Budget Footnotes

A monthly newsletter by LSC economists and budget analysts

Volume: Fiscal Year 2019 Issue: December 2018

Highlights

– Ross Miller, Chief Economist

November GRF revenue from the sales and use tax exceeded the estimate published by the Office of Budget and Management (OBM) in August by $61 million. Most other GRF tax sources also came in above estimates; the foreign insurance tax was the sole notable exception, having been $17 million below estimate. Taken together, revenue from GRF taxes was $66 million above estimate for the month.

Payroll employment in Ohio rose by 10,900 in October, led by educational and health services and professional and business services. Ohio's unemployment rate in October remained 4.6%, the same rate as in each of the preceding three months. The national unemployment rate was 3.7% in October.

Through November 2018, GRF sources totaled $14.05 billion:

- Revenue from the sales and use tax was $124.6 million above estimate;
- Personal income tax receipts were $2.6 million above estimate.

Through November 2018, GRF uses totaled $15.54 billion:

- Program expenditures were $267.2 million below estimate, primarily because Medicaid expenditures were below estimate by $243.8 million;
- Expenditures in the Health and Human Services category were below estimate by $47.1 million;
- Expenditures for Primary and Secondary Education were above estimate by $15.5 million, primarily due to timing.

In this issue...

Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of November 2018
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on December 3, 2018)

State Sources	Actual	Estimate*	Variance	Percent
Tax Revenue				
Auto Sales	$110,487	$107,400	$3,087	2.9%
Nonauto Sales and Use	$787,298	$728,900	$58,398	8.0%
Total Sales and Use	*$897,785*	*$836,300*	*$61,485*	*7.4%*
Personal Income	$685,732	$686,300	-$568	-0.1%
Commercial Activity Tax	$330,347	$325,000	$5,347	1.6%
Cigarette	$78,659	$76,000	$2,659	3.5%
Kilowatt-Hour Excise	$27,344	$26,600	$744	2.8%
Foreign Insurance	-$18,551	-$2,000	-$16,551	-827.5%
Domestic Insurance	$1	$0	$1	---
Financial Institution	-$2,988	-$5,600	$2,612	46.6%
Public Utility	$32,342	$24,100	$8,242	34.2%
Natural Gas Consumption	$4,890	$4,700	$190	4.0%
Alcoholic Beverage	$6,603	$4,600	$2,003	43.6%
Liquor Gallonage	$4,086	$4,000	$86	2.1%
Petroleum Activity Tax	$0	$0	$0	---
Corporate Franchise	$10	$0	$10	---
Business and Property	$0	$0	$0	---
Estate	$0	$0	$0	---
Total Tax Revenue	**$2,046,260**	**$1,980,000**	**$66,260**	**3.3%**
Nontax Revenue				
Earnings on Investments	$33	$0	$33	---
Licenses and Fees	$424	$556	-$132	-23.8%
Other Revenue	$1,024	$1,839	-$815	-44.3%
Total Nontax Revenue	**$1,481**	**$2,395**	**-$915**	**-38.2%**
Transfers In	**$0**	**$0**	**$0**	**---**
Total State Sources	**$2,047,740**	**$1,982,395**	**$65,345**	**3.3%**
Federal Grants	**$774,125**	**$740,172**	**$33,953**	**4.6%**
Total GRF Sources	**$2,821,865**	**$2,722,568**	**$99,297**	**3.6%**

*Estimates of the Office of Budget and Management as of August 2018.
Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Actual vs. Estimate ($ in thousands)
FY 2019 as of November 30, 2018
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on December 3, 2018)

State Sources	Actual	Estimate*	Variance	Percent	FY 2018**	Percent
Tax Revenue						
Auto Sales	$630,354	$609,800	$20,554	3.4%	$593,892	6.1%
Nonauto Sales and Use	$3,749,635	$3,645,600	$104,035	2.9%	$3,595,514	4.3%
Total Sales and Use	*$4,379,988*	*$4,255,400*	*$124,588*	*2.9%*	*$4,189,406*	*4.5%*
Personal Income	$3,611,739	$3,609,100	$2,639	0.1%	$3,360,191	7.5%
Commercial Activity Tax	$758,725	$747,300	$11,425	1.5%	$719,606	5.4%
Cigarette	$347,119	$341,300	$5,819	1.7%	$350,155	-0.9%
Kilowatt-Hour Excise	$156,730	$155,500	$1,230	0.8%	$145,686	7.6%
Foreign Insurance	$159,029	$146,700	$12,329	8.4%	$144,843	9.8%
Domestic Insurance	$2	$0	$2	---	$63	-97.3%
Financial Institution	-$21,855	-$14,000	-$7,855	-56.1%	-$23,075	5.3%
Public Utility	$68,100	$56,000	$12,100	21.6%	$53,719	26.8%
Natural Gas Consumption	$20,253	$17,500	$2,753	15.7%	$16,708	21.2%
Alcoholic Beverage	$25,476	$24,900	$576	2.3%	$25,178	1.2%
Liquor Gallonage	$20,899	$20,500	$399	1.9%	$20,088	4.0%
Petroleum Activity Tax	$2,019	$1,300	$719	55.3%	$1,570	28.6%
Corporate Franchise	$192	$0	$192	---	$2,892	-93.4%
Business and Property	$0	$0	$0	---	-$374	100.0%
Estate	$32	$0	$32	---	$100	-67.8%
Total Tax Revenue	**$9,528,446**	**$9,361,500**	**$166,946**	**1.8%**	**$9,006,755**	**5.8%**
Nontax Revenue						
Earnings on Investments	$25,393	$19,634	$5,759	29.3%	$15,818	60.5%
Licenses and Fees	$9,788	$9,236	$552	6.0%	$8,617	13.6%
Other Revenue	$54,740	$59,968	-$5,227	-8.7%	$29,968	82.7%
Total Nontax Revenue	**$89,922**	**$88,837**	**$1,084**	**1.2%**	**$54,404**	**65.3%**
Transfers In	**$76,109**	**$80,190**	**-$4,081**	**-5.1%**	**$111,644**	**-31.8%**
Total State Sources	**$9,694,477**	**$9,530,527**	**$163,949**	**1.7%**	**$9,172,802**	**5.7%**
Federal Grants	**$4,357,089**	**$4,510,534**	**-$153,445**	**-3.4%**	**$4,131,744**	**5.5%**
Total GRF SOURCES	**$14,051,565**	**$14,041,061**	**$10,504**	**0.1%**	**$13,304,546**	**5.6%**

*Estimates of the Office of Budget and Management as of August 2018.
**Cumulative totals through the same month in FY 2018.
Detail may not sum to total due to rounding.

Revenues[1]

– Jean J. Botomogno, Principal Economist

Overview

Through November 2018, GRF sources were on target relative to OBM's estimate released in August 2018. GRF sources totaling $14.05 billion were $10.5 million (0.1%) above projections, and $747.0 million (5.6%) above such sources in the corresponding period in FY 2018. Positive variances of $166.9 million (1.8%) for GRF tax revenues and $1.1 million (1.2%) for nontax revenue were partially offset by negative variances of $153.4 million (3.4%) for federal grants[2] and $4.1 million (5.1%) for transfers in. The year-to-date (YTD) negative variance for federal grants results from GRF Medicaid spending being substantially below expectations so far this year due partly to timing. Tables 1 and 2 show GRF sources for the month of November and for FY 2019 through November, respectively. GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants.

For the YTD, all individual GRF tax sources were ahead of estimates, with the exception of the financial institutions tax (FIT)[3] which posted a shortfall of $7.9 million. Individual tax sources above estimates included the sales and use tax ($124.6 million), the commercial activity tax (CAT, $11.4 million), the foreign insurance tax ($12.3 million), the public utility tax ($12.1 million), and the cigarette and other tobacco products tax ($5.8 million). Adding to those results, the natural gas consumption tax, the personal income tax (PIT), and the kilowatt-hour excise tax were above projections by $2.8 million, $2.6 million, and $1.2 million, respectively. The remaining taxes had smaller positive variances at the end of November.

For the month of November 2018, GRF sources of $2.82 billion were $99.3 million above estimate. GRF tax sources and federal grants were above their anticipated levels by $66.3 million and $34.0 million, respectively, and nontax revenue was $0.9 million below estimate. No transfers in occurred this month as none were expected by OBM. Regarding tax sources, with its receipts $61.5 million above estimate, the sales and use tax had a good month. Also, the public utility tax, the CAT, the cigarette tax, and the alcoholic beverage tax were above anticipated revenues by $8.2 million, $5.3 million, $2.7 million, and $2.0 million, respectively. OBM estimated FIT refunds of $5.6 million would be paid out in November, but only $3.0 million was returned to taxpayers; thus, this tax source posted a positive variance of

