9)	$23,937.0	($67.7)	($986.0)	$35.0	$22,918.2
CAT Excess Transfer In to GRF	$260.9	-$176.2		$84.7	$3.8			$88.5

* CAT tax reform impacts do not include the 15% impact on property tax replacement funds

** The increase in the GRF share of CAT revenues increases GRF tax revenues but reduces excess CAT transfers to the GRF. The two changes would exactly offset each other if not for the LGF and PF impacts.

Table 3
Estimated Expenditures and Recommendations by Budget Fund Group
FYs 2017, 2018, 2019

Budget fund groups are categories used to group similar funds for reporting purposes. Ohio's funds are categorized according to their revenue sources and the purposes for which they are used.

Budget Fund Group	FY17 Estimate	FY18 Rec	FY18 % Change	FY19 Rec	FY19 % Change
General Revenue	$ 35,067,946,970	$ 33,097,800,946	-5.6%	$ 33,823,075,747	2.2%
Federal	$ 11,733,593,596	$ 14,913,885,532	27.1%	$ 15,220,028,919	2.1%
Fiduciary Funds	$ 6,886,497,584	$ 7,459,866,548	8.3%	$ 8,006,903,968	7.3%
Dedicated Purpose	$ 4,888,575,898	$ 5,935,633,152	21.4%	$ 5,949,753,571	0.2%
Highway Operating	$ 3,030,150,670	$ 2,752,812,939	-9.2%	$ 2,787,242,384	1.3%
Revenue Distribution Funds	$ 2,232,197,283	$ 2,370,666,193	6.2%	$ 2,130,539,288	-10.1%
State Lottery	$ 1,425,114,282	$ 1,445,005,190	1.4%	$ 1,446,254,372	0.1%
Debt Service	$ 1,170,365,998	$ 1,180,937,300	0.9%	$ 1,258,869,593	6.6%
Internal Service Activity	$ 975,792,114	$ 978,296,503	0.3%	$ 978,864,720	0.1%
Highway Safety	$ 509,045,953	$ 526,661,887	3.5%	$ 535,721,914	1.7%
Capital Projects	$ 346,092,568	$ 555,487,715	60.5%	$ 397,358,502	-28.5%
Bond Research and Development	$ 100,880,250	$ 136,310,250	35.1%	$ 136,310,250	0.0%
Facilities Establishment	$ 58,000,000	$ 58,000,000	0.0%	$ 58,000,000	0.0%
Holding Account	$ 51,998,768	$ 51,019,479	-1.9%	$ 51,019,479	0.0%
Grand Total	68,476,251,934	71,462,383,633	4.4%	72,779,942,707	1.8%

Table 4
Estimated Expenditures and Recommendations by Agency
All Funds, FYs 2017, 2018, 2019

