10:00 a.m. (EST)
1-866-362-9768
552-970-8972#

Tax Committee
February 16, 2017

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2017 Tax Committee Calendar
Meetings will begin at 10:00 a.m.

Thursday, February 16
Tuesday, May 23
Wednesday, October 11

OMA Tax Committee Meeting Sponsor:

OMA Tax Policy Committee

February 16, 2017

AGENDA

Welcome & Self-Introductions:	Michele Kuhrt, Chairman Lincoln Electric
Guest Speakers	Joe Testa, Commissioner, Ohio Department of Taxation Ryan Smith, Chairman, Ohio House of Representatives Finance Committee Tim Schaffer, Chairman, Ohio House of Representatives Ways and Means Committee
OMA Counsel's Report	Mark Engel, Bricker & Eckler LLP
OMA Public Policy Report	Rob Brundrett, OMA Staff

Please RSVP to attend this meeting (indicate if you are attending in-person or by teleconference) by contacting Denise: dlocke@ohiomfg.com or (614) 224-5111 or toll free at (800) 662-4463.

Additional committee meetings or teleconferences, if needed, will be scheduled at the call of the Chair.

Thanks to Today's Meeting Sponsor:

CLARK SCHAEFER HACKETT
CPAs & BUSINESS CONSULTANTS

Joseph W. Testa
Tax Commissioner
Joe W. Testa was appointed Ohio Tax Commissioner by Governor John Kasich in January 2011. He is the 18th Tax Commissioner to lead the Ohio Department of Taxation.

Testa leads an agency of about 1,000 employees and is successfully pursuing a mission to reduce staff and department expenditures while improving service to taxpayers by leveraging technology. Since taking office, Testa has reduced staff size by more than 350 people and cut the department's general revenue fund spending by more than 23 percent. Technologies including an automated call distribution system, webinars for tax professionals, telecommuting for audit and enforcement staff and expanding electronic communications with taxpayers have all contributed to better service, greater efficiencies and lower costs.

The Tax Commissioner is responsible for administering and enforcing most state and many local government taxes, including the state income tax, state and local sales taxes, and several business and excise taxes. All told, these taxes provide approximately $30 billion in revenues to support funding of Ohio's schools and colleges, Medicaid, law enforcement, transportation and a myriad of other public services.

Testa joined the department with nearly 30 years of public service, including a 25 year record of accomplishment as an elected official. He was first elected Franklin County (OH) Recorder in 1985, and held that office until 1992. As Recorder he was responsible for the recording of all real estate transactions, liens and various other documents as prescribed by Ohio law.

Testa was then elected to the office of Franklin County Auditor, a position he held for 17 years until stepping away from office in 2009. As Auditor, he was responsible for managing an office with approximately 185 employees and entrusted with the appraisal of all real estate in the county, various fiscal services, involvement with personal property and estate taxes, and providing for Information Technology services for county government. Testa received numerous awards in office including the Outstanding Auditor Award by the Auditor of State (OH) twice, and he is the only two-time recipient of the Richard J. Makowski Outstanding County Auditor Award by the County Auditor's Association of Ohio (CAAO), and is a past president of the CAAO.

During and after his tenure as an elected official, Testa taught undergraduate courses in management, business analysis and technique, ethics, and organizational systems. Before entering public service, Testa worked in the private sector in management with a food products company.

Testa earned a Master of Human Resources degree from The Ohio State University, Fisher College of Business. He also holds a Bachelor of Arts degree in Public Administration from the University of Central Florida.

Testa is a veteran having served in the U.S. Navy (1968-72) from which he received a Vietnam Service Medal.

He is married, the father of two sons, and has three granddaughters.

Representative Ryan Smith

93rd House District

State Representative Ryan Smith is serving his third term in the Ohio House of Representatives and currently serves as the Chairman of the Finance Committee. He represents the 93rd House District, which includes Jackson and Gallia counties, as well as portions of Lawrence and Vinton counties.

Representative Smith graduated with a Bachelor's of Science in Finance from The Ohio State University. Upon graduation, he began working as a financial advisor. In 2005, he joined his current financial advising firm as Vice President and Partner.

Representative Smith was twice elected to the Gallipolis City School Board, where he served as Board President. Representative Smith has been engaged in local economic development efforts as he was president of both the Gallia County Chamber of Commerce and the Gallia County Civic Improvement Corporation. Representative Smith was also a board member for Holzer Health Systems, one of the largest employers and healthcare providers in southeastern Ohio.

Representative Smith is married to his wife Vicki and together they have four children, Blake, Grant, Kennedy and Camryn. They reside in Bidwell, just outside of Gallipolis, where they are active in their local church.

Representative Tim Schaffer

77th House District

A lifelong resident of Central Ohio, Representative Tim Schaffer currently is serving his fourth non-consecutive term in the House of Representatives, serving the 77th House District, which encompasses most of Fairfield County. Representative Schaffer's tenure in public office began when he was elected to the Ohio House of Representatives in 2000. After serving three terms he was elected to represent the 31st Ohio Senate District.

Representative Schaffer has worked tirelessly at the Statehouse to fight government corruption, reduce taxes and protect our children from sexual predators. Additionally, Representative Schaffer has worked to bring numerous economic development projects to his district, which led to the creation of hundreds of new job opportunities. As the former chairman of the Senate Ways and Means and Economic Development Committee, he helped oversee legislation that continues to affect state and local government revenues, tax collection and economic development. He also served as vice-chair of the Senate Agriculture, Environment and Natural Resources Committee, and served on the Energy and Public Utilities Committee and the Insurance, Commerce and Labor Committee. These positions allowed him to play a key role in developing policies that protect Ohio's air and water quality along with its abundant natural resources, keep energy prices and taxes in-check, maintain a strong infrastructure, and ensure state labor policies encourage, rather than hinder, job creation.

Representative Schaffer earned a Bachelor's degree in Political Science and Communications from Mount Union College. In addition to his legislative duties, Representative Schaffer has a private sector career as an association executive, and has also served as chairman of the Fairfield County Republican Party. Various awards and honors include Watchdog of the Treasury Award, NFIB Guardian of Small Business, Champion of the Ohio Quarter Horse Congress, Friend of Philanthropy, Ohio Development Association Distinguished Service Award, National Federation of the Blind Distinguished Service Award, MS Society of America Advocate of the Year, Business First 40 under 40 and the Fairfield County Republican Party Statesmanship Award.

The Ohio Statehouse Columbus, Ohio 43215 (614) 466-8100 rep77@ohiohouse.gov

OBM

February 13, 2017

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

FROM: Timothy S. Keen, Director TK

SUBJECT: Monthly Financial Report

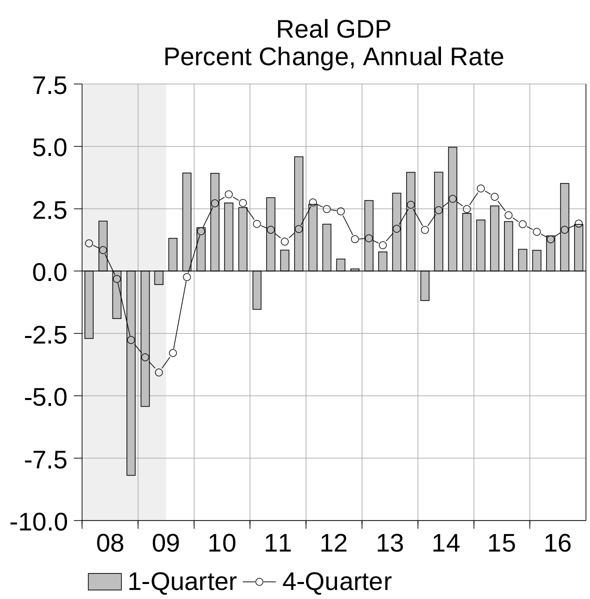
ECONOMIC SUMMARY

Economic Performance Overview

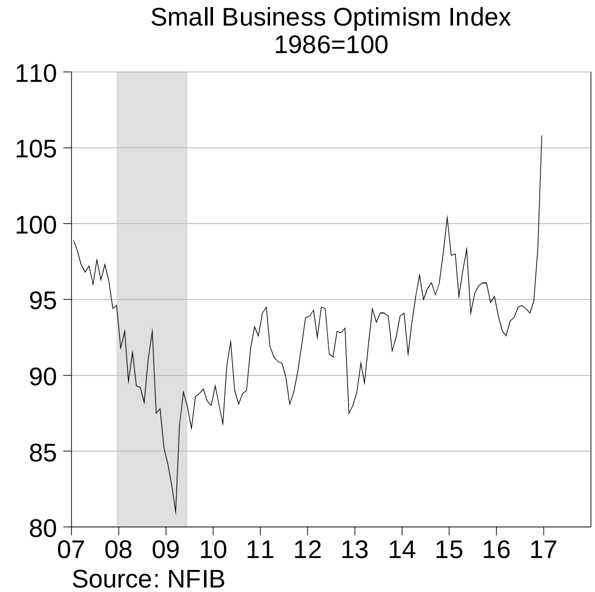
- Economic growth slowed to 1.9% in the fourth quarter and 1.6% for all of 2016. Forecasters project growth of 2% to 2.5% during 2017.
- U.S. employment increased by 227,000 jobs in January for a 3-month average of 183,000 jobs. The unemployment rate edged up 0.1 point to 4.8%.
- Ohio nonfarm payroll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

Economic Growth

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



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



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

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

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

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

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

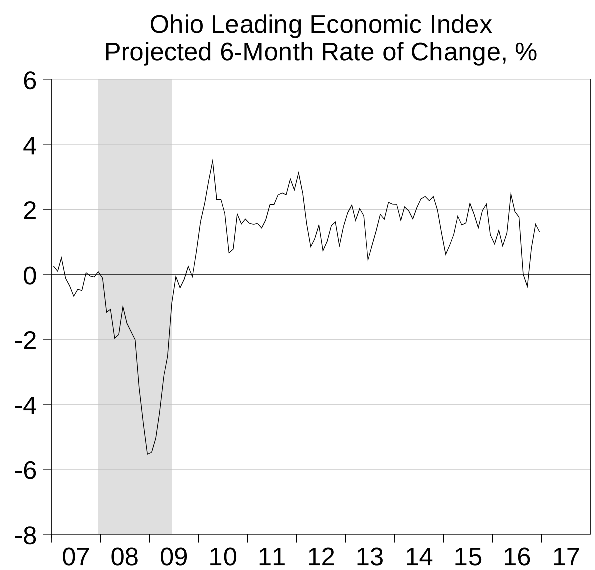
The actual fourth-quarter real GDP growth rate of 1.9% was at the lower end of expectations a month ago that ranged from approximately 1.5% to 3% and centered on 2% to 2.5%. High frequency projections for the first quarter range from as low as nearly 2% to as high as almost

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

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

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

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



Source: Philadelphia Federal Reserve Bank

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

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

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

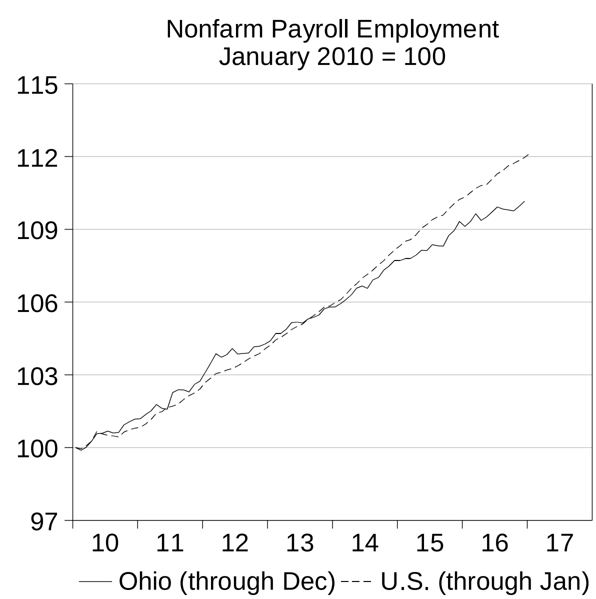
Employment

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

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

The **unemployment rate** ticked up by 0.1 point to 4.8%, as more job seekers entered the labor force. The unemployment rate has been at or below 5.0% since September 2015. The broadest measure of unemployment – the U-6 unemployment rate – increased 0.2 points to 9.4%, but remained below 10% for the sixteenth month in a row. The U-6 unemployment rate includes those who want to work but have stopped looking because they believe they cannot find a job, as well as those working part time who would prefer full time work.

