Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION JUNE 2017

STATUS OF THE GRF

HIGHLIGHTS

– Jean J. Botomogno, Principal Economist, 614-644-7758

Recent revenue trends continued in the month of May with negative variances for the personal income tax ($89 million) and the sales tax ($8 million), compared to the August 2016 estimate by the Office of Budget and Management (OBM). However, the commercial activity tax was $27 million above expected revenue, resulting in a positive variance year to date through May for that tax source.

With one month left in FY 2017, GRF tax revenue will end the year below both the August and the January estimates. The executive reduced the August estimate by $592 million in January, but through May, GRF tax revenues were down by $841 million, or $249 million more than January's revision. The spending side of the budget will also end the year below both the August and the January estimates, led by Medicaid. Due largely to the lower than expected spending, the overall GRF budget is expected to be balanced for the fiscal year ending on June 30.

Through May 2017, GRF sources totaled $30.72 billion:

- Revenue from the personal income tax was $643.1 million below the August OBM estimate; and sales and use tax receipts were $216.7 million below projected receipts.

Through May 2017, GRF uses totaled $32.65 billion:

- Program expenditures were $1.30 billion below OBM's August 2016 estimate, with Medicaid accounting for $1.02 billion of the total variance.

VOLUME 40, NUMBER 10

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

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Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of May 2017
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on June 1, 2017)

STATE SOURCES	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$129,030	$125,800	$3,230	2.6%
Nonauto Sales and Use	$787,279	$798,800	-$11,521	-1.4%
Total Sales and Use Taxes	**$916,309**	**$924,600**	**-$8,291**	**-0.9%**
Personal Income	$556,534	$645,300	-$88,766	-13.8%
Corporate Franchise	$279	$0	$279	---
Financial Institution	$27,925	$27,200	$725	2.7%
Public Utility	$33,904	$28,800	$5,104	17.7%
Kilowatt-Hour Excise	$23,443	$22,900	$543	2.4%
Natural Gas Consumption (MCF)	$26,327	$29,700	-$3,373	-11.4%
Commercial Activity Tax	$279,785	$252,900	$26,885	10.6%
Petroleum Activity Tax	$0	$0	$0	---
Foreign Insurance	-$9,455	-$13,900	$4,445	32.0%
Domestic Insurance	$5,565	$5,100	$465	9.1%
Business and Property	$0	$0	$0	---
Cigarette	$82,653	$87,800	-$5,147	-5.9%
Alcoholic Beverage	$4,578	$4,600	-$22	-0.5%
Liquor Gallonage	$3,718	$3,700	$18	0.5%
Estate	$89	$0	$89	---
Total Tax Revenue	**$1,951,654**	**$2,018,700**	**-$67,046**	**-3.3%**
NONTAX REVENUE				
Earnings on Investments	$12	$0	$12	---
Licenses and Fees	$377	$855	-$478	-56.0%
Other Revenue	$12,360	$9,770	$2,590	26.5%
Total Nontax Revenue	**$12,749**	**$10,625**	**$2,124**	**20.0%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$11,157	$0	$11,157	---
Total Transfers In	**$11,157**	**$0**	**$11,157**	**---**
TOTAL STATE SOURCES	**$1,975,560**	**$2,029,325**	**-$53,765**	**-2.6%**
Federal Grants	$947,141	$1,159,949	-$212,808	-18.3%
TOTAL GRF SOURCES	**$2,922,701**	**$3,189,274**	**-$266,573**	**-8.4%**

*Estimates of the Office of Budget and Management as of August 2016.
Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Actual vs. Estimate
FY 2017 as of May 31, 2017
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on June 1, 2017)

STATE SOURCES	Actual	Estimate*	Variance	Percent	FY 2016	Percent Change
TAX REVENUE						
Auto Sales	$1,265,997	$1,268,800	-$2,803	-0.2%	$1,222,599	3.5%
Nonauto Sales and Use	$8,413,287	$8,627,200	-$213,913	-2.5%	$8,266,653	1.8%
Total Sales and Use Taxes	**$9,679,284**	**$9,896,000**	**-$216,716**	**-2.2%**	**$9,489,252**	**2.0%**
Personal Income	$6,817,379	$7,460,500	-$643,121	-8.6%	$7,023,358	-2.9%
Corporate Franchise	$3,650	$0	$3,650	---	$32,886	-88.9%
Financial Institution	$160,520	$192,300	-$31,780	-16.5%	$187,215	-14.3%
Public Utility	$106,469	$102,700	$3,769	3.7%	$101,513	4.9%
Kilowatt-Hour Excise	$326,249	$311,800	$14,449	4.6%	$316,795	3.0%
Natural Gas Consumption (MCF)	$61,786	$66,000	-$4,214	-6.4%	$60,712	1.8%
Commercial Activity Tax	$1,285,340	$1,280,400	$4,940	0.4%	$1,252,264	2.6%
Petroleum Activity Tax	$5,014	$4,900	$114	2.3%	$5,598	-10.4%
Foreign Insurance	$325,080	$302,800	$22,280	7.4%	$293,569	10.7%
Domestic Insurance	$6,735	$5,700	$1,035	18.2%	$5,281	27.5%
Business and Property	-$678	$0	-$678	---	$98	-790.0%
Cigarette	$822,695	$821,300	$1,395	0.2%	$855,761	-3.9%
Alcoholic Beverage	$51,944	$49,900	$2,044	4.1%	$49,508	4.9%
Liquor Gallonage	$42,391	$41,000	$1,391	3.4%	$41,239	2.8%
Estate	$668	$0	$668	---	$1,857	-64.0%
Total Tax Revenue	**$19,694,525**	**$20,535,300**	**-$840,775**	**-4.1%**	**$19,716,907**	**-0.1%**
NONTAX REVENUE						
Earnings on Investments	$37,369	$25,900	$11,469	44.3%	$26,199	42.6%
Licenses and Fees	$58,845	$56,430	$2,415	4.3%	$56,095	4.9%
Other Revenue	$67,412	$64,525	$2,887	4.5%	$46,202	45.9%
Total Nontax Revenue	**$163,626**	**$146,855**	**$16,771**	**11.4%**	**$128,496**	**27.3%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$108,019	$41,600	$66,419	159.7%	$209,508	-48.4%
Total Transfers In	**$108,019**	**$41,600**	**$66,419**	**159.7%**	**$209,508**	**-48.4%**
TOTAL STATE SOURCES	**$19,966,170**	**$20,723,755**	**-$757,585**	**-3.7%**	**$20,054,910**	**-0.4%**
Federal Grants	$10,750,516	$11,671,880	-$921,364	-7.9%	$11,212,207	-4.1%
TOTAL GRF SOURCES	**$30,716,686**	**$32,395,635**	**-$1,678,951**	**-5.2%**	**$31,267,117**	**-1.8%**

*Estimates of the Office of Budget and Management as of August 2016.
Detail may not sum to total due to rounding.

GRF tax revenue was $67.0 million (3.3%) below estimate in May.

Total GRF sources were $1.7 billion below estimate in FY 2017 through May.

REVENUES

– Thomas Kilbane, Economist, 614-728-3218

Overview

GRF tax revenue in May was $67.0 million (3.3%) below OBM's August estimate,[1] which was an improvement from prior months. Tax revenue performance has been better relative to estimates in only four other months during FY 2017. The relative improvement was primarily the result of higher than expected commercial activity tax (CAT) revenue from the final quarterly payment of the fiscal year ($26.9 million above estimate), and sales tax receipts which fell short of estimate by just 0.9% after missing by 4.9% in each of March and April.

Tables 1 and 2 above, show GRF sources[2] for May and for FY 2017 through May, respectively. Total GRF sources received through May were $30.7 billion, which was $1.7 billion (5.2%) below estimates. Tax sources fell short of estimates during the 11-month period by $840.8 million, but federal grants have also been significantly less than expected ($921.4 million below estimate). Federal grant revenue is primarily related to the level of spending in the Medicaid program, which has generally been lower than expected.[3]

Total GRF sources have been below estimate in each of the last five months and in all months of FY 2017 but one. The chart below illustrates the cumulative performance of total GRF sources relative to estimates through each month of FY 2017, broken down by its largest components. Despite a small positive contribution from the "other state revenue" component (light peach bar in the chart), FY 2017's cumulative sources through May were $1.679 billion below estimate, as labeled in the far right column.

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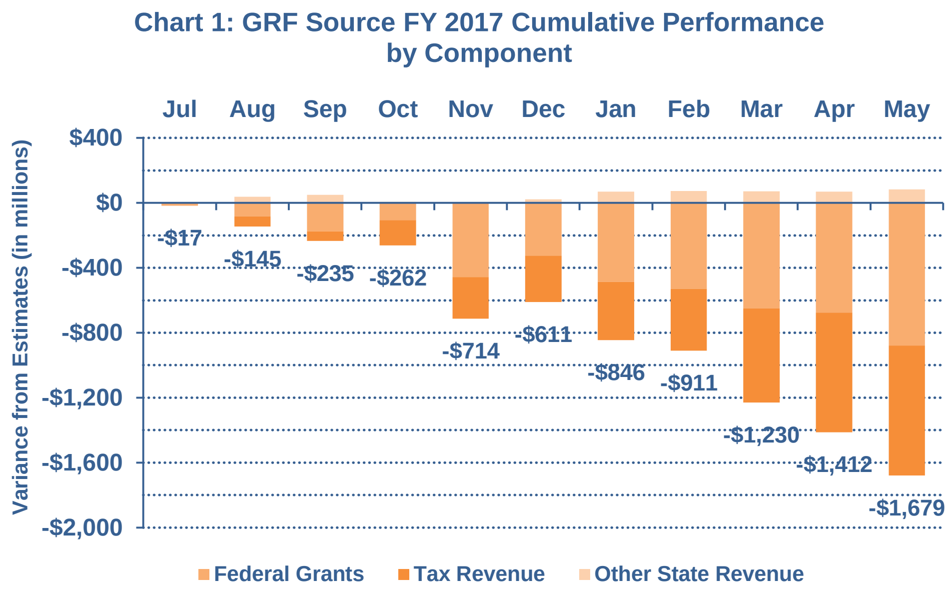
[1] OBM revised downward its August estimates of GRF tax revenue in January by $592 million, but did not publish monthly estimates based on the revised numbers. Therefore, variances in this article compare to the August estimates.