State Agency		FY 2017 Estimate		FY 2018 Rec	% Change		FY 2019 Rec	% Change
Primary and Secondary Education								
Education, Department of	$	11,080,030,399	$	11,210,342,496	1.2%	$	11,370,595,533	1.4%
Total Primary and Secondary Education		11,080,030,399		11,210,342,496	1.2%		11,370,595,533	1.4%
Higher Education								
Higher Education, Department of [2]	$	2,636,015,209	$	2,662,105,110	1.0%	$	2,710,618,684	1.8%
Total Higher Education		2,636,015,209		2,662,105,110	1.0%		2,710,618,684	1.8%
Other Education								
Arts Council	$	16,323,129	$	16,598,129	1.7%	$	16,598,129	0.0%
Broadcast Education Media Commission	$	9,648,350	$	9,632,722	-0.2%	$	9,632,722	0.0%
Career Colleges and Schools, Board of	$	579,328	$	540,260	-6.7%	$	540,260	0.0%
Facilities Construction/School Facilities Comm [2]	$	404,708,444	$	424,405,089	4.9%	$	455,264,789	7.3%
Higher Education Facilities Commission	$	12,000	$	12,500	4.2%	$	12,500	0.0%
Historical Society	$	13,395,478	$	11,770,478	-12.1%	$	11,770,478	0.0%
Library Board	$	21,527,781	$	22,422,144	4.2%	$	22,422,144	0.0%
Ohioana Library Association	$	160,000	$	175,000	9.4%	$	180,000	2.9%
State School for The Blind	$	11,016,184	$	12,060,323	9.5%	$	12,302,120	2.0%
State School for The Deaf	$	11,720,096	$	12,160,821	3.8%	$	12,387,044	1.9%
Total Other Education		489,090,789		509,777,466	4.2%		541,110,186	6.1%
Medicaid								
Aging, Department of [1]	$	7,045,706	$	7,468,986	6.0%	$	7,468,986	0.0%
Developmental Disabilities, Department of [1]	$	2,606,624,650	$	2,764,885,775	6.1%	$	2,880,951,453	4.2%
Health, Department of [1]	$	26,457,094	$	28,330,029	7.1%	$	29,040,949	2.5%
Education, Department of [1]	$	-	$	300,000	N/A	$	300,000	0.0%
Job and Family Services, Department of [1]	$	226,348,465	$	276,698,330	22.2%	$	220,511,375	-20.3%
Medicaid, Department of	$	23,560,644,590	$	24,988,874,812	6.1%	$	25,680,231,986	2.8%
Mental Health and Addiction Services, Department of [1]	$	13,750,367	$	13,250,367	-3.6%	$	13,250,367	0.0%
Total Medicaid		26,440,870,872		28,079,808,299	6.2%		28,831,755,116	2.7%
Health and Human Services								
Aging, Department of [1]	$	84,257,522	$	85,783,122	1.8%	$	85,783,122	0.0%
Developmental Disabilities, Department of [1][2]	$	152,380,819	$	140,783,750	-7.6%	$	138,887,650	-1.3%
Health, Department of [1]	$	599,795,618	$	610,098,767	1.7%	$	610,872,539	0.1%
Hispanic-Latino Affairs, Commission on	$	449,847	$	483,728	7.5%	$	499,182	3.2%
Industrial Commission	$	47,917,841	$	51,427,815	7.3%	$	52,167,300	1.4%
Job and Family Services, Department of [1]	$	2,746,278,423	$	3,084,495,001	12.3%	$	3,088,507,887	0.1%
Mental Health and Addiction Services, Department of [1][2]	$	672,532,957	$	677,547,265	0.7%	$	681,294,529	0.6%
Minority Health, Commission on	$	2,679,914	$	2,734,672	2.0%	$	2,772,333	1.4%
Opportunities for Ohioans with Disabilities Agency	$	256,103,429	$	258,800,870	1.1%	$	262,382,975	1.4%
Service and Volunteerism, Commission on	$	7,970,467	$	8,792,396	10.3%	$	8,785,092	-0.1%
Veterans' Organizations [3]	$	1,887,986	$	-	-100.0%	$	-	N/A
Veterans' Services, Department of [2]	$	105,728,165	$	93,511,131	-11.6%	$	93,164,461	-0.4%
Workers' Compensation, Bureau of	$	285,279,775	$	281,916,264	-1.2%	$	284,618,764	1.0%
Total Health and Human Services		4,963,262,763		5,296,374,781	6.7%		5,309,735,834	0.3%
Justice and Public Protection								
Adjutant General	$	57,147,464	$	53,575,666	-6.3%	$	53,575,666	0.0%
Attorney General [2]	$	333,979,852	$	341,477,408	2.2%	$	330,660,450	-3.2%
Civil Rights Commission	$	8,378,556	$	8,701,749	3.9%	$	9,008,521	3.5%
Court of Claims	$	3,470,438	$	3,660,512	5.5%	$	3,792,651	3.6%
Ethics Commission	$	2,213,475	$	2,319,271	4.8%	$	2,374,311	2.4%
Judicial Conference	$	976,250	$	1,215,245	24.5%	$	1,238,309	1.9%
Judiciary/Supreme Court	$	171,524,827	$	178,263,593	3.9%	$	186,455,204	4.6%
Public Defender Commission	$	95,402,172	$	92,084,336	-3.5%	$	92,798,788	0.8%
Public Safety, Department of [2]	$	728,141,322	$	722,857,706	-0.7%	$	725,252,599	0.3%
Rehabilitation and Correction, Department of [2]	$	1,763,262,985	$	1,826,854,871	3.6%	$	1,857,810,300	1.7%
Tax Appeals, Board of	$	1,905,743	$	1,850,307	-2.9%	$	1,886,042	1.9%
Youth Services, Department of [2]	$	228,900,374	$	231,654,932	1.2%	$	235,302,022	1.6%
Total Justice and Public Protection		3,395,303,458		3,464,515,596	2.0%		3,500,154,863	1.0%

