LBO Budget Footnotes

A monthly newsletter of the Legislative Budget Office of LSC

Volume: Fiscal Year 2019 | Issue: February 2019

Highlights

– *Ross Miller, Chief Economist*

January GRF tax revenue was $72.0 million below the estimate published by the Office of Budget and Management (OBM) in August 2018. Personal income tax (PIT) receipts alone were below estimate by $98.9 million, primarily due to estimated payments coming in well below estimate. The August estimate did not reflect a 3.3% decrease in income tax withholding rates that took effect January 1. The Revenues section of this report provides more detail on the rate reduction. Through January, GRF tax revenue was $56.7 million above the August estimate.

Ohio's December unemployment rate (4.6%) was unchanged from November's rate. Private sector payroll employment declined in December, with employment in goods producing industries increasing by slightly less (+5,000) than the size of the decline in the private service sector (-5,500). Government employment increased by 3,400, due primarily to an increase in local government employment (+3,000). Total payroll employment increased by 2,900 for the month.

Through January 2019, GRF sources totaled $19.63 billion:

- Revenue from the sales and use tax was $142.6 million above estimate;
- PIT receipts were $143.0 million below estimate.

Through January 2019, GRF uses totaled $20.42 billion:

- Program expenditures were $531.6 million below estimate, primarily due to Medicaid, for which GRF spending was $459.2 million below estimate;
- Program expenditures for Health and Human Services were below estimate by $47.2 million.

In this issue...

Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of January 2019
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on February 1, 2019)

State Sources	Actual	Estimate*	Variance	Percent
Tax Revenue				
Auto Sales	$124,289	$113,600	$10,689	9.4%
Nonauto Sales and Use	$831,867	$836,400	-$4,533	-0.5%
Total Sales and Use	*$956,157*	*$950,000*	*$6,157*	*0.6%*
Personal Income	$1,011,644	$1,110,500	-$98,856	-8.9%
Commercial Activity Tax	$66,334	$69,500	-$3,166	-4.6%
Cigarette	$73,446	$72,400	$1,046	1.4%
Kilowatt-Hour Excise	$29,905	$28,700	$1,205	4.2%
Foreign Insurance	-$5,662	$500	-$6,162	-1232.3%
Domestic Insurance	$0	$0	$0	---
Financial Institution	$75,699	$50,200	$25,499	50.8%
Public Utility	$15	$0	$15	---
Natural Gas Consumption	$2,242	$1,700	$542	31.9%
Alcoholic Beverage	$5,474	$3,900	$1,574	40.4%
Liquor Gallonage	$5,165	$5,100	$65	1.3%
Petroleum Activity Tax	$0	$0	$0	---
Corporate Franchise	$48	$0	$48	---
Business and Property	$0	$0	$0	---
Estate	$0	$0	$0	---
Total Tax Revenue	**$2,220,467**	**$2,292,500**	**-$72,033**	**-3.1%**
Nontax Revenue				
Earnings on Investments	$29,645	$18,577	$11,068	59.6%
Licenses and Fees	$3,317	$3,220	$97	3.0%
Other Revenue	$472	$3,278	-$2,806	-85.6%
Total Nontax Revenue	**$33,433**	**$25,075**	**$8,359**	**33.3%**
Transfers In	**$5,916**	**$7,500**	**-$1,584**	**-21.1%**
Total State Sources	**$2,259,816**	**$2,325,075**	**-$65,258**	**-2.8%**
Federal Grants	**$816,514**	**$926,197**	**-$109,683**	**-11.8%**
Total GRF Sources	**$3,076,331**	**$3,251,272**	**-$174,941**	**-5.4%**

*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 January 31, 2019
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on February 1, 2019)

State Sources	Actual	Estimate*	Variance	Percent	FY 2018**	Percent
Tax Revenue						
Auto Sales	$867,854	$832,500	$35,354	4.2%	$818,381	6.0%
Nonauto Sales and Use	$5,426,451	$5,319,200	$107,251	2.0%	$5,198,500	4.4%
Total Sales and Use	*$6,294,305*	*$6,151,700*	*$142,605*	*2.3%*	*$6,016,881*	*4.6%*
Personal Income	$5,384,887	$5,527,900	-$143,013	-2.6%	$5,264,194	2.3%
Commercial Activity Tax	$835,088	$826,600	$8,488	1.0%	$801,493	4.2%
Cigarette	$493,759	$489,600	$4,159	0.8%	$501,891	-1.6%
Kilowatt-Hour Excise	$209,112	$206,700	$2,412	1.2%	$196,995	6.2%
Foreign Insurance	$153,375	$147,200	$6,175	4.2%	$145,357	5.5%
Domestic Insurance	$2	$0	$2	---	$63	-96.9%
Financial Institution	$47,319	$34,000	$13,319	39.2%	$28,770	64.5%
Public Utility	$73,087	$56,900	$16,187	28.4%	$55,791	31.0%
Natural Gas Consumption	$22,495	$19,400	$3,095	16.0%	$18,755	19.9%
Alcoholic Beverage	$32,529	$33,300	-$771	-2.3%	$34,280	-5.1%
Liquor Gallonage	$30,336	$29,600	$736	2.5%	$29,012	4.6%
Petroleum Activity Tax	$4,750	$2,700	$2,050	75.9%	$3,280	44.8%
Corporate Franchise	$1,227	$0	$1,227	---	$2,397	-48.8%
Business and Property	$0	$0	$0	---	-$374	100.0%
Estate	$32	$0	$32	---	$118	-72.9%
Total Tax Revenue	**$13,582,303**	**$13,525,600**	**$56,703**	**0.4%**	**$13,098,903**	**3.7%**
Nontax Revenue						
Earnings on Investments	$55,070	$38,211	$16,859	44.1%	$30,304	81.7%
Licenses and Fees	$13,660	$13,137	$522	4.0%	$13,596	0.5%
Other Revenue	$55,444	$64,978	-$9,534	-14.7%	$235,409	-76.4%
Total Nontax Revenue	**$124,174**	**$116,326**	**$7,848**	**6.7%**	**$279,309**	**-55.5%**
Transfers In	**$82,025**	**$87,690**	**-$5,665**	**-6.5%**	**$133,171**	**-38.4%**
Total State Sources	**$13,788,501**	**$13,729,616**	**$58,886**	**0.4%**	**$13,511,383**	**2.1%**
Federal Grants	**$5,837,824**	**$6,184,127**	**-$346,303**	**-5.6%**	**$5,721,340**	**2.0%**
Total GRF SOURCES	**$19,626,326**	**$19,913,743**	**-$287,417**	**-1.4%**	**$19,232,723**	**2.0%**

*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 Botomogno, Principal Economist

Overview

Through January in FY 2019, GRF sources totaling $19.63 billion were $287.4 million (1.4%) below OBM's estimates released in August 2018, up from a cumulative negative variance of $112.5 million in the first half of FY 2019. The year-to-date (YTD) GRF negative variance was due to shortfalls of $346.3 million (5.6%) for federal grants[2] and $5.7 million (6.5%) for transfers in. Those shortfalls were partially offset by positive variances of $56.7 million (0.4%) for GRF tax revenues and $7.8 million for nontax revenue (6.7%). The YTD negative variance for federal grants results from GRF Medicaid spending being substantially below expectations throughout the fiscal year. In contrast, monthly GRF tax sources had surpassed anticipations earlier in FY 2019, but stumbled in the last two months. Tables 1 and 2 show GRF sources for the month of January and for FY 2019 through January, respectively. GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants.

Regarding YTD GRF tax sources, the personal income tax (PIT) posted a cumulative negative variance of $143.0 million, attributable largely to shortfalls from quarterly estimated payments ($70.9 million in January and $68.6 million in December) in the last two months. With the exception of a $0.8 million negative variance for the alcoholic beverage tax, the remaining tax sources were above estimates, including the sales and use tax ($142.6 million), the public utility tax ($16.2 million), the commercial activity tax (CAT, $8.5 million), the foreign insurance tax ($6.2 million), and the cigarette and other tobacco products tax ($4.2 million). The financial institutions tax (FIT), which had a shortfall of $12.2 million in the first six months of FY 2019, posted a cumulative variance of $13.3 million through January, as a result of a positive variance of $25.5 million from the first payment of the fiscal year.[3]

Effective January 1, 2019, the Tax Commissioner reduced Ohio employer withholding tax rates by 3.3% to be fully consistent with the income tax rate reductions enacted in 2015 (H.B. 64 of the 131st General Assembly). The withholding rate change does not affect tax liabilities, but is estimated to create a one-time $150.6 million reduction in GRF revenue during the January-June 2019 period. The revision included declines of $152.6 million for withholding and $2.0 million for distributions to the Local Government Fund.[4] LBO has received monthly estimates of PIT revenue updated to reflect the withholding rate reduction, but other taxes are affected by the change due

[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.