[2] GRF sources consist of state-source receipts (tax revenue, nontax revenue, and transfers in) and federal grants, which are typically federal reimbursements for Medicaid and other programs.

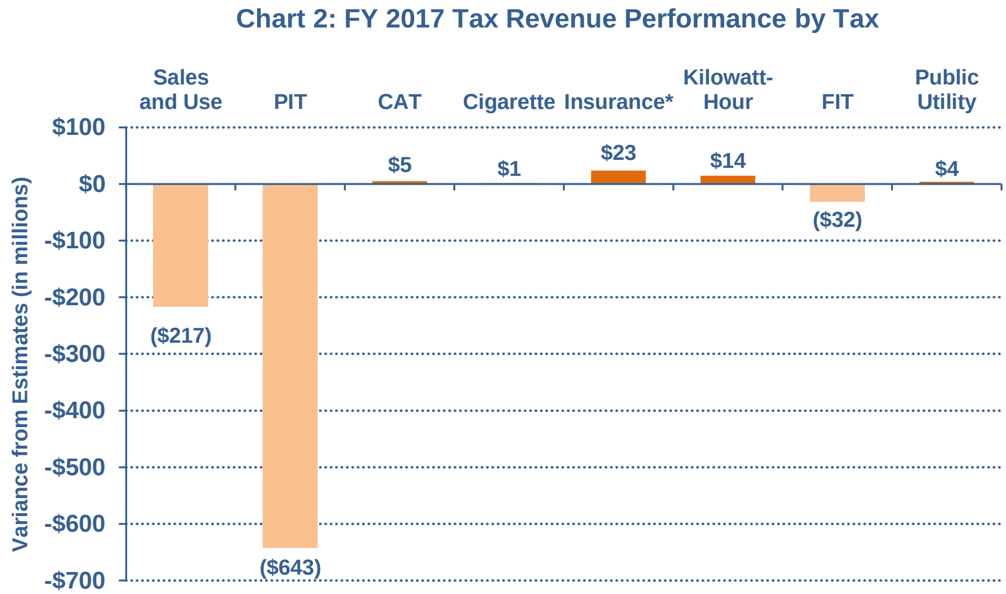
[3] GRF Medicaid expenditures were $1.02 billion below estimate in FY 2017 through May. See the "**Expenditures**" section for more details.



With 11 of the 12 months in the fiscal year complete, it appears very likely that tax revenue will finish FY 2017 with its largest negative variance since FY 2009 when revenues were $950.9 million (5.3%) below estimate. As was also the case that year, the largest FY 2017 culprits have been the personal income tax (PIT) ($643.1 million below estimate so far in FY 2017) followed by the sales and use tax ($216.7 million below estimate through May of FY 2017). The sales and use tax generates a larger share of total tax revenue (49.1% in FY 2017 through May) now than it did during FY 2009 (41.6%), while the more volatile PIT has seen its share decline (34.6% in FY 2017 versus 44.6% in FY 2009).

GRF tax revenue is headed for its largest fiscal year negative variance since FY 2009.

The chart below illustrates the year-to-date performance of each tax that was expected to contribute over $100 million in revenue to the GRF this fiscal year, organized from left to right by total expected contribution.



* Insurance tax receipts through May are primarily from the foreign tax. The annual payment deadline for the domestic insurance tax is in June.

FY 2017 GRF tax receipts through May are just 0.1% lower than one year ago.

Compared to the corresponding period in FY 2016, FY 2017 GRF tax receipts through May were $22.4 million (0.1%) lower. Year-over-year growth was led by sales and use tax revenue ($190.0 million), CAT revenue ($33.1 million), and insurance tax revenue ($33.0 million) but was offset by revenue decreases from the PIT ($206.0 million) and cigarette tax ($33.1 million), among others.

Sales and Use Tax

Sales and use tax receipts totaled $916.3 million in May, missing estimates by $8.3 million (0.9%), but that was an improvement from prior months. There have only been four months in FY 2017 with better sales and use tax performance relative to estimates. Overall for the fiscal year through May, revenue from the tax was $216.7 million (2.2%) below estimate.

For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections generally arise from the sale of motor vehicles, but auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax instead of the auto tax.[4] Thus far in FY 2017, the nonauto portion

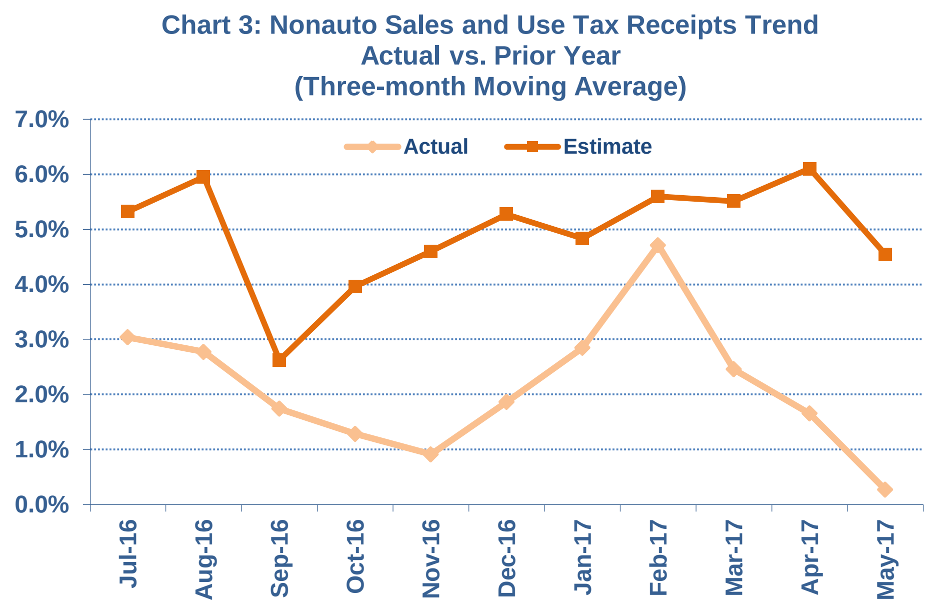
[4] Taxes arising from leases are paid immediately upon the lease signing. The clerks of court generally make auto sales and use tax payments on Mondays for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled. Therefore, auto sales and use tax receipts mostly, but not perfectly, reflect vehicles sold and titled during the month.

accounted for 87% of the total sales and use tax collected, while auto collections were just 13%.

Nonauto Sales and Use Tax

The nonauto portion of the sales and use tax has struggled to meet expectations all fiscal year, coming in above estimated monthly collections just once, in December. May receipts of $787.3 million were $11.5 million (1.4%) below estimate, but that was the smallest monthly shortfall since December. The chart below illustrates that FY 2017 revenue from the tax is still growing year over year, but at a slower pace than was expected. There has been no three-month span during FY 2017 in which nonauto sales and use tax revenue has met expectations.

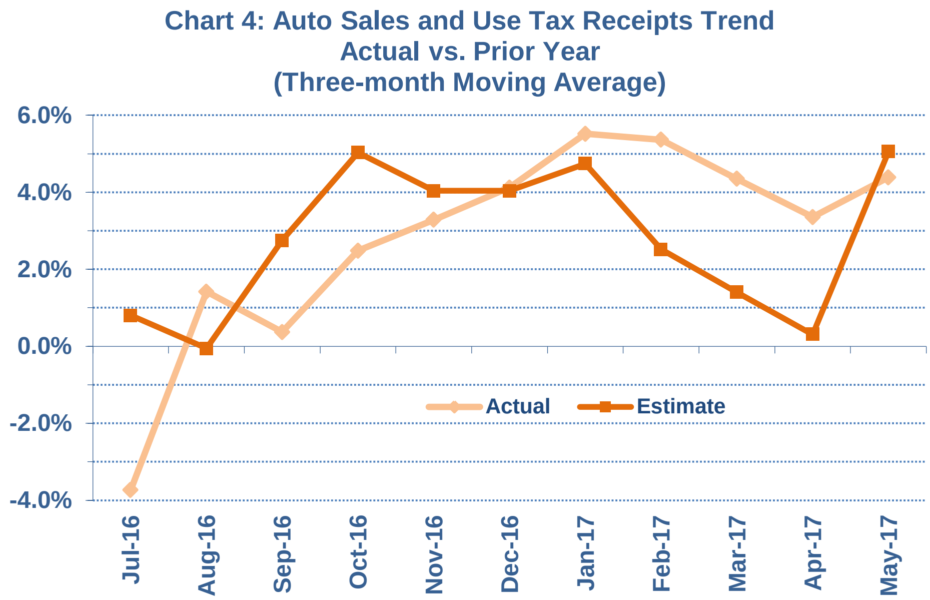
Nonauto sales and use tax revenue surpassed its estimate in just one month so far this fiscal year.