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



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

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

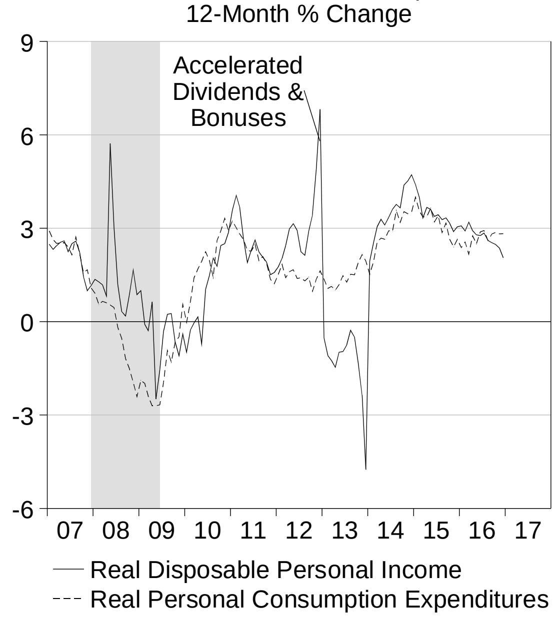
Among the **contiguous states**, year-over-year employment growth was strongest in Michigan (+1.7%), followed by Indiana and Ohio (+0.8%), Kentucky (+0.6%), Pennsylvania (+0.5%), and West Virginia (+0.3%). Gains in manufacturing were harder to come by. Manufacturing employment increased year-over-year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

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

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

<u>Consumer Income and Consumption</u>

Real Income and Consumption
12-Month % Change



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

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

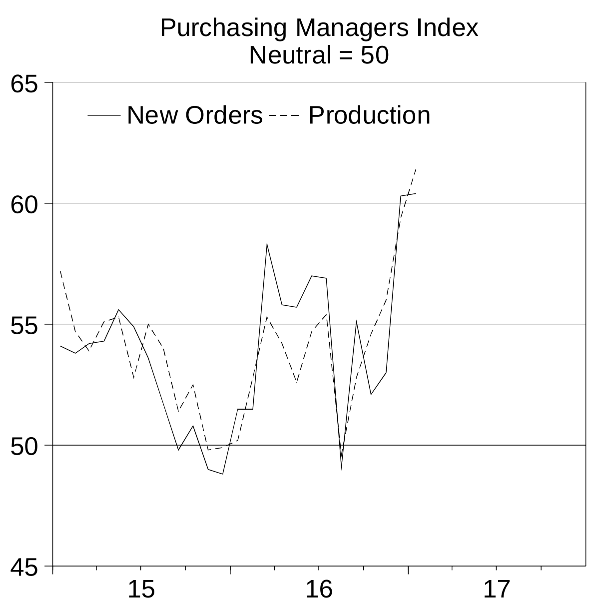
Personal consumption expenditures increased 0.5% in December after a 0.2% gain in November. Spending on durable goods increased 1.4%, in part due to the 3.4% increase in unit sales of light motor vehicles to an annual rate of 18.3 million. Light vehicle sales could stay at the recent level for an extended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

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

Manufacturing

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

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



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

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

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

Construction

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

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

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

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

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

Executive Budget Revisions to the FY 2017 Revenue Forecast

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

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

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

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

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

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

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

REVENUES

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

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

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

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

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

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

Category	Includes:	YTD Variance	% Variance
Tax receipts	Sales & use, personal income, corporate franchise, financial institutions, commercial activity, MCF, public utility, kilowatt hour, foreign & domestic insurance, other business & property taxes, cigarette, alcoholic beverage, liquor gallonage, & estate	($388.1 million)	-2.9%
Non-tax receipts	Federal grants, earnings on investments, licenses & fees, other income, intrastate transfers	($518.0 million)	-6.9%
Transfers	Budget stabilization, liquor transfers, capital reserve, other	$60.4 million	189.9%
TOTAL REVENUE VARIANCE:		**($845.7 million)**	**-4.1%**
Non-Federal Revenue Variance:		**($317.9 million)**	**-2.4%**
Federal Grants Variance:		**($527.8 million)**	**-7.1%**

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

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

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

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

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

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

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

Non-Auto Sales and Use Tax

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

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

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

Auto Sales Tax

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

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

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

Personal Income Tax

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

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

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

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

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

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

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

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

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

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

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

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

Commercial Activity Tax

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

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

Cigarette and Other Tobacco Products Tax

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

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

GRF Non-Tax Receipts

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

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

DISBURSEMENTS

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

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

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

Primary and Secondary Education

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

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

Higher Education

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

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

Other Education

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

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

Medicaid

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

Expenditures

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

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

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

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

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

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

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

Enrollment

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

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

Please note that these data are subject to revision.

Health and Human Services

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

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

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

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

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

Justice and Public Protection

This category includes non-debt service GRF expenditures by the Department of Rehabilitation & Correction, the Department of Youth Services, the Attorney General, judicial agencies, and other justice-related entities.

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

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

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

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

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

General Government

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

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

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

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

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

Property Tax Reimbursements

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

Debt Service

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

Transfers Out

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

FUND BALANCE

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

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

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

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

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

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

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

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

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Ohio Manufacturers' Association

Tax Counsel Report
February 16, 2017
By Mark A. Engel
Bricker & Eckler LLP

Administrative Actions:

The Department has created a new form IT K-1. The form is not mandatory, and may be used to track income, adjustments, credits, and apportionment trough multi-tiered pass-through entity ownership chains.

Legislative Actions:

H.B. 26 is the transportation budget bill. The bill revises the time and manner in which the motor fuel tax is paid. Currently, that tax is paid at the wholesale level. Dealers purchasing fuel thus have about 30 days to pay for the fuel, allowing them time to sell the fuel themselves. Under the proposal, the tax will apply when the fuel is sold from the rack. Dealers claim the cost of the tax will be paid earlier, forcing them to increase prices to cover the cost. The bill also eliminates the allowance for shrinkage (evaporation) and increases the tax on compressed natural gas use to power motor vehicles so that it matches the tax on other motor fuels.

H.B. 49 is the budget bill for 2018-2019. It contains a number of tax provisions. Please see the summary attached to the report.

Judicial Actions:

Ohio Supreme Court

In *Giddens v. Testa*, Slip Op. No. 2016-Ohio-8412, the Court ruled that a distribution of earnings and profits by a corporation, earned prior to the time that the corporation made an election to be taxed as an S corporation, but distributed to stockholders after the election was made, retained is characteristic as a dividend, rather than a distributive share of income, to be allocated based on the residence of the shareholders rather than apportioned based upon the activities of the corporation.

In *Columbus City Schools Bd. of Edn. v. Franklin Cty. Bd. of Revision*, Slip Op. No. 2016-8375, the Court held that condominium units held for sale should be valued separately, rather than as a single economic unit.

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The prior sale of individual units could serve as a basis for determining the value of the unsold units.

In *Emerson Network Power Energy Systems, N.A., Inc. v. Lorain Cty. Bd. of Revision*, Slip Op. No. 2016-8392, the Court ruled that the BTA must explain its reconciliation of conflicting evidence of value and may not simply make a conclusory finding. In addition, where property is sold after the BTA's hearing, but prior to its decision, and a party moves the BTA to re-open its hearing, the BTA must render a decision on that motion.

In *Utt v. Lorain Cty. Bd. of Revision*, Slip Op. No. 2016-8401, the Court held that it was sufficient for a property owner who did not appear before the BOR to establish a sale of property giving rise to the presumption that the price paid is the value of the property where documents of the sale were submitted. However, the presumption was overcome when the BOE introduced evidence that the sale involved distressed property foreclosed by Fannie Mae.

Ohio Court of Appeals

In *Painter v. Testa*, 2017-Ohio-267 (5th Dist.), the Court of Appeals upheld a responsible party assessment against the owner of an entity that attempted to sell its business three different times pursuant to a management and purchase agreement under which the purchaser agreed to be responsible for all tax filings and payments. The liquor license and vendor's license remained in the name of the seller at all times. The contractual provision did not serve to relieve the owner of the business from his liability for the taxes that were not paid.

Ohio Board of Tax Appeals

Nothing to report.

Tax Commissioner Opinion

Nothing to report.

Other

In *International Intimates, Inc.*, Refund App. No. 201435974, Final Determination (Oct. 11, 2016), the taxpayer sold clothing to a distributor, which transported some of its purchases to a warehouse in Ohio. From the warehouse, the distributor sold product to customers inside and outside Ohio. The Tax Commissioner ruled that receipts from the sale to the distributor were properly sourced to Ohio because the distributor, when it received the merchandise outside Ohio, immediately brought it into Ohio for storage. Since goods are considered to be received at the location at which all transportation has ended under R.C. 5751.033(E), they were considered received in, and receipts were properly sourced to, Ohio.

TO: OMA Tax and Finance Committee
FROM: Rob Brundrett
SUBJECT: Tax Public Policy Report
DATE: February 16, 2017

Overview

After a year on the campaign trail the Governor has switched his focus to the final state budget proposal of his term. Many common themes were introduced in House Bill 49, including an expansion of the sales tax and a reduction of the income tax. The House and Senate will debate these proposals and add their own to the massive 3,500 page spending bill. Final action on the bill is required by June 30.

Tax Legislation

Senate Bill 9 – Sales Tax Holiday

Senator Kevin Bacon introduced Senate Bill 9 which provides for a three-day sales tax "holiday" in August 2017 during which sales of clothing and school supplies are exempt from sales and use taxes. The holiday was passed and used in 2016 as well. The bill is scheduled for a first hearing this week.

House Bill 26 – Transportation Budget

Representative Rob McColley introduced House Bill 26, the state's transportation budget. The bill makes appropriations for programs related to transportation and public safety for the biennium and provides authorization and conditions for the operation of those programs. The bill is expected to be passed quickly. It is scheduled for two hearings this week in House Finance Committee.

House Bill 27 – Workers' Compensation Budget

Representative Tom Brinkman introduced House Bill 27, which is the BWC standalone budget. The bill makes changes to the Workers' Compensation Law, makes appropriations for the Bureau of Workers' Compensation, and provides authorization and conditions for the operation of the Bureau's programs. The bill is expected to be passed quickly.

House Bill 28 – Industrial Commission Budget

Representative Tom Brinkman introduced House Bill 28, which is the Industrial Commission standalone budget. The bill makes appropriations for the Industrial Commission for the biennium, and provides authorization and conditions for the operation of Commission programs. The bill is expected to pass both Houses quickly.

Senate Bill 36 – CAUV

Senator Cliff Hite has reintroduced Senate Bill 36. SB 36 makes changes to the computation of the CAUV formula. CAUV is the alternative method for taxing agricultural property. The rate allows agricultural land to be taxed at the ag value of land as opposed to the commercial value of the land. The formula has proven to be controversial in the past. In recent years farmers have been seeing an increase in their property tax due to a variety of reasons. Making changes to the current formula has proven controversial especially to residents and local governments.