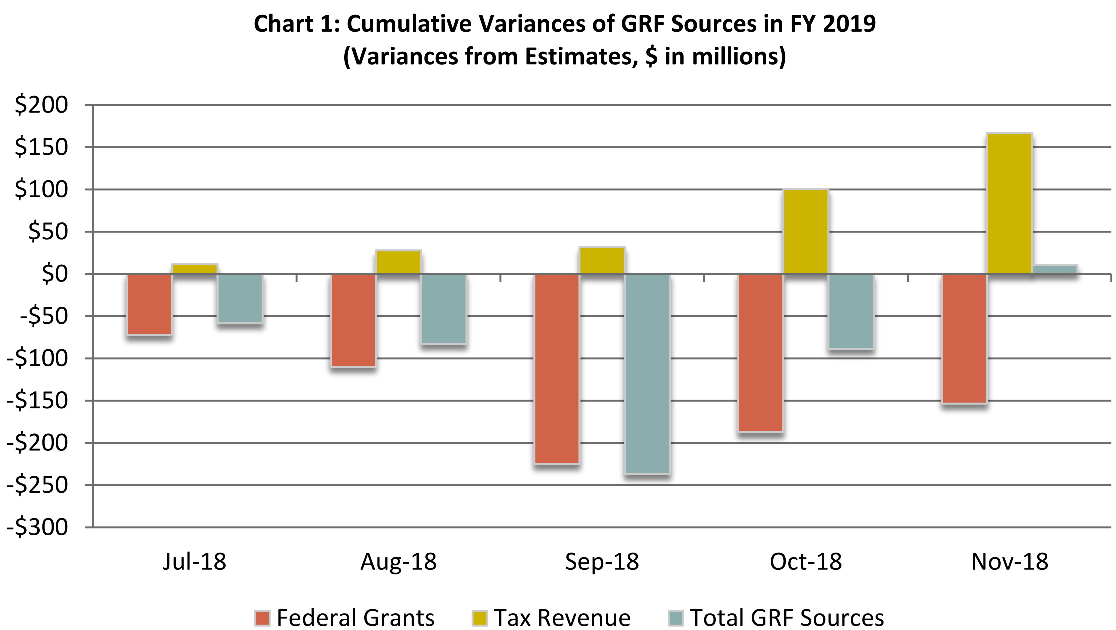
[1] This report compares actual monthly and year-to-date GRF revenue sources to OBM's estimates. If actual receipts were higher than estimate, that GRF source is deemed to have a positive variance. Alternatively, a GRF source is deemed to have a negative variance if actual receipts were lower than estimate.

[2] Federal grants are primarily federal reimbursements for Medicaid.

[3] The GRF typically pays out refunds under the FIT during the first half of a fiscal year as taxpayers make adjustments to previous tax filings. Receipts of the FIT are typically expected at the end of January, March, and May.

$2.6 million. The positive variances above were partially offset by shortfalls of $16.6 million for the foreign insurance tax[4] and $0.6 million for the PIT.

Chart 1, below, shows cumulative variances of GRF sources through November 2018.



Compared to GRF sources in FY 2018 through November, FY 2019 GRF sources increased $747.0 million. GRF tax sources and federal grants increased $521.7 million and $225.3 million, respectively. On the other hand, an increase of $35.5 million for nontax sources canceled out a decrease in transfer in of the same amount. Receipts from the PIT, the sales and use tax, and the CAT increased $251.5 million, $190.6 million, and $39.1 million, respectively. Also, combined receipts from three utility-related taxes (the kilowatt-hour excise tax, the public utility tax, and the natural gas consumption tax) grew $29.0 million.

Sales and Use Tax

The sales and use tax turned in a strong performance in November. Receipts to the GRF of $897.8 million were $61.5 million (7.4%) above estimate, and $84.3 million (10.4%) above revenue in November 2017. The nonauto and the auto portions of the tax were above anticipated revenue by 8.0% and 2.9%, respectively. Through November, YTD GRF receipts from the sales and use tax of $4.38 billion were $124.6 million (2.9%) above estimate, with both the nonauto and the auto portions of the tax above projections. Total sales and use tax revenue was also 4.5% above receipts in FY 2018 through November.

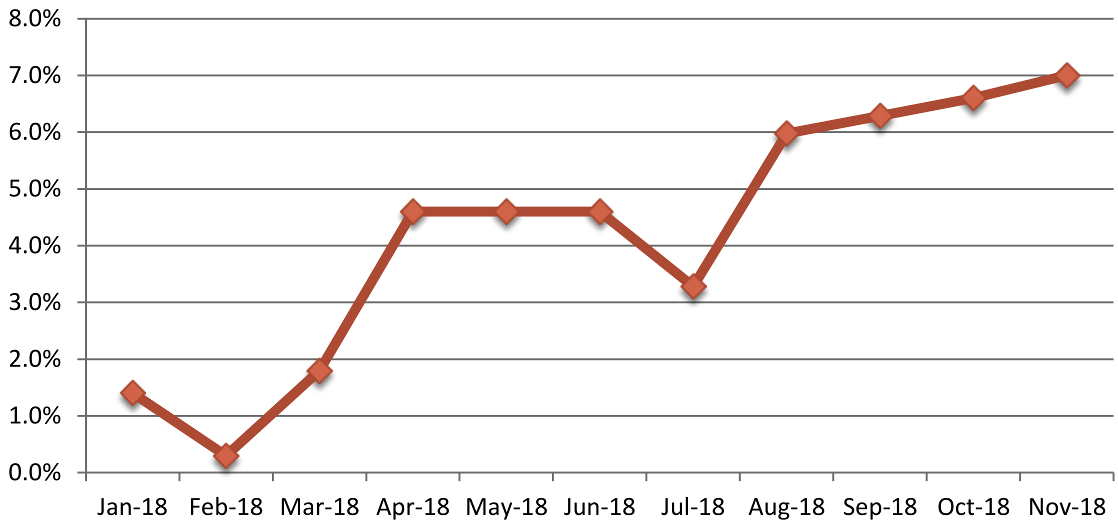
For analysis and forecasting, revenue from the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections generally arise from the sale of motor vehicles, but auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto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

4 Monthly revenue for this tax partially offset a positive variance of $29.0 million in October.

Nonauto Sales and Use Tax

The nonauto sales and use tax has generally performed well this fiscal year. Following a shortfall of $4.8 million in October 2018, this GRF source rebounded in November with a surplus of $58.4 million. This latest monthly performance increased the cumulative positive variance of this source to $104.0 million (2.9%), up from a positive variance of $45.6 million through October. Compared to revenue in November 2017, nonauto sales and use tax revenue increased $76.5 million (10.8%). For the YTD, GRF receipts of $3.75 billion were $154.1 million (4.3%) above revenue in the corresponding period in FY 2018. As payrolls and income have steadily risen in recent months, the nonauto sales and use tax has made continuous improvement. Chart 2, below, shows year-over-year growth in nonauto sales tax collections.[5]

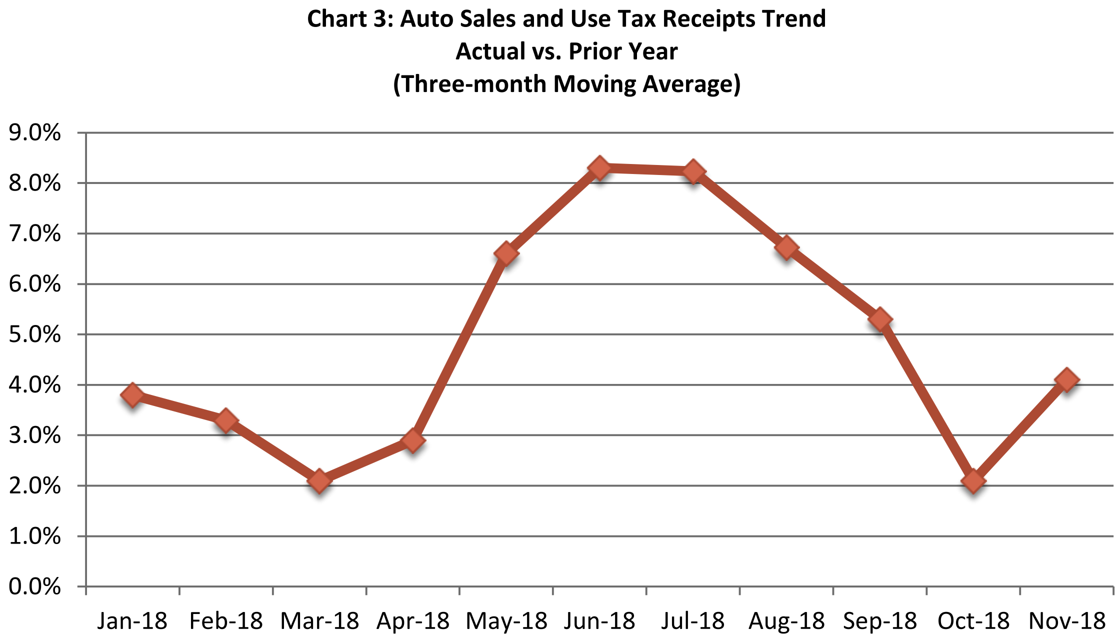
Chart 2: Nonauto Sales and Use Tax Receipts Trend Actual vs. Prior Year (With Tax Base Adjustment, Three-month Moving Average)



Auto Sales and Use Tax

GRF receipts from the auto sales and use tax of $110.5 million in November 2018 were above estimate by $3.1 million (2.9%). This performance increased this source's cumulative positive variance to $20.6 million (3.4%), up from $17.5 million through October. Through November, FY 2019 auto sales tax receipts of $630.4 million were $36.5 million (6.1%) above receipts in the corresponding period in FY 2018. Chart 3, below, shows year-over-year growth in auto sales tax collections. Auto sales tax revenue has grown compared to the prior year's level and, after slowing earlier in the fiscal year, the rate of growth picked up in recent months.

[5] Beginning July 1, 2017, the sales tax on Medicaid health insuring corporations (MHICs) was eliminated. Thus, the last payment of $71.7 million deposited in the GRF was made in July 2017 (reflecting taxable activity in June 2017). So, to adjust for changes to the existing tax base, this chart excludes monthly revenue from MHICs from January to July in calendar year 2017 so that changes in nonauto sales and use tax revenue are on a comparable basis.



The new vehicle market continues to look healthy. Monthly nationwide new light vehicle (auto and light truck) sales came in at 17.5 million units in November at seasonally adjusted annual rates, about the same as in October. Recent trends also continued with declines in auto sales and better truck sales. The shift to higher-priced trucks from lower-priced cars has helped boost the average price per vehicle and auto sales tax revenue. Nationwide unit sales totaled about 17.2 million units in 2017. Based on sales through November, light vehicle sales in 2018 may approximate those of last year.