Auto Sales and Use Tax

Revenue from the auto portion of the sales and use tax, $129.0 million in May, exceeded its estimate by $3.2 million (2.6%). It was just the fourth month of the fiscal year to do so. Overall however, FY 2017 receipts from the auto portion of the sales and use tax have been healthier than receipts from the nonauto portion. As seen in the chart below, year-over-year growth in auto sales tax collections was slow early in the fiscal year due in part to record levels of auto sales one year ago, but growth picked up since then. For the year through May, tax revenue from auto sales was just $2.8 million (0.2%) below estimate.

Light vehicle sales mix continues to shift towards light trucks, pushing sales tax collected per transaction higher.



A big reason for the solid performance of the auto sales and use tax is the changing makeup of light vehicle sales. While nationwide sales of all light vehicles are down slightly in FY 2017 compared to FY 2016, the dropoff has occurred in the car market. Sales of light trucks in FY 2017 have actually been higher than one year ago. This changing sales mix has pushed the average tax paid per sale higher, helping to maintain revenue as the number of new vehicles sold and titled in Ohio slows. Nationwide seasonally adjusted sales of cars hit a nearly six year low point in May.

Personal Income Tax

FY 2002 was the last time PIT revenue finished a fiscal year at least 8.6% below estimate.

PIT revenue in May totaled $556.5 million, continuing the string of FY 2017 underperformance. This time receipts were $88.8 million (13.8%) below estimate in May, the tenth straight month the tax missed expectations. Through 11 months of the fiscal year, GRF revenue from the PIT totaled $6.8 billion, which was $643.1 million (8.6%) less than was expected. FY 2002 was the last time PIT revenue finished a fiscal year at least 8.6% below estimate.

PIT revenue is comprised of gross collections, minus refunds and distributions to the Local Government Fund (LGF). Gross collections consist of employer withholdings, quarterly estimated payments,[5] trust

[5] Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than $500. Payments are due in April, June, and September of an individual's tax year and January of the following year. Most estimated payments are made by high-income taxpayers.

payments, payments associated with annual returns, and other miscellaneous payments. The performance of the tax is typically driven by employer withholdings, which is the largest component of gross collections, however a larger than expected amount of refunds has also greatly affected the tax performance in FY 2017. Through May, the PIT revenue shortfall was led by refunds, which were $375.9 million (24.1%) higher than expected, and monthly employer withholdings, which were $242.0 million (3.1%) below estimate.

FY 2017 revenues through May from each component of the PIT relative to estimates and to revenue received in the corresponding period of FY 2016 are detailed in the table below. All components have underperformed estimates with the exception of quarterly estimated payments.

FY 2017 Year-to-Date Personal Income Tax Revenue
Estimate Variances and Year-over-Year Changes by Component

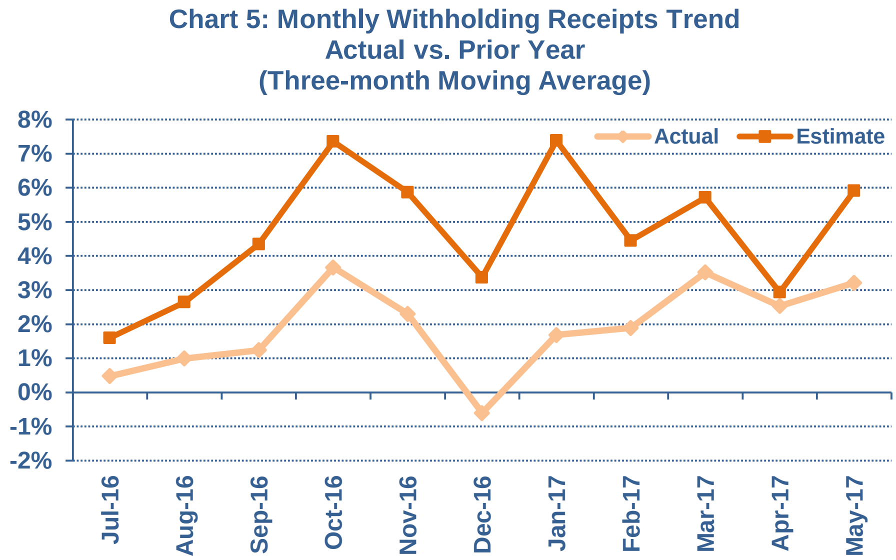
Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2016	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	-$242.0	-3.1%	$115.5	1.5%
Quarterly Estimated Payments	$14.4	2.4%	-$205.6	-25.2%
Trust Payments	-$13.6	-21.6%	-$12.2	-19.8%
Annual Return Payments	-$32.2	-4.7%	-$14.5	-2.2%
Miscellaneous Payments	-$8.6	-8.9%	-$4.2	-4.6%
Gross Collections	-$281.9	-3.0%	-$121.0	-1.3%
Less Refunds	$375.9	24.1%	$81.0	4.4%
Less LGF Distribution	-$14.7	-4.1%	$4.0	1.2%
GRF PIT Revenue	-$643.1	-8.6%	-$206.0	-2.9%

The average weekly wage in Ohio during the second quarter of FY 2017 declined 2.3% from one year ago.

Monthly employer withholdings continue to grow year over year, but at a slower pace than expected. Year-over-year growth was depressed early in the fiscal year due to the implementation of policy changes,[6] but languished further in the last quarter of calendar year 2016 largely due to a decline in wages. According to the U.S. Bureau of Labor Statistics (BLS), the average weekly wage in Ohio declined 2.3% from the same quarter one year ago. Since then, withholdings have recovered somewhat, though remain below

[6] H.B. 64 of the 131st General Assembly reduced income tax rates by 6.3% leading to a 3.1% reduction in the PIT withholding rate. The change in withholding rate took effect in August 2015, depressing year-over-year withholding growth in July 2016.

estimate. The chart below illustrates the growth of monthly employer withholdings on a three-month moving average relative to one year ago.



Commercial Activity Tax

The CAT will likely be the largest source of tax revenue to finish FY 2017 with a surplus.

The fourth and final CAT payment of the fiscal year was due in May for quarterly return taxpayers. Collections paid to the GRF were $279.8 million for the month, $26.9 million (10.6%) above what was expected. Through 11 months of FY 2017, receipts from the tax were just 0.4% above estimate. With only a small amount of collections expected in June, it is likely that the CAT will be the largest tax revenue source to finish the fiscal year with a surplus. Through May, FY 2017 revenue from the CAT was $33.1 million (2.6%) greater than in the corresponding period one year ago.

Cigarette and Other Tobacco Products Tax

May GRF revenue from the cigarette and other tobacco products tax was $5.1 million (5.9%) below estimate and a nearly identical percentage (5.8%) below revenue in May 2016. For FY 2017 through May, receipts were $822.7 million, just 0.2% above estimate. Of the total year-to-date revenue, 93.0% was from cigarettes and 7.0% was from sales of other tobacco products.

Thus far on the year, cigarette and other tobacco product tax receipts are down 3.9% from FY 2016, but this is a larger decline than usual due to legislative changes[7] which provided a one-time boost for receipts in the early months of FY 2016. Cigarette sales have trended downward long-term, but generally at a slower pace. Excluding those from the floor tax (see footnote), FY 2017 receipts from sales of cigarettes were 1.9% lower than one year ago, while tax revenue from the sale of other tobacco products was nearly flat.

[7] H.B. 64 of the 131st General Assembly increased the cigarette tax rate effective July 1, 2015 and instituted a "floor tax" for cigarettes which were in inventory at the time the new rate went into effect.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of May 2017
($ in thousands)
(Actual based on OAKS reports run June 3, 2017)

PROGRAM	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	$558,245	$635,982	-$77,737	-12.2%
Higher Education	$195,165	$195,395	-$230	-0.1%
Other Education	$3,324	$3,766	-$442	-11.7%
Total Education	$756,734	$835,143	-$78,410	-9.4%
Medicaid	$1,603,682	$1,752,490	-$148,808	-8.5%
Health and Human Services	$86,763	$90,606	-$3,842	-4.2%
Total Welfare and Human Services	$1,690,445	$1,843,096	-$152,651	-8.3%
Justice and Public Protection	$138,572	$143,176	-$4,605	-3.2%
General Government	$25,780	$30,961	-$5,181	-16.7%
Total Government Operations	$164,351	$174,137	-$9,786	-5.6%
Property Tax Reimbursements	$457,955	$353,076	$104,880	29.7%
Debt Service	$15,690	$12,740	$2,951	23.2%
Total Other Expenditures	$473,646	$365,815	$107,830	29.5%
Total Program Expenditures	**$3,085,176**	**$3,218,192**	**-$133,016**	**-4.1%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$16,591	$0	$16,591	---
Total Transfers Out	$16,591	$0	$16,591	---
TOTAL GRF USES	**$3,101,767**	**$3,218,192**	**-$116,424**	**-3.6%**