House Bill 49 – State Operating Budget

The Governor outlined his final budget proposal the last week of January. The massive spending bill number over 3,500 pages was introduced formally last week. Included in the bill are several major tax proposal.

Again the Governor is going after additional income tax reductions in this budget. He proposed a nearly $3.2 billion, 17% cut in income taxes over the two years beginning July 1. The number of income tax brackets would be reduced from nine to five. The top tax rate would drop to 4.33%.

The budget would increase personal income tax exemptions for those earning less than $80,000. The administration said these changes would mean an additional 350,000 low-income Ohioans will pay no income tax.

Personal income taxes have been reduced in Ohio by 30% since 2005.

Governor Kasich would pay for his proposed personal income tax decrease with a concomitant increase in sales and other taxes.

The increases in the sales and other taxes would total about $3.1 million. The sales tax rate would increase by 1/2% to 6.25%.

The sales tax base would expand to additional services such as television subscriptions, elective cosmetic surgery, lobbying, landscape design, interior design and decorating, travel package and tours and repossession services.

The budget proposes to increase the state's severance tax on oil and gas and raise taxes on cigarettes, beer and wine.

Finally as every business taxpayer knows, Ohio has an administratively burdensome, and costly, municipal tax system. Governor Kasich proposes to simplify its payment process.

He would streamline the process by having businesses file just one form for municipal taxes and make a single payment through the Ohio Business Gateway. The Ohio Department of Taxation would process payments and distribute revenues back to the appropriate local governments, just as it does for county sales taxes and school district income taxes.

This reform has been advocated by the OMA and its business allies, and opposed by the municipal lobby.

Tax News

2020 Tax Policy Study Commission

The Commission wrapped up hearings in the fall. There is no word if and when a final report of recommendations will be delivered to the General Assembly.

OMA Gets Win in Supreme Court

On Thursday Nov. 17, the Ohio Supreme Court issued its long-awaited decisions in three cases involving the application of the commercial activity tax to remote sellers. In a 5-2 decision, the court upheld Ohio's economic nexus standard and rejected the argument that a physical presence in the state was required by the commerce clause before a remote seller could be subject to the tax.

In part, the court held that the $500,000 threshold of receipts was sufficiently substantial for commerce clause purposes. OMA filed an amicus brief in the cases, urging the Court to uphold the economic nexus provisions.

Site Selection Ranks Ohio's Business Climate Third Overall

Ohio finished third overall in Site Selection's annual ranking of state business climates. Georgia and North Carolina were numbers one and two.

Fifty percent of the ranking is based on a survey of site selectors – corporate facility investors and site consultants — who indicate simply which states they deem to be the most business friendly. That's the subjective part. The other 50 percent — the objective side — is a combination of factors primarily based on announced project data that resides in the Conway Projects Database which credits areas with corporate facility projects of at least $1 million in capital investment, 20 or more new jobs or new construction of at least 20,000 sq. ft.

Building for Ohio's Next Generation

Budget of the State of Ohio · Fiscal Years 2018–2019

SMART MOBILITY: PUTTING OHIO ON TRACK TO TRANSPORTATION LEADERSHIP

Our State's Long History of Transportation Manufacturing, Research and Innovation Place Ohio in a Leadership Position to Benefit from New Technologies and the Jobs of Tomorrow

For more than a century, Ohio has been at the heart of transportation manufacturing, innovation and research. Those ties grow stronger with each passing year and the innovations developed here will continue to build on our state's historic role as a world leader in transportation technology. The Kasich Administration is committed to embracing the future with new investments and forward-looking policies to ensure that Ohio maintains its leadership position with smart mobility and other emerging technologies – ready to benefit from the business investments and jobs that follow. By being one of the first – and best positioned – states to embrace new technologies for drones, autonomous and connected vehicle technology, data analytics and other industries of the future, Ohio can also be among the first to benefit.

With World-Class Research Capabilities and Highway Infrastructure, Ohio Has a Head Start on Smart Mobility Innovation: In addition to having the world's leading automotive manufacturers and suppliers in Ohio, our state benefits from the research and development resources those companies are bringing here. We also rank high among all the states for the quality and maintenance of our complex highway infrastructure, providing key testing sites across a wide range of terrains and weather conditions. While many states have fallen badly behind in highway repairs, maintenance and improvements, Ohio has invested $12.5 billion in more than 6,000 bridge and highway projects since 2011 to improve safety and keep people and goods moving.

To Maintain Our Leadership Role, Ohio Has Launched a Smart Mobility Initiative: Ohio's outstanding research assets and well-maintained infrastructure have already attracted some of the world's most advanced transportation research to our state. These resources, supported by investments in Gov. Kasich's new biennial budget, are helping jump-start Ohio's Smart Mobility Initiative – a partnership of researchers at the Ohio Department of Transportation, Ohio Department of Public Safety, the Ohio Turnpike and Infrastructure Commission, and The Ohio State University – to collaborate on development of smart mobility and smart city technologies. In addition, the City of Columbus won a $40 million federal grant, along with significant third-party co-investment, to develop Ohio's capital city as a hub for intelligent transportation.

Creating Smart Highways As Testing Corridors for New Transportation Technologies: An early example of our state's transportation research collaboration is the U.S. 33 Smart Mobility Corridor, which is being instrumented with fiber technology and sensors. Gov. Kasich's new transportation budget includes funding for two additional smart highway projects – on the Interstate 270 beltway in Columbus and Interstate 90 in northeast Ohio. These smart highways, as well as the Ohio Turnpike, will provide state-of-the-art sites for innovators to test and refine jobs-creating technologies. An expanding network of smart highways will give Ohioans a safer, better driving experience and offer businesses reduced transportation costs, increased operating efficiencies and faster access to markets.

Investing in the Transportation Research Center, America's Foremost Independent Automotive Proving Ground: Funding in Gov. Kasich's budget, along with commitments from other partners, will together invest $45 million for expanded research capabilities at the Transportation Research Center (TRC) in East Liberty. The TRC is a 4,500-acre independent testing facility – the continent's most advanced – offering the ideal environment for autonomous vehicle and smart highway research, compliance and certification testing for vehicles and components, crash testing, emissions testing, and durability testing. The TRC is also home to the National Highway Traffic Safety Administration's only Vehicle Research and Test Center, another unique advantage for our state.

The Ohio Turnpike Is a Focal Point for Smart Mobility Research: Perhaps the crown jewel of the state's transportation assets for smart mobility is the Ohio Turnpike, six lanes and 241 miles of well-maintained roadway already equipped with a fiber-optic network that is being instrumented for short-range, vehicle-to-infrastructure and vehicle-to-vehicle communications. As this advanced research expands to other states, the Turnpike is poised to become the centerpiece of a contiguous, interstate highway test corridor. Otto, a world leader in self-driving vehicle technology, is already using the Ohio Turnpike and the U.S. 33 Smart Mobility Corridor as sites for testing its latest innovations under real-life traffic conditions.

Ohio is a Leader in Drone Technology, Developing the Nation's First "Sense and Avoid" Test Site: Transportation innovation and cutting-edge research in Ohio are by no means limited to automotive technology. Drone and unmanned aircraft technology is another promising arena where Ohio – "the Birthplace of Aviation" – is embracing the future. The state is currently working on a cooperative $5 million project with the U.S. Air Force Research Laboratory to develop a ground-based "sense-and avoid-system" for unmanned aircraft to empower drone operators, for the first time anywhere in the nation, to fly unmanned aircraft beyond their line of sight. The governor's budget includes research funds and support to Ohio's Unmanned Aircraft System Center and Test Complex in Springfield to advance research that will give Ohio a major advantage as unmanned aircraft and drones become the basis for new industries and economic growth in ways we cannot yet imagine.

Using New Traffic Management Tools to Help Keep Ohio on the Move: The Ohio Department of Transportation is also introducing new traffic management techniques to enhance traffic flow on state highways and keep traffic moving during rush hour peaks. Recent tests of these practices – variable speed limits and using highway shoulders as an additional driving lane – have shown promising results in other states. Updates to traffic laws, proposed in this budget, would allow the state to safely apply these techniques on appropriate routes across Ohio's highway network.

BOTTOM LINE: One of the most promising areas for Ohio's economic growth is transportation, a field on the verge of historic, life-changing advances with autonomous and connected vehicles, smart highways, sensor technologies and drones. Building on Ohio's long history of transportation innovation and the state's wealth of world-class research, development and manufacturing resources, the Kasich Administration is working on many levels to capitalize on these emerging technologies. By taking full advantage of our ability to lead in developing next-generation industries, Ohio is well positioned to attract major new investments in the research, infrastructure and the jobs that will follow.

BWC
FY 2018 – 2019 Budget Facts

The Ohio Bureau of Workers' Compensation (BWC) is the largest state-fund workers' compensation insurance system in the nation, insuring more than 244,000 employers and managing care for Ohioans who are injured on the job. Funded through employer premiums and assessments, BWC operates with nearly 1,900 employees in 14 locations throughout Ohio. The agency approved more than 88,000 new claims and paid approximately $1.6 billion in wage loss and medical benefits last year.

Over the last six years, BWC has become a national industry leader committed to fulfilling its mission to protect Ohio's workers and employers through the prevention, care and management of workplace injuries and illnesses at fair rates. BWC's proposed $566.5 million Fiscal Year 2018-19 budget seeks to build on this progress by improving service, streamlining and modernizing operations, promoting workplace safety and keeping premiums low and stable so businesses can prosper.

Highlights of the proposed budget include:

Expediting payments to injured workers - Injured workers must sometimes wait for benefit payments to begin as they collect the necessary paperwork for BWC to calculate payment amounts. This delay threatens to put many workers into dire financial straits. BWC proposes an expedited process that allows eligible injured workers to receive their compensation more quickly, without the red tape and bureaucracy. The law change would allow BWC to provide a minimum payment until their full weekly wage is determined.

Waiving unnecessary medical exams - Injured workers receiving temporary total disability benefits must undergo a 90-day medical examination. This can be unnecessary for some injured workers who clearly need more time to recover before they'll be ready to return to work. To better meet the varying needs of injured workers, this proposal would authorize the administrator to waive the 90-day medical examination when all parties are in agreement.

Closing dormant claims - Current law places applications for permanent partial disability on hold indefinitely if a worker fails to attend or reschedule the medical examination required to determine eligibility. The result is 20,000 applications, many more than a decade old, that remain open and incomplete. The requested change would enable BWC to dismiss these dormant claims and give applicants two years to re-file, ensuring no negative repercussion for those who still have viable claims.

Eliminating outdated injury reporting requirements for physicians - Physicians are required by law to contact BWC only by mail if they believe their patient has contracted an occupational disease. Removal of this outdated requirement will eliminate a burden on physicians that prevents them from selecting the communication method that works best for their business.

Reducing injuries in the public sector - The Public Employer Risk Reduction Program helps create safe and healthy working conditions for Ohio's 600,000 public employees. Proposed improvements to the program are designed to decrease injury rates among these workers, which outpace their counterparts in the private sector. We propose expanding the program to include firefighters, police officers and corrections officers, and giving BWC greater authority to conduct workplace inspections to prevent injuries from occurring.

Building for Ohio's Next Generation

Budget of the State of Ohio • Fiscal Years 2018–2019

Budget Highlights

The State of Ohio Executive Budget Fiscal Years 2018-2019

Governor John R. Kasich

Office of Budget and Management
Director Timothy S. Keen

Building for Ohio's Next Generation

Budget of the State of Ohio Fiscal Years 2018-2019

Governor John R. Kasich

Budget Highlights

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John R. Kasich
Governor
State of Ohio

January 30, 2017

Fellow Ohioans and Members of the General Assembly:

Ohio's common-sense approach to fiscal management, a model based on sound budgeting, conservative estimates and restrained spending, has served our state well over the past six years. Fiscal balance and stability have been – and will continue to be – the most important signal Ohio can send to job creators as they look to do business in a state that is on a solid financial footing. As a result, new and existing Ohio businesses have created nearly 450,000 new private-sector jobs in our state since 2011, while Ohioans' wages have grown faster than the national average.