Personal Income Tax

The PIT recorded a deficit of $13.4 million in the first quarter of FY 2019, followed by a positive variance of $16.7 million in October. Though GRF revenue in November of $685.7 million was $0.6 million (0.1%) below projections, YTD PIT receipts of $3.61 billion were above their anticipated level by $2.6 million (0.1%). Compared to the corresponding period in FY 2018, revenue growth was 7.5% in the first five months of FY 2019.

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,[6] trust 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 (about 82% of gross collections in FY 2018). Larger than expected refunds could also greatly affect the monthly performance of the tax. For the month of November 2018, gross collections were $1.6 million below projection. Shortfalls of $3.5 million for withholding and $1.8 million for quarterly estimated payments were partially offset by

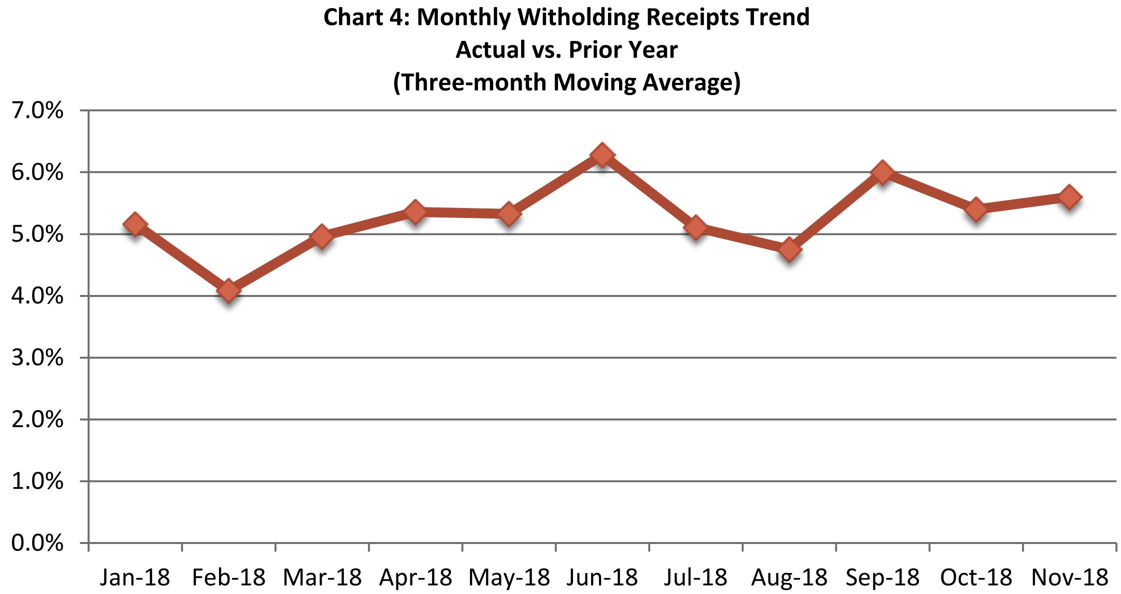
[6] Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than $500. Payments are due in April, June, and September of an individual's tax year and January of the following year. Most estimated payments are made by high-income taxpayers.

positive variances of $3.3 million for annual return payments, and $0.2 million each for trust payments and miscellaneous payments. Refunds were $2.2 million below estimate for the month.

For the YTD, revenues from each component of the PIT relative to estimates and to revenue received in FY 2018 are detailed in the table below. YTD, gross collections were above estimate by $10.7 million. Positive variances from withholding, annual return payments, and trust payments were partially negated by shortfalls for quarterly estimated payments and miscellaneous revenue. The positive variance from gross collections was reduced by refunds, which were $6.4 million higher than expected, and by higher distributions to the LGF. FY 2019 refunds and LGF distributions also increased compared to their amounts in the corresponding period last year.

FY 2019 Personal Income Tax Revenue Variance and Annual Change by Component				
Category	YTD Variance from Estimate		Changes from FY 2018	
	Amount ($ in millions)	Percent (%)	Amount ($ in millions)	Percent (%)
Withholding	$14.6	0.4%	$183.5	5.3%
Quarterly Estimated Payments	-$20.4	-7.2%	$50.0	23.5%
Trust Payments	$3.4	23.0%	$5.8	46.4%
Annual Return Payments	$19.7	24.5%	$33.6	50.2%
Miscellaneous Payments	-$6.6	-18.3%	-$6.9	-18.9%
Gross Collections	$10.7	0.3%	$265.9	7.0%
Less Refunds	$6.4	2.1%	$7.9	2.6%
Less LGF Distribution	$1.7	1.0%	$6.4	4.0%
GRF PIT Revenue	$2.6	0.1%	$251.5	7.5%

Compared to their respective amounts in FY 2018 through November, components of gross collections were higher in FY 2019, except for miscellaneous payments. The two most important components, withholding and quarterly estimated payments, grew 5.3% and 23.5%, respectively. The chart below illustrates the growth of monthly employer withholdings on a three-month moving average relative to one year ago. It shows growth generally between 5% and 6% in FY 2019.



Commercial Activity Tax

In November 2018, the second CAT payment for quarterly calendar return taxpayers provided $330.3 million to the GRF, an amount that was $5.3 million (1.6%) above estimate. This performance increased the cumulative positive variance for this tax to $11.4 million (1.5%), up from $6.1 million at the end of October. CAT revenue is estimated at $9.8 million in December 2018. Therefore, the second fiscal quarter is likely to be an improvement over the first fiscal quarter, which recorded a negative variance of $20.1 million. For the fiscal year through November, total GRF receipts were $758.7 million, $39.1 million (5.4%) above revenue in the first five months of FY 2018. Gross collections from the tax increased 6.8% relative to collections through November last fiscal year but, as stated in previous editions of this publication, increased credit claims and refunds restrained growth in net collections to the GRF.

Under continuing law, CAT receipts are deposited into the GRF (85%), the School District Tangible Property Tax Replacement Fund (Fund 7047, 13%), and the Local Government Tangible Property Tax Replacement Fund (Fund 7081, 2%). Distributions to Fund 7047 and Fund 7081 are used to make reimbursement payments to school districts and other local taxing units, respectively, for the phase out of property taxes on general business tangible personal property. Any receipts in excess of amounts needed for such payments are transferred back to the GRF.

Cigarette and Other Tobacco Products Tax

In November, GRF revenue from the cigarette and other tobacco products tax was $78.7 million, $2.7 million (3.5%) above estimate. Receipts for the month were $4.0 million (4.8%) below revenue from the tax in November 2017. Through November, FY 2019 revenue from the cigarette and other tobacco products tax totaled $347.1 million, $5.8 million (1.7%) above estimate and $3.0 million (0.9%) below receipts through November in FY 2018. YTD revenue included $313.2 million from the sale of cigarettes and $33.9 million from the sale of other tobacco products. Compared to FY 2018, receipts from cigarette sales fell $7.3 million while those from the sale of other tobacco products increased $4.3 million. So far in FY 2019, cigarette tax revenues have exhibited an unusually volatile pattern. However, on a yearly basis, revenue from the cigarette and other tobacco products tax usually trends downward generally at a slow pace due to a decline of cigarette revenue.

Table 3: General Revenue Fund Uses

Actual vs. Estimate

Month of November 2018

($ in thousands)

(Actual based on OAKS reports run December 5, 2018)

Program Category	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	$698,832	$680,534	$18,297	2.7%
Higher Education	$200,121	$195,640	$4,481	2.3%
Other Education	$4,056	$3,624	$432	11.9%
Total Education	**$903,008**	**$879,798**	**$23,211**	**2.6%**
Medicaid	$1,155,939	$1,137,130	$18,809	1.7%
Health and Human Services	$100,247	$105,115	-$4,867	-4.6%
Total Health and Human Services	**$1,256,186**	**$1,242,245**	**$13,941**	**1.1%**
Justice and Public Protection	$169,069	$146,397	$22,671	15.5%
General Government	$30,052	$26,460	$3,592	13.6%
Total Government Operations	**$199,121**	**$172,857**	**$26,263**	**15.2%**
Property Tax Reimbursements	$75,510	$109,637	-$34,127	-31.1%
Debt Service	$27,544	$27,549	-$5	0.0%
Total Other Expenditures	**$103,054**	**$137,187**	**-$34,132**	**-24.9%**
Total Program Expenditures	**$2,461,369**	**$2,432,087**	**$29,283**	**1.2%**
Transfers Out	**$513**	**$0**	**$513**	**---**
Total GRF Uses	**$2,461,882**	**$2,432,087**	**$29,796**	**1.2%**

*August 2018 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 2019 as of November 30, 2018
($ in thousands)
(Actual based on OAKS reports run December 5, 2018)