*August 2016 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

Table 4: General Revenue Fund Uses
Actual vs. Estimate
FY 2017 as of May 31, 2017
($ in thousands)
(Actual based on OAKS reports run June 3, 2017)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2016**	**Percent Change**
Primary and Secondary Education	$7,514,697	$7,582,806	-$68,109	-0.9%	$7,218,916	4.1%
Higher Education	$2,114,160	$2,124,176	-$10,015	-0.5%	$2,041,212	3.6%
Other Education	$69,266	$71,987	-$2,721	-3.8%	$64,683	7.1%
Total Education	$9,698,123	$9,778,969	-$80,845	-0.8%	$9,324,810	4.0%
Medicaid	$16,107,091	$17,128,461	-$1,021,371	-6.0%	$16,605,772	-3.0%
Health and Human Services	$1,252,229	$1,324,720	-$72,491	-5.5%	$1,209,761	3.5%
Total Welfare and Human Services	$17,359,320	$18,453,182	-$1,093,862	-5.9%	$17,815,534	-2.6%
Justice and Public Protection	$1,905,164	$1,941,633	-$36,470	-1.9%	$1,845,125	3.3%
General Government	$343,482	$366,898	-$23,416	-6.4%	$335,729	2.3%
Total Government Operations	$2,248,646	$2,308,532	-$59,886	-2.6%	$2,180,855	3.1%
Property Tax Reimbursements	$1,750,318	$1,789,302	-$38,984	-2.2%	$1,758,462	-0.5%
Debt Service	$1,291,746	$1,320,838	-$29,092	-2.2%	$1,276,811	1.2%
Total Other Expenditures	$3,042,064	$3,110,141	-$68,077	-2.2%	$3,035,273	0.2%
Total Program Expenditures	**$32,348,153**	**$33,650,823**	**-$1,302,669**	**-3.9%**	**$32,356,471**	**0.0%**
TRANSFERS						
Budget Stabilization	$29,483	$29,483	$0	0.0%	$425,500	-93.1%
Other Transfers Out	$272,892	$288,393	-$15,501	-5.4%	$411,027	-33.6%
Total Transfers Out	$302,374	$317,875	-$15,501	-4.9%	$836,527	-63.9%
TOTAL GRF USES	**$32,650,527**	**$33,968,698**	**-$1,318,171**	**-3.9%**	**$33,192,998**	**-1.6%**

*August 2016 estimates of the Office of Budget and Management.
Detail may not sum to total due to rounding.

Table 5: Medicaid Expenditures by Department
Actual vs. Estimate
($ in thousands)
(Actuals based on OAKS report run on June 5, 2017)

	Month of May 2017				Year to Date Through May 2017			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid	**$2,004,453**	**$2,208,491**	**-$204,039**	**-9.2%**	**$20,926,323**	**$22,261,238**	**-$1,334,915**	**-6.0%**
GRF	$1,554,592	$1,702,892	-$148,300	-8.7%	$15,523,900	$16,507,461	-$983,561	-6.0%
Non-GRF	$449,861	$505,600	-$55,739	-11.0%	$5,402,423	$5,753,777	-$351,353	-6.1%
Developmental Disabilities	**$230,541**	**$238,147**	**-$7,607**	**-3.2%**	**$2,294,896**	**$2,423,141**	**-$128,246**	**-5.3%**
GRF	$42,326	$41,886	$440	1.1%	$510,195	$521,223	-$11,028	-2.1%
Non-GRF	$188,215	$196,262	-$8,047	-4.1%	$1,784,701	$1,901,918	-$117,217	-6.2%
Job and Family Services	**$26,756**	**$14,048**	**$12,707**	**90.5%**	**$200,871**	**$221,070**	**-$20,199**	**-9.1%**
GRF	$6,133	$7,177	-$1,044	-14.5%	$64,338	$91,649	-$27,311	-29.8%
Non-GRF	$20,622	$6,871	$13,751	200.1%	$136,533	$129,421	$7,112	5.5%
Health	**$1,410**	**$1,385**	**$25**	**1.8%**	**$23,756**	**$23,047**	**$710**	**3.1%**
GRF	$346	$254	$92	36.3%	$3,539	$2,998	$541	18.1%
Non-GRF	$1,064	$1,131	-$67	-5.9%	$20,217	$20,048	$168	0.8%
Aging	**$462**	**$514**	**-$52**	**-10.1%**	**$6,349**	**$6,792**	**-$443**	**-6.5%**
GRF	$285	$282	$4	1.2%	$3,368	$3,379	-$11	-0.3%
Non-GRF	$177	$232	-$55	-23.9%	$2,981	$3,413	-$431	-12.6%
Mental Health and Addiction	**$1,264**	**$606**	**$658**	**108.6%**	**$5,866**	**$4,171**	**$1,694**	**40.6%**
GRF	$0	$0	$0	0.0%	$1,750	$1,750	$0	0.0%
Non-GRF	$1,264	$606	$658	108.6%	$4,115	$2,421	$1,694	70.0%
Total GRF	**$1,603,682**	**$1,752,490**	**-$148,808**	**-8.5%**	**$16,107,091**	**$17,128,461**	**-$1,021,371**	**-6.0%**
Total Non-GRF	**$661,203**	**$710,701**	**-$49,498**	**-7.0%**	**$7,350,970**	**$7,810,998**	**-$460,028**	**-5.9%**
Total All Funds	**$2,264,885**	**$2,463,191**	**-$198,307**	**-8.1%**	**$23,458,061**	**$24,939,459**	**-$1,481,398**	**-5.9%**

*Estimates are from the Department of Medicaid.
Detail may not sum to total due to rounding.

Table 6: All-Funds Medicaid Expenditures by Payment Category
Actual vs. Estimate
($ in thousands)
(Actuals based on OAKS report run on June 5, 2017)

	May				Year to Date Through May 2017			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	$831,011	$933,961	-$102,950	-11.0%	$9,302,051	$10,057,514	-$755,463	-7.5%
Nursing Facilities	$132,626	$120,569	$12,057	10.0%	$1,402,441	$1,344,774	$57,666	4.3%
DDD Services	$226,096	$233,433	-$7,337	-3.1%	$2,225,188	$2,345,755	-$120,567	-5.1%
Hospitals	$210,187	$295,453	-$85,266	-28.9%	$2,036,440	$2,244,639	-$208,199	-9.3%
Behavioral Health	$121,856	$124,111	-$2,255	-1.8%	$1,075,098	$1,133,892	-$58,794	-5.2%
Administration	$84,637	$81,009	$3,627	4.5%	$833,228	$979,482	-$146,254	-14.9%
Aging Waivers	$33,953	$30,624	$3,329	10.9%	$320,822	$325,145	-$4,323	-1.3%
Prescription Drugs	$33,134	$43,006	-$9,873	-23.0%	$350,383	$411,913	-$61,530	-14.9%
Medicare Buy-In	$0	$41,504	-$41,504	-100.0%	$506,867	$437,093	$69,774	16.0%
Physicians	$14,028	$19,052	-$5,024	-26.4%	$153,726	$186,718	-$32,992	-17.7%
Medicare Part D	$41,134	$29,415	$11,719	39.8%	$377,810	$312,150	$65,660	21.0%
Home Care Waivers	$12,504	$16,970	-$4,466	-26.3%	$114,183	$159,038	-$44,855	-28.2%
ACA - Managed Care	$383,570	$399,512	-$15,942	-4.0%	$3,813,796	$4,133,541	-$319,744	-7.7%
All Other	$140,150	$94,572	$45,578	48.2%	$946,030	$867,808	$78,222	9.0%
Total All Funds	**$2,264,885**	**$2,463,191**	**-$198,307**	**-8.1%**	**$23,458,061**	**$24,939,459**	**-$1,481,398**	**-5.9%**

* Estimates are from the Department of Medicaid.

Detail may not sum to total due to rounding.

EXPENDITURES

– Russ Keller, Senior Economist, 614-644-1751

– Nicholas J. Blaine, Budget Analyst, 614-387-5418

Overview

Through May, GRF Medicaid expenditures were $1.02 billion below OBM's August 2016 estimate. Including Medicaid, GRF program expenditures as a whole were $1.30 billion below the year-to-date estimate.

Through May, FY 2017 GRF Medicaid expenditures totaled $16.11 billion. These expenditures were $1.02 billion below the estimate released by OBM in August 2016.[8] GRF expenditures from all other program categories were below their year-to-date estimates as well. Overall, including Medicaid, GRF program expenditures totaled $32.35 billion through May, which was $1.30 billion (3.9%) below estimate. This negative year-to-date variance was much larger than the $825 million downward adjustment made by OBM in January for GRF program expenditures as a whole for the full fiscal year, which ends on June 30, 2017.

Program expenditures constitute the majority of GRF uses, but GRF uses also include transfers out. Through May, GRF transfers out were $302.4 million, $15.5 million below estimate. Including both program expenditures and transfers out, year-to-date GRF uses totaled $32.65 billion, $1.32 billion (3.9%) below OBM's August 2016 estimate. Tables 3 and 4 show GRF uses for the month of May and for FY 2017 through May, respectively.

As expected, the Property Tax Reimbursements program category registered a large positive variance of $104.9 million in May, which lowered the category's negative year-to-date variance from $143.9 million at the end of April to $39.0 million at the end of May. This program category is expected to finish the fiscal year below estimate by a modest amount, due mainly to decreases in homestead exemption reimbursement payments.

The timing-related positive variance in property tax reimbursements in May was more than offset by the negative variances in other program categories, mainly in Primary and Secondary Education ($77.7 million) and Medicaid ($148.8 million). Total GRF program expenditures in May were $133.0 million (4.1%) below estimate.

[8] OBM revised FY 2017 disbursement estimates downward from $35.89 billion to $35.07 billion as part of its executive budget submission on January 30, 2017. However, the variance analyses for this Expenditures report continue to be based on those compiled by OBM in August 2016.