At a time when the national economy continues to recover at the slowest pace since WWII and the future economic picture is unclear, continuing to practice conservative budgeting and fiscal restraint is the prudent course.

That is why my Executive Budget for the next two fiscal years will begin – as our Administration's budgets have always begun – with conservative, responsible priorities that work to hold down the growth of state spending in ways that make government leaner, more efficient and more responsive to the needs of our citizens.

This budget builds on the ideas we have shown are working: spending restraint, tax cuts and reform, and helping Ohioans prepare for in-demand jobs. It also takes on challenges such as keeping Ohio abreast of emerging technologies and waging the fight against drug abuse and addiction.

This formula of building on our previous successes while embracing innovation will keep our state economically competitive and at least one step ahead of others with emerging technologies that can help us reap the benefits – foremost, the jobs – those technologies will produce. To help with that goal, I recommend in this budget the creation of an important new leadership position in state government: a chief innovation officer. The person holding this responsibility will make sure Ohio remains ahead of the curve in a world where technology and the jobs created by that technology are changing faster and more profoundly than ever before. Our chief innovation officer will also lead a newly created Ohio Institute of Technology, established in this budget to ensure that our research and educational efforts are aligned with emerging technologies and their jobs-creation potential.

At the same time, we are moving forward with policies and budget priorities positioning Ohio to remain a leader in advancing cutting-edge research in automotive transportation and the self-driving future, as well as drone technology, data analytics and cyber security. By doing so, we will give Ohio a major advantage as these technologies become the basis for new industries, jobs and economic growth in ways we cannot yet imagine.

Making Ohio more competitive also means we must make our tax code friendlier to job creators and entrepreneurs. That is why this budget proposes shrinking the number of tax brackets for the state income tax and reforming Ohio's tax code in ways that bring more common sense to our tax system.

As we work to secure Ohio's future, we must continue to transform our education and workforce training systems to ensure that Ohioans can be more competitive in the global marketplace. That is why this budget proposal includes important new approaches to create stronger ties between businesses and education and forge innovative partnerships with non-traditional workforce entities in order to better prepare Ohioans of all ages for the jobs companies have today and well into the future.

Reforms in this budget focus on our foremost priority – building on Ohio's economic growth and the job opportunities that growth produces. By maintaining our fiscal strength and embracing the future, together we can continue to make this state the best place to work, live and raise our families.

Sincerely,

John R. Kasich
Governor

Budget Overview

Governor Kasich's Executive Budget
FY 2018 and FY 2019

In his Executive Budget for the FY 2018-FY 2019 biennium, Governor Kasich recommends all funds appropriations of $71.5 billion in FY 2018 (a 4.4% increase over estimated FY 2017 spending) and $72.8 billion in FY 2019 (a 1.8% increase over FY 2018).

The Governor's recommendations for GRF appropriations are $33.1 billion in FY 2018 (5.6% below FY 2017 estimates) and $33.8 billion in FY 2019 (2.2% above FY 2018).

> The state share of the GRF, not including federal appropriations within the Department of Medicaid, is $22.8 billion in FY 2018 (a decrease of 0.8% from the FY 2017 estimate) and $23.3 billion in FY 2019 (an increase of 2.3% over FY 2018).
>
> The decline in both the total and state share GRF appropriations is largely due to the elimination of the sales tax on Medicaid managed care companies and the adoption of a provider assessment on all managed care companies. The provider tax, unlike the sales tax, will be deposited in a non-GRF dedicated purpose fund.

• **Medicaid** is the single-largest program in the state budget, with recommended all funds appropriations of $28.1 billion (6.2% increase above FY 2017 estimated spending levels) and $28.8 billion in FY 2019 (2.7% above FY 2018).

> Recommended GRF appropriations are $15.6 billion in FY 2018 (a 12.6% decrease from 2017 estimates) and $16.0 billion in FY 2019 (a 2.7% increase from FY 2018). The state share of these appropriations total $5.3 billion in FY 2018 (8.5% below FY 2017 estimate) and $5.5 billion in FY 2019 (4.3% above FY 2018). See above.

• **Primary and Secondary Education** recommended all funds appropriations total $11.2 billion (1.2% above FY 2017 spending levels) and $11.4 billion in FY 2019 (1.4% above FY 2018). Recommended GRF appropriations total $8.1 billion in FY 2018 and $8.2 billion in FY 2019. This comprises the second-largest GRF area of expense and the largest in terms of state-only funding.

• **Higher Education** recommended all funds appropriations total $2.66 billion in FY 2018 (1.0% above FY 2017 spending levels) and $2.71 billion in FY 2019 (1.8% above FY 2018). Recommended GRF appropriations total $2.60 billion in FY 2018 and $2.65 billion in FY 2019.

• **Other Education** recommended all funds appropriations total $509.8 million (4.2% above FY 2017 spending levels) and $541.1 million in FY 2019 (6.1% above FY 2018). Recommend GRF appropriations total $478.7 million in FY 2018 and $509.8 million in FY 2019. The largest agency in this category is the Facilities Construction Commission/School Facilities Commission.

• **Health and Human Services** recommended all funds appropriations total $5.29 billion (6.7% above FY 2017 spending levels) and $5.31 billion in FY 2019 (0.3% above FY 2018). Recommended GRF appropriations total $1.4 billion in FY 2018 and $1.4 billion in FY 2019. The largest agencies in this category include the non-Medicaid portion of the Departments of Job & Family Services and the Department of Health.

• **Justice and Public Protection** all funds recommendations total $3.46 billion (2.0% above FY 2017 spending levels) and $3.50 billion in FY 2019 (1.0% above FY 2018). Recommended GRF appropriations total $2.25 billion in FY 2018 and $2.30 billion in FY 2019. The largest agencies in this category are the Departments of Rehabilitation & Correction and Youth Services.

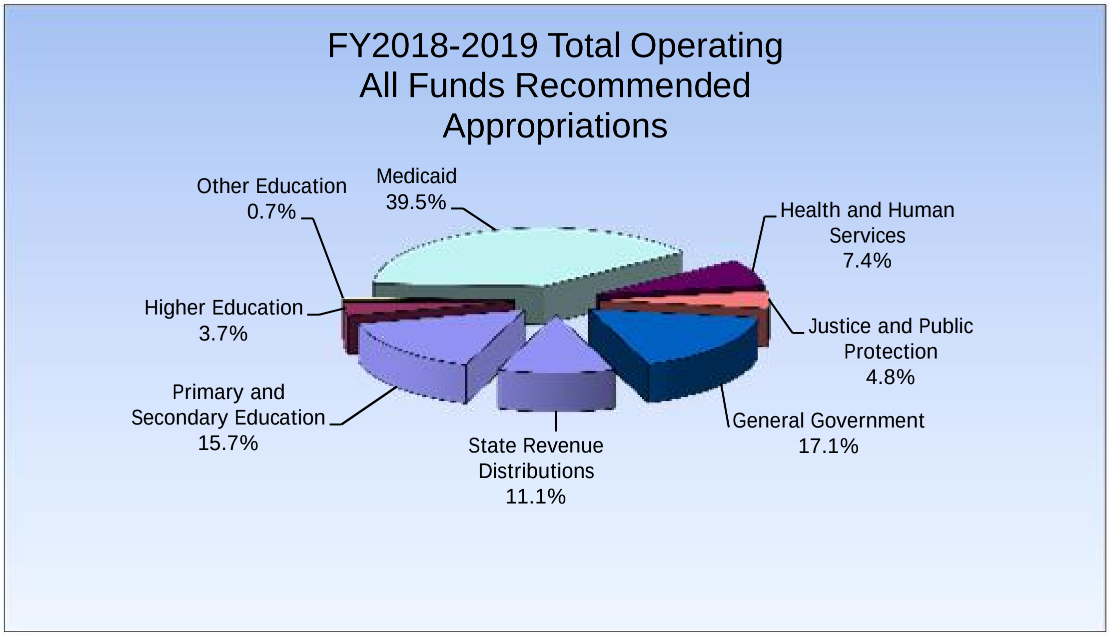
• **General Government** recommended all funds appropriations in this category total $12.3 billion (2.3% above FY 2017 spending levels) and $12.4 billion in FY 2019 (0.2% above FY 2018). Recommended GRF appropriations total $947.4 million in FY 2018 and $956.7 million in FY 2019. Largest agency in this category is the Department of Transportation.

• **State Revenue Distributions** consists primarily of funds collected or held by the state on behalf of other government entities. The all funds recommendations for these payments total $7.9 billion (6.6% above FY 2017 spending levels) and $8.2 billion in FY 2019 (3.2% above FY 2018). General Revenue Distributions spending consists of payments to school districts and local governments related to the 10.0% and 2.5% property tax rollbacks and the homestead exemption. Recommended GRF appropriations for these payments total $1.82 billion in FY 2018 and $1.85 billion in FY 2019.

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.

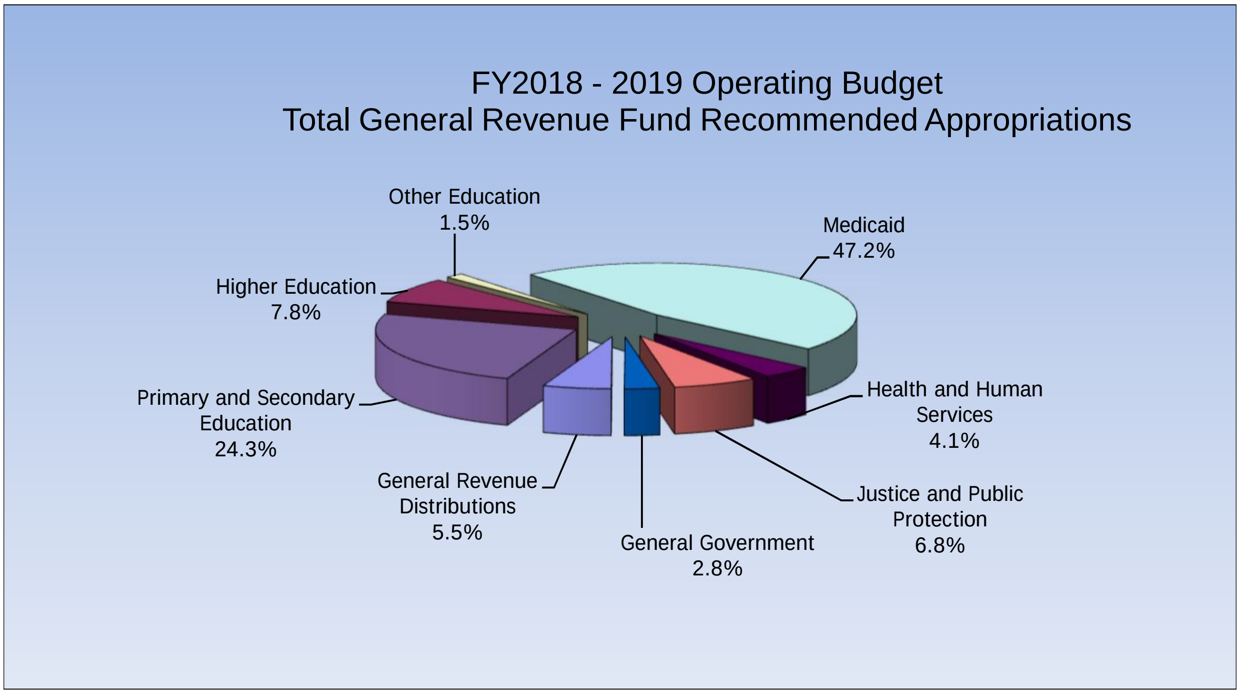
Budget Fund Group	FY17 Estimate	FY18 Rec	FY18 % Change	FY19 Rec	FY19 % Change
General Revenue	$ 35,067,946,970	$ 33,097,800,946	-5.6%	$ 33,823,075,747	2.2%
Federal	$ 11,733,593,596	$ 14,913,885,532	27.1%	$ 15,220,028,919	2.1%
Fiduciary Funds	$ 6,886,497,584	$ 7,459,866,548	8.3%	$ 8,006,903,968	7.3%
Dedicated 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%