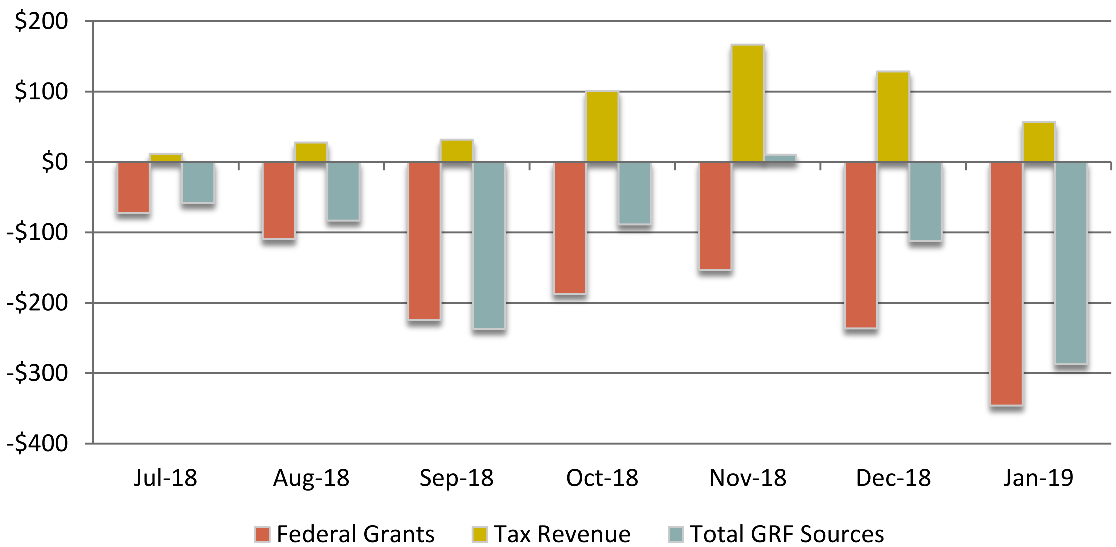
[3] The GRF typically pays out refunds under the FIT during the first half of a fiscal year as taxpayers make adjustments to previous tax filings. Receipts of the FIT are typically expected at the end of January, March, and May.

[4] For accounting purposes, GRF tax revenue distributions to the fund are debited against income tax receipts.

to reduced distributions to the Public Library Fund. Because LBO has not received updated monthly estimates for other taxes, Tables 1 and 2, above, continue to compare actual PIT (and other tax) revenue to OBM estimates released in August 2018.

January GRF sources of $3.08 billion were $174.9 million (5.4%) below projections. Most categories underperformed, with the exception of nontax revenue which was $8.4 million above estimate. The shortfall was due to negative variances of $109.7 million for federal grants, $72.0 million for tax sources, and $1.6 million for transfers in. Tax sources were brought down largely by a deficit of $98.9 million from PIT, but also negative variances of $6.2 million for the foreign insurance tax and $3.2 million for the CAT. On the other hand, in addition to the FIT's positive variance, the sales and use tax, the alcoholic beverage tax (which partly reversed a timing-related shortfall experienced in December), the kilowatt hour-tax, and the cigarette tax were above estimate by $6.2 million, $1.6 million, $1.2 million, and $1.0 million, respectively. Chart 1, below, shows cumulative variances of GRF sources through January.

Chart 1: Cumulative Variances of GRF Sources in FY 2019
(Variances from August Estimates, $ in millions)



FY 2019 GRF sources increased $393.6 million relative to sources through January in FY 2018. GRF tax sources and federal grants were higher by $483.4 million and $116.5 million, respectively. The increases were partially offset by decreases of $155.1 million for nontax revenue[5] and $51.1 million for transfers in. For the largest tax sources, receipts increased for the sales and use tax ($277.4 million), the PIT ($120.7 million), and the CAT ($33.6 million). Also, revenue from the FIT, the public utility tax, the kilowatt-hour tax, and the foreign insurance tax increased by $18.5 million, $17.3 million, $12.1 million, and $8.0 million, respectively.

[5] An outsize payment of unclaimed funds of over $200 million was made to the GRF in January 2018, which explains this large decline in receipts from this category in FY 2019.

Sales and Use Tax

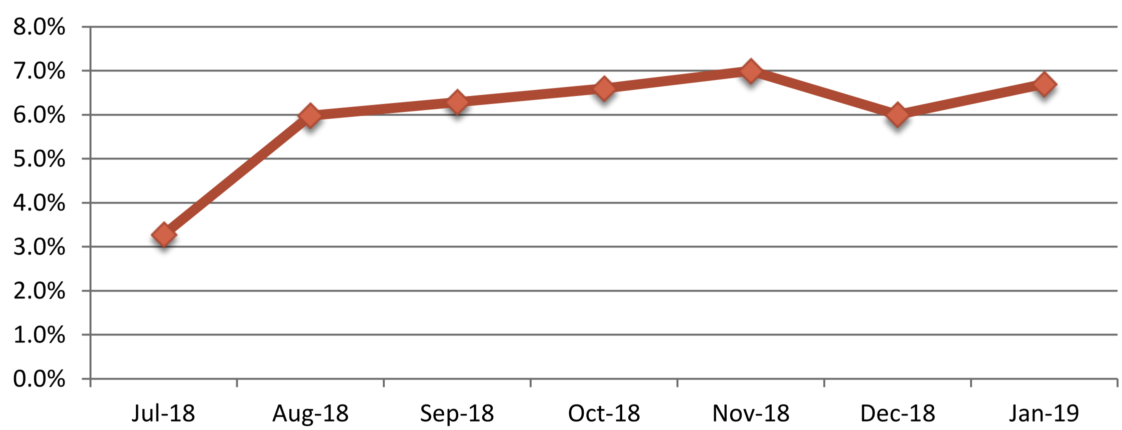
Through January, FY 2019 receipts to the GRF from the sales and use tax totaled \$6.29 billion, an amount \$142.6 million (2.3%) above estimate, with both the nonauto and the auto portions of the tax ahead of projections. YTD GRF receipts from the sales and use tax were also 4.6% above revenue through January in FY 2018. For the month, GRF receipts of \$956.2 million were \$6.2 million (0.6%) above anticipated revenue, propelled by another solid performance from the auto sales and use tax, while the nonauto sales and use tax failed to meet expectations. Monthly sales and use tax receipts were also \$43.9 million (4.8%) above revenue in January 2018.

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.

Nonauto Sales and Use Tax

GRF revenue from the nonauto sales and use tax of \$831.9 million in January was short of estimate by \$4.5 million (0.5%). This poor result follows positive variances of \$58.4 million in November and \$7.7 million in December. The latest performance decreased the cumulative positive variance of this tax to \$107.3 million (2.0%), down from \$111.8 million in the first six months of FY 2019. Compared to the same month last year, revenue increased \$38.6 million (4.9%). For the YTD, GRF receipts of \$5.43 billion were \$228.0 million (4.4%) above revenue in the corresponding period in FY 2018. Chart 2, below, shows year-over-year growth in nonauto sales tax collections.[6] Revenue growth for this tax has been excellent and supported by employment and wage gains throughout FY 2019.