The May variance from Primary and Secondary Education changed the category's year-to-date variance from a positive $9.6 million at the end of April to a negative $68.1 million at the end of May. The majority of this negative year-to-date variance occurred in GRF appropriation items 200550, Foundation Funding ($41.5 million), and 200502, Pupil Transportation ($9.2 million). These variances were due partly to timing. Items 200550 and 200502 are mainly used to fund school foundation formula aid. In addition, expenditures from item 200408, Early Childhood Education were $10.7 million below the year-to-date estimate. This item is expected to finish the fiscal year below estimate.

The remainder of this report will briefly discuss the variances in Medicaid expenditures.

Medicaid

Medicaid is primarily funded by the GRF, but also receives funding from various non-GRF funds. As a joint federal-state program, both GRF and non-GRF Medicaid expenditures contain federal and state moneys. In recent years, the federal government reimburses about two-thirds of Ohio's all-funds Medicaid expenditures.

Through May, year-to-date all-funds Medicaid expenditures were $1.48 billion below OBM's August 2016 estimate.

Table 5 shows GRF and non-GRF Medicaid expenditures for the Ohio Department of Medicaid (ODM) and ODM's five "sister" agencies – Developmental Disabilities, Job and Family Services, Health, Aging, and Mental Health and Addiction Services. Through May, GRF Medicaid expenditures were $1.02 billion (6.0%) below estimate while non-GRF Medicaid expenditures were $460.0 million (5.9%) below estimate. Including both GRF and non-GRF, Medicaid expenditures totaled $23.46 billion through May, $1.48 billion (5.9%) below OBM's August 2016 estimate.

Table 6 details all-funds Medicaid expenditures by payment category. As seen from the table, year-to-date expenditures from ten of the 14 payment categories were below estimates. Managed Care and ACA – Managed Care are the largest payment categories and have the largest negative variances at $755.5 million and $319.7 million, respectively. Together, they account for close to 73% of Medicaid's total negative year-to-date variance. Of the approximately three million Ohioans enrolled in Medicaid, more than 80% of them receive services through managed care. Negative variances in Managed Care spending continue to be driven by lower than forecasted managed care rates. Actual rates (which are set at the beginning of each calendar year) for calendar years 2016 and 2017 were both below the rates used in the estimate. The negative variances in

Managed Care and ACA – Managed Care are expected to further increase in June, the last month of FY 2017.

At the end of May, the All Other category had the largest positive year-to-date variance at $78.2 million. This positive variance was due partly to payments for the new Comprehensive Primary Care (CPC) Program. Participating CPC practices are eligible to receive a per-member per-month incentive payment by engaging in activities that are known to improve patients' health. Payments average $4 per member per month. The first payments were made in February. This category's variance was also affected by a $36.1 million federal payment for the Medicaid School Program that pushed the category's positive variance in May to $45.6 million.

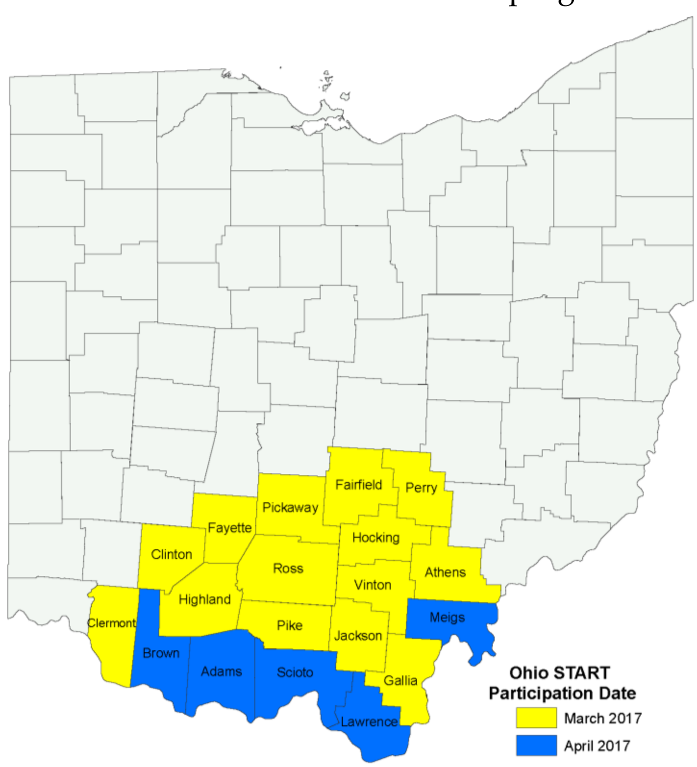
The Medicare Buy-In payment category had a negative variance of $41.5 million in May as the originally scheduled payment of the same amount for the month was not made until early June. Due to this delay, the category's positive year-to-date variance was reduced from $111.3 million at the end of April to $69.8 million at the end of May. The Medicare Buy-in Program pays Medicare premiums, deductibles, and coinsurance for certain low-income Ohioans. The positive variance in this payment category has been driven by larger than anticipated increases in Medicare Part B premiums for both calendar years 2016 and 2017. This category will finish the fiscal year above estimate.

ISSUE UPDATES

Attorney General Establishes Opioid Abuse Pilot Program in Southern Ohio

– Jessica Murphy, Budget Analyst, 614-466-9108

The Ohio Attorney General recently launched an opioid abuse pilot program known as Ohio Sobriety, Treatment, and Reducing Trauma (Ohio START) in 19 southern Ohio counties (see map below). Ohio START, which is modeled on a similar program in Kentucky, was first announced in March of this year with 14 participating counties: Athens, Clermont, Clinton, Fairfield, Fayette, Gallia, Highland, Hocking, Jackson, Perry, Pickaway, Pike, Ross, and Vinton. In April, the Attorney General announced that five additional southern counties – Adams, Brown, Lawrence, Meigs, and Scioto – would be served by Ohio START. The Attorney General has focused the program on southern Ohio because the region has been particularly hard hit by the opioid crisis. The purpose of Ohio START is to identify children who have suffered victimization due to parental drug abuse, providing them with specialized services for any resulting behavioral or emotional trauma, and providing drug treatment for parents of the children referred to the program.



Each participating county will receive an equal share of $4.8 million in state grant funding over two and a half years. The funding comes from the federal Victims of

Crime Act (VOCA) grant program awarded by the U.S. Department of Justice. Casey Family Programs, a national foundation focused on providing and improving foster care, partnered with the Attorney General to develop the program and is providing an additional $75,000 grant. Both grants are being administered by the Public Children Services Association of Ohio. Depending upon the findings of an effectiveness study to be conducted by the Ohio State University and Ohio University, the program may be expanded to other counties.

Ohio Receives $26.1 Million in Federal Funds to Target the Opioid Crisis

– Wendy Risner, Fiscal Supervisor, 614-644-9098

On April 24, 2017, the Ohio Department of Mental Health and Addiction Services (OhioMHAS) was awarded $26.1 million in federal State Targeted Response to the Opioid Crisis Grant funds. Specific grant activities will include enhancing statewide prevention efforts and increasing access to recovery housing and employment services for persons recovering from an opioid use disorder. In addition, there will be several activities aimed at increasing the understanding and support of medication-assisted treatment (MAT), including efforts to recruit and train physicians in the use of MAT in counties heavily impacted by the opioid epidemic. Some of these activities will be conducted statewide, while others will be concentrated in counties with both the greatest treatment need and the highest number of opioid overdose deaths. Furthermore, the grant funds will be used to support certain community-specific projects proposed by various local alcohol, drug addiction, and mental health boards. OhioMHAS is currently working with these boards to evaluate their proposals and to determine specific allocations. For more information regarding grant funds, please refer to OhioMHAS' website: http://mha.ohio.gov/Default.aspx?tabid=889.

The grant funds are provided through the federal 21st Century Cures Act, which was signed into law on December 13, 2016. The Act provided approximately $970 million to states and territories to combat the opioid crisis. The amount each state receives is based on a formula that takes into consideration a state's unmet need for opioid use disorder treatment and overdose deaths. In Ohio, opioid deaths have increased dramatically over the last decade. According to the Ohio Department of Health, there were a total of 3,050 unintentional drug overdose deaths in Ohio in 2015. Of these, 2,590, or 85%, were the result of an opioid. In 2005, there were 1,020 total unintentional overdose deaths, with 489 (48%) involving an opioid.

Central State University and Owens State Community College Removed from Fiscal Watch Status

– Edward M. Millane, Senior Budget Analyst, 614-995-9991

In early May, the Department of Higher Education (DHE) announced it had terminated fiscal watch status for Central State University (CSU) and Owens State Community College (OTC). Pursuant to rule 126:3-1-01 of the Ohio Administrative Code, which was developed in response to S.B. 6 of the 122nd General Assembly, CSU and OTC were both placed under fiscal watch in April 2015 after scoring below the 1.75 threshold in their financial ratio composite scores for two consecutive years.[9] Both institutions adopted financial recovery plans in mid-2015, with the goal of ending their designations within three years. For FY 2016, CSU and OTC had composite scores of 2.8 and 3.0, respectively. O.A.C. 126:3-1-01 requires that DHE terminate an institution's fiscal watch status when the institution achieves a composite score of at least 2.4 and has remediated the conditions that led to the fiscal watch, and no other condition exists that could result in an immediate return to fiscal watch status. DHE can also consult with the Auditor of State and the Office of Budget and Management (OBM) for assistance in the termination decision. In April, the Auditor of State notified DHE that both CSU and OTC had remedied or were making substantial progress towards remediation of their fiscal watch issues.