All Funds Appropriations (dollars in millions)

Function	FY 2017 Est	FY 2018 Rec	% Change	FY 2019 Rec	% Change
Primary and Secondary Education	$ 11,080.0	$ 11,210.3	1.2%	$ 11,370.6	1.4%
Higher Education	$ 2,636.0	$ 2,662.1	1.0%	$ 2,710.6	1.8%
Other Education	$ 489.1	$ 509.8	4.2%	$ 541.1	6.1%
Medicaid	$ 26,440.9	$ 28,079.8	6.2%	$ 28,831.8	2.7%
Health and Human Services	$ 4,963.3	$ 5,296.4	6.7%	$ 5,309.7	0.3%
Justice and Public Protection	$ 3,395.3	$ 3,464.5	2.0%	$ 3,500.2	1.0%
General Government	$ 12,064.1	$ 12,345.1	2.3%	$ 12,365.6	0.2%
State Revenue Distributions	$ 7,407.6	$ 7,894.4	6.6%	$ 8,150.4	3.2%
Total	$ 68,476.3	$ 71,462.4	4.4%	$ 72,779.9	1.8%

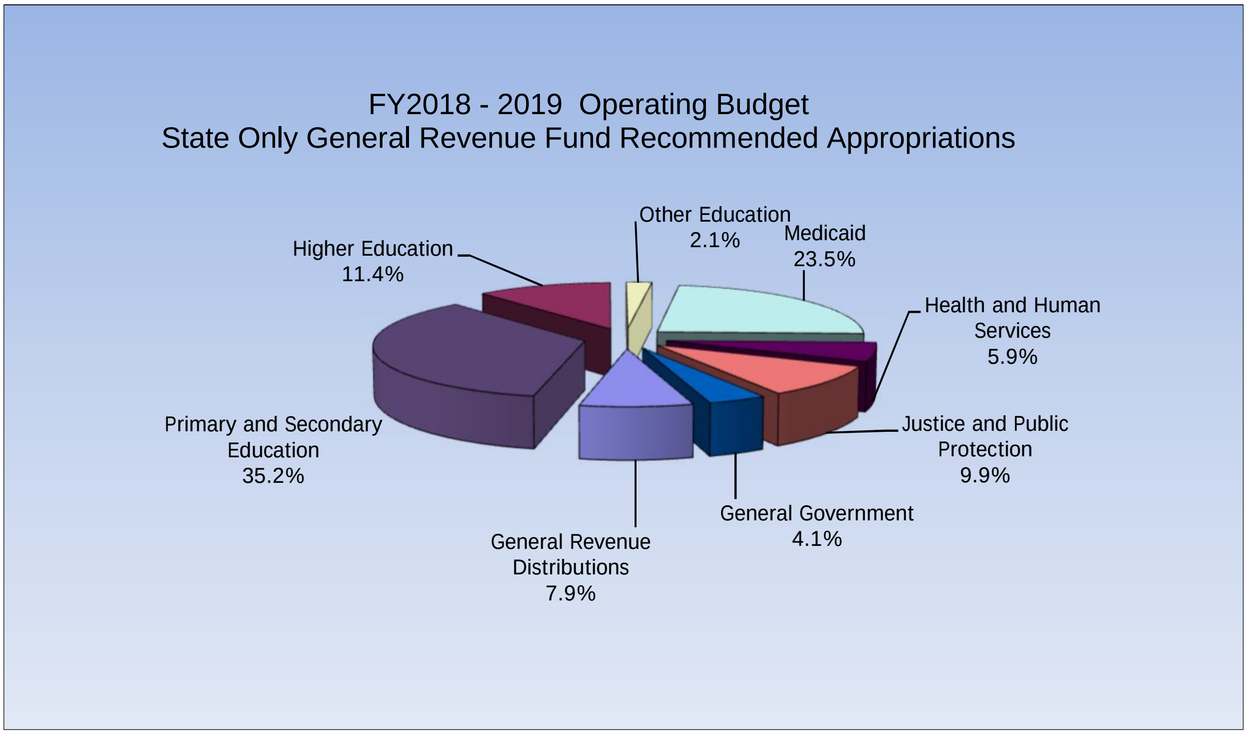
Note: Numbers may not add to total due to rounding
Source: Ohio Office of Budget and Management



GRF Appropriations (dollars in millions)

Function	FY 2017 Est	FY 2018 Rec	% Change	FY 2019 Rec	% Change
Primary and Secondary Education	$ 7,909.7	$ 8,053.2	1.8%	$ 8,190.0	1.7%
Higher Education	$ 2,559.7	$ 2,600.4	1.6%	$ 2,645.7	1.7%
Other Education	$ 460.5	$ 478.7	4.0%	$ 509.8	6.5%
Medicaid	$ 17,830.0	$ 15,586.5	-12.6%	$ 16,015.1	2.7%
Health and Human Services	$ 1,392.3	$ 1,358.7	-2.4%	$ 1,363.4	0.4%
Justice and Public Protection	$ 2,185.1	$ 2,251.9	3.1%	$ 2,297.2	2.0%
General Government	$ 942.3	$ 947.4	0.5%	$ 956.7	1.0%
General Revenue Distributions	$ 1,788.5	$ 1,821.1	1.8%	$ 1,845.1	1.3%
Total	$ 35,067.9	$ 33,097.8	-5.6%	$ 33,823.1	2.2%

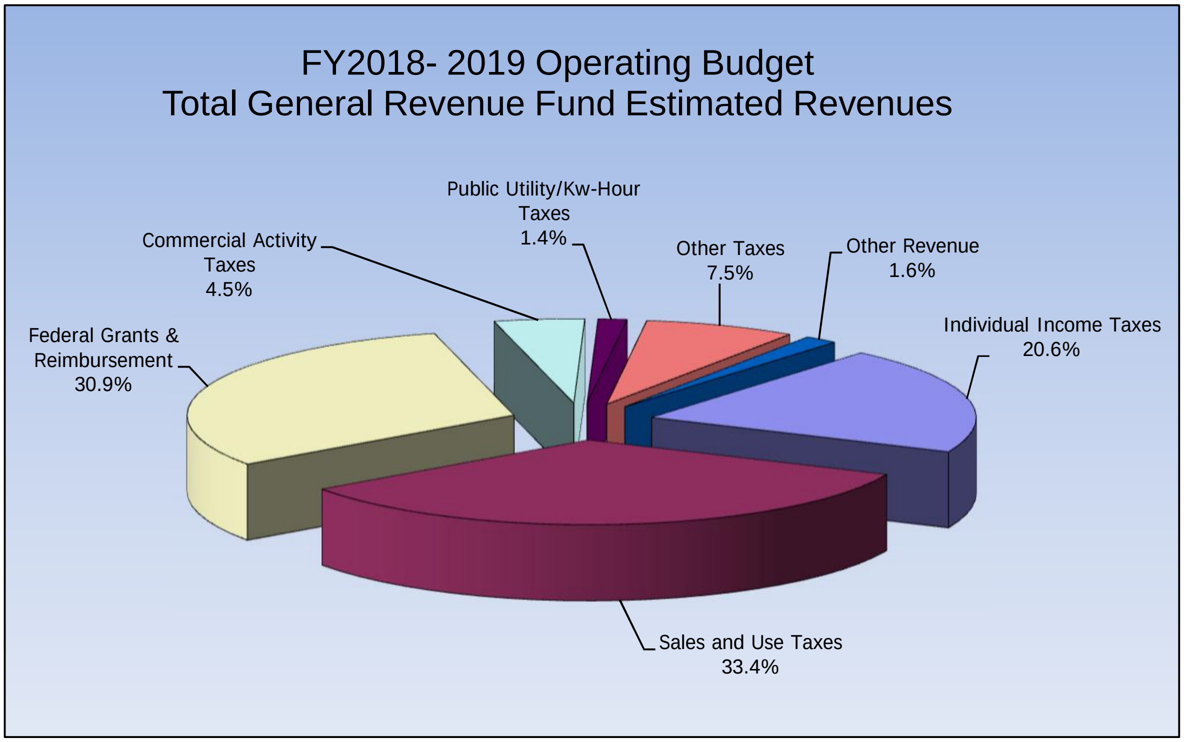
Note: Numbers may not add to total due to rounding
Source: Ohio Office of Budget and Management



GRF Appropriations (dollars in millions)
State Only

Function	FY 2017 Est	FY 2018 Rec	% Change	FY 2019 Rec	% Change
Primary and Secondary Education	$ 7,909.7	$ 8,053.2	1.8%	$ 8,190.0	1.7%
Higher Education	$ 2,559.7	$ 2,600.4	1.6%	$ 2,645.7	1.7%
Other Education	$ 460.5	$ 478.7	4.0%	$ 509.8	6.5%
Medicaid	$ 5,798.0	$ 5,307.9	-8.5%	$ 5,538.8	4.3%
Health and Human Services	$ 1,354.1	$ 1,358.7	0.3%	$ 1,363.4	0.4%
Justice and Public Protection	$ 2,185.1	$ 2,251.9	3.1%	$ 2,297.2	2.0%
General Government	$ 942.3	$ 947.4	0.5%	$ 956.7	1.0%
General Revenue Distributions	$ 1,788.5	$ 1,821.1	1.8%	$ 1,845.1	1.3%
Total	$ 22,997.7	$ 22,819.2	-0.8%	$ 23,346.7	2.3%

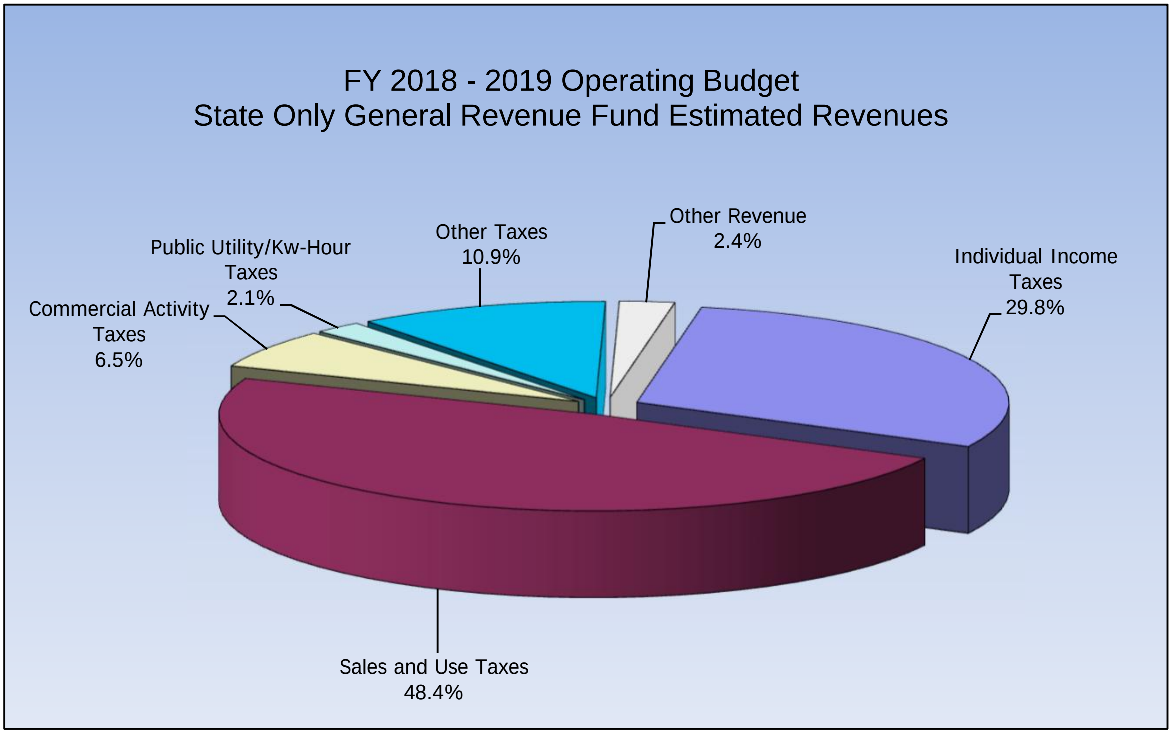
Note: Numbers may not add to total due to rounding
Source: Ohio Office of Budget and Management