State Agency		FY 2017 Estimate		FY 2018 Rec	% Change		FY 2019 Rec	% Change
General Government								
Administrative Services, Department of [2]	$	798,477,265	$	786,412,145	-1.5%	$	787,302,541	0.1%
Agriculture, Department of	$	77,328,142	$	85,153,096	10.1%	$	85,192,896	0.0%
Air Quality Development Authority	$	1,121,356	$	1,179,813	5.2%	$	1,179,813	0.0%
Auditor of State	$	82,931,402	$	83,953,353	1.2%	$	85,453,353	1.8%
Budget and Management, Office of	$	26,223,540	$	29,140,623	11.1%	$	29,968,027	2.8%
Capital Square Review and Advisory Commission	$	8,184,950	$	8,800,589	7.5%	$	8,935,870	1.5%
Casino Control Commission	$	13,800,576	$	15,577,155	12.9%	$	15,909,745	2.1%
Commerce, Department of	$	196,807,743	$	214,475,888	9.0%	$	212,090,777	-1.1%
Consumers' Counsel, Office of	$	5,641,093	$	5,541,093	-1.8%	$	5,541,093	0.0%
Controlling Board	$	11,725,000	$	10,000,000	-14.7%	$	10,000,000	0.0%
Deposit, Board of	$	1,856,000	$	1,876,000	1.1%	$	1,876,000	0.0%
Development Services Agency [2]	$	1,183,440,310	$	1,184,690,857	0.1%	$	1,194,904,357	0.9%
Elections Commission	$	1,990,537	$	624,448	-68.6%	$	641,309	2.7%
Employee Benefits Funds	$	1,617,941,441	$	1,730,686,329	7.0%	$	1,840,467,749	6.3%
Environmental Protection Agency	$	196,523,434	$	187,412,752	-4.6%	$	189,515,252	1.1%
Environmental Review Appeals Commission	$	620,617	$	620,617	0.0%	$	620,617	0.0%
Expositions Commission	$	14,865,252	$	16,463,166	10.7%	$	16,463,166	0.0%
Governor, Office of the	$	3,267,001	$	3,267,001	0.0%	$	3,267,001	0.0%
House of Representatives	$	26,744,454	$	26,744,454	0.0%	$	26,744,454	0.0%
Housing Finance Agency	$	12,176,700	$	12,413,447	1.9%	$	12,789,824	3.0%
Inspector General, Office of	$	2,226,581	$	2,226,581	0.0%	$	2,226,581	0.0%
Insurance, Department of	$	38,037,235	$	39,137,235	2.9%	$	39,137,235	0.0%
Joint Committee on Agency Rule Review	$	512,253	$	512,253	0.0%	$	512,253	0.0%
Joint Committee on Medicaid Oversight	$	490,320	$	351,355	-28.3%	$	518,538	47.6%
Joint Education Oversight Committee	$	500,000	$	500,000	0.0%	$	500,000	0.0%
Joint Legislative Ethics Committee	$	813,761	$	700,000	-14.0%	$	700,000	0.0%