S.B. 6 and O.A.C. 126:3-1-01 are designed to increase financial accountability of public colleges and universities by using a standard set of measures to monitor the fiscal health of individual institutions. Based on the year-end audited financial statements submitted by public colleges and universities, DHE annually calculates for each institution three ratios: viability ratio (expendable net assets divided by long-term debt), primary reserve ratio (expendable net assets divided by total operating expenses), and net income ratio (change in total net assets divided by total revenues). Each ratio is assigned a score ranging from zero to five. Furthermore, each institution is assigned a composite score that weights the institution's viability score at 30%, primary reserve score at 50%, and net income score at 20%. For FY 2016, among four-year institutions, Wright State had the lowest composite score of 2.1 while Miami had the highest score of 4.4. Among two-year institutions, Cincinnati State had the lowest score of 2.3 while Washington State had the highest possible score of 5.0.

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[9] CSU's composite scores were 1.3 for FY 2013 and 1.0 for FY 2014 while OTC's scores were 1.1 for FY 2013 and 1.0 for FY 2014.

ODE Announces 12 New STEM Schools for the 2017-2018 School Year

– Alexandra Vitale, Budget Analyst, 614-466-6582

On April 26, 2017, the Department of Education (ODE) announced the designation of 12 new STEM schools for the 2017-2018 school year (see table below). The STEM school designation may be given to a school governed by a traditional public school board or by an independent governing board.[10] Community or chartered nonpublic schools may be designated as a STEM school equivalent. To receive the STEM school designation, a school must present evidence of a working partnership with both public and private entities, including colleges and universities and business organizations, and evidence the school will offer a rigorous and diverse curriculum that emphasizes science, technology, engineering, and mathematics and includes arts and humanities.

Starting in the 2017-2018 school year, STEM schools may enroll students in any of grades K-12, rather than just grades 6-12 as under previous law. Including the 12 newly designated schools, there will be a total of 42 STEM schools across the state. Of this total, 26 are governed by traditional school boards, seven are governed by independent boards, and nine are STEM school equivalents. The complete list of STEM schools is available on ODE's website at http://education.ohio.gov/Topics/Career-Tech/STEM.

Newly Designated STEM Schools, 2017-2018 School Year		
County	**School Name**	**Governing Board**
Franklin	Canal Winchester Middle School	Traditional school board
Franklin	Herbert Mills Elementary	Traditional school board
Licking	Summit Road Elementary	Traditional school board
Lake	Mater Dei Academy	STEM school equivalent
Lake	Willoughby-Eastlake School of Innovation	Traditional school board
Lorain	Ranger High-Tech Academy	Traditional school board
Lorain	St. Mary of the Immaculate Conception	STEM school equivalent
Medina	St. Ambrose School	STEM school equivalent
Richland	Springmill STEM Elementary	Traditional school board
Summit	St. Sebastian Parish School	STEM school equivalent
Wayne	Northwestern Elementary School	Traditional school board
Wood	Hull Prairie Intermediate School	Traditional school board

[10] The Metro Early College High School in Columbus is an example of a STEM school governed by an independent board.

ODH to Contract with Cleveland Browns for Immunization Media Campaign

– Jacquelyn Schroeder, Budget Analyst, 614-466-3279

On May 22, 2017, the Controlling Board approved a request in the amount of $150,000 for the Ohio Department of Health (ODH) to contract with the Cleveland Browns for a media campaign to increase immunization rates and to improve public health hygiene. The contract will cover infographics, graphic design work, as well as television and radio advertisements, including signage and electronic displays that will be shown at the Browns Stadium during football games, an international soccer match, and a U2 concert. During May and June, there will also be a National Football Draft Infographic Campaign that will feature at least ten infographics that highlight players selected in the draft and educational information regarding immunizations. According to ODH, the contract will enable the Department to reach an audience that has not been targeted in the past. It anticipates that approximately 400,000 people will receive the campaign messaging during the contract timeframe, which ends June 30, 2017.

ODH plans to enter into another contract at the beginning of the new biennium for an additional $100,000 to continue the media campaign. This contract will likely include a Back to School Immunization Campaign during July and August and a Ready for Flu Campaign during September through December.

BWC's Safety Intervention Grant Program Provides a 3-to-1 Match to Minimize Workplace Injuries and Illnesses

– Terry Steele, Senior Budget Analyst, 614-387-3319

The Division of Safety and Hygiene of the Bureau of Workers' Compensation (BWC) administers a Safety Intervention Grant Program to incentivize any state-fund private or public employers to purchase equipment to substantially reduce or eliminate workplace injuries and illnesses. Under the program, every dollar contributed by an employer is matched by $3 from BWC, up to a maximum BWC contribution of $40,000 per eligibility cycle. The eligibility cycles range from every three years for an employer with annual payroll totaling more than $10 million, every five years for an employer with annual payroll between $5 million to $10 million, every seven years for an employer with annual payroll between $1 million and $5 million, and to every ten years for an employer with annual payroll less than $1 million. As a condition of receiving a safety intervention grant, the employer must submit quarterly reports for two years that document use of the equipment and submit a case study within one year, including a cost-benefit analysis of the equipment that was bought with the grant money. BWC uses the results to analyze trends and develop best practices that can be shared and used to improve workplace safety across the state.

An eligible employer may apply for a safety intervention grant at any time. The application evaluation process includes an onsite visit by a BWC consultant who will prepare a preassessment report. The latest round of the safety intervention grant awards was announced on May 2. Approximately $475,000 was awarded to 26 employers in 21 counties, including 19 private employers and seven public employers. Individual awards ranged from a low of just under $2,000 to $40,000, the maximum available. Through the end of February, 339 employers were awarded FY 2017 safety intervention grants totaling $8.6 million. For FY 2016, 529 employers were awarded a total of $14.6 million in safety intervention grants.

The Safety Intervention Grant Program is funded through assessments charged to employers. The charge is based on a percentage of paid workers' compensation premiums (1.0% for private employers and 0.75% for public employer taxing districts). This assessment income, as well as other cash transfers from the State Insurance Fund, is deposited into the Safety and Hygiene Fund (Fund 8260).

State Fire Marshal Awards Approximately $453,000 in Fire Department Training Reimbursement Grants

– Shannon Pleiman, Budget Analyst, 614-466-1154

On April 20, 2017, the State Fire Marshal announced calendar year 2016 fire department training reimbursement grants totaling over $453,000. Overall, 212 fire departments in 75 counties received reimbursement grants, ranging from $225 up to nearly $13,100 for successfully completing state certified fire classes and specific classes conducted by the Ohio Fire Academy. A complete list of fire departments that received grants can be found on the Ohio Department of Commerce's website at: http://www.com.ohio.gov/documents/fire_2016TrainingGrants.pdf. Funding for these reimbursement grants come from taxes on insurance companies selling fire insurance in Ohio and from inspection fees, hotel permits, and fireworks licenses. The receipts from these sources are deposited into the State Fire Marshal Fund (Fund 5460). The maximum reimbursement grant is capped at $15,000.

The State Fire Marshal awards individual fire department training reimbursement grants based on a variety of criteria including: (1) resident population protected, (2) fire protection area size, (3) operating budget of the department, and (4) number of fire incidents/calls/responses requiring a National Fire Incident Reporting System. Eligible grant recipients include the following entities that serve a population of 25,000 or less: (1) fire departments that serve one or more small municipalities or small townships, (2) volunteer fire departments, (3) joint fire districts, (4) local governments, and (5) certain private fire companies.

Attorney General Extends Deadline for Provigil Consumers to File for Share of Multistate Settlement Award

– Joseph Rogers, Senior Analyst, 614-644-9099

On April 11, 2017, the Ohio Attorney General announced the extension, from April 13 to June 25, of the deadline for eligible Ohio consumers to file a claim for a cash payment from a multistate settlement involving the biopharmaceutical company Cephalon and its affiliated companies. Ohio and 48 other states reached a settlement with Cephalon and affiliated companies in August 2016 to resolve allegations that the companies engaged in anticompetitive practices to protect monopoly profits and delay the market entry of generic versions of Provigil, a prescription drug used to promote wakefulness and treat sleep disorders. An Ohio consumer may be entitled to a cash payment if they have purchased Provigil or its generic versions between June 24, 2006 and March 31, 2012.

The multistate settlement totaled $125 million, of which $4 million was Ohio's share. Of this $4 million, $1.57 million will be used to compensate eligible consumers, $1.43 million to reimburse state entities such as the central pharmacy and state hospitals that bought Provigil, and $1 million to the Ohio Attorney General's Office. The latter was credited to the Consumer Protection Enforcement Fund (Fund 6310), which is used for paying expenses incurred by the Attorney General's Consumer Protection Section to enforce laws regulating consumer and business transactions.

Tracking the Economy

– *Philip A. Cummins, Senior Economist, 614-387-1687*
– *Ruhaiza Ridzwan, Senior Economist, 614-387-0476*

Overview

The pace of the nation's economic expansion appears to have picked up in recent months. Inflation-adjusted gross domestic product (real GDP) rose only at a 1.2% rate in the first quarter. But in April, the increase in industrial production was the most rapid since 2014. Real consumer spending rose in March and April, after declines earlier in the year. The economic picture is mixed, as is generally the case. The rise in total nonfarm payroll employment in May was relatively modest and gains in the previous two months were revised lower. But the nationwide unemployment rate fell to 4.3%, a 16-year low. Inflation, dominated by swings in energy prices in recent years, has flattened in recent months following an uptrend.