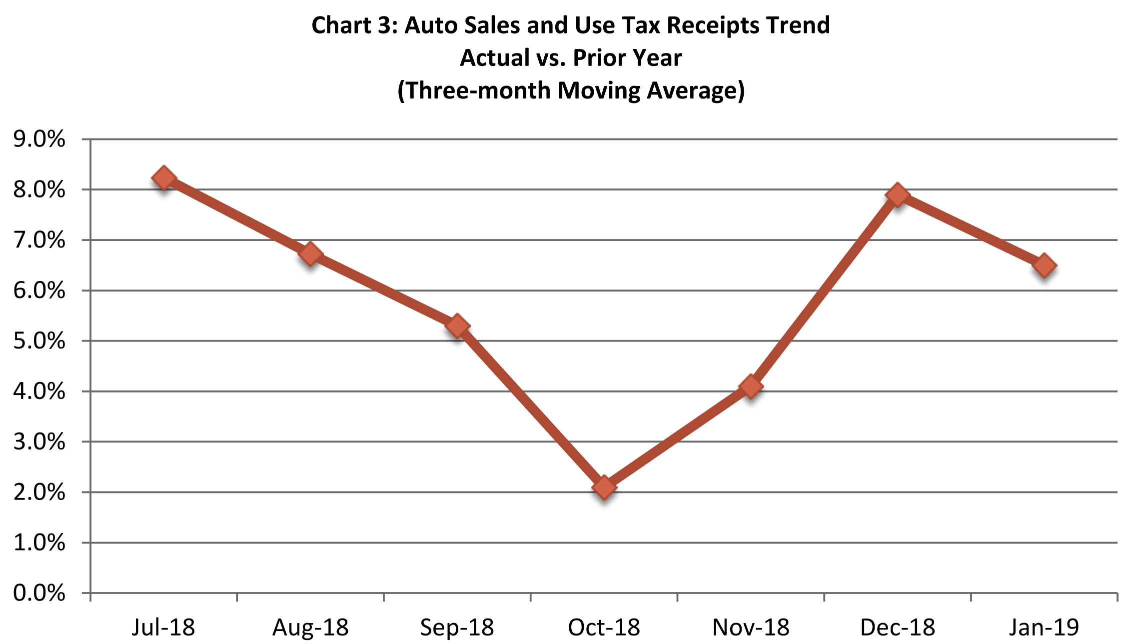
**Chart 2: Nonauto Sales and Use Tax Receipts Trend
Actual vs. Prior Year (With Tax Base Adjustment, Three-month Moving Average)**



[6] 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 in July 2017 so that changes in nonauto sales and use tax revenue are on a comparable basis.

Auto Sales and Use Tax

The auto sales and use tax was again above estimates and prior-year receipts in January, a performance comparable to that of the previous three months. GRF receipts of $124.3 million were above expected revenue by $10.7 million (9.4%). The result increased this source's YTD positive variance to $35.4 million (4.2%) up from $24.7 million at the end of December. Through January, FY 2019 auto sales tax receipts of $867.9 million were $49.5 million (6.0%) above receipts in the corresponding period in FY 2018. Chart 3, below, shows year-over-year growth in auto sales tax collections.



Nationwide new light vehicle (auto and light truck) sales came in at 16.7 million units in January (at a seasonally adjusted annual average rate), following four months averaging 17.5 million units. Light truck sales declined to about 67% of all light vehicle sales, down from 70% in December 2018. However, given low gasoline prices, consumer preferences, and the shift in vehicle manufacturers away from cars, this drop in light truck sales may not persist. Unit sales exceeded 17 million units in each of the last four calendar years. With a strong labor market, rising income, still-low interest rates, and credit availability, calendar year (CY) 2019 could yet be another good year for the industry, though unit sales may not reach the record levels of recent years.

Personal Income Tax

As explained above, the reduction in withholding tax rates implemented in January will decrease revenue in FY 2019. This action will also yield reduced CY 2019 income tax refunds, but an offsetting revenue gain will not occur until tax returns are filed in FY 2020. Starting with this month, in this section of the publication, PIT revenue will be compared to the revised estimates, though in the **Overview** section revenue comparisons were made relative to the original estimates for the PIT released in August 2018.

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,[7] 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.

January receipts of $1.01 billion were $77.4 million (7.1%) below the revised estimate. (If receipts were compared to the original projection, this negative variance would be 8.9%.) Like the PIT shortfall of $44.2 million in December, this recent performance was also due to a large negative variance of $70.9 million (23.1%) for quarterly estimated payments, after a deficit of $68.6 million for this component in December 2018. For the two-month period, quarterly estimated payments were short of projections by about 34%. The impact of recent changes in federal law affecting tax year (TY) 2018 (the Tax Cuts and Jobs Act of 2017), and stock market declines later in the year may have reduced incentives for certain taxpayers to make their fourth and final federal and quarterly estimated payments.[8] In addition to quarterly estimated payments, January miscellaneous payments were also short of estimates ($2.2 million), but employer withholding was higher than projected ($20.9 million), and refunds were higher than anticipated ($25.2 million).

The January performance pushed up the YTD GRF negative variance of this tax to $121.5 million (2.2%), compared to updated estimates, from a shortfall of $44.2 million in the first half of FY 2019. (This YTD negative variance would be 2.6% relative to the August estimates.) YTD PIT revenue growth was 2.3%, when compared to revenue through January in FY 2018. For the first half of FY 2019, year-over-year growth was 5.4%, but the withholding rate reduction will tend to pull the growth rate down during the remainder of the fiscal year.

Revenues from each component of the PIT relative to revised estimates and to revenue received in FY 2018 are detailed in the table below. YTD gross collections were below estimate by $86.9 million. Shortfalls for quarterly estimated payments and miscellaneous revenue were partially offset by positive variances from withholding and annual return payments. The negative variance for gross collections was increased by higher than projected refunds and distributions to the LGF. FY 2019 refunds and LGF distributions also increased compared to their amounts in the corresponding period last year.

---

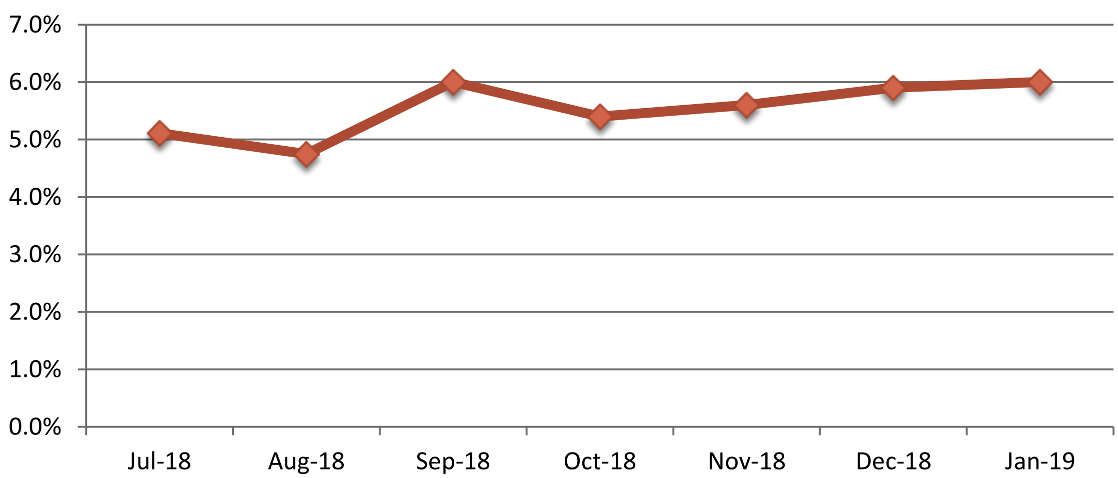
[7] Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than $500. Payments are due in April, June, and September of an individual's tax year and January of the following year. Most estimated payments are made by high-income taxpayers.

[8] The reduction of federal income tax rates in the Act and the annual limitation of $10,000 of state and local taxes paid that could be claimed on the federal income tax returns may have negatively affected quarterly estimated payments from certain taxpayers.

FY 2019 Personal Income Tax Revenue Variance and Annual Change by Component				
Category	YTD Variance from Revised Estimate		Changes from FY 2018	
	Amount ($ in millions)	Percent (%)	Amount ($ in millions)	Percent (%)
Withholding	$60.6	1.1%	$293.5	5.8%
Quarterly Estimated Payments	-$160.0	-23.1%	-$155.0	-22.6%
Trust Payments	$2.1	7.4%	$1.4	4.7%
Annual Return Payments	$21.1	21.6%	$35.8	43.0%
Miscellaneous Payments	-$10.8	-20.6%	-$11.2	-21.2%
Gross Collections	-$86.9	-1.4%	$164.6	2.8%
Less Refunds	$32.3	7.5%	$34.5	8.0%
Less LGF Distribution	$2.3	1.0%	$9.4	4.2%
GRF PIT Revenue	-$121.5	-2.2%	$120.7	2.3%

Compared to FY 2018 through January, FY 2019 gross collections were higher by $164.6 million. Regarding the two most important components of the PIT, employer withholding receipts[9] grew 5.8%, while quarterly estimated payments fell 22.6%. 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.

Chart 4: Monthly Witholding Receipts Trend
Actual vs. Prior Year
(Three-month Moving Average)



[9] Withholding receipts consist of monthly employer withholding (about 99% of the total) and annual employer withholding (about 1% of the total). YTD through January, monthly employer withholding was 5.9% above such receipts in the corresponding period in FY 2018. On the other hand, annual employer withholding fell 19.4%.