Estimated GRF Revenues (dollars in millions)

Revenue Source	FY 2017	FY 2018	% Change	FY 2019	% Change
Individual Income Taxes	$ 7,926.1	$ 7,027.1	-11.3%	$ 6,755.8	-3.9%
Sales and Use Taxes	$ 10,548.3	$ 10,853.8	2.9%	$ 11,549.3	6.4%
Federal Grants & Reimbursement	$ 12,078.7	$ 10,261.2	-15.0%	$ 10,458.1	1.9%
Commercial Activity Taxes	$ 1,255.0	$ 1,467.1	16.9%	$ 1,519.2	3.6%
Public Utility/Kw-Hour Taxes	$ 468.7	$ 478.6	2.1%	$ 478.7	0.0%
Other Taxes	$ 1,944.5	$ 2,412.4	24.1%	$ 2,615.1	8.4%
Other Revenue	$ 668.3	$ 610.2	-8.7%	$ 490.4	-19.6%
Total	$ 34,889.6	$ 33,110.3	-5.1%	$ 33,866.6	2.3%

Note: Numbers may not add to total due to rounding
Source: Ohio Office of Budget and Management



State Only Estimated GRF Revenues (dollars in millions)

Revenue Source	FY 2017	FY 2018	% Change	FY 2019	% Change
Individual Income Taxes	$ 7,926.1	$ 7,027.1	-11.3%	$ 6,755.8	-3.9%
Sales and Use Taxes	$ 10,548.3	$ 10,853.8	2.9%	$ 11,549.3	6.4%
Commercial Activity Taxes	$ 1,255.0	$ 1,467.1	16.9%	$ 1,519.2	3.6%
Public Utility/Kw-Hour Taxes	$ 468.7	$ 478.6	2.1%	$ 478.7	0.0%
Other Taxes	$ 1,944.5	$ 2,412.4	24.1%	$ 2,615.1	8.4%
Other Revenue	$ 668.3	$ 610.2	-8.7%	$ 490.4	-19.6%
Total	$ 22,810.9	$ 22,849.1	0.2%	$ 23,408.5	2.4%

Note: Numbers may not add to total due to rounding
Source: Ohio Office of Budget and Management

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 with the Department of Veterans Services.

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

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
Tax Revenue							
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%
Non-Tax Revenue							
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%
Transfers							
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

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

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

H.B. 49: Fourth Verse, Same as the First

Mark A. Engel, Bricker & Eckler LLP

House Bill 49, the budget bill for the 2018-2019 biennium, was introduced in the Ohio House of Representatives. Like the three prior budget bills proposed by the Kasich administration, it contains a number of income, sales, alcohol and tobacco provisions. It also contains yet another proposal to increase the severance tax paid by the oil and gas industry and a proposal calling for centralized return filing and payment of municipal income tax by businesses. Over-all, the proposal nets to a slight tax decrease over the two years to Ohio taxpayers.

Personal Income Tax

No changes are proposed to the tax imposed on business income. However, the budget bill proposes to collapse the nine existing income tax brackets applicable to other income to five brackets. Current rates, starting at 0.495 percent and topping out at 4.997 percent for incomes above $200,000, are reduced to 0.456 percent to 4.33 percent. The personal exemption for taxpayers with taxable income less than $40,000 would increase from $2,250 to $3,000. For taxpayers with taxable income between $40,000 and $80,000, the exemption increases from $2,000 to $2,500. Finally, income limitation for taxpayers eligible for the low income credit is increased from $10,000 to $15,000 in adjusted gross income less personal exemptions.

Municipal Income Tax

Currently, entities doing business in multiple cities imposing an income tax on net profits must file returns and pay tax in each such city. Responding to compliance complaints, the bill includes a proposal for centralized filing and tax payment of municipal income tax for entities, but not for individuals. The existing provisions of R.C. Chapter 718 relating to the tax on net profits are excised from that chapter and dropped into a new chapter, R.C. Chapter 5718. Procedural provisions, such as estimated filings and payments, audit, assessment, and refund provisions, are duplicated in the new chapter. The so-called "throw-back" rule, by which certain sales of tangible goods delivered outside the city imposing the tax are included in the numerator of the receipts factor, is eliminated. Distributions of tax collected and earnings on investments are to be distributed to cities on the first day of March, June, September and December.

The provisions apply generally to any taxpayer that is not an individual. As compensation for its services, the state will retain one percent of all municipal income taxes collected.

These changes would be effective January 1, 2018.

Sales Tax

The state sales tax rate would be increased from 5.75 percent to 6.25 percent. In addition, the sales tax would be expanded to the following services:

- Cable television subscriptions
- Elective cosmetic surgery or procedures
- Lobbying
- Landscape design
- Interior design and decorating
- Travel packages and tours
- Repossession services

Transactions between members of an affiliated group of entities would not be subject to sales tax. These changes would be effective October 1, 2017.

Perhaps the biggest change is repealing Ohio's sales tax brackets. Instead, vendors and sellers would compute the amount of tax due on a transaction by multiplying the price paid by the combined state and local tax rate in effect in the jurisdiction. The calculation is carried out to three decimal places and any time the last digit is above four, the amount is rounded up.

Alcohol and Tobacco Taxes

Ohio's tax on cigarettes would increase from $1.60 to $2.25 per pack, while the tax on other tobacco products would be raised to a rate equivalent to that of cigarettes. E cigarettes would also be subject to tax.

Tax rates are adjusted for beer and wine and will be indexed for inflation.

Oil and Gas Severance Tax

As in previous bills, the administration proposes to increase the taxes on oil, gas, condensate and gas liquids. The tax on oil and natural gas sold at the wellhead would be imposed at 6.5 percent of the average quarterly price, while tax on natural gas and gas liquids and condensate sold downstream would be imposed at a rate of 4.5 percent of the average quarterly price.

Commercial Activity Tax

While the bill does not propose to increase the rate of the tax, it does propose to impose a minimum tax with respect to goods sold through qualified distribution centers ("QDC"). Currently, taxpayers shipping goods through a QDC pay CAT based on the percentage of goods that are shipped from the QDC to customers in Ohio. The proposal insures that such taxpayers would pay tax on a minimum of ten percent of their sales from a QDC, even if less than ten percent of their sales are sold to customers in Ohio.

In addition, the exclusion from gross receipts for interest is modified to provide that interest on loans made in the normal course of a taxpayer's business are taxable. This provision insures that CAT taxpayers who do not pay the financial institutions tax pay CAT on such receipts.

Miscellaneous

The bill also provides for several minor or administrative changes. They include the following:

- Redirecting appeals of penalties for failing to pay property taxes from the Tax Commissioner to the Board of Tax Appeals
- Revise the process for obtaining exemptions with respect to property owned by state universities and property owned by cemetery associations
- Requires liquor license transferors to be current on filings and payments of all excise taxes, not just sales and withholding
- Permit revocation of various tax-related licenses for fraudulent statements

Comments

In many respect, this budget proposal is similar to its predecessors: lower personal income taxes and increase other taxes to defray some of the cost. Previous general assemblies have been reluctant to shift taxes in such a manner, and early signs indicate the current general assembly may adhere to that position.

A portion of the sales tax extension to new services will apply to services consumed by business. One difference from prior proposals is that transactions between members of a related group of entities are excluded.

Centralized collection of municipal income taxes will be a contentious issue. Cities fear a loss of revenue and control with collection by the state; they are also unhappy with the fact moneys are distributed quarterly. On the other hand, the business community may push strongly for this or a similar provision.

Regarding the severance tax proposal, strong opposition is expected from the oil and gas industry. Local jurisdictions likewise may voice opposition because little, if any, of the increase will inure to their benefit.

STRENGTHENING OHIO'S JOBS-FRIENDLY CLIMATE

Ohio has seen an impressive turn-around in its business climate over the past six years under the leadership of Governor John R. Kasich, receiving strong votes of confidence from a number of national surveys for the state's work to build a strong, business-friendly environment for job creation, capital investment and economic success. By continuing to focus on areas critical to long-lasting jobs growth, Ohio has seen the most improved business climate in the nation, creating nearly 450,000 new private sector jobs since the start of 2011 and bringing unemployment rates down to pre-recession levels.

Priority One: Preserving Ohio's Fiscal Stability with Conservative Budgeting

The essential foundation of Ohio's economic turnaround and improved business climate is state government's fiscal stability. As a result, Kasich budgets have been among the strongest in the nation, and world-class corporations and small business operators alike are realizing that Ohio's stable state finances make it a welcoming place to do business and to have that business succeed. Then, as now, Ohio's jobs-friendly fiscal stability has been the result of conservative budgeting and restrained government spending in each of Gov. Kasich's three previous biennial budgets.

Developing a 21st Century Tax Plan to Drive More Job Creation

Ohioans have enjoyed one the biggest tax cuts in the nation over the past six years with more $5 billion in tax relief. These tax cuts have helped spur our state's economic recovery and made Ohio one of the nation's top states for job creation. In the last biennial budget, Ohio took major steps to eliminate income taxes for many small businesses and further reduce income tax rates for all Ohioans. Despite these most recent reforms, many elements of Ohio's tax system remain irrational and align poorly with today's consumer-driven economy.

- Fewer Tax Brackets and Lower Tax Rates: Currently, the rate at which an Ohio worker pays personal income taxes is based on nine income brackets. Governor Kasich is proposing to lower rates and reduce the number of brackets to five. This would greatly simplify Ohio's tax system and if adopted with other proposed income tax changes, would deliver a 17 percent income tax cut over fiscal years 2018 and 2019.

Current Brackets	Rates
0-$5,250	0.495 %
$5,250-$10,500	0.990 %
$10,500-$15,800	1.980 %
$15,800-$21,100	2.476 %
$21,100-$42,100	2.969 %
$42,100-$84,200	3.465 %
$84,200- $105,300	3.960 %
$105,300-$210,600	4.597 %
More than $210,500	4.997 %

New Income Brackets	Tax Rates 2017	Tax Rates 2018
Up to $10,000	0.50%	0.456%
$10,000 - $25,000	1.50%	1.367%
$25,000 - $100,000	3.25%	2.963%
$100,000 - $200,000	4.25%	3.874%
More than $200,000	4.75%	4.33%

- New Tax Relief for Low- and Middle-Income Ohioans: Ohio will cut taxes for low- and middle-income Ohioans by increasing the personal exemption for state income taxes, a reform that, with other income tax changes, will eliminate state income taxes for more than 350,000 lower income Ohio households. For those earning less than $40,000 a year, the exemption increases from $2,250 to $3,000 in 2017, and for those earning between $40,000 and $80,000 a year, the exemption increases from $2,000 to

$2,500. In 2013, prior to Gov. Kasich's initial tax cuts for low- and middle-income families, the exemption was $1,700 for all taxpayers. In addition, the Governor's proposal would expand the low income credit by increasing the level of income eligible to claim the credit from $10,000 to $15,000 of Ohio adjusted gross income, less personal exemptions. The low income credit eliminates tax liability for those who qualify.