In Ohio, total nonfarm payroll employment fell in March and April. The pace of the uptrend in statewide employment, underway since 2010, has been trailing that of the U.S. Ohio's statewide average unemployment rate has been above that for the nation since last year.

The Federal Reserve is widely expected to raise its short-term interest rate target at the next meeting of its Open Market Committee (FOMC) on June 13-14.[11] The central bank recently announced the outline of a plan to begin gradually reducing its large holdings of U.S. Treasury and agency securities, a reduction expected to start later this year.

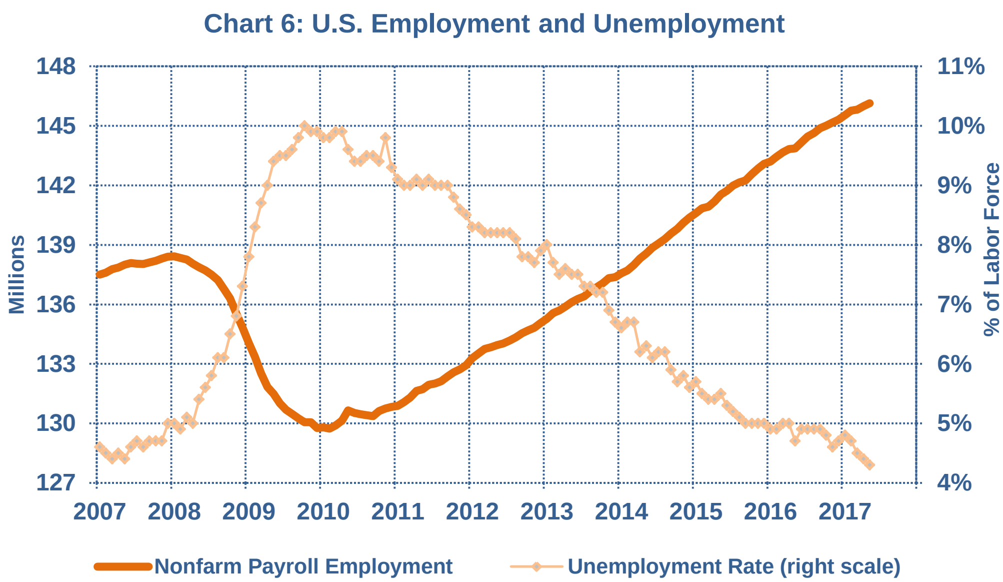
The National Economy

Employment and Unemployment

Nonfarm payroll employment rose 138,000 in May.

Nonfarm payroll employment rose 138,000 in May and unemployment as a share of the labor force fell to 4.3%, in data tabulated by the U.S. Bureau of Labor Statistics (BLS). Trends in employment and the unemployment rate nationwide are shown in Chart 6.

[11] Expectations are indicated, for example, by pricing of futures contracts for federal funds, as reported by CME Group. As of June 7, the probability of an increase of 0.25 percentage point in the Federal Reserve's target for federal funds to a range of 1% to 1.25% at the June FOMC meeting was reported to be 97%. These estimates are published on: http://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html.



Employment growth so far in 2017 averaged 162,000 per month (1.3% per year), down from 187,000 in 2016. The year-to-date rate of increase reflects downward revisions to the numbers for March and April. In May, job growth was reported in health care, mining, professional and business services, and food services and drinking places. From a year earlier, employment gains are largest in private service-providing industries including health care, various professional and business services, and restaurants, bars, and similar businesses.

At 4.3%, the country's unemployment rate in May was at its lowest level since 2001, and well below the recession peak of 10.0% in 2009. The number of long-term unemployed, those actively seeking work and without jobs for more than six months, totaled 1.7 million, near the lowest level since the 2007-2009 recession but higher than before the recession. Similarly, the number of persons working part time because of slack work or inability to find full-time jobs was 5.2 million, lowest since the last recession but higher than earlier.

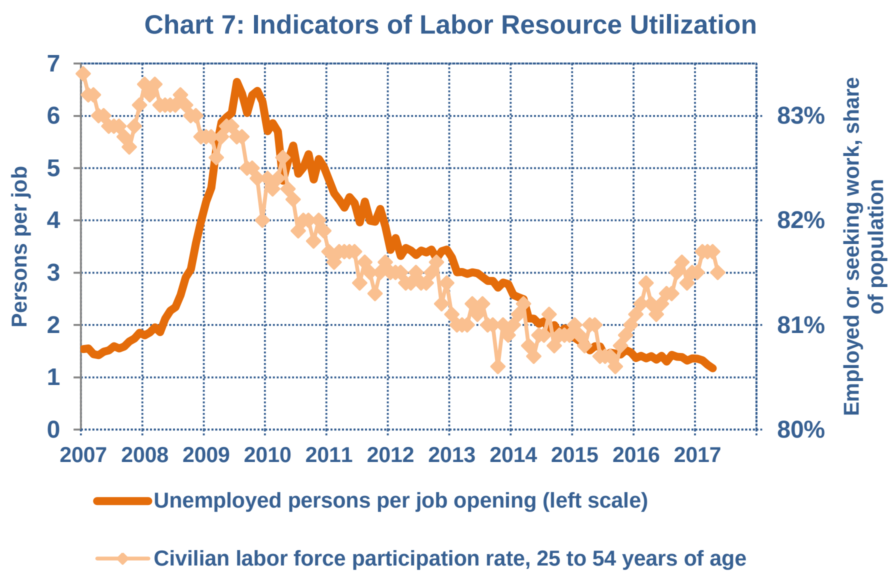
At 4.3%, the country's unemployment rate in May was at its lowest level since 2001.

Markets for labor tightened further around the nation in recent weeks, with higher pay being offered to retain and attract workers in occupational categories and parts of the country short of workers with needed qualifications, according to a report from the Federal Reserve.[12] Overall, however, "modest to moderate" wage growth was noted in the

[12] These comments are from the latest Beige Book, a summary of mostly qualitative, anecdotal information collected by the 12 Federal Reserve District Banks from outside sources through May 22.

report. Private-sector hourly wage and salary increases, as reported by BLS, have gradually trended higher over the past seven years, and averaged 2.5% in the four quarters ended March 31 compared with a year earlier, outpacing price increases.

Two other indicators of labor market tightness are shown in Chart 7. The number of unemployed persons for each job opening has fallen below the level prior to the 2007-2009 recession, consistent with a relatively tight labor market. But participation in the labor force by persons in the prime working-age group from 25 to 54 years is well below its level before the recession, possibly an indicator that significant slack remains. Each 1% increase in this measure is about 1.3 million people.



Production, Shipments, and Inventories

Real GDP growth in the first quarter was revised upward to a 1.2% annual rate.

Real GDP growth in the first quarter was revised upward to a 1.2% annual rate, from 0.7% in the initial estimate.[13] Nonresidential as well as residential fixed investment rose rapidly in the first three months of the year. Petroleum and natural gas exploration and well drilling surged. Outlays for equipment grew including electronic, industrial, and transportation equipment. Exports strengthened. On the other hand, total consumer spending only edged up as consumer outlays for durable goods fell and services growth was slow. Government spending declined and inventory accumulation slowed. For all of 2016, real GDP rose a modest 1.6%, down from 2.6% growth in 2015.

[13] The source agency for GDP data is the U.S. Bureau of Economic Analysis.

Economic growth is expected to turn higher in the current quarter. Estimates of second quarter real GDP growth from two sources, based on differing assessments of monthly data, show 3.4% and 2.2% annual rates of increase (Federal Reserve Banks of Atlanta and New York, respectively).[14] The inventory weakness in the first quarter is unlikely to be repeated in the second quarter, and consumer spending appears to be growing more rapidly.

Industrial production rose 1.0% in April, the largest monthly increase in over three years. Gains were widespread among industries. Manufacturing output also expanded by 1.0% in the month, the biggest gain since 2014, and output of mines and utilities rose. Production gains were reported for consumer durables including automotive products and appliances, furniture, and carpeting; for various consumer nondurables industries; and for business equipment. In the past year, the total industrial production index rose 2.2%, its largest 12-month increase since early 2015.

Industrial production rose 1.0% in April, the largest monthly increase in over three years.

Consumer Spending and Incomes

Real consumer spending rose 0.2% in April, after a 0.5% rise in March, and declines in February and January. The weakness early this year resulted in part from slower sales of motor vehicles, and also from unseasonably mild weather reducing consumption of utility services. With the upturn since then, consumer spending as of April was growing at more than a 3% annual rate compared with outlays in the first quarter.

Sales of light motor vehicles during May were somewhat below record levels, with a seasonally adjusted annualized 16.6 million units sold. For the first five months of 2017, sales were 2.0% below the comparable period in 2016. Full-year unit sales for 2016 were nearly 17.5 million units, a record high. Sales of light trucks are running ahead of 2016 sales, but auto sales are well behind last year.

Construction and Real Estate

The number of housing units started fell 3% in April, seasonally adjusted, as starts on apartments declined. In the first four months of 2017, however, housing starts were 5% higher than a year earlier as starts on homes rose 7%. If the year-to-date trend continues, this year will be the eighth consecutive year of rising starts, but the rate of starts remains more than 20% below the long-term (1959-2007) average annual number of units started. Issuance of permits for new construction, estimated from a

[14] Estimates are as of June 2.

In the first four months of 2017, housing starts were 5% higher than a year earlier.

separate survey, were 6% higher in the year's first four months than a year earlier, as single-family starts rose 10%.