Program Category	Actual	Estimate*	Variance	Percent	FY 2018**	Percent
Primary and Secondary Education	$3,551,341	$3,535,811	$15,530	0.4%	$3,529,533	0.6%
Higher Education	$958,530	$965,658	-$7,128	-0.7%	$930,520	3.0%
Other Education	$37,928	$37,771	$157	0.4%	$37,479	1.2%
Total Education	**$4,547,799**	**$4,539,240**	**$8,559**	**0.2%**	**$4,497,532**	**1.1%**
Medicaid	$6,703,488	$6,947,268	-$243,780	-3.5%	$6,330,163	5.9%
Health and Human Services	$565,584	$612,709	-$47,125	-7.7%	$550,667	2.7%
Total Health and Human Services	**$7,269,072**	**$7,559,977**	**-$290,905**	**-3.8%**	**$6,880,830**	**5.6%**
Justice and Public Protection	$989,334	$978,697	$10,636	1.1%	$916,469	8.0%
General Government	$164,324	$165,508	-$1,184	-0.7%	$158,958	3.4%
Total Government Operations	**$1,153,658**	**$1,144,205**	**$9,453**	**0.8%**	**$1,075,427**	**7.3%**
Property Tax Reimbursements	$904,529	$898,299	$6,230	0.7%	$864,722	4.6%
Debt Service	$914,659	$915,176	-$517	-0.1%	$881,846	3.7%
Total Other Expenditures	**$1,819,189**	**$1,813,476**	**$5,713**	**0.3%**	**$1,746,568**	**4.2%**
Total Program Expenditures	**$14,789,718**	**$15,056,898**	**-$267,180**	**-1.8%**	**$14,200,357**	**4.2%**
Transfers Out	**$752,840**	**$751,933**	**$906**	**0.1%**	**$68,772**	**994.7%**
Total GRF Uses	**$15,542,558**	**$15,808,831**	**-$266,274**	**-1.7%**	**$14,269,129**	**8.9%**

*August 2018 estimates of the Office of Budget and Management.
**Cumulative totals through the same month in FY 2018.
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 December 4, 2018)

	Month of November 2018				Year to Date through November 2018			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid								
GRF	$1,101,437	$1,082,575	$18,862	1.7%	$6,411,177	$6,648,732	-$237,556	-3.6%
Non-GRF	$865,171	$928,986	-$63,815	-6.9%	$3,141,058	$3,980,662	-$839,604	-21.1%
All Funds	$1,966,608	$2,011,561	-$44,953	-2.2%	$9,552,235	$10,629,395	-$1,077,160	-10.1%
Developmental Disabilities								
GRF	$46,574	$49,012	-$2,438	-5.0%	$251,783	$254,446	-$2,663	-1.0%
Non-GRF	$168,362	$175,298	-$6,935	-4.0%	$927,098	$951,956	-$24,857	-2.6%
All Funds	$214,936	$224,309	-$9,373	-4.2%	$1,178,882	$1,206,401	-$27,520	-2.3%
Job and Family Services								
GRF	$7,189	$4,891	$2,298	47.0%	$36,666	$39,811	-$3,144	-7.9%
Non-GRF	$23,225	$20,519	$2,707	13.2%	$75,320	$63,623	$11,696	18.4%
All Funds	$30,415	$25,410	$5,005	19.7%	$111,986	$103,434	$8,552	8.3%
Health, Mental Health and Addiction, Aging, Pharmacy Board, and Education								
GRF	$738	$652	$86	13.2%	$3,862	$4,279	-$417	-9.7%
Non-GRF	$4,094	$2,595	$1,499	57.8%	$14,705	$16,954	-$2,249	-13.3%
All Funds	$4,832	$3,247	$1,585	48.8%	$18,567	$21,233	-$2,666	-12.6%
All Departments:								
GRF	**$1,155,939**	**$1,137,130**	**$18,809**	**1.7%**	**$6,703,488**	**$6,947,268**	**-$243,780**	**-3.5%**
Non-GRF	**$1,060,853**	**$1,127,397**	**-$66,545**	**-5.9%**	**$4,158,182**	**$5,013,195**	**-$855,014**	**-17.1%**
All Funds	**$2,216,791**	**$2,264,528**	**-$47,736**	**-2.1%**	**$10,861,670**	**$11,960,463**	**-$1,098,793**	**-9.2%**

*September 2018 estimates 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 December 4, 2018)

	Month of November 2018				Year to Date through November 2018			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	**$1,365,889**	**$1,395,759**	**-$29,870**	**-2.1%**	**$6,880,948**	**$7,067,038**	**-$186,090**	**-2.6%**
CFC†	$486,610	$496,394	-$9,784	-2.0%	$2,441,225	$2,490,794	-$49,569	-2.0%
Group VIII	$350,308	$378,783	-$28,475	-7.5%	$1,762,404	$1,891,613	-$129,209	-6.8%
ABD†	$232,402	$236,935	-$4,533	-1.9%	$1,165,584	$1,176,415	-$10,831	-0.9%
ABD Kids	$76,549	$78,822	-$2,273	-2.9%	$385,718	$392,161	-$6,443	-1.6%
My Care	$220,020	$204,826	$15,194	7.4%	$1,060,042	$1,015,121	$44,921	4.4%
Pay For Performance	$0	$0	$0	-	$65,976	$100,935	-$34,959	-34.6%
Fee-For-Service	**$647,126**	**$686,453**	**-$39,327**	**-5.7%**	**$3,103,583**	**$3,965,741**	**-$862,158**	**-21.7%**
ODM Services	$337,744	$365,908	-$28,163	-7.7%	$1,841,061	$2,020,176	-$179,115	-8.9%
DDD Services	$202,152	$210,961	-$8,809	-4.2%	$1,137,662	$1,162,490	-$24,828	-2.1%
Hospital - HCAP†	$0	$0	$0	-	$12	$635,291	-$635,279	-100.0%
Hospital - Other	$107,229	$109,584	-$2,355	-2.1%	$124,848	$147,784	-$22,936	-15.5%
Premium Assistance	**$88,451**	**$92,768**	**-$4,317**	**-4.7%**	**$441,232**	**$464,404**	**-$23,172**	**-5.0%**
Medicare Buy-In	$51,014	$54,067	-$3,053	-5.6%	$253,029	$270,982	-$17,953	-6.6%
Medicare Part D	$37,437	$38,701	-$1,264	-3.3%	$188,203	$193,422	-$5,219	-2.7%
Administration	**$115,325**	**$89,547**	**$25,778**	**28.8%**	**$435,907**	**$463,281**	**-$27,374**	**-5.9%**
Total	**$2,216,791**	**$2,264,528**	**-$47,736**	**-2.1%**	**$10,861,670**	**$11,960,463**	**-$1,098,793**	**-9.2%**

*September 2018 estimates from the Department of Medicaid.
†CFC - Covered Families and Children; ABD - Aged, Blind, and Disabled; HCAP - Hospital Care Assurance Program.
Detail may not sum to total due to rounding.

Expenditures[7]

– *Melaney Carter, Assistant Deputy Director*

– *Ivy Chen, Principal Economist*

Overview

Although posting a positive variance of $29.3 million (1.2%) for the month of November, GRF program expenditures continued to track below estimates YTD, with a negative YTD variance of $267.2 million (1.8%) at the end of November. Transfers out exceeded estimates by $0.5 million in November, increasing the YTD variance to $0.9 million (0.1%). Including both program expenditures and transfers out, GRF uses totaled $15.54 billion through November, which was $266.3 million (1.7%) below estimate. Tables 3 and 4 detail GRF uses for the month of November and for FY 2019 through November, respectively.

Despite a positive variance of $18.8 million (1.7%) in November, Medicaid continued to dominate the negative YTD variances. YTD GRF Medicaid expenditures of $6.70 billion were $243.8 million (3.5%) below estimate. Medicaid is mainly funded by the GRF but it is also supported by several non-GRF funds. More details on both the GRF and non-GRF variances in Medicaid expenditures are discussed in the section that follows this overview.

Positive monthly variances in November turned the YTD variances positive for three program categories: Primary and Secondary Education had a positive YTD variance of $15.5 million (0.4%) at the end of November; Other Education was $0.2 million (0.4%) above its YTD estimate, and Justice and Public Protection had a positive YTD variance of $10.6 million (1.1%). Higher Education and General Government both had positive monthly variances in November, but maintained negative YTD variances of $7.1 million (0.7%) for Higher Education and $1.2 million (0.7%) for General Government. Both the Health and Human Services and Debt Service categories increased their negative YTD variances in November. At the end of November, Health and Human Services had a negative YTD variance of $47.1 million (7.7%) and Debt Service had a negative YTD variance of $0.5 million (0.1%). Finally, the Property Tax Reimbursements category's positive YTD variance fell by $34.1 million in November to $6.2 million (0.7%). A discussion of the more significant of these variances follows the discussion of Medicaid. Also included in this month's Expenditures report is an update on outstanding prior year GRF encumbrances.

Medicaid

Although GRF Medicaid expenditures were $18.8 million (1.7%) above estimate for the month of November, non-GRF Medicaid expenditures were $66.5 million (5.9%) below estimate. For the YTD through November, both GRF and non-GRF Medicaid expenditures were below estimates, by $243.8 million (3.5%) and $855.0 million (17.1%), respectively. Including both the GRF and non-GRF, all funds Medicaid expenditures of $10.86 billion were $1.10 billion (9.2%) below the YTD estimate. As indicated in prior issues of *Budget Footnotes*, the

[7] This report compares actual monthly and YTD expenditures from the GRF to OBM's estimates. If a program category's actual expenditures were higher than estimate, that program category is deemed to have a positive variance. The program category is deemed to have a negative variance when its actual expenditures were lower than estimate.

$317.6 million in non-GRF funded Health Care Assurance Program (HCAP) payments for hospitals in both September and October did not occur as was anticipated. This has resulted in a negative YTD variance in HCAP payments of $635.3 million, which accounts for 74.3% of the YTD non-GRF variance and 57.8% of the YTD all funds variance. When these payments are made they will cause these YTD variances to narrow.

Table 5 shows GRF and non-GRF Medicaid expenditures for the Ohio Department of Medicaid (ODM), the Ohio Department of Developmental Disabilities (ODODD), and six other "sister" agencies that also take part in administering Ohio Medicaid. ODM and ODODD account for about 99% of the total Medicaid budget. Therefore, they also account for the vast majority of variances in Medicaid expenditures. The other six agencies – Job and Family Services, Health, Aging, Mental Health and Addiction Services, State Board of Pharmacy, and Education – account for the remaining one percent of the total Medicaid budget. Unlike ODM and ODODD, the six "sister" agencies incur only administrative spending.