Lake Erie Commission	$	472,000	$	568,000	20.3%	$	571,000	0.5%
Legislative Service Commission	$	31,125,943	$	28,915,845	-7.1%	$	28,615,845	-1.0%
Liquor Control Commission	$	811,829	$	844,553	4.0%	$	851,269	0.8%
Lottery Commission	$	355,214,282	$	374,005,190	5.3%	$	375,254,372	0.3%
Natural Resources, Department of [2]	$	328,374,992	$	352,459,024	7.3%	$	349,499,363	-0.8%
Pension Subsidies	$	20,503,000	$	20,400,000	-0.5%	$	20,400,000	0.0%
Petrol. Undergd Storage Tank Release Comp. Bd.	$	1,305,425	$	1,433,220	9.8%	$	1,461,073	1.9%
Professional Licensing Boards	$	47,214,970	$	50,815,254	7.6%	$	51,142,749	0.6%
Public Utilities Commission	$	52,002,994	$	54,773,681	5.3%	$	55,573,681	1.5%
Public Works Commission [2]	$	316,276,149	$	329,701,156	4.2%	$	326,289,206	-1.0%
Racing Commission	$	31,486,273	$	32,306,090	2.6%	$	32,333,043	0.1%
Secretary of State	$	22,241,298	$	18,190,826	-18.2%	$	18,190,826	0.0%
Senate	$	16,442,602	$	16,442,602	0.0%	$	16,442,602	0.0%
Sinking Fund, Commissioners of	$	1,169,058,388	$	1,179,474,775	0.9%	$	1,257,464,200	6.6%
Southern Ohio Agriculture Redevelopment	$	347,491	$	352,930	1.6%	$	352,930	0.0%
State Employment Relations Board	$	3,962,270	$	4,003,270	1.0%	$	4,018,270	0.4%
Taxation, Department of	$	1,916,404,415	$	2,053,464,960	7.2%	$	2,022,220,960	-1.5%
Transportation, Department of [2]	$	3,390,728,762	$	3,324,011,026	-2.0%	$	3,201,272,272	-3.7%
Treasurer of State [2]	$	35,845,465	$	54,431,040	51.8%	$	31,181,090	-42.7%
Total General Government		12,064,065,511		12,345,053,692	2.3%		12,365,593,202	0.2%
State Revenue Distributions								
General Revenue Distributions	$	1,788,500,000	$	1,821,100,000	1.8%	$	1,845,100,000	1.3%
Fiduciary Collections and Distributions	$	3,451,473,354	$	3,423,240,000	-0.8%	$	3,512,040,000	2.6%
State Holding Funds and Internal Distributions	$	138,052,999	$	179,200,000	29.8%	$	199,200,000	11.2%
State Revenue Subsidy and Distributions	$	2,029,586,579	$	2,470,866,193	21.7%	$	2,594,039,288	5.0%
Total State Revenue Distributions		7,407,612,932		7,894,406,193	6.6%		8,150,379,288	3.2%
Reissued Warrants	$	-	$	-	N/A	$	-	N/A
Grand Total	$	68,476,251,934	$	71,462,383,633	4.4%	$	72,779,942,707	1.8%