New home sales fell 11% in April. Sales in all four Census regions were down, but most of the drop nationwide was due to lower sales in the West. Even with the weak performance in April, year-to-date sales were 11% higher nationwide than in January-April 2016, and 26% higher in the Midwest. This year will be the sixth straight year of rising home sales, if the year-to-date trend continues; the sales pace remains more than 10% below the 1963-2007 average.

Home sales reported by the National Association of Realtors (NAR), generally previously occupied homes, fell 2% in April. Year-to-date sales were 2% above the year-ago pace; for all of 2016, sales rose 4%. NAR noted that numbers of homes listed for sale are low in much of the country, and that these tight inventories are pushing up prices.

Housing prices nationwide rose 6% on average in the year ended in March, based on a nationwide index.[15] This follows a similar price rise in the prior 12 months. The index has been rising from lows reached in 2011.

Inflation

The consumer price index for all urban consumers (CPI-U) rose 0.2% in April, seasonally adjusted, after decreasing 0.3% in March. Over the 12 months ending in April, the CPI-U increased 2.2% before seasonal adjustment, lower than the 2.4% increase for the 12 months ending in March.

In April, the energy index picked up 1.1%, after declining for two consecutive months, 3.2% in March and 1.0% in February. The gain in April was boosted by rising prices in most energy categories. Gasoline prices rose 1.2%. The food index rose 0.2% in April, due to a sharp increase in prices for fruits and vegetables including a 5.1% price increase for fresh vegetables, which outweighed decreases in the index components for other categories of food, such as meat, poultry, fish, and eggs. Over the 12 months ending in April, the energy index rose 9.3% and the food index was up 0.5%. The CPI core index (all items excluding food and energy) increased 0.1% in April, rising to 1.9% higher than its level for April 2016.

The producer price index for final demand (PPI) increased 0.5% in April, seasonally adjusted. Over the past 12 months the PPI rose 2.5%.

[15] These price changes are based on the Federal Housing Finance Agency Purchase-Only House Price Index.

Wholesale food prices rose 0.9% in April, continuing a string of increases since December 2016. Wholesale energy prices rose 0.8% in April, after declining 2.9% in March.

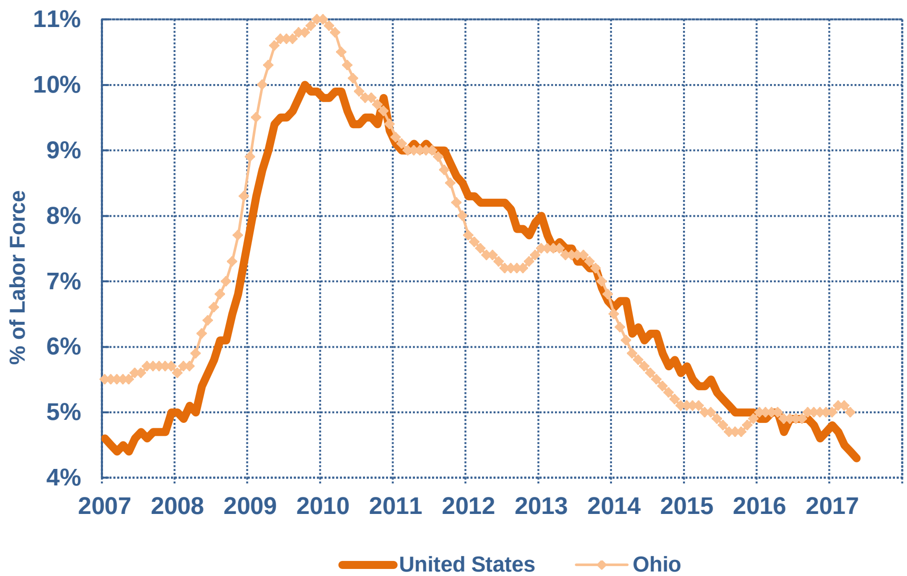
The Ohio Economy

Employment and Unemployment

Ohio's April unemployment rate dropped to 5.0% from 5.1% in March. In April of last year, Ohio's unemployment rate was also 5.0%. In comparison, the U.S. unemployment rate was 4.4% in April 2017. The number of unemployed Ohioans was 288,000 in April, a decrease of 5,000 from March. Chart 8 below shows the unemployment rate over the last ten years in Ohio compared with that in the U.S.

Ohio's April unemployment rate dropped to 5.0% from 5.1% in March.

Chart 8: Ohio and U.S. Unemployment Rates

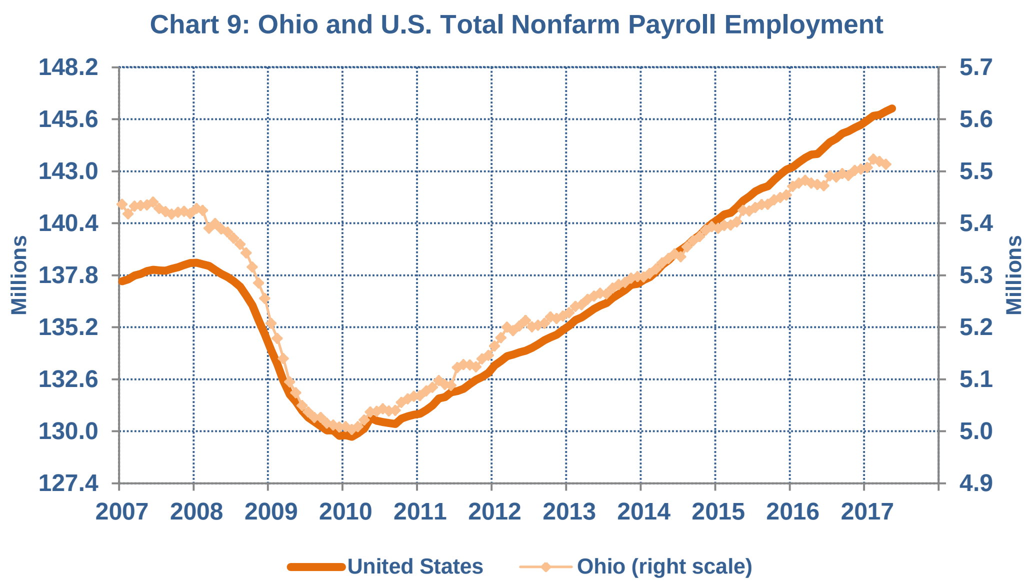


The state's total nonfarm payroll employment, seasonally adjusted, declined by 5,700, or 0.1% in April from the revised total in March, following a decrease of 4,300 jobs in March. In April, employment gains in private service-providing industries (+9,400) were more than offset by job losses in goods-producing industries (-13,200) and government employment (-1,900). The largest job gains in private service industries were in professional and business services and in leisure and hospitality. The largest job losses in goods-producing industries were in construction (-7,400), followed by manufacturing (-5,800). Job losses in the public sector were primarily in state government.

Compared to a year ago, total nonfarm payroll employment increased by 35,900 (0.7%). The increase was largely in educational and

The state's total nonfarm payroll employment declined by 5,700 in April following a decrease of 4,300 jobs in March.

health services, leisure and hospitality, professional and business services, nondurable goods manufacturing, and construction. The overall increase came in spite of a reduction in government employment of 9,200. Chart 9 shows payroll employment in Ohio compared with that in the U.S.



State Production

Ohio's real GDP grew 1.9% at a seasonally adjusted annual rate in the fourth quarter of 2016, identical to real GDP growth for the 50 states.[16] Sectors contributing the most to Ohio's growth were finance and insurance, mining, and retail trade. Ohio's growth was ranked 15th among the 50 states and the District of Columbia. In current dollars (i.e., without adjusting for inflation), Ohio's GDP reached $638 billion at an annual rate in the fourth quarter, accounting for about 3.4% of U.S. GDP. For the year as a whole, Ohio's real GDP grew 1.7% from 2015 to 2016.

Ohio Home Sales

In April, the number of existing home sales in Ohio decreased by 6.6% compared to April 2016, according to the Ohio Association of Realtors. From January through April of this year, existing home sales were about the same as in the corresponding period in 2016. The

[16] GDP by state for the U.S. differs from GDP in the national income and product accounts (NIPAs) because GDP by state for the U.S. excludes federal military and civilian activity located overseas, which cannot be attributed to a particular state.

statewide sales prices of homes sold during January through April 2017 averaged $161,350, or 6.1% higher than the corresponding period a year ago.

Regional Economy

Economic activity in the region continued to expand at a moderate pace between early April and late May, according to the latest Beige Book.[17] Labor markets in the region continued to grow, with staffing firms reporting increased job openings and placements. Employers reported wage pressures for both low- and high-skilled workers. Freight transportation contacts noted that the high turnover of truck drivers remained a problem. Manufacturers reported shortages of qualified workers for low-skilled manufacturing jobs. Input prices in construction and manufacturing industries continued to increase.

Customer spending at brick-and-mortar stores increased slightly. Sales of new vehicles increased 3.5% in the first four months of this year compared to the same period a year ago. Manufacturing output grew slightly. Natural gas drilling activity continued to trend up, but at a slow pace. Commercial real estate activity in the region remained strong. Bank lending increased slightly on balance. Mortgage lending increased, but credit card balances fell.

Statewide sales prices of Ohio homes sold during January through April 2017 averaged 6.1% higher than a year earlier.

[17] Comments here summarize the Beige Book section from the Federal Reserve Bank of Cleveland.