Table 6 shows all funds Medicaid expenditures by payment category. Overall expenditures from all four major payment categories, Managed Care, Fee-For-Service (FFS), Premium Assistance, and Administration, were below their YTD estimates. The FFS category had the largest overall negative variance of $862.2 million (21.7%), followed by Managed Care ($186.1 million, 2.6%), Administration ($27.4 million, 5.9%), and Premium Assistance ($23.2 million, 5.0%).

The negative variance in FFS was primarily due to the delay in HCAP payments ($635.3 million) as indicated earlier. Under HCAP, the state makes subsidy payments to hospitals that provide uncompensated care to low-income and uninsured individuals at or below 100% of the federal poverty level. Another contributing factor to the negative variance in the FFS category was lower than expected FFS caseloads. Beginning January 1, 2018, newly eligible individuals are removed from FFS and enrolled onto managed care shortly after receiving Medicaid benefits. Previously, when ODM prepared the estimates, newly eligible individuals could remain in the FFS system for several weeks while they decided which managed care plan in which to enroll.

Expenditures from all Managed Care categories were below their YTD estimates except for MyCare, which had a positive YTD variance of $44.9 million (4.4%). MyCare is a managed care program for Ohioans who are eligible for both Medicaid and Medicare. Group VIII (individuals who became eligible for Medicaid through the federal Affordable Care Act) had the largest negative YTD variance of $129.2 million (6.8%) within the Managed Care category, followed by CFC (Covered Families and Children) at $49.6 million (2.0%). These negative variances were mainly due to lower than expected caseloads. For the first four months of FY 2019, on average the monthly managed care caseloads for Group VIII and CFC were 6.7% (40,300) and 1.3% (20,600), respectively, below estimates. Finally, the $35.0 million (34.6%) negative YTD variance in the Pay for Performance category was due to a delay in making the remaining part of the payment that was originally scheduled for September.

Health and Human Services

The negative YTD variance in the Health and Human Services program category increased $4.9 million in November to $47.1 million (7.7%). All agencies included in this category had negative YTD variances at the end of November except for the Department of Developmental Disabilities, which had a positive variance of $0.9 million. The most significant negative YTD variance was $32.4 million for the Ohio Department of Job and Family Services (ODJFS), followed by $8.3 million for the Ohio Department of Mental Health and Addiction Services (ODMHAS) and $5.6 million for the Ohio Department of Health (ODH).

Of the 18 GRF line items in the ODJFS budget that are included in this program category, only two had positive YTD variances, one of which was significant – 600502, Child Support-Local, with a positive variance of $3.9 million. Item 600502 provides the state share of the administrative costs of local child support enforcement agencies. Of the many line items with negative YTD variances, the most significant were 600416, Information Technology Projects, with a negative variance of $10.1 million and 600521, Family Assistance – Local, with a negative variance of $5.0 million. Item 600416 provides funding for the development, implementation, and maintenance of computer systems used by ODJFS and the county departments of job and family services (CDJFSs). Item 600521 is used to provide CDJFSs the state's share of their administrative costs for public assistance programs.

The negative variance for ODMHAS came primarily from two line items. Item 336510, Residential State Supplement, had a negative YTD variance of $4.3 million and item 336412, Hospital Services, had a negative YTD variance of $3.5 million. Item 336510 is used to provide cash assistance and case management to aged, blind, or disabled adults who reside in approved alternate living facilities such as group homes and residential care facilities. Item 336412 funds the operating costs of the state's regional psychiatric hospitals.

Most of ODH's line items had negative variances at the end of November. The largest were items 440459, Help Me Grow; 440474, Infant Vitality; and 440482, Chronic Disease/Health Promotion, with negative YTD variances of $1.4 million, $1.3 million, and $1.0 million, respectively. Item 440459 is used to distribute funds to counties to operate the Help Me Grow Home Visiting Program, which is the state's parenting education program for parents at highest risk for poor child outcomes. Item 440474 is used by ODH for programs that address infant mortality. Item 440482 supports the Bureau of Health Promotion's efforts to prevent and control chronic diseases.

Primary and Secondary Education

The Ohio Department of Education's (ODE) YTD variance was dominated by item 200550, Foundation Funding, which had a positive YTD variance of $25.3 million at the end of November. Item 200550 is primarily used to provide operating subsidies to public schools through the state's school funding formula. This item often has variances as ODE collects and updates various data that are used in the formula. This positive variance is partially offset by negative variances in several other line items, including negative YTD variances of $3.8 million in item 200511, Auxiliary Services, and $2.2 million in item 200540, Special Education Enhancements. Item 200511 supports the provision of certain secular services to chartered nonpublic schools and is distributed on a per-pupil basis. Item 200540 provides subsidies to public providers of special education, primarily preschool providers and county boards of developmental disabilities.

Justice and Public Protection

The YTD variance in the Justice and Public Protection category turned from negative at the end of October to positive at the end of November mostly due to a positive variance for November of $15.1 million for the Department of Rehabilitation and Correction (DRC). DRC's

YTD variance at the end of November was a positive $8.9 million. The Attorney General also had a significant positive YTD variance, which equaled $5.2 million.

DRC's positive YTD variance was dominated by item 501407, Community Nonresidential Programs, with a positive variance of $8.9 million. Its positive variance in November, however, was mainly due to item 501321, Institutional Operations, which had a positive monthly variance of $10.3 million, resulting in a positive YTD variance of $3.4 million for that item. Item 501407 funds grants to counties to operate intensive supervision and other community sanctions programming for felony offenders in lieu of prison or jail commitments. Item 501321 is the state's main source of funding for prison operations. The positive variances in these two line items and a few other items in DRC's budget were partially offset by a negative YTD variance of $4.0 million in item 505321, Institution Medical Services. Item 505321 is used to provide medical services to offenders in the state's prison system.

The Attorney General's positive YTD variance primarily occurred in item 055321, Operating Expenses, which had a positive YTD variance of $4.4 million. Item 055321 is the Attorney General's main appropriation for the office's operating expenses.

Prior Year Encumbrances

As reported in the July issue of *Budget Footnotes*, state agencies carried into FY 2019 $373.6 million in encumbered GRF funds that were originally appropriated for fiscal years prior to FY 2019. An agency generally has five months to spend prior year encumbrances for operating expenses. Any unspent operating expense encumbrances will lapse at the end of the five-month period and will become part of the GRF cash balance once OBM cancels the encumbrances. Subject to the approval of the Director of Budget and Management, an agency may carry funds encumbered for purposes other than operating expenses beyond the five-month period. Encumbrances for some grant and aid payments may be carried for several months or even years.

Prior Year GRF Encumbrances by Agency ($ in millions)

Agency	Prior Year Encumbrances as of July 1, 2018	Amount Expended	Outstanding Encumbrances as of December 1, 2018	Amount Lapsed
Education	$102.7	$78.8	$23.7	$0.2
Higher Education	$32.8	$8.4	$23.3	$1.1
Job and Family Services	$64.0	$45.8	$15.9	$2.3
Development Services	$22.1	$10.6	$11.3	$0.2
Medicaid	$37.2	$16.7	$6.4	$14.1
All Other Agencies	$114.7	$97.8	$14.0	$2.9
Total	**$373.6**	**$258.2**	**$94.6**	**$20.8**

Detail may not sum to total due to rounding.

As shown in the table above, as of December 1, 2018, $258.2 million (69.1%) of the $373.6 million in total prior year encumbrances was expended, $94.6 million (25.3%) was still outstanding, and the remaining $20.8 million was canceled so the corresponding funds would subsequently lapse back into the GRF. ODE had the largest share (25.1%) of the total outstanding encumbrances as of December 1, followed by the Department of Higher Education (DHE) at 24.6%, ODJFS at 16.8%, the Development Services Agency (DSA) at 11.9%, and ODM at 6.7%. Together, these seven agencies had $80.6 million (85.2%) of the $94.6 million in total outstanding prior year encumbrances. The nature of these outstanding encumbrances is discussed below.

Of ODE's outstanding encumbrances as of December 1, which totaled $23.7 million, 45.0% ($10.7 million) was encumbered in item 200550, Foundation Funding. These encumbrances will be used mainly to meet year-end school foundation payment adjustments. Foundation payments are allocated to districts based on a variety of data. Some of these data are not finalized until the following fiscal year. Funds are generally encumbered each year in order to make adjusted payments based on these updated data. Other significant outstanding encumbrances were in items 200408, Early Childhood Education, ($4.4 million, 18.5%); 200511, Auxiliary Services, ($2.3 million, 9.7%); 200540, Special Education Enhancements, ($1.7 million, 7.3%); 200572, Adult Diploma, ($1.5 million, 6.4%); and 200437, Student Assessment, ($1.5 million, 6.2%). These encumbrances will be used for making final payments and adjustments for early childhood education service providers, schools, and institutions that assist adults in acquiring their high school diploma and an industry-recognized credential, as well as final payments on school assessment contracts.

DHE had $23.3 million in outstanding prior year encumbrances as of December 1, of which $23.2 million occurred in item 235438, Choose Ohio First Scholarship. Item 235438 is used to pay the state's obligations to scholarship recipients.