[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.
[2] For these agencies, debt service payments are included in the appropriation totals.
[3] The Executive Budget proposes to include payments to Veterans Services Organizations within the budget of the Department of Veterans Services.

Source: Ohio Office of Budget and Management
Note: Does Not Include Capital Spending or Capital Appropriations

Table 5
Estimated Expenditures and Recommendations by Agency
General Revenue Fund, FYs 2017, 2018, 2019

State Agency		FY 2017 Estimate		FY 2018 Rec	% Change		FY 2019 Rec	% Change
Primary and Secondary Education								
Education, Department of [4]	$	7,909,657,829	$	8,053,159,703	1.8%	$	8,190,046,705	1.7%
Total Primary and Secondary Education		7,909,657,829		8,053,159,703	1.8%		8,190,046,705	1.7%
Higher Education								
Higher Education, Department of [2]	$	2,559,679,898	$	2,600,361,098	1.6%	$	2,645,724,672	1.7%
Total Higher Education		2,559,679,898		2,600,361,098	1.6%		2,645,724,672	1.7%
Other Education								
Arts Council	$	14,798,129	$	14,798,129	0.0%	$	14,798,129	0.0%
Broadcast Education Media Commission	$	9,542,350	$	9,526,722	-0.2%	$	9,526,722	0.0%
Facilities Construction/School Facilities Comm [2][4]	$	396,208,444	$	415,347,200	4.8%	$	445,956,900	7.4%
Historical Society	$	13,235,478	$	11,610,478	-12.3%	$	11,610,478	0.0%
Library Board	$	5,909,328	$	5,909,328	0.0%	$	5,909,328	0.0%
Ohioana Library Association	$	160,000	$	175,000	9.4%	$	180,000	2.9%
State School for The Blind	$	9,932,245	$	10,302,302	3.7%	$	10,544,099	2.3%
State School for The Deaf	$	10,711,788	$	11,022,322	2.9%	$	11,248,544	2.1%
Total Other Education		460,497,762		478,691,481	4.0%		509,774,200	6.5%
Medicaid								
Aging, Department of [1]	$	3,660,649	$	3,660,649	0.0%	$	3,660,649	0.0%
Developmental Disabilities, Department of [1]	$	552,522,124	$	589,297,079	6.7%	$	609,297,079	3.4%
Health, Department of [1]	$	4,065,000	$	3,700,000	-9.0%	$	3,700,000	0.0%
Education, Department of [1]	$	-	$	300,000	N/A	$	300,000	0.0%
Job and Family Services, Department of [1]	$	83,348,465	$	91,099,965	9.3%	$	46,019,470	-49.5%
Medicaid, Department of [4]	$	17,184,617,488	$	14,897,228,357	-13.3%	$	15,350,908,997	3.0%
Mental Health and Addiction Services, Department of [1]	$	1,750,367	$	1,250,367	-28.6%	$	1,250,367	0.0%
Total Medicaid		17,829,964,093		15,586,536,417	-12.6%		16,015,136,562	2.7%
Health and Human Services								
Aging, Department of [1]	$	12,140,819	$	11,890,819	-2.1%	$	11,890,819	0.0%
Developmental Disabilities, Department of [1][2][4]	$	107,506,374	$	92,292,504	-14.2%	$	91,396,404	-1.0%
Health, Department of [1][4]	$	79,062,888	$	76,103,089	-3.7%	$	77,603,089	2.0%
Hispanic-Latino Affairs, Commission on	$	425,289	$	459,170	8.0%	$	474,624	3.4%
Job and Family Services, Department of [1]	$	723,010,349	$	719,509,735	-0.5%	$	715,902,414	-0.5%
Mental Health and Addiction Services, Department of [1][2][4]	$	395,101,723	$	399,326,377	1.1%	$	408,973,641	2.4%
Minority Health, Commission on	$	2,629,914	$	2,684,672	2.1%	$	2,722,333	1.4%
Opportunities for Ohioans with Disabilities Agency	$	16,250,894	$	16,250,895	0.0%	$	16,250,895	0.0%
Service and Volunteerism, Commission on	$	322,547	$	322,547	0.0%	$	322,547	0.0%
Veterans' Organizations [3]	$	1,887,986	$	-	-100.0%	$	-	N/A
Veterans' Services, Department of [2]	$	53,985,011	$	39,817,405	-26.2%	$	37,901,819	-4.8%
Total Health and Human Services		1,392,323,794		1,358,657,213	-2.4%		1,363,438,585	0.4%
Justice and Public Protection								
Adjutant General	$	9,423,464	$	8,806,255	-6.5%	$	8,806,255	0.0%
Attorney General [2]	$	46,379,355	$	49,920,969	7.6%	$	49,926,169	0.0%
Civil Rights Commission [4]	$	5,684,556	$	5,116,100	-10.0%	$	5,684,556	11.1%
Court of Claims	$	3,036,419	$	3,197,997	5.3%	$	3,312,188	3.6%
Ethics Commission	$	1,457,245	$	1,457,245	0.0%	$	1,724,311	18.3%
Judicial Conference	$	684,250	$	806,963	17.9%	$	806,963	0.0%
Judiciary/Supreme Court	$	159,092,818	$	166,111,608	4.4%	$	174,504,475	5.1%
Public Defender Commission	$	28,593,017	$	29,013,017	1.5%	$	29,573,017	1.9%
Public Safety, Department of [4]	$	19,478,543	$	19,798,338	1.6%	$	21,021,519	6.2%
Rehabilitation and Correction, Department of [2][4]	$	1,694,311,984	$	1,751,229,871	3.4%	$	1,781,575,300	1.7%
Tax Appeals, Board of	$	1,905,743	$	1,850,307	-2.9%	$	1,886,042	1.9%
Youth Services, Department of [2]	$	215,002,752	$	214,615,622	-0.2%	$	218,346,926	1.7%
Total Justice and Public Protection		2,185,050,146		2,251,924,292	3.1%		2,297,167,721	2.0%
General Government								
Administrative Services, Department of [2]	$	164,298,810	$	166,811,285	1.5%	$	160,715,785	-3.7%