- Simplifying Municipal Tax Filing for Businesses to Encourage More Economic Growth: Despite significant progress in recent years to address long-standing problems in Ohio's municipal tax system, it remains cumbersome and costly as businesses are forced to comply with hundreds of different local tax systems. To save businesses the extra cost of computing and then filing "net profit" taxes with multiple municipalities, Ohio seeks to streamline the process by having businesses file just one form and a single payment online through the Ohio Business Gateway, with the Ohio Department of Taxation processing payments and distributing revenues back to the appropriate local government, just as it does for county sales taxes and school district income taxes. This is an important step toward bringing common sense to an outdated system and will save money for business taxpayers. It will also save money for municipalities. The Department estimates that by bringing economies of scale to the processing of this tax, it can reduce administrative costs for these communities by about $9 million a year.
- Moving Toward a Consumption-Based Tax System: Leading economists believe that taxing income discourages investment and job creation. Continuing to move Ohio's tax system from a significant reliance on income taxes and toward a greater reliance on consumption taxes will give Ohioans more control over how they are taxed and the taxes they pay, as well as better aligning the tax system with the growing service sector in our economy. This budget proposes increasing the sales tax by a half percent, from 5.75 percent to 6.25 percent, meaning consumers would pay an additional 50 cents on a $100 purchase (while maintaining tax exemptions for groceries and prescriptions). The budget seeks to broaden Ohio's sales tax base to certain discretionary services including cable TV subscriptions, elective cosmetic surgery/procedures, lobbying, landscape design, interior design and decorating, travel packages and tours, and repossession services.
  - Tax Reform**:** The governor's budget continues to move Ohio's tax system away from its excessive reliance on taxing income by moderately expanding and reforming the tax base of several other revenue streams, including:
  - Increasing Tobacco Taxes**:** Under this proposal, Ohio's cigarette tax would go from $1.60 to $2.25 per pack; the tax on other tobacco products would rise to a rate equivalent to the tax on cigarettes. Vapor products (primarily e-cigarettes) would become subject to the tax levied on the other tobacco products.
  - Aligning Ohio's Outdated Alcohol Taxes with the Current Market**:** Ohio's tax on alcoholic beverages (excluding liquor), was last updated in 1992 and fails to reflect the fast-changing mix of alcohol products available in the marketplace today. Taxes on beer and wine will be adjusted for inflation that has eroded the tax base over more than two decades and be adjusted to better match the current alcohol industry and its offerings, a reform that will also help reduce income tax rates.
  - Modernizing Ohio's Oil and Gas Tax System: Ohio currently has approximately 1,500 producing oil and gas shale wells. Just as Ohio has modernized its oil and gas regulations to keep pace with new drilling technologies, we must modernize the state's tax system on oil and gas production, created more than 40 years ago. Ohio's current severance tax is just 20 cents on a barrel of oil and 3 cents on an MCF (thousand cubic foot) unit of natural gas. The current structure did not anticipate Ohio's highly valuable new natural gas liquids production. The governor proposes fixed rates for crude oil and natural gas of 6.5 percent when sold at the wellhead, and a lower rate of 4.5 percent for natural gas and natural gas liquids when sold at later stages of distribution. 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 rates. The difference in the proposed new rates makes an allowance for costs incurred with products sold beyond the wellhead as they are brought to market. All Ohioans will share in the benefits of our state's oil and gas resources in the form of lower income taxes.

NEW SEVERANCE TAX RATES ARE FAIR AND COMPETITIVE

Product	Rates	
	At Wellhead	Downstream
Crude Oil	6.5%	N/A
Natural Gas	6.5%	4.5%

Natural Gas Liquids	N/A	4.5%

FY 2018 and FY 2019 Projected Tax Relief with Offsets

All figures in millions of dollars, rounded to the nearest million.

	FY2018	FY2019	Total
State Income Tax Reduction (all changes)	-1,244	-1,883	-3,127
Cigarette and Other Tobacco Taxes	312	346	658
Broadening Base of Sales Tax**	166	251	417
Sales Tax to 6.25%	560	879	1,439
0.5% Increase on Base Expanders*	12	18	30
Commercial Activity Tax provisions	8	25	33
Oil and Gas Severance Tax	137	311	448
Modernizing Alcoholic Beverage Tax Rates	26	30	56
Repeal campaign contribution credit	3	4	7
TOTAL revenue increase	1,224	1,864	3,088
TOTAL net tax cut	-20	-19	**$39 million net cut over the biennium**

(totals reflect rate of 6.25%) (** totals reflect rate of 5.75%)*

- Increasing Parity in the Commercial Activity Tax (CAT): This proposal would correct an oversight in state tax law that allows certain companies in the business of lending money to completely avoid paying the CAT or other business tax on interest payments collected on loans. Separately, another proposal would ensure that suppliers of certain large warehouse and shipping operations – designated as Qualified Distribution Centers (QDC) – pay a minimum CAT liability on taxable gross receipts from transactions associated with the QDC. Companies inside and outside Ohio selling products to a QDC pay little or no CAT while other companies selling to non-QDC warehousing operations are required to pay the CAT on 100 percent of their taxable gross receipts from such sales. This proposal would subject a minimum of 10 percent of a supplier's taxable gross receipts from sales to a QDC to the CAT.
- Eliminating the Clutter in State Law for Those Who Pay Property Taxes**:**
  - Providing a Consistent Approach to Property Tax Appeals**:** An Ohio taxpayer currently seeking to contest a property tax bill must begin by appealing at the county-level Board of Revision (BOR). Appeals of BOR decisions are taken directly to the state Board of Tax Appeals – with one exception. Confusingly, state law sends appeals regarding a penalty for not paying property tax to the Ohio Tax Commissioner. This proposal eliminates that inconsistency by taking the Tax Commissioner out of the process and instead directs all cases to the Board of Tax Appeals.
  - Ensuring Uniformity for Property Tax Exemption Applications: State universities often own property that qualifies for exemption from property taxes. To gain exempt status for certain types of qualifying property, universities presently need to apply for an exemption with the county auditor. This proposal would transfer the application and approval process from the county to the Ohio Tax Commissioner. This reform is supported by the County Auditors Association of Ohio.
  - Eliminating Redundancy in State Law on Tax Exemption for Cemeteries: Under current law, most cemeteries in Ohio are exempt from property taxes. However, language providing that exemption is redundantly described in five separate locations in the Ohio Revised Code (ORC). This measure would eliminate the redundant provisions and combine the necessary language in one section of the ORC.
- Making Important Changes in Excise Tax Collection**:**
  - Simplifying a Property Owner's Exemption for Personal Use of Natural Gas: Ohio residents with a natural gas well on their property are entitled to personally use up to $1,000 worth of their well's production without paying severance tax on that portion. However, because most of these non-commercial wells are not equipped with meters to measure how much gas is extracted

and used, the owner can't know for certain whether tax is owed. This proposal would remove the $1,000 limit and exempt all personal use of natural gas from the severance tax.

- Establishing a One-Stop Process for Severance Permit Applications: Ohio's severance tax law requires a permit to extract certain minerals. Taxpayers obtain their permits from the Ohio Department of Natural Resources (ODNR), but the law also allows them to get a permit from the Ohio Tax Commissioner. Currently, permits from ODNR are issued at no charge, but any issued by the Tax Commissioner require a fee. This reform would end this inconsistency by assigning issuance of all severance permits to ODNR and removing the Tax Commissioner from the process.
- Simplifying the Tax Return Process for Cigarette Wholesalers: Cigarette wholesalers have followed a cumbersome process of filing monthly tax schedules and a semi-annual reconciliation return to verify the inventory they have been reporting each month. This proposal would significantly reduce that paperwork burden by consolidating these reports on one monthly return.
- Eliminating Loopholes to Ensure Tax Payments Are Current: Before a liquor permit can be issued or renewed, the Department of Taxation checks to make sure the merchant doesn't owe sales or employer withholding taxes to the state. This provision would ensure that the merchant also is current on all excises taxes (e.g., tobacco taxes and alcoholic beverage taxes) before a permit is issued. Similarly, another proposed provision would authorize the Tax Commissioner to deny licenses to tire distributors, motor fuel dealers or tobacco distributors if they are delinquent with any tax payments.
- Making Truth a Requirement for Obtaining or Holding a License: This proposal would provide authority to deny or revoke a tax-related license if the application contains a fraudulent statement.

- **Updating Sales Tax Laws:**
  - Eliminating Unneeded Paperwork from County Auditors: County auditors are now required to report a list of all vendor's licenses to the Ohio Department of Taxation. That report is no longer necessary because all state vendor's licenses are now obtained and registered electronically through the department.
  - Bringing Sales Tax Brackets into the Computer Age: Before computers and electronic cash registers, Ohio law defined a series of tax brackets to help merchants determine how much sales tax to charge on a particular item (e.g., if there is a combined state/local sales tax rate of 7 percent, items priced between 8-21 cents are taxed one cent). Now retail technology computes the tax due based on the rate that exists in a particular county. This provision eliminates the obsolete brackets from the Ohio Revised Code.
  - Ensuring Better Scrutiny of Habitually Late Taxpayers: Business taxpayers who repeatedly fail to remit sales tax they collect or neglect to file sales tax returns on time are placed in the Habitual Offenders Program (HOP) to help them maintain compliance. At times, some HOP participants will take money they have collected for the employer withholding tax and use it to pay the sales tax so that they remain current and compliant with HOP requirements. This proposal would require HOP taxpayers to be current with both sales tax and employer withholding tax obligations.
- **Making Other Common-Sense Tax Code Revisions:**
  - Setting a Sensible Minimum before Collecting the Wireless 9-1-1 Charge: With this proposal, the state fee that helps pay for county 9-1-1 service would add a provision to require a one dollar minimum for collection or refund. This would make the Wireless 9-1-1 fee consistent with all other state taxes in this regard.

BOTTOM LINE: By making tax reform a priority each year of the Kasich Administration, Ohio has strengthened its ability to grow the economy and jobs in our state. With other states also cutting taxes and looking to keep themselves competitive, Ohio must continue to make its tax code friendlier to job creators and entrepreneurs, while helping Ohioans keep more of what they earn.

February 8, 2017

Memo to: Governor's Office
Ohio Department of Taxation

From: Robert (Rob) Brundrett, Director, Public Policy Services

Re: **OMA Support for Modernizing Municipal Tax Collection**

A hallmark of good tax policy is economy of collections and convenience of payment. For this reason, the state's tax system would benefit from streamlining the collection of municipal income taxes.

Governor Kasich's 2017/18 biennial budget proposes to modernize the municipal tax system by centralizing administration at the state level: "To save businesses the extra cost of computing and then filing "net profit" taxes with multiple municipalities, Ohio seeks to streamline the process by having businesses file just one form and a single payment online through the Ohio Business Gateway, with the Ohio Department of Taxation processing payments and distributing revenues back to the appropriate local government, just as it does for county sales taxes and school district income taxes."

This will relieve the current complicated and burdensome system of municipal income tax collection for businesses. It would be one more important step in advancing Ohio's business-friendliness. The OMA supports the governor's proposal to centralize municipal income tax collection administration.

Please contact me at (614) 629-6814 or rbrundrett@ohiomfg.com with any questions.