Commercial Activity Tax

January GRF receipts from the CAT were $66.3 million, an amount $3.2 million (4.6%) below estimate and $6.1 million (8.4%) below such receipts in the same month last year. This performance brought down the cumulative positive GRF variance of this tax to $8.5 million (1.0%), down from $11.7 million in the first half of FY 2019. YTD GRF receipts totaled $835.1 million, which was $33.6 million (4.2%) above revenue through January in FY 2018. Gross collections from the CAT increased about 4.8% relative to collections through January last fiscal year, but increased credit claims and refunds grew 11.5%.

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%). The distributions 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 January, the cigarette and other tobacco products tax provided $73.4 million to the GRF. The yield was $1.0 million (1.4%) above estimate, but $7.6 million (9.4%) below revenue in January 2018. Through January, FY 2019 revenue from this GRF source totaled $493.8 million, $4.2 million (0.8%) above estimate. However, that total was $8.1 million (1.6%) below receipts in the corresponding period in FY 2018. YTD revenue included $448.9 million from the sale of cigarettes and $44.9 million from the sale of other tobacco products (OTP). Compared to FY 2018, receipts from cigarette sales fell $14.2 million while those from the sale of OTP increased $6.1 million. On a yearly basis, revenue from the cigarette and OTP tax usually trends downward generally at a slow pace due to a decline of cigarette revenue, though receipts from OTP tax generally increase. The OTP tax is an ad valorem tax of 17% of the wholesale price paid by wholesalers for the product; thus, revenue from that portion of the tax base (about 7% of the total tax base) grows with OTP price increases.

Financial Institutions Tax

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. Other reconciliations and final tax returns for a tax year are due in the month of October. Most financial institutions do not pay their entire tax liability at once, and due dates of estimated payments for the FIT are at the end of January, March, and May. The first actual tax filing in January 2019 provided $75.7 million, an amount that was $25.5 million (50.8%) above estimate. However, this tax source had accumulated a deficit of $12.2 million through December 2018, so the YTD positive variance was at $13.3 million (39.2%) at the end of January.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of January 2019
($ in thousands)
(Actual based on OAKS reports run February 5, 2019)

Program Category	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	$643,010	$679,570	-$36,560	-5.4%
Higher Education	$183,893	$184,557	-$663	-0.4%
Other Education	$4,383	$9,583	-$5,200	-54.3%
Total Education	**$831,286**	**$873,710**	**-$42,424**	**-4.9%**
Medicaid	$1,233,173	$1,378,114	-$144,941	-10.5%
Health and Human Services	$149,276	$147,228	$2,048	1.4%
Total Health and Human Services	**$1,382,449**	**$1,525,342**	**-$142,893**	**-9.4%**
Justice and Public Protection	$205,415	$216,393	-$10,979	-5.1%
General Government	$32,508	$40,273	-$7,765	-19.3%
Total Government Operations	**$237,923**	**$256,666**	**-$18,743**	**-7.3%**
Property Tax Reimbursements	$0	$493	-$493	-100.0%
Debt Service	$128,405	$136,558	-$8,153	-6.0%
Total Other Expenditures	**$128,405**	**$137,051**	**-$8,646**	**-6.3%**
Total Program Expenditures	**$2,580,063**	**$2,792,769**	**-$212,706**	**-7.6%**
Transfers Out	**$87**	**$0**	**$87**	**---**
Total GRF Uses	**$2,580,150**	**$2,792,769**	**-$212,619**	**-7.6%**

*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 January 31, 2019
($ in thousands)
(Actual based on OAKS reports run February 5, 2019)

Program Category	Actual	Estimate*	Variance	Percent	FY 2018**	Percent
Primary and Secondary Education	$4,840,045	$4,831,336	$8,709	0.2%	$4,849,888	-0.2%
Higher Education	$1,330,912	$1,338,210	-$7,298	-0.5%	$1,333,837	-0.2%
Other Education	$49,556	$51,597	-$2,041	-4.0%	$49,003	1.1%
Total Education	**$6,220,514**	**$6,221,144**	**-$630**	**0.0%**	**$6,232,728**	**-0.2%**
Medicaid	$9,022,795	$9,481,945	-$459,150	-4.8%	$8,642,401	4.4%
Health and Human Services	$824,349	$871,531	-$47,182	-5.4%	$816,361	1.0%
Total Health and Human Services	**$9,847,143**	**$10,353,476**	**-$506,333**	**-4.9%**	**$9,458,761**	**4.1%**
Justice and Public Protection	$1,402,672	$1,395,288	$7,384	0.5%	$1,340,393	4.6%
General Government	$226,460	$241,105	-$14,645	-6.1%	$225,838	0.3%
Total Government Operations	**$1,629,132**	**$1,636,393**	**-$7,261**	**-0.4%**	**$1,566,231**	**4.0%**
Property Tax Reimbursements	$905,520	$913,939	-$8,420	-0.9%	$906,414	-0.1%
Debt Service	$1,062,765	$1,071,697	-$8,932	-0.8%	$1,021,866	4.0%
Total Other Expenditures	**$1,968,285**	**$1,985,636**	**-$17,351**	**-0.9%**	**$1,928,280**	**2.1%**
Total Program Expenditures	**$19,665,074**	**$20,196,649**	**-$531,575**	**-2.6%**	**$19,186,001**	**2.5%**
Transfers Out	**$752,927**	**$751,933**	**$994**	**0.1%**	**$69,445**	**984.2%**
Total GRF Uses	**$20,418,001**	**$20,948,582**	**-$530,581**	**-2.5%**	**$19,255,446**	**6.0%**

*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 February 4, 2019)

	Month of January 2019				Year to Date through January 2019			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid								
GRF	$1,179,401	$1,322,659	-$143,258	-10.8%	$8,612,117	$9,066,507	-$454,390	-5.0%
Non-GRF	$1,066,176	$802,343	$263,833	32.9%	$5,485,524	$5,821,906	-$336,382	-5.8%
All Funds	$2,245,577	$2,125,002	$120,575	5.7%	$14,097,641	$14,888,413	-$790,772	-5.3%
Developmental Disabilities								
GRF	$48,505	$48,700	-$195	-0.4%	$355,531	$357,792	-$2,261	-0.6%
Non-GRF	$151,707	$164,623	-$12,916	-7.8%	$1,273,887	$1,315,819	-$41,932	-3.2%
All Funds	$200,212	$213,324	-$13,111	-6.1%	$1,629,418	$1,673,611	-$44,193	-2.6%
Job and Family Services								
GRF	$4,604	$6,169	-$1,565	-25.4%	$49,575	$51,841	-$2,266	-4.4%
Non-GRF	$14,148	$14,432	-$285	-2.0%	$106,461	$90,942	$15,519	17.1%
All Funds	$18,752	$20,601	-$1,849	-9.0%	$156,036	$142,783	$13,253	9.3%
Health, Mental Health and Addiction, Aging, Pharmacy Board, and Education								
GRF	$663	$585	$77	13.2%	$5,571	$5,804	-$233	-4.0%
Non-GRF	$2,680	$2,676	$4	0.2%	$19,450	$22,535	-$3,086	-13.7%
All Funds	$3,343	$3,262	$81	2.5%	$25,021	$28,340	-$3,319	-11.7%
All Departments:								
GRF	**$1,233,173**	**$1,378,114**	**-$144,941**	**-10.5%**	**$9,022,795**	**$9,481,945**	**-$459,150**	**-4.8%**
Non-GRF	**$1,234,711**	**$984,075**	**$250,637**	**25.5%**	**$6,885,321**	**$7,251,202**	**-$365,881**	**-5.0%**
All Funds	**$2,467,884**	**$2,362,188**	**$105,696**	**4.5%**	**$15,908,116**	**$16,733,147**	**-$825,031**	**-4.9%**

*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 February 4, 2019)