State Agency		FY 2017 Estimate		FY 2018 Rec	% Change		FY 2019 Rec	% Change
Agriculture, Department of [4]	$	24,623,114	$	22,316,371	-9.4%	$	24,530,924	9.9%
Auditor of State	$	31,550,781	$	31,550,780	0.0%	$	31,550,780	0.0%
Budget and Management, Office of	$	4,995,643	$	5,745,643	15.0%	$	5,970,643	3.9%
Capital Square Review and Advisory Commission	$	3,908,964	$	4,214,424	7.8%	$	4,214,424	0.0%
Controlling Board	$	475,000	$	-	-100.0%	$	-	N/A
Development Services Agency [2]	$	137,347,858	$	135,376,257	-1.4%	$	146,189,757	8.0%
Elections Commission	$	1,731,077	$	424,988	-75.4%	$	441,849	4.0%
Environmental Protection Agency [4]	$	15,008,455	$	9,927,160	-33.9%	$	9,919,594	-0.1%
Environmental Review Appeals Commission	$	620,617	$	620,617	0.0%	$	620,617	0.0%
Expositions Commission	$	375,000	$	375,000	0.0%	$	375,000	0.0%
Governor, Office of the	$	2,953,131	$	2,953,131	0.0%	$	2,953,131	0.0%
House of Representatives	$	25,272,941	$	25,272,941	0.0%	$	25,272,941	0.0%
Inspector General, Office of	$	1,401,581	$	1,401,581	0.0%	$	1,401,581	0.0%
Joint Committee on Agency Rule Review	$	512,253	$	512,253	0.0%	$	512,253	0.0%
Joint Committee on Medicaid Oversight	$	490,320	$	351,355	-28.3%	$	518,538	47.6%
Joint Education Oversight Committee	$	500,000	$	500,000	0.0%	$	500,000	0.0%
Joint Legislative Ethics Committee	$	663,761	$	550,000	-17.1%	$	550,000	0.0%
Legislative Service Commission	$	31,115,943	$	28,905,845	-7.1%	$	28,605,845	-1.0%
Natural Resources, Department of [2][4]	$	96,734,904	$	108,821,022	12.5%	$	110,826,834	1.8%
Pension Subsidies	$	20,503,000	$	20,400,000	-0.5%	$	20,400,000	0.0%
Public Works Commission [2]	$	256,830,944	$	266,184,800	3.6%	$	262,768,900	-1.3%
Secretary of State [4]	$	2,612,422	$	-	-100.0%	$	-	N/A
Senate	$	15,982,305	$	15,982,305	0.0%	$	15,982,305	0.0%
State Employment Relations Board [4]	$	3,887,270	$	3,862,270	-0.6%	$	3,887,270	0.6%
Taxation, Department of [4]	$	70,607,949	$	67,940,382	-3.8%	$	70,607,949	3.9%
Transportation, Department of [4]	$	15,311,997	$	14,309,348	-6.5%	$	15,309,348	7.0%
Treasurer of State [2]	$	11,957,408	$	12,060,983	0.9%	$	12,061,033	0.0%
Total General Government		942,273,448		947,370,741	0.5%		956,687,301	1.0%
State Revenue Distributions								
General Revenue Distributions	$	1,788,500,000	$	1,821,100,000	1.8%	$	1,845,100,000	1.3%
Total State Revenue Distributions		1,788,500,000		1,821,100,000	1.8%		1,845,100,000	1.3%
Reissued Warrants	$	-	$	-	N/A	$	-	N/A
Grand Total	$	35,067,946,970	$	33,097,800,946	-5.6%	$	33,823,075,747	2.2%

[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.
[2] For these agencies, debt service payments are included in the appropriation totals.
[3] The Executive Budget proposes to include payments to Veterans Services Organizations within the budget of the Department of Veterans Services.
[4] GRF appropriations in these agencies were able to be reduced, primarily in fiscal year 2018, by utilizing existing cash balances in non-GRF funds.