ODJFS had $15.9 million in outstanding prior year encumbrances as of December 1. Numerous line items had outstanding encumbrances, but the three most significant are items 600416, Information Technology Projects ($5.9 million, 36.8%), 600321, Program Support ($2.9 million, 18.0%), and 600523, Family and Children Services ($1.5 million, 9.4%). Funds encumbered in item 600416 will be used mainly for the development, implementation, and maintenance of information technology systems used by ODJFS. The encumbrances in item 600321 are mainly for contracts with vendors to provide administrative support for the Food Assistance Program. Finally, item 600523 is used for foster care and child protective services.

DSA had $11.3 million in outstanding prior year encumbrances as of December 1. The vast majority of DSA's outstanding prior year encumbrances were for various economic development grants. Many of these grant programs are operated on a reimbursement basis, under which grantees have to carry out the programs and certify that certain requirements or objectives have been met before they are reimbursed by the state. Depending on the scope of a project, the grantee may not actually receive the award until several years after the award was originally made. The line items with the largest outstanding encumbrances are 195453, Technology Programs and Grants, ($6.7 million, 59.6%) and 195455, Appalachian Workforce Assistance, ($3.2 million, 28.1%).

Finally, ODM had $6.4 million in outstanding prior year encumbrances as of December 1, of which $6.3 million (98.7%) was in item 651425, Medicaid Program Support – State. These encumbrances will be used mainly to pay ODM's outstanding personal services and contract expenses for administering the Medicaid program in Ohio.

Issue Updates

DNR Announces Completion of Buckeye Lake Dam Construction

– Tom Wert, Budget Analyst

On November 8, 2018, the Department of Natural Resources (DNR) announced the completion of construction activities at Buckeye Lake Dam. The project to reconstruct the 200-year-old, 4.1-mile long, Class I dam located in Licking and Fairfield counties began in 2015 following a U.S. Army Corps of Engineers report identifying the deteriorated condition of the dam and the significant risk to communities in the dam's downstream area. The project was initially expected to last five years at a cost of approximately $150 million but was completed in three years at a cost of approximately $107 million.

Dam safety is overseen by DNR's Division of Water Resources. Dams are classified based on their size and the level of risk their failure poses to public safety. Class I dams are those that have an impoundment volume of at least 5,000 acre-feet of water or that are at least 60 feet high and, when compromised, could lead to the loss of human life or the structural collapse of at least one residential or commercial building. Of the 2,550 publicly and privately owned dams overseen by the Division, 365 are Class I dams. Funding for dam safety, including inspections and construction oversight, is provided by the Dam Safety Fund (Fund 6150), which receives revenue from dam permit fees and fines from dam safety violations. Construction activities are supported by capital appropriations from the Ohio Parks and Natural Resources Fund (Fund 7031), the Parks and Recreation Improvement Fund (Fund 7035), and the Wildlife Fund (Fund 7015).

Ohio EPA Awards $15 Million in Diesel Mitigation Trust Fund Grants

– Robert Meeker, Budget Analyst

On October 23, 2018, the Ohio Environmental Protection Agency announced the award of 21 Diesel Mitigation Trust Fund (DMTF) Program grants totaling $15 million. Ohio's DMTF Program provides competitive grants to government and nongovernment applicants to remove diesel engines from use and replace or repower them with clean diesel, alternative fuel, or electric engines. The $15 million in grants was awarded to replace 322 vehicles and pieces of equipment in specific project categories as follows: $5 million for 179 school buses, $5 million for 21 transit buses, $3 million for 107 heavy duty trucks, and $2 million for 15 pieces of airport ground support equipment (see table below). Individual grant amounts range from $51,399 (Kent State University Airport) to three $2 million awards (Greater Cleveland Regional Transit Authority, Columbus City Schools, and Durham School Services).[8] A local match of at least 25% is required for all projects, with higher matches required from nongovernment applicants in certain project categories.

[8] See epa.state.oh.us for a full list of awardees.

Grant Award Totals and Vehicles/Equipment Replaced by Project Type			
Project Type	**Number of Awards**	**Number of Vehicles/Pieces of Equipment Replaced**	**Total Award**
School Bus	6	179	$5,000,000
Transit Bus	4	21	$5,000,000
Heavy Duty Trucks	9	107	$3,051,616
Airport Ground Support Equipment	2	15	$1,948,384
Total	**21**	**322**	**$15,000,000**

Funds for these purposes are the result of an agreement between the U.S. Environmental Protection Agency, the state of California, and Volkswagen (VW) and its subsidiaries settling allegations that the latter violated the federal Clean Air Act by selling diesel motor vehicles in the U.S. that were equipped with "defeat devices."[9] The settlement requires VW to contribute $2.7 billion to an Environmental Mitigation Trust for State Beneficiaries to pay for projects that reduce emissions of nitrogen oxides. Ohio expects to receive a total of $75.3 million from the trust over the next ten years.

Medicaid Expands Access to Hepatitis C Treatment

– Alexander B. Moon, Economist

The Ohio Department of Medicaid (ODM) recently announced that beginning January 1, 2019, Medicaid will start paying for hepatitis C drug treatments when the disease is first diagnosed rather than when the disease has progressed to a more advanced state. Hepatitis C is measured based on an individual's level of liver scarring. The scarring ranges from a score of F0 (the lowest level) to F4 (the highest level). Currently, beneficiaries only receive treatment when the disease has reached a score of F2. Under the new guidelines, treatment will instead begin for Medicaid recipients with a score of F0. This is the second policy change impacting hepatitis C treatments in recent years. In 2017, ODM began covering recipients with an F2 score. Prior to that, only recipients with an F4 score were eligible for these treatments.

Hepatitis C is a liver disease commonly contracted when infected blood enters the bloodstream of an individual who is not infected. According to the Centers for Disease Control and Prevention, the majority of individuals become infected by sharing needles or other equipment used to inject drugs. As a result of the opioid epidemic, the number of hepatitis C cases has been growing. While the treatment of hepatitis C was revolutionized in 2013 with the introduction of direct-acting antiviral medications, the cost of medications caused many health insurers to limit coverage to individuals with advanced stages of the disease. However, over the

[9] Emission testing defeat devices were in the form of computer software designed to make vehicles appear compliant during emissions testing, while during normal operation and use, the vehicles actually emitted up to 40 times the legally allowable amount of nitrogen oxides.

past five years, newer, less expensive treatments have entered the market. The cost of treatment now varies from a low of $26,400 per course of treatment up to $94,500, depending on the drugs used. As a result of lower costs and increasing cases, many health insurers, including many state Medicaid departments, have begun covering treatment at an earlier stage.

ODJFS Receives $8.0 Million Workforce Grant

– Nicholas J. Blaine, Budget Analyst

On November 1, 2018, the Ohio Department of Job and Family Services (ODJFS) was awarded an $8.0 million, two-year Trade and Economic Transition Dislocated Worker Grant (DWG) to address workforce issues in 16 counties affected by the opioid crisis. The grant will be used to aid businesses that hire individuals in recovery, create an addiction services apprenticeship program at community colleges, and help unemployed workers overcome addiction to find jobs. Grants of $1.8 million will be awarded to four regions across the state. The table below shows the regions, as well as the counties, receiving funds.

Regions Receiving DWG Funds	
Region	**Counties**
Western Region	Clark, Clinton, Fayette, Montgomery, Preble
Southwest Region	Butler, Clermont, Hamilton
Southern Region	Adams, Brown, Lawrence, Pike, Ross, Scioto
Mahoning Valley Region	Mahoning, Trumbull

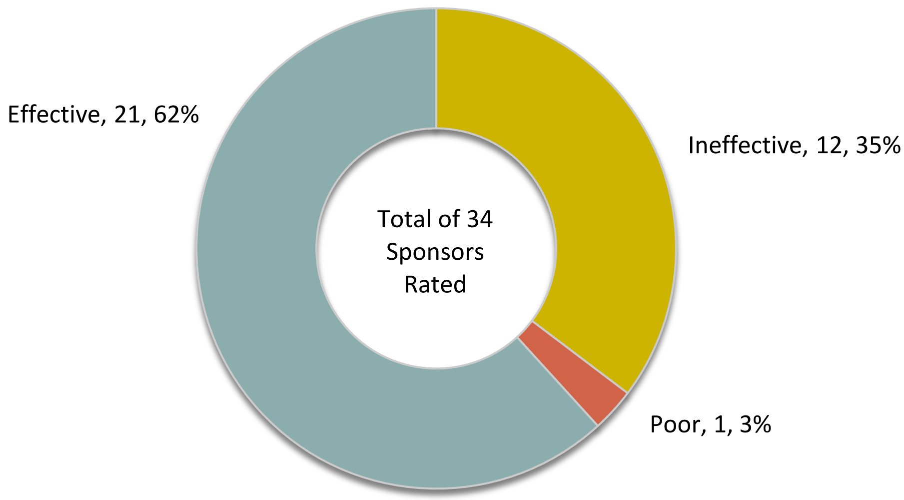
DWG is administered by the U.S. Department of Labor. In total, $110.0 million in grant funds were awarded to 21 state, tribal, and nonprofit entities. Ohio, along with state entities located in Oklahoma, Pennsylvania, and New York, received the maximum grant award of $8.0 million. Grants are provided as part of the Workforce Innovation and Opportunity Act (WIOA) of 2014. They are used to expand the service capacity of dislocated worker training and employment programs at both state and local levels.

ODE Releases Community School Sponsor Evaluations for the 2017-2018 School Year

– Alexandra Vitale, Budget Analyst

On November 15, 2018, the Ohio Department of Education (ODE) released community school sponsor evaluations for the 2017-2018 school year. As can be seen in the following chart, of the 34 community school sponsors evaluated, 21 (62%) received an overall rating of "effective," 12 (35%) were rated "ineffective," and one (3%) was rated "poor." On the whole, community school sponsor ratings improved from the 2016-2017 school year, when about 47% of sponsors were rated either ineffective or poor. However, no sponsors received an overall rating of "exemplary" for the 2017-2018 school year; three sponsors received that rating for the 2016-2017 school year.