	Month of January 2019				Year to Date through January 2019			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	**$1,321,803**	**$1,450,006**	**-$128,203**	**-8.8%**	**$9,681,537**	**$10,104,515**	**-$422,979**	**-4.2%**
CFC†	$483,023	$511,588	-$28,565	-5.6%	$3,410,958	$3,499,818	-$88,860	-2.5%
Group VIII	$331,875	$394,433	-$62,558	-15.9%	$2,435,250	$2,664,431	-$229,181	-8.6%
ABD†	$227,597	$250,112	-$22,515	-9.0%	$1,627,081	$1,664,029	-$36,949	-2.2%
ABD Kids	$73,660	$84,454	-$10,794	-12.8%	$535,674	$555,668	-$19,994	-3.6%
MyCare	$205,648	$209,419	-$3,771	-1.8%	$1,477,629	$1,429,635	$47,994	3.4%
P4P & Insurer Fee†	$0	$0	$0	-	$194,944	$290,935	-$95,990	-33.0%
Fee-For-Service	**$960,134**	**$723,616**	**$236,519**	**32.7%**	**$4,998,277**	**$5,342,887**	**-$344,610**	**-6.4%**
ODM Services	$328,312	$383,397	-$55,085	-14.4%	$2,538,535	$2,809,539	-$271,004	-9.6%
DDD Services	$194,119	$208,134	-$14,015	-6.7%	$1,576,701	$1,618,189	-$41,487	-2.6%
Hospital - HCAP†	$316,772	$0	$316,772	-	$634,432	$635,291	-$859	-0.1%
Hospital - Other	$120,931	$132,084	-$11,154	-8.4%	$248,609	$279,869	-$31,260	-11.2%
Premium Assistance	**$89,571**	**$100,547**	**-$10,977**	**-10.9%**	**$619,985**	**$663,723**	**-$43,738**	**-6.6%**
Medicare Buy-In	$51,515	$59,793	-$8,279	-13.8%	$356,351	$390,894	-$34,542	-8.8%
Medicare Part D	$38,056	$40,754	-$2,698	-6.6%	$263,634	$272,829	-$9,196	-3.4%
Administration	**$96,376**	**$88,019**	**$8,357**	**9.5%**	**$608,318**	**$622,022**	**-$13,705**	**-2.2%**
Total	**$2,467,884**	**$2,362,188**	**$105,696**	**4.5%**	**$15,908,116**	**$16,733,147**	**-$825,031**	**-4.9%**

*September 2018 estimates from the Department of Medicaid.

†CFC - Covered Families and Children; ABD - Aged, Blind, and Disabled; HCAP - Hospital Care Assurance Program; P4P - Pay For Performance, Insurer Fee - Health Insurer Fee.

Detail may not sum to total due to rounding.

Expenditures[10]

– *Wendy Zhan, Director*

– *Ivy Chen, Principal Economist*

Overview

Through January, FY 2019 GRF program expenditures were $19.67 billion, which was $531.6 million (2.6%) below estimate. GRF transfers out were $752.9 million, which was $1.0 million (0.1%) above estimate. Including both program expenditures and transfers out, year-to-date (YTD) GRF uses totaled $20.42 billion, which was $530.6 million (2.5%) below estimate. Tables 3 and 4 detail GRF uses for the month of January and for FY 2019 through January, respectively.

Medicaid continues to dominate the negative variances for both the month of January and YTD. In January, GRF Medicaid was $144.9 million (10.5%) below estimate, which accounted for 68.2% of the total negative monthly variance in GRF uses. Primary and Secondary Education, which had the second largest negative monthly variance, was $36.6 million (5.4%) below estimate. This monthly variance reduced the category's positive YTD variance to $8.7 million (0.2%). Together, these two categories accounted for 85.3% of the total negative monthly variance in GRF uses.

Through January, GRF Medicaid was $459.2 million (4.8%) below the YTD estimate, accounting for 86.5% of the total negative YTD variance in GRF uses. Non-Medicaid Health and Human Services contributed another 8.9% of the total. Health and Human Services expenditures were $47.2 million (5.4%) below the YTD estimate. The entire amount of this negative YTD variance occurred in months prior to January; this category's expenditures in January were $2.0 million (1.4%) above estimate. For additional information on the variances in Health and Human Services, please see the January issue of *Budget Footnotes*.

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 Medicaid variances are discussed below.

Medicaid

Similar to the variance pattern for the month of December, GRF Medicaid expenditures were below estimate for the month of January, by $144.9 million (10.5%), while non-GRF Medicaid expenditures were above estimate, by $250.6 million (25.5%). The primary reason for the negative variance in GRF Medicaid expenditures was the lower than expected Group VIII (individuals who became eligible for Medicaid through the federal Affordable Care Act, also known as ACA) managed care caseload. Group VIII managed care caseload for January was about 79,000 (12.5%) below estimate. Group VIII managed care expenditures were $62.6 million (15.9%) below estimate. The delay in Health Care Assurance Program (HCAP) payments was the culprit behind the positive monthly variance in non-GRF Medicaid

[10] 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.

expenditures. 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. The Ohio Department of Medicaid (ODM) planned to make two HCAP payments, both non-GRF funded, in September and in October. However, these two payments were disbursed in December and January instead, resulting in large positive variances in non-GRF Medicaid expenditures for both of the months of December and January. In January, the negative monthly variances in several other non-GRF funded payment categories partially offset the positive $316.8 million monthly variance for the HCAP payment.

For the YTD through January, both GRF and non-GRF Medicaid expenditures were below estimates, by $459.2 million (4.8%) and $365.9 million (5.0%), respectively. Including both the GRF and non-GRF, all funds Medicaid expenditures of $15.91 billion were $825.0 million (4.9%) below the YTD estimate.

Table 5 shows GRF and non-GRF Medicaid expenditures for 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. Managed Care had the largest overall negative variance of $423.0 million (4.2%), followed by FFS ($344.6 million, 6.4%), Premium Assistance ($43.7 million, 6.6%), and Administration ($13.7 million, 2.2%).

Expenditures from all Managed Care categories were below their YTD estimates except for MyCare, which had a positive YTD variance of $48.0 million (3.4%). MyCare is a managed care program for Ohioans who are eligible for both Medicaid and Medicare. Group VIII had the largest negative YTD variance of $229.2 million (8.6%) within the Managed Care category, followed by P4P & Insurer Fee (Pay for Performance and Health Insurer Fee) at $96.0 million (33.0%), and CFC (Covered Families and Children) at $88.9 million (2.5%). The negative variances for Group VIII and CFC were mainly due to lower than expected caseloads. For the seven months of FY 2019, on average the monthly managed care caseloads for Group VIII and CFC were 8.0% (51,300) and 2.1% (32,900), respectively, below estimates. Finally, $61.0 million of the $96.0 million negative YTD variance in the P4P & Insurer Fee category was due to the lower than expected Health Insurer Fee. The Health Insurer Fee – a source of funding for the Marketplaces under ACA – is a tax by the federal government on certain entities that provide health insurance. The tax applies to Medicaid managed care and is incorporated into Ohio's Medicaid managed care capitation rates.[11]

[11] The Health Insurer Fee was in effect from 2014 through 2016. The U.S. Congress approved a one-year moratorium for 2017 but the tax went back into effect (and remains in effect) for 2018. Congress suspended the tax once again in 2019; if not further delayed, it will be collected again beginning in 2020.

The negative YTD variance in FFS was primarily due to 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.

Issue Updates

Department of Natural Resources Announces $9.9 million for Dredge Material Reuse Projects

– Tom Wert, Budget Analyst

On January 8, 2019, the Ohio Department of Natural Resources (DNR) announced capital funding of $9.9 million for three Lake Erie dredge material reuse projects. Of this amount, $4.0 million will be provided to the city of Lorain for planning and construction costs of the Black River Dredge Reuse Facility, a 30-acre site on the south bank of the Black River. The site will have the capacity to accept approximately 150,000 cubic yards of dredge material from the Lorain Harbor Federal Navigation Channel each year. An additional $4.0 million will be provided to the city of Conneaut for planning and construction costs for the Conneaut Creed Dredge Material Facility, an approximately 18-acre site located at a former coal dock operated by the Canadian National railroad near the mouth of Conneaut Creek. This site is expected to accept up to 75,000 cubic yards of dredge material from the Conneaut Harbor Federal Navigation Channel annually. The remaining $1.9 million will be provided to the Toledo-Lucas County Port Authority for planning, design, and construction at the existing Facility 3 Confined Disposal Facility. The work at this location will entail constructing and upgrading dikes in and around a 235-acre dredge material containment area to increase its holding capacity to between 6.8 million and 7.5 million cubic yards. Material dredged from the Toledo Harbor Federal Navigation Channel is disposed of at this facility.

Funding for the project is provided from the Ohio Parks and Natural Resources Fund (Fund 7031) which receives proceeds from the issuance of bonds. Grants for local projects that reduce nutrient runoff and pollution into Lake Erie are made under Fund 7031 capital appropriation item C725T3, Healthy Lake Erie Initiative. H.B. 529 of the 132nd General Assembly, the capital budget for the FY 2019-FY 2020 capital biennium, originally appropriated $10.0 million for these purposes. S.B. 299 of the 132nd General Assembly subsequently provided an additional $10.0 million, earmarking that amount to support projects that enhance efforts to reduce open lake disposal of dredged material into Lake Erie by 2020.