Ohio Court Upholds Economic Nexus Standard

Mark A. Engel
Bricker & Eckler LLP

On November 17, 2016, the Ohio Supreme Court issued three decisions in which it held that remote sellers with no physical presence in the state were nevertheless subject to Ohio's commercial activity tax ("CAT"). In doing so, it rejected the taxpayers' arguments that the federal commerce clause required a physical presence in order to impose a tax for the privilege of doing business in the state and held that the substantial nexus requirement under the dormant federal commerce clause jurisprudence was satisfied by the substantial sales made by the taxpayers into the Ohio market. *Crutchfield Corp. v. Testa*, Slip Opinion No. 2016-Ohio-7760; *Mason Companies, Inc. v. Testa*, Slip Opinion No. 2016-Ohio -7768; *Newegg, Inc. v. Testa*, Slip Opinion No. 2016-Ohio-7762.

All three taxpayers make on-line retail sales into Ohio. During the tax years in question, those sales amounted to several million dollars each. Goods are shipped to the customers via third party common carriers. The parties agreed that none of the taxpayers had any property or payroll in Ohio; in fact, testimony in the record disclosed that Crutchfield intentionally avoided any sort of physical presence in any state but its home state of Virginia.

The commercial activity tax is a tax imposed upon the privilege of doing business in Ohio. It applies to any taxpayer having substantial nexus with Ohio, which includes "bright line presence" in Ohio. "Bright line presence" is defined to include having property or payroll in excess of $50,000 during the year; receipts from sales to customers in Ohio in excess of $500,000 during the year; or more than 25 percent of its property, payroll and sales for the year in Ohio.

The taxpayers argued that they must have substantial nexus with Ohio before Ohio may impose the CAT. Because they did not have a physical presence in Ohio, they asserted that they did not have substantial nexus with Ohio. Therefore, imposing the CAT upon them violated the commerce clause of the federal constitution.

In 5-2 decisions, the Court disagreed. It recognized that the jurisprudence of the U.S. Supreme Court indeed required a substantial nexus between a taxpayer and a state attempting to impose a tax in order to avoid the proscriptions of the commerce clause. However, the Court recognized that while the U.S. Supreme Court has imposed a physical presence test with respect to the collection obligations of a remote seller for sales tax, it has never extended that requirement to general business taxes. The Court stated: "We hold today that although a physical presence in the state may furnish a sufficient basis for finding a substantial nexus, Quill's holding that physical presence is a necessary condition for imposing the tax obligation does not apply to a business-privilege tax such as the CAT, as long as the privilege tax is imposed with an adequate quantitative standards that ensures that the taxpayer's nexus with the state is substantial." *Crutchfield*, Slip Opinion at ¶42. The Court concluded that the $500,000 threshold was sufficient for that purpose.

The dissent agreed with the taxpayers. It argued that a physical presence was indeed necessary to satisfy the substantial nexus requirement under the commerce clause.

The taxpayers will have 90 days from the date the Court issues its mandate to decide whether to seek a discretionary review by the U.S. Supreme Court.

Tax

OMA Supports Kasich Proposal to Centralize Municipal Tax Collection

February 10, 2017

Governor Kasich's 2017/18 biennial budget proposes to modernize the municipal tax system by centralizing administration at the state level: "To save businesses the extra cost of computing and then filing "net profit" taxes with multiple municipalities, Ohio seeks to streamline the process by having businesses file just one form and a single payment online through the Ohio Business Gateway, with the Ohio Department of Taxation processing payments and distributing revenues back to the appropriate local government, just as it does for county sales taxes and school district income taxes."

In a memo of support to the administration, OMA wrote: "This will relieve the current complicated and burdensome system of municipal income tax collection for businesses. It would be one more important step in advancing Ohio's business-friendliness. The OMA supports the governor's proposal to centralize municipal income tax collection administration." *2/9/2017*

Kasich Wants Additional Income Tax Reductions

February 3, 2017

Governor Kasich is going after additional income tax reductions in his last biennial budget.

He proposed a nearly $3.2 billion, 17% cut in income taxes over the two years beginning July 1. The number of income tax brackets would be reduced from nine to five. The top tax rate would drop to 4.33%.

The budget would increase personal income tax exemptions for those earning less than $80,000. The administration said these changes would mean an additional 350,000 low-income Ohioans will pay no income tax.

Personal income taxes have been reduced in Ohio by 30% since 2005. *1/30/2017*

Governor Proposes Increases in Sales and Other Taxes

February 3, 2017

Governor Kasich would pay for his proposed personal income tax decrease with a concomitant increase in sales and other taxes.

The increases in the sales and other taxes would total about $3.1 million. The sales tax rate would increase by 1/2% to 6.25%.

The sales tax base would expand to additional services such as television subscriptions, elective cosmetic surgery, lobbying, landscape design, interior design and decorating, travel package and tours and repossession services.

The budget proposes to increase the state's severance tax on oil and gas and raise taxes on cigarettes, beer and wine.

Speaker Cliff Rosenberger stated that he is not keen on any "tax shifting." *1/30/2017*

Budget Would Simplify Municipal Income Tax Payment

February 3, 2017

As every business taxpayer knows, Ohio has an administratively burdensome, and costly, municipal tax system. Governor Kasich proposes to simplify its payment process.

He would streamline the process by having businesses file just one form for municipal taxes and make a single payment through the Ohio Business Gateway. The Ohio Department of Taxation would process payments and distribute revenues back to the appropriate local governments, just as it does for county sales taxes and school district income taxes.

This reform has been advocated by the OMA and its business allies, and opposed by the municipal lobby. *1/30/2017*

2016 Tax Return Due Date Changes

February 3, 2017

Tax season has arrived and this year's season comes with some due dates changes and new e-filing information disclosure requirements. OMA Connections Partner, GBQ, summarizes some of them. *1/31/2017*

New Report on Merger & Acquisition Activity in the Manufacturing & Distribution Sector

January 20, 2017

OMA Connections Partner, BDO, has just published its Q1 2017 review and outlook for merger and acquisition (M&A) activity among the manufacturing & distribution (M&D) sector.

BDO reports that: "M&A activity in the … sector was down approximately 15 percent in 2016. A decline was expected after a record 2015, and amplified by the sluggish economy and a brutal election season, which delayed sale decisions."

And concludes: "… Valuations remain high at 9.0x EBITDA on average. Business owners are smart to invest in their employee base through apprenticeship programs, which will ultimately add value to their businesses when the time is right for a sale. The U.S. economy appears to be gaining steam, based on key measures such as GDP, the Institute for Supply Management (ISM) Index, unemployment, wage growth, and consumer confidence. All things considered, 2017 is ripe for an active year in terms of M&A activity in the M&D sector."

Read BDO's full 4-page report here. *1/18/2017*

FAQ about Asset Based Loans

January 13, 2017

OMA Connections Partner, Bank of America Merrill Lynch, posts that asset-based lenders have generally found that, over time, the valuation of a borrower's assets remains stable over a variety of business and economic cycles. This makes calculating a borrower's credit capacity based on asset values a highly predictable way of providing capital. For these reasons, asset based loans are often viewed by lenders, for certain types of borrowers, as a more reliable form of lending than cash flow-based loans.

You can read the full FAQ about asset based loans here.

For more information, contact Mike D'Arienzo, Vice President, Sr. Business Relationship Manager, Bank of America Merrill Lynch, at (614) 918-7551. *1/9/2017*

R&D Tax Credit Predictions for 2017

January 6, 2017

From OMA Connections Partner, Tax Credits Group, a prediction that the Research and Development Tax Credit will continue to be considered a primary tool for helping U.S. businesses stay competitive against global competition, and therefore favorable changes will continue. Read more from TCG here. *1/4/2017*

Tax Tips Make Great Stocking Stuffers

December 22, 2016

Well, not really. However, OMA Connections Partner, MCM CPAs & Advisors, has posted some year-end tax guidance, including some details on depreciation tax breaks available for the 2015 tax year and beyond. And here is a post about the comprehensive new lease accounting standard issued in early 2016.

And OMA Connections Partner, RSM, has considered some actions companies and individuals may want to take in anticipation of potential tax reforms under the Trump administration. *12/20/2016*

IRS Extends ACA Reporting Deadline

December 16, 2016

The IRS has again extended the deadline for employers subject to the Affordable Care Act's (ACA's) information reporting requirements to meet their obligations to employees. This is generally applicable to employers with 50 or more employees, or the equivalent.

Last year, the IRS extended the 2016 deadlines for reporting 2015 information, giving employers an additional two months to provide employees Form 1095-B, "Health Coverage," and Form 1095-C, "Employer-Provided Health Insurance Offer and Coverage."

The latest extension, however, extends the deadline for reporting 2016 information only 30 days, from January 31, 2017, to March 2, 2017. And, unlike the last extension, this one doesn't include the deadline for filing the required forms with the IRS.

Read more from OMA Connections Partner Clark Schaefer Hackett. *12/13/2016*

OH 2016 Income Tax Forms & Instructions Available Now

December 16, 2016

2016 Individual and School District Income Tax forms and the instruction booklet are now available on the Ohio Department of Taxation's webpage under the "Forms" tab. *12/15/2016*

Ohio Court Upholds Economic Nexus Standard

December 2, 2016

On November 17, 2016, the Ohio Supreme Court issued three decisions in which it held that remote sellers with no physical presence in the state were nevertheless subject to Ohio's commercial activity tax (CAT).

OMA counsel, Mark Engel, Bricker & Eckler, provides this short summary of the case, which OMA considers a win.

Engel wrote that the court "… rejected the taxpayers' arguments that the federal commerce clause required a physical presence in order to impose a tax for the privilege of doing business in the state and held that the substantial nexus requirement under the dormant federal commerce clause jurisprudence was satisfied by the substantial sales made by the taxpayers into the Ohio market."

This is one to keep an eye on as the taxpayers will have 90 days from the date the court issues its mandate to decide whether to seek a discretionary review by the U.S. Supreme Court. *11/22/2016*

OMA Gets Win in Supreme Court

November 18, 2016

On Thursday Nov. 17, the Ohio Supreme Court issued its long-awaited decisions in three cases involving the application of the commercial activity tax to remote sellers. In a 5-2 decision, the court upheld Ohio's economic nexus standard and rejected the argument that a physical presence in the state was required by the commerce clause before a remote seller could be subject to the tax.

In part, the court held that the $500,000 threshold of receipts was sufficiently substantial for commerce clause purposes. OMA filed an amicus brief in the cases, urging the Court to uphold the economic nexus provisions. The court's decision in the lead case, *Crutchfield, Inc. v. Testa*, can be found here. *11/17/2016*

What does a Trump Presidency Mean for Your Taxes?

November 11, 2016

OMA Connections Partner, Clark Schaefer Hackett, posts what President-elect Trump's tax reform plan for individuals and businesses might include. Read it here. *11/10/2016*

HB11 **INCORPORATING FEDERAL REVENUE CHANGES** (SCHERER G) To expressly incorporate changes in the Internal Revenue Code since February 14, 2016, into Ohio law.

Current Status: 2/14/2017 - House Ways and Means, (Second Hearing)

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA132-HB-11

HB49 **OPERATING BUDGET** (SMITH R) Creates FY 2018-2019 main operating budget.

Current Status: 2/16/2017 - House Finance Higher Education Subcommittee, (First Hearing)

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA132-HB-49

SB9 **AUGUST TAX HOLIDAY** (BACON K) To provide for a three-day sales tax "holiday" in August 2017 during which sales of clothing and school supplies are exempt from sales and use taxes.

Current Status: 2/15/2017 - Senate Ways and Means, (First Hearing)

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA132-SB-9

SB36 **AGRICULTURAL COMPUTATION** (HITE C) To require that the computation of the capitalization rate for the purposes of determining CAUV of agricultural land be computed using a method that excludes appreciation and equity buildup and to stipulate that CAUV land used for a conservation practice or enrolled in a federal land retirement or conservation program for at least three years must be valued at the lowest of the values assigned on the basis of soil type.

Current Status: 2/15/2017 - Senate Ways and Means, (First Hearing)

State Bill Page: https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA132-SB-36