Source: Ohio Office of Budget and Management
Note: Does Not Include Capital Spending or Capital Appropriations

Preliminary
4/5/2017

Table 6
GENERAL REVENUE FUND RECEIPTS
ACTUAL FY 2017 VS ESTIMATE FY 2017
($ in thousands)

REVENUE SOURCE	MONTH ACTUAL MARCH	MONTH ESTIMATE MARCH	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	651,153	688,600	(37,447)	-5.4%	6,834,289	6,992,200	(157,911)	-2.3%
Auto Sales & Use	126,795	129,800	(3,005)	-2.3%	1,015,342	1,018,300	(2,958)	-0.3%
Subtotal Sales & Use	777,948	818,400	(40,452)	-4.9%	7,849,631	8,010,500	(160,869)	-2.0%
Personal Income	442,641	538,100	(95,459)	-17.7%	5,478,938	5,926,600	(447,662)	-7.6%
Corporate Franchise	165	0	165	N/A	3,394	0	3,394	N/A
Financial Institutions Tax	33,270	42,700	(9,430)	-22.1%	105,722	131,900	(26,178)	-19.8%
Commercial Activity Tax	20,538	6,800	13,738	202.0%	960,001	988,000	(27,999)	-2.8%
Petroleum Activity Tax	2,155	1,900	255	13.4%	5,014	4,900	114	2.3%
Public Utility	1,907	2,000	(93)	-4.6%	72,302	73,900	(1,598)	-2.2%
Kilowatt Hour	29,097	34,000	(4,903)	-14.4%	272,516	256,500	16,016	6.2%
Natural Gas Distribution	0	0	0	N/A	32,145	32,400	(255)	-0.8%
Foreign Insurance	34,321	102,200	(67,879)	-66.4%	336,770	317,700	19,070	6.0%
Domestic Insurance	3	200	(197)	-98.6%	158	600	(442)	-73.7%
Other Business & Property	0	0	0	N/A	(678)	0	(678)	N/A
Cigarette and Other Tobacco	80,042	77,800	2,242	2.9%	667,262	658,200	9,062	1.4%
Alcoholic Beverage	4,064	5,100	(1,036)	-20.3%	42,856	41,000	1,856	4.5%
Liquor Gallonage	3,408	3,300	108	3.3%	34,786	33,700	1,086	3.2%
Estate	4	0	4	N/A	494	0	494	N/A
Total Tax Receipts	1,429,563	1,632,500	(202,937)	-12.4%	15,861,313	16,475,900	(614,587)	-3.7%
NON-TAX RECEIPTS								
Federal Grants	1,048,119	1,162,487	(114,369)	-9.8%	9,022,909	9,709,834	(686,925)	-7.1%
Earnings on Investments	(0)	0	(0)	N/A	24,042	17,200	6,842	39.8%
License & Fees	30,589	32,205	(1,616)	-5.0%	56,244	53,010	3,234	6.1%
Other Income	380	705	(325)	-46.1%	45,544	45,250	294	0.6%
ISTV'S	1	0	1	N/A	9,132	8,800	332	3.8%
Total Non-Tax Receipts	1,079,088	1,195,397	(116,309)	-9.7%	9,157,870	9,834,094	(676,224)	-6.9%
TOTAL REVENUES	2,508,651	2,827,897	(319,246)	-11.3%	25,019,183	26,309,994	(1,290,811)	-4.9%
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	656	0	656	N/A	92,844	31,800	61,044	192.0%
Temporary Transfers In	0	0	0	N/A	0	0	0	N/A
Total Transfers	656	0	656	N/A	92,844	31,800	61,044	192.0%
TOTAL SOURCES	2,509,308	2,827,897	(318,590)	-11.3%	25,112,027	26,341,794	(1,229,767)	-4.7%

Table 7
FY 2017 General Revenue Fund Revenues
July 2016 Estimate vs. Executive Budget
(dollars in millions)

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

Source: Ohio Office of Budget and Management, January 2017

Estimated General Revenue Fund Balances
For Fiscal Years 2018 and 2019
(dollars in millions)

FY 2018	
Estimated FY 2018 Beginning Balance	381.7
Plus Estimated FY 2018 Revenues and Transfers into the GRF	33,110.3
Total Sources Available for Expenditure and Transfer	33,492.0
Less Recommended FY 2018 Appropriations	33,097.8
Less GRF Transfers Out	227.9
Total Uses	33,325.7
Estimated FY 2018 Ending Balance	166.3

FY 2019	
Estimated FY 2019 Beginning Balance	166.3
Plus Estimated FY 2019 Revenues and Transfers into the GRF	33,866.6
Total Sources Available for Expenditure and Transfer	34,032.9
Less Recommended FY 2019 Appropriations	33,823.1
Less GRF Transfers Out	19.8
Total Uses	33,842.9
Estimated FY 2019 Ending Balance	190.1