Chart 5: Community School Sponsor Ratings, 2017-2018 School Year



The overall rating is comprised of three equally weighted components that receive their own individual ratings: (1) academic performance of students enrolled in schools sponsored by the entity, (2) compliance with rules and laws, and (3) adherence to quality practices, such as performance contracting, evaluation, termination and renewal decision making, and technical assistance to community schools.

Sponsors rated ineffective may not sponsor additional schools while those that receive a poor rating or three consecutive ineffective ratings have their sponsorship authority revoked, subject to an available appeals process. The overall number of sponsors evaluated dropped from 45 in the 2016-2017 school year to 34 in the 2017-2018 school year. Most of the entities that are no longer sponsoring schools had their sponsorship authority revoked due to poor ratings.

OFCC Completed Facility Plans for Five School Districts and Two STEM Schools in FY 2018

– Daniel P. Redmond, Budget Analyst

During FY 2018, the Ohio Facilities Construction Commission (OFCC) completed projects that fully addressed the facilities needs of five school districts. As shown in the following table, the total master facility plan costs of these projects, as assessed by OFCC, was $240.7 million. Of that total, the state share was $108.3 million (45%) and local share was $132.5 million (55%). In addition, OFCC completed school facilities projects for two independent science, technology, engineering, and mathematics (STEM) schools. The total cost of the STEM school projects was

$10.6 million. The state supported 50% of the cost of both projects, for a total of $5.3 million, while the remainder was supported by the schools. Under the STEM school facilities program, a STEM school must provide at least 50% of the total cost of the acquisition of the classroom facilities.

FY 2018 Completed School Facility Plans				
District/School	**County**	**Total Plan Costs**	**State Share**	**State Share %**
Bryan City School District	Williams	$53,945,575	$18,880,951	35%
Defiance City School District	Defiance	$55,784,080	$32,912,607	59%
Lebanon City School District	Warren	$70,023,698	$25,908,768	37%
Northwood Local School District	Wood	$33,021,672	$11,557,585	35%
West Liberty-Salem Local School District	Champaign	$27,940,118	$18,999,280	68%
School District Total		**$240,715,143**	**$108,259,192**	**45%**
Dayton Regional STEM School	Montgomery	$4,271,335	$2,135,668	50%
Global Impact STEM Academy	Clark	$6,303,844	$3,151,922	50%
STEM School Total		**$10,575,179**	**$5,287,590**	**50%**

Overall, OFCC disbursed $427.5 million for school facilities assistance projects in FY 2018, over 91% ($390.4 million) of which was spent on Classroom Facilities Assistance Program (CFAP) projects. The remainder, $37.1 million, primarily supported OFCC's Exceptional Needs Program ($19.8 million), which addresses the facilities needs of a specific building rather than the entire facilities needs of a district, as well as facilities assistance for high-performing community schools ($9.9 million) and independent STEM schools ($5.1 million). The current capital appropriations act, H.B. 529 of the 132nd General Assembly, appropriates a total of $600 million for classroom facilities assistance projects for the FY 2019-FY 2020 capital biennium, primarily supported through the sale of bonds.

Through the end of FY 2018, 43% of districts statewide, including 266 school districts and 15 Joint Vocational School Districts (JVSDs) have completed projects that fully addressed their facilities' needs through the CFAP and another 17% of districts, including 114 school districts and one JVSD, have buildings in the design or construction phase or had some work performed through another OFCC program. An additional 18% of districts, including 108 school districts and 11 JVSDs, have been offered funding but have deferred the offer, allowed it to lapse because they were unable to raise the required local share, or are in the process of seeking the required local share. The remaining 22% of districts, including 122 school districts and 22 JVSDs, have not yet been offered CFAP funding.

Deadline to Claim School Safety Training Grants Extended

– Joseph Rogers, Senior Budget Analyst

The Ohio Attorney General recently extended the deadline from November 1 to November 30, 2018, for schools to claim their allocations of school safety training grants. H.B. 318 of the 132nd General Assembly appropriated $12.0 million in GRF funding to the Attorney General's FY 2019 budget for school safety training grants. As of November 1, $9.1 million of the $12.0 million had been claimed by 1,108 (63%) of 1,755 eligible schools.[10] The extended deadline provides another opportunity for the other 647 eligible schools to claim the remaining $2.9 million in grant funding.

H.B. 318 requires the Attorney General to consult with the Superintendent of Public Instruction and the Director of Mental Health and Addiction Services to allocate safety training grants to public and chartered nonpublic schools and schools operated by county boards of developmental disabilities. Eligible schools were allocated $5.65 per student with a minimum allocation of $2,500 per school. The minimum allocation was awarded to 937 schools. Participating schools and county boards were required to work with or contract with the county sheriff's office or the appropriate local police department to develop the school safety training programs. The table below lists the ten largest grant allocations. As seen from the table, eight of them had claimed their allocations prior to the November 1 deadline.

Status of Ten Largest School Safety Training Grant Allocations			
School District	**Grant Allocation**	**School District**	**Grant Allocation**
Columbus City	$283,082	Akron City	$120,289
Cleveland Metropolitan	$218,949	Olentangy Local	$115,209
Cincinnati City*	$196,784	Hilliard City	$89,400
Toledo City	$130,685	Dublin City	$87,439
South-Western City	$128,780	Lakota Local*	$84,575

*School had not claimed grant allocation as of November 1, 2018, deadline.

Controlling Board Approves $2.8 Million Entertainment Budget for the 2019 Ohio State Fair

– Shannon Pleiman, Budget Analyst

On October 29, 2018, the Controlling Board approved the Ohio Expositions Commission's proposed budget of approximately $2.8 million to enter into entertainment and related contracts for the 2019 Ohio State Fair. This is equal to the amount that was approved by

[10] The full list of recipients can be found at: www.ohioattorneygeneral.gov/Files/Briefing-Room/News-Releases/SchoolGrants_Final.aspx. Several districts are in litigation with the Attorney General and their awards have been held up until issues are resolved.

the Controlling Board for the 2018 State Fair, although actual spending on entertainment for 2018 was about $500,000 lower than the approved budget. Of the 2019 entertainment budget, about $2.3 million (82.1%) will be for signing name acts, back-up bands, free on-grounds entertainment, and related expenses. The remaining amount of just over $0.5 million (17.9%) will go toward contracts for entertainment support (stage hands, sound, lighting, etc.) and other special entertainment events.

Controlling Board approval of the entertainment budget for the 2019 Ohio State Fair allows for the Expositions Commission to negotiate and sign contracts with popular entertainers and acts before they are booked at other venues. The contracts will be paid using FY 2020 appropriations which will be established in the main operating budget of the 133rd General Assembly. For FY 2019, the Ohio Expositions Commission has an FY 2019 budget of approximately $16.0 million. Of that total, approximately $15.6 million is funded by non-GRF revenues, primarily from the State Fair and other events held on the state fairgrounds throughout the year, and the remaining $0.4 million is funded by the GRF.

Tracking the Economy

– Eric Makela, Economist

Overview

America's robust economy continues to expand. National employment growth was moderate in November, and the unemployment rate remained steady at 3.7% according to the U.S. Bureau of Labor Statistics (BLS). Real gross domestic product (GDP), an inflation-adjusted measure of production, grew at a 3.5% seasonally adjusted rate in the third quarter of 2018. Consumer expenditures, nonresidential fixed investment, and government spending all increased, although weaker exports and residential fixed investment weighed on growth. The Federal Reserve Bank's Open Market Committee noted the strong growth in real GDP during 2018's third quarter. They indicate the labor market continues to strengthen; despite declines in financial market performance, consumer spending and prices indicated little change from the previous outlook. Sales of existing homes in the national housing market increased in October for the first time since March. Home inventories were higher at the end of October than at the same point in 2017.

Ohio's economic activity was strong, particularly in the areas of durable goods manufacturing, information, and natural resource extraction. Real GDP grew at a seasonally adjusted 3.7% in 2018's second quarter, about on average with other states in the region. Nonfarm payroll employment this October was 5.65 million, 2.1% higher than in October 2017. The number of existing home sales declined 0.7% year to date from 2017, although the average sale price of a home has risen by approximately 5.7% this year.