ODOT Launches New Real-time Truck Parking Locater System along Three Highways

– Tom Middleton, Senior Budget Analyst

In January 2019, the Ohio Department of Transportation (ODOT) launched a new truck parking system. The system will help truck drivers more efficiently locate available parking spots at nine rest areas along three Ohio highways: I-70 (Belmont, Licking, and Madison counties), I-75 (Butler, Miami, Auglaize, Hancock, and Wood counties), and U.S. Route 33 (Union County). Under the new system, the parking information will be displayed on digital signs and on ODOT's website and OHGO application, allowing truck drivers to plan for federally mandated rest breaks at safe and convenient locations along these routes. The initiative also aims to reduce wear and tear on highway shoulders and ramps where truck drivers often park when they cannot find places at rest areas.

This real-time parking information system is part of the multi-state Truck Parking Information Management System (TPIMS) paid for primarily by a federal grant of $25 million to Ohio, Indiana, Iowa, Kansas, Kentucky, Michigan, Wisconsin, and Minnesota. Ohio received $5.3 million of the federal funding for the project, the largest award among the eight participating states. Ohio's match for the program is $787,000. The federal funding flows through Highway Operating Fund (Fund 7002) line item 772422, Highway Construction – Federal, while the state match comes from line item 772421, Highway Construction – State.

ODJFS Implements New Child Care Time and Attendance System

– Nicholas J. Blaine, Budget Analyst

On January 11, 2019, the Ohio Department of Job and Family Services (ODJFS) launched a new Time, Attendance, and Payment (TAP) system to record attendance for children receiving publically funded child care services. The TAP system is designed to improve payment accuracy and reduce fraud by ensuring that providers are reimbursed only for the time they spend caring for children. To utilize the system, parents and caregivers dropping off or picking up their child will have the option to record their action using a tablet provided by the program, a free application on their smartphone, or the program's telephone to dial into an interactive voice response system. Previously, parents and caregivers swiped a magnetic stripe card into a point of service device to report attendance each day. The TAP system is easier to use and has built-in data authentication technology.

Publically funded child care is supported through a combination of the federal Temporary Assistance for Needy Families Block Grant, the federal Child Care and Development Fund Block Grant, and state funds. In FY 2017, the latest year for which data is currently available, the state spent $639.6 million on direct subsidized child care, with an average monthly caseload of 131,000 children and average monthly cost of $400 per child. For most families, program eligibility is based on income level. Families with incomes up to 130% of the federal poverty level (FPL) (about $28,000 for a family of three) are eligible for initial services; families can remain eligible until their income rises above 300% FPL (about $64,000 for a family of three). Parents and caregivers are responsible for making copayments on a sliding scale based on their income.

Appropriation Increase for the Ryan White HIV/AIDS Program

– Jacquelyn Schroeder, Budget Analyst

On December 17, 2018, the Controlling Board approved a request from the Ohio Department of Health (ODH) to increase the appropriation for the Ryan White HIV/AIDS Program by $4.3 million in FY 2019. The funding for this increase comes from rebate revenue ODH receives from pharmaceutical companies that manufacture medications purchased and dispensed by the program. These funds will be used to provide grants to HIV case management agencies to assist in developing or enhancing access to a comprehensive continuum of health care, as well as improving the quality of that care, for low-income individuals with HIV. Additionally, funds will be used to provide early intervention services in areas of high HIV incidence.

The Ryan White HIV/AIDS Program offers a wide range of services to individuals with HIV/AIDS, including: outpatient, ambulatory health, oral health, and mental health services; medications to treat HIV and HIV-related conditions; health insurance premium assistance for participants with existing coverage; and case management services for uninsured or under insured individuals. Funding to support the program includes the federal Ryan White Part B grant, as well as state GRF and drug rebate revenues. Individuals are eligible to receive services if they are HIV positive, reside in Ohio, and have an income at or below 300% of the FPL (approximately $51,000 for a household of two). Currently, approximately 7,500 individuals receive services through ODH's Ryan White HIV/AIDS Program.

State Board of Education Recognizes Public Schools and Districts for High Academic Achievement and Student Growth

– Jason Glover, Budget Analyst

On December 17, 2018, the State Board of Education acknowledged public districts and schools that demonstrated high academic achievement and student growth on the report cards for the 2017-2018 school year. Three award programs recognize districts and schools that received an overall grade of "A," a subset of those districts and schools that earned all A's, and another group that exceeded expectations in student growth for the year. This is the fourth year the State Board has recognized schools and districts through the All A Award and Momentum Award programs and the first year recognizing schools receiving an overall A grade.[12] The table below compares the number of districts and schools qualifying under each recognition program since the 2015-2016 school year, the first year the American Institutes for Research resumed supplying the state assessments in English language arts and mathematics. As the table shows, the number of districts and schools receiving the Momentum Award for student growth has been trending upward while the number of school buildings earning the All A Award increased substantially in the 2017-2018 school year.

Districts and Schools Recognized for Achievement and Student Growth by School Year

Recognition	2015-2016	2016-2017	2017-2018
School Districts			
Overall A Award	N/A	N/A	28
All A Award	1	1	2
Momentum Award	54	64	70
School Buildings			
Overall A Award	N/A	N/A	310
All A Award	5	3	57
Momentum Award	169	214	226

[12] Due to "safe harbor" provisions, the report cards for the 2017-2018 school year are the first to include overall letter grades for districts and schools.

The All A Award is given to districts and schools that received A's on each of the district or school's applicable report card measures while districts and schools that earn straight A's on each applicable value-added measure on the report cards qualify for the Momentum Award. The value-added measure is designed to help educators determine the impact schools and teachers have on students' academic growth and progress in reading and mathematics from year to year. The measure is calculated on an overall basis and for three student subgroups: (1) gifted students, (2) students in the lowest 20% in achievement, and (3) students with disabilities. Districts and schools must have a grade for at least two of the three value-added subgroups of students to qualify for the award. A list of the districts and schools qualifying under the three recognition programs is available on the Ohio Department of Education's website.[13]

Higher Education Stakeholders Issue Plan to Improve Proprietary Credit Transferability

– Edward Millane, Senior Budget Analyst

As required by H.B. 49, the Department of Higher Education, with the assistance of a committee of stakeholders, recommended a plan in late December to improve the transferability of credits earned at for-profit, private (proprietary) colleges to state institutions of higher education. According to the committee, approximately 10% to 15% of the nearly 1,000 students that transfer from a proprietary college to a public institution each year receive transferred credit. The committee also found that feasible credit transfer options exist but a lack of awareness, inconsistent application, and current state policy limit their use. As a result, the committee's plan involves the following prongs:

- **Communicate existing credit transfer approaches**. Some of these approaches include institutional credit transfer reviews, use of the American Council on Education's credit review process, and use of prior learning assessments, such as the College-Level Examination Program (CLEP), that award credit to students demonstrating college-level learning from prior learning experiences.
- **Change certain state and institutional policies**. The committee recommended modifying the Ohio Articulation and Transfer Network's (OATN) Articulation and Transfer Policy to (1) explicitly permit colleges and universities with regional accreditation to evaluate transfer credits from institutions with national accreditation, as allowed by the Higher Learning Commission (HLC, Ohio's regional accrediting body), and (2) clearly require each public institution of higher education to have an explicit, transparent policy regarding the evaluation of credits from nationally accredited institutions. According to the committee, the current OATN policy does not align with HLC policy that allows HLC-accredited institutions to award credit from nationally accredited institutions.

[13] http://education.ohio.gov/Topics/District-and-School-Continuous-Improvement/Awards-and-Recognition.

- **Further research and collaboration**. Finally, the committee recommended additional work to aid proprietary credit transfers, including further study on institutional credit transfer review processes, exploration of ways to assist students in paying for CLEP examinations, and continued cross-sector meetings.

The full plan is available online at: https://www.ohiohighered.org/transfer/research by scrolling down to "Transfer & Graduation Reports & Presentations" and then selecting "*Proprietary Credit Transferability Strategy Plan*."

Attorney General Releases Annual Economic Development Compliance Report

– Jessica Murphy, Budget Analyst

On December 14, 2018, the Ohio Attorney General's Office released its latest Economic Development Compliance Report,[14] a required annual review of recipient compliance with the terms and conditions of state awards for economic development administered by the Ohio Development Services Agency (DSA). For purposes of this review, DSA economic development awards are grouped into four categories: workforce training grants, project grants, tax credits, and project loans.