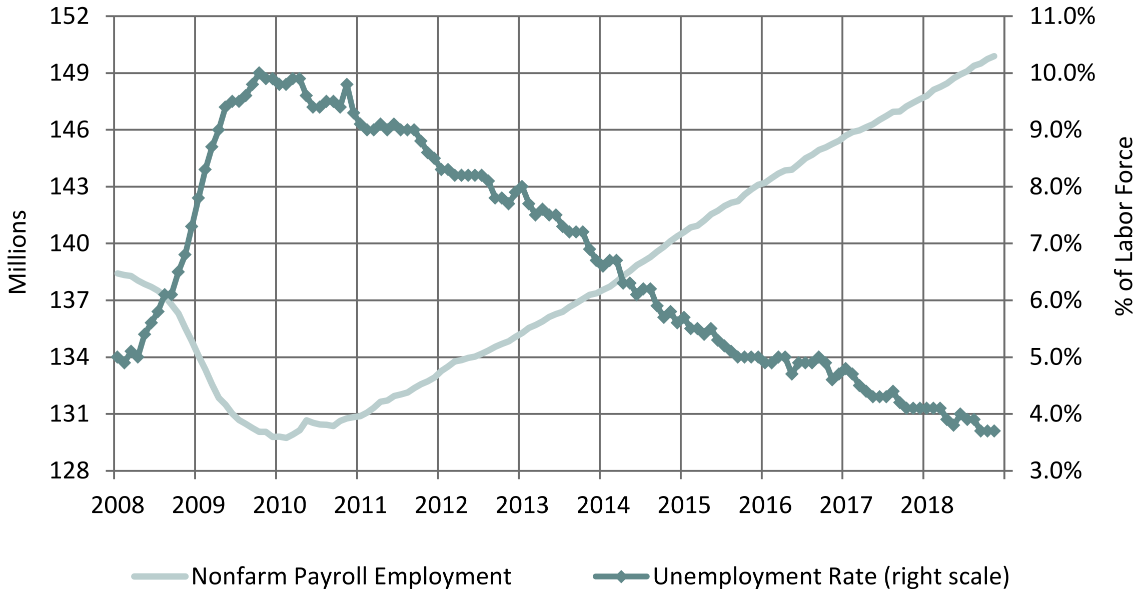
The National Economy

Real GDP increased at a seasonally adjusted annual rate of 3.5% in the third quarter of 2018. This estimate is unrevised from the advance estimate released last month. This rise in real GDP reflects increases in consumer expenditure, private inventory investment, nonresidential fixed investment, and government spending, which offset negative contributions from net exports (exports – imports) and residential fixed investment. Current dollar GDP increased 5.0%, or $248.4 billion, at an annual rate in the third quarter. GDP in the U.S. in the third quarter of 2018 reached an annual rate of $20.66 trillion.

During its November 7-8 meeting, the Federal Open Market Committee (FOMC) generally concluded that third quarter GDP growth was strong, and that labor market conditions continued to improve in recent months. The monetary policy-setting committee found consumer price inflation, at 2.0% as measured by the change in the price index for personal consumption expenditures (PCE), was near its 2% objective. FOMC staff project real GDP to increase slightly less rapidly in the second half of 2018 as compared to the first, and expect labor market conditions to apply downward pressure on the unemployment rate and "larger-than-usual" upward pressure on the labor force participation rate.[11]

[11] https://www.federalreserve.gov/monetarypolicy/fomcminutes20181108.htm.

Chart 6: U.S. Employment and Unemployment



Nonfarm payroll employment rose by 155,000 in November, while the national unemployment rate remained at 3.7%. The data, released by the BLS, reported that large shares of job gains were in the health care (+32,000), manufacturing (+27,000), and transportation and warehousing (+25,000) industries. General merchandise stores (+39,000) and miscellaneous store retailers (+10,000) added jobs in November, likely gearing up for the holiday season. BLS also noted that employment in some major industries, including construction, wholesale trade, finance, government, and leisure and hospitality, showed little change during November.

The labor force participation rate in November 2018 was 0.2 percentage point higher than a year prior. Both total labor force numbers and employment as a share of the working-age population increased for both men and women 20 years of age and over.

The unemployment rate, at 3.7%, was unchanged over the past three months. Unemployment rates were down from a year earlier for all racial groups and for both teenagers and adults. The rate fell for high school graduates and those with "some college or associate degree," but rose for people with less than a high school diploma as well as those with a "Bachelor's degree and higher." The seasonally-adjusted measure of people employed but working part time fell over the past month.

The Industrial Production Index (IPI) rose 0.1% in October, again achieving an all-time high. Modest declines in mining and utilities production were more than offset by an increase in manufacturing production. Total production capacity utilization, a measure of the percentage of resources being used from the total available resources, rose for finished goods and fell slightly for crude and semifinished products.

The consumer price index (CPI) rose 0.3% in October, and is 2.5% above its year-earlier level. The cost of shelter rose 3.2% between October 2017 and October 2018, while the price index for all gasoline products was up 16.1% during that time. The CPI excluding food and energy was 2.1% higher than a year earlier. Another measure of price inflation at the consumer level, the price index for PCE excluding food and energy, increased 0.1% in October and was 1.8% higher than a year earlier.

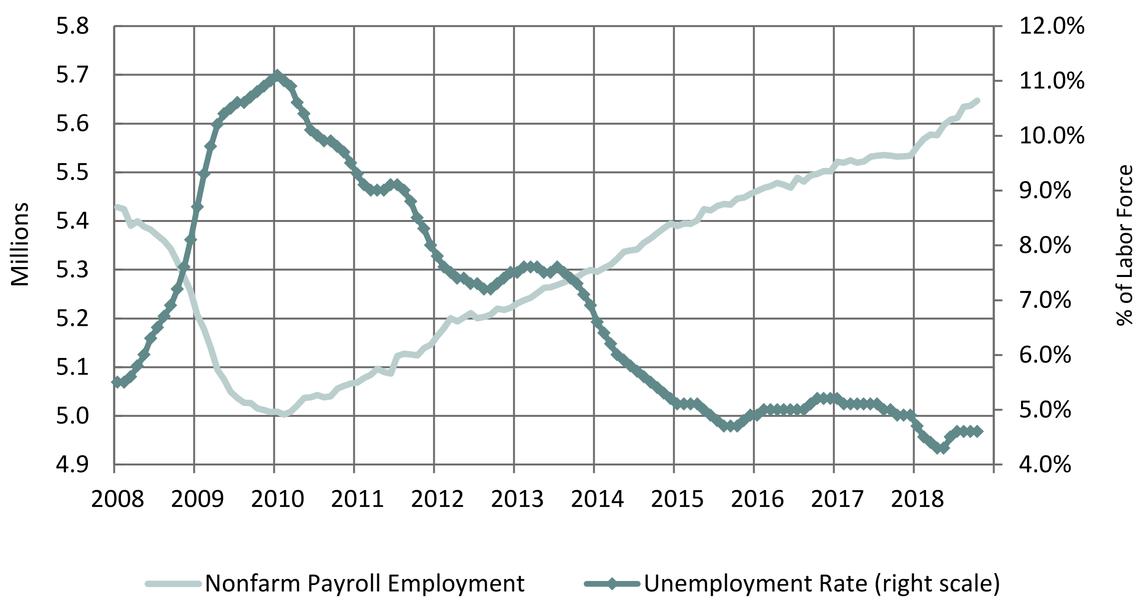
The Ohio Economy

Ohio's economy continued to add jobs in October, although the unemployment rate remained at 4.6%, unchanged since July. The state's unemployment rate in October was higher than the U.S. unemployment rate. The unemployment rate in October was down moderately compared to 4.9% in October of last year. The number of unemployed people in Ohio was 266,000 in October, almost unchanged from a month prior.

Nonfarm payroll employment was 5.65 million in October, an increase of 0.2% from September and 2.1% from October 2017. Manufacturing employment rose by 1,400, or 0.2%, in October from the revised total in September, with those gains equally split between durable and nondurable goods manufacturers. Government employment, at 791,300, was unchanged with gains in local government (+200) offsetting losses in state government (-200). Private service-providing industries added 9,700 jobs, with most gains occurring in professional and business services (+3,600) and educational and health services (+3,800).

Ohio has added 115,400 jobs since October 2017. Over this time, employment in goods-producing industries added 23,200 jobs, including increases in manufacturing (+13,200) and construction (+9,100). Among private service-producing industries, gains in trade, transportation, and utilities (+23,300), educational and health services (+20,600), leisure and hospitality (+18,800), other services (+8,800), and professional and business services (+8,000) were the most robust. The only major industrial groups with fewer Ohio employees in October 2018 than a year prior were information (-300) and management of companies and enterprises (-100).

Chart 7: Ohio Employment and Unemployment



In November, the Bureau of Economic Analysis released 2017 per capita personal income statistics for Ohio counties. The county with the largest year-over-year increase in personal income was Harrison County, where per capita personal income rose 8.5% from 2016 to 2017. The only county that showed a decrease was Hancock County, where per capita personal income fell 7.3%. In 2017, per capita personal income in Ohio's three most populous counties, Cuyahoga, Franklin, and Hamilton, grew at 4.3%, 2.6%, and 3.6%, respectively.

Ohio's GDP grew at an annualized rate of 3.7% in the second quarter of 2018, up from 0.2% growth in the first quarter. Durable goods manufacturing contributed 0.83 percentage point to the second quarter growth, while a decline in nondurable goods manufacturing subtracted 0.37 percentage point.

A total of 13,205 existing homes were sold in October in the state of Ohio, nearly unchanged from a year prior. Through October 2018, the number of existing home sales has decreased 0.6% from last year. The market value of existing home sales in Ohio in 2018 is $23.6 billion to date, up 5.1% from the $22.5 billion at this time in 2017. The average sales price for existing homes was $181,970 in October, and year-to-date average sale price has increased by $9,949 from 2017 to 2018.

Economic activity in the region grew modestly, according to a Federal Reserve Bank of Cleveland report.[12] Manufacturers reported in their business survey that conditions remained strong, but some indicated pessimism over future demand, as rising input prices will negatively affect the quantity of goods demanded upon the imminent expiration of fixed-price contracts. Banking conditions remained strong amid robust demand for credit in both commercial and consumer segments. Nonfinancial services firms also reported strong growth, citing business confidence and strong willingness to spend on business-to-business advisory services. Hiring was "very strong" in professional and business services. Contacts cited increased compensation by competitors as what required them to boost compensation to retain workers. Nonlabor input costs rose strongly, led by metals, fuel, and transportation costs. Nonresidential construction demand improved moderately, while demand for new residential construction softened; homebuilders cited decreasing home affordability as the driver of this decrease in demand.

[12] The report is from the latest Federal Reserve System Beige Book that summarizes information gathered on or before November 26, 2018, from outside contacts. The Federal Reserve Bank of Cleveland's district includes all of Ohio and parts of Kentucky, Pennsylvania, and West Virginia.