The latest report examined 186 awards with a performance period ending in calendar year (CY) 2017. Of those, 145 recipients, or 78%, were determined to be substantially compliant having met at least 90% of the performance metrics set forth in the agreement. The remaining 41 were determined to be noncompliant. Of those found to be noncompliant, remedial action was taken against 14 of them; the rate or term was reduced for six tax credit recipients and the interest rate was increased for eight project loan recipients. Remedial action was not taken against the remaining 27 recipients, largely because they were later deemed compliant based on the number of jobs created and retained. The metrics used to determine compliance included, as applicable, commitments for job creation, job retention, capital investment, worker wages, and workforce training.

The table below shows the compliance rates reported in the CY 2013 – CY 2017 reviews by award category. The workforce training grant compliance rate has been 100% over the entire five-year period; the project grant compliance rate increased annually, going from 74.4% in CY 2013 to 100% in CY 2017. In contrast, the tax credit and project loan compliance rates have both displayed considerably more year-to-year fluctuation.

[14] https://www.ohioattorneygeneral.gov/Files/Reports/Economic-Development-Accountability-Report/2018-Economic-Development-Accountability-Report.

Economic Development Award Recipient Compliance Rates, CY 2013 – CY 2017					
Award Category	2013	2014	2015	2016	2017
Workforce Training Grant	100.0%	100.0%	100.0%	100.0%	100.0%
Project Grant	74.4%	76.3%	86.3%	89.4%	100.0%
Tax Credit	62.4%	73.4%	80.0%	68.1%	75.5%
Project Loan	57.1%	81.3%	82.8%	63.8%	61.7%
Overall	**70.6%**	**78.9%**	**84.8%**	**78.3%**	**78.0%**

State Fire Marshal Awards $3.0 Million in MARCS Grants

– Shannon Pleiman, Budget Analyst

On January 18, 2019, the State Fire Marshal's Office within the Department of Commerce announced nearly $3.0 million in awards under the Multi-Agency Radio Communications System (MARCS) Grant program. Overall, 242 fire departments in 40 counties received awards, ranging from $120 to $50,000, the maximum award amount under the program. The $3.0 million in awards represents the full amount set aside for the program for FY 2019.[15]

The MARCS grants offset the costs that local fire departments incur for MARCS-related radio user fees and equipment that promote interoperability between fire services. The State Fire Marshal uses a variety of criteria to decide award amounts, including: (1) the fire department's annual budget, (2) the annual number of fire incidents, (3) the resident population served by the department, and (4) requests from multiple jurisdictions within the same county or region collaborating to acquire or complete MARCS service for their fire departments. Eligible grant recipients include volunteer fire departments, municipal or small township fire departments that serve one or more small municipalities or townships, joint fire districts, and certain private fire companies that serve a population of 25,000 or less. Funding for the MARCS grants comes from taxes on insurance companies selling fire insurance in Ohio and from inspection fees, hotel permits, and fireworks licenses. The receipts from these various sources are deposited into the State Fire Marshal Fund (Fund 5460).

[15] A list of all the fire departments awarded MARCS grants can be found at: https://apps2.com.ohio.gov/admn/pressroom/view.aspx?FileName=3733.pdf.

Ohio EPA Awards $8.1 million in Diesel Emission Reduction Project Grants

– Robert Meeker, Budget Analyst

On January 9, 2019, the Ohio Environmental Protection Agency (Ohio EPA) announced the award of Diesel Emission Reduction Grants (DERG) totaling $8.1 million for eight public transit authority diesel fleet projects (see table below). The grant awards will be used to pay between 24% and 80% of the costs to replace aging diesel buses with buses powered by newer, cleaner diesel technology or alternative fuel technology. In total, the funded projects will replace 26 older diesel buses (model years 2003 to 2009).

DERG Project Grant Awards				
Grant Recipient	Grant Amount	% of Project Costs Covered	Total Project Cost*	Buses Replaced
Greater Cleveland Regional Transit Authority	$1,643,098	67%	$2,452,385	5
Southwest Ohio Regional Transit Authority	$1,601,304	60%	$2,668,840	5
Central Ohio Transit Authority	$1,588,320	24%	$6,618,000	8
Greater Dayton Regional Transit Authority	$1,125,192	80%	$1,406,490	3
Metro Regional Transit Authority	$734,274	70%	$1,048,963	2
Lake Transit Authority	$626,800	80%	$783,500	1
Portage Area Regional Transit Authority	$389,293	80%	$486,616	1
Stark Area Regional Transit Authority	$369,460	70%	$527,800	1
Total	$8,077,741	51%	$15,992,594	26

* Total project costs are estimated based on grant award and percent of project covered as reported by Ohio EPA.

The DERG Program is administered jointly by the Ohio EPA and the ODOT and is supported with federal Congestion Mitigation and Air Quality Program (CMAQ) funds allocated to Ohio by the Federal Highway Administration. Although all of the grants in this cycle were awarded to public transit authorities, public and private diesel fleets are generally eligible for DERG funding. Recipients are required to provide a minimum 20% in matching funds, which cannot be sourced from other federal funds or from in-kind services. To be eligible, the recipient's equipment must be operated in Ohio CMAQ-eligible areas for at least 65% of the time. These areas include 38 counties (or parts of counties), largely in central, southwest, and northeast Ohio.

Tracking the Economy

– Ruhaiza Ridzwan, Senior Economist

– Phil Cummins, Senior Economist

Overview

The nation's economy continues to expand. Employment rose strongly in January. Unemployment ticked up slightly but remained very low. Incomes continued to grow. In December, industrial production rose as both factory and mining output increased. Inflation remains tame.

The partial federal government shutdown ended in January but could resume in mid-February if a budget agreement is not reached. Reports indicate that about 800,000 federal workers were either furloughed or worked with their pay deferred until the shutdown ended, and work of private-sector companies with federal contracts was disrupted. The Congressional Budget Office (CBO) estimated that the shutdown cut inflation-adjusted gross domestic product (real GDP) growth by 0.2 percentage point in last year's fourth quarter and by 0.4 percentage point in the current quarter. CBO expects most of this lost output to be recovered in the remainder of this year.[16] The shutdown also delayed release of statistics on which this report is usually based, notably estimates of GDP from the source agency, the U.S. Bureau of Economic Analysis.

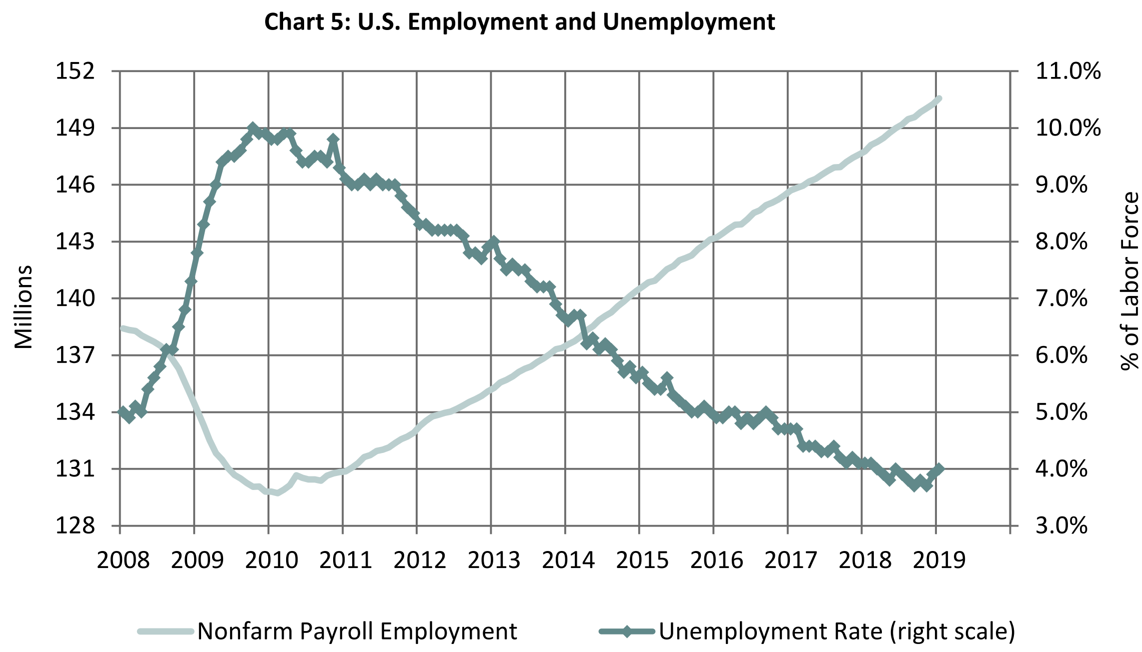
The central bank's monetary policy-setting committee held its short-term interest rate target unchanged at its January meeting. Future interest rate increases may be more gradual than previously appeared likely. The post-meeting press release said the committee would be "patient" in considering future interest rate changes; six weeks earlier, nearly all committee members expected to raise short-term interest rates in 2019, by 0.25 to 0.75 percentage point.

In Ohio, employment grew in December, continuing the uptrend underway since early 2010. Unemployment remains low and stable. Economic activity continues to expand, overall, though home sales have slowed.

The National Economy

U.S. total nonfarm payroll employment rose by 304,000 in January, the largest monthly increase in nearly a year. Unemployment as a share of the labor force nationwide rose to 4.0% in January from 3.9% in December and 3.7% in November and September, lowest since the 1960s. Chart 5 shows U.S. nonfarm payroll employment and unemployment.

[16] CBO notes that the estimates do not include some indirect, difficult-to-quantify negative effects of the shutdown.



Employment gains in January continued to be widespread across industries. Increases were reported in leisure and hospitality, construction, health care, transportation and warehousing, retailing, mining, professional and business services, and durable goods manufacturing. Mild weather in the survey period may have contributed to the large monthly increase, as relatively few workers were away from work or forced to work part time by bad weather. Federal employees on furlough during the partial government shutdown as well as those working with their pay deferred were counted as employed in the survey on which these estimates were based.

Average hourly earnings of all private-sector employees were 3.2% higher in January than a year earlier, down from 3.3% in October to December 2018, the most rapid since 2009. A related measure, the Employment Cost Index, showed a 3.1% increase in private-sector hourly wages and salaries in the year to December and a 2.6% increase in the cost to employers of employee benefits per hour of work. Pay increases have been trending higher since a low point in 2009.

The rise in the unemployment rate in January was due in part to the partial federal government shutdown, as some of the furloughed workers were counted as unemployed in the separate survey on which unemployment estimates are based. In addition, a jump in numbers of private-sector employees working part time who usually work full time may have resulted from the wider effects of the shutdown on businesses. Labor force participation, the share of the population age 16 and over that either is employed or is actively seeking employment, rose to its highest level in more than five years. The federal workers on furlough or working with deferred pay were counted as included in the labor force.

GDP estimates for the 2018 fourth quarter, delayed by the partial government shutdown, have been rescheduled for release February 28 by the source agency, the U.S. Bureau of Economic Analysis. Model-based estimates from the Federal Reserve Banks of Atlanta and New

York, that predict quarterly real GDP based on available monthly statistics, show real GDP growing at annual rates of 2.7% and 2.4%, respectively, in last year's fourth quarter.

Industrial production rose 0.3% in December, as sizable increases in manufacturing (+1.1%) and mining (+1.5%) were partly offset by reduced utility output (-6.3%). Unseasonably warm weather reduced heating demand. During the year to December, factory output rose 3.2% and mining output increased 13.4%. Factory output appears to have risen further in January, as more purchasing managers at manufacturers said production as well as new orders increased than reported decreases, according to the Institute for Supply Management.

The consumer price index (CPI) declined 0.1% from November to December, and was 1.9% higher in December than a year earlier. The year-over-year change was less than 2.0% for the first time since August 2017. The drop in the index for all items in the latest month was due to lower gasoline prices. Excluding energy and also food prices, the CPI rose 0.2% in December to 2.2% higher than a year earlier.

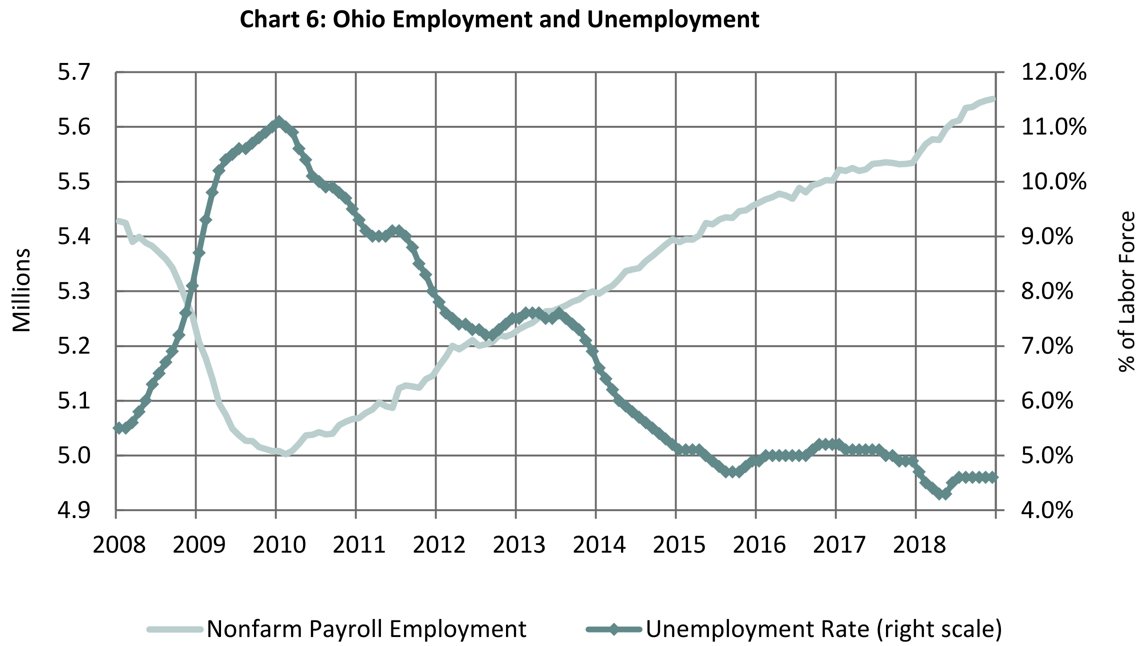
The Ohio Economy

The state's unemployment rate was 4.6% in December, and remained at that same level since July 2018. The state's unemployment rate was 4.9% in December 2017. In comparison, the U.S. unemployment rate was 3.9% in December, 3.7% in November, and 4.1% in December of last year. The number of unemployed workers in Ohio was 265,000 in December, an increase of 2,000 from November, and 16,000 less than in December of last year.

In December, Ohio's nonfarm payroll employment, seasonally adjusted, rose by 2,900 or 0.1% from the revised total in November, to 5.65 million. Employment increased in both goods-producing industries and government, by 5,000 and 3,400, respectively. However, employment in private service-providing industries declined by 5,500. Job gains were largely in local government, construction, and manufacturing while job losses occurred mostly in professional and business services and trade, transportation, and utilities. Jobs in the manufacturing sector continued to trend upward since late 2017, reaching the highest level since November 2008.

Ohio's economy gained jobs in each month in 2018 except April, with an average of 9,700 jobs per month. During the 12 months ending in December, nonfarm payroll employment increased by 116,500 or 2.1%. Employment gains were mostly in trade, transportation, and utilities; educational and health services; construction; leisure and hospitality; professional and business services; miscellaneous private services; durable goods manufacturing; and state government.

Chart 6 shows Ohio employment and unemployment.



During the 12 months ending in December, nonfarm payroll employment increased in nine Ohio metropolitan areas, decreased in the Dayton and Lima metropolitan areas, and was unchanged in the Youngstown-Warren-Boardman metropolitan area. Unemployment rates in all metropolitan areas were higher last December than in December 2017, except for the Weirton-Steubenville metropolitan area where it was lower. Among all metropolitan areas in Ohio, the Youngstown-Warren-Boardman metropolitan area had the highest rate (6.0%) in December while the both Cincinnati and Columbus metropolitan areas had the lowest rate (4.0%). Unlike the state nonfarm payroll employment and unemployment rate data, similar data for metropolitan areas are not seasonally adjusted.

The region's economic activity expanded slightly, according to a Federal Reserve Bank of Cleveland report.[17] Hiring demand was moderate but a little less than earlier. Firms raised base pay and nonwage incentives to attract and retain employees. Input prices of raw materials remained high. Some contacts in the manufacturing sector continued to report that increases in input prices were due to tariffs. Consumer demand for nondurable goods improved slightly. Auto dealers cited steady to slightly increased sales of used vehicles and less expensive models, but rising interest rates restrained sales. Manufacturing activity softened at year-end, thought to be seasonal. Residential real estate market activity was stable while nonresidential market activity remained strong. Lending activity eased seasonally. Activity in the professional and business services sector grew modestly.

[17] The report is from the latest Federal Reserve System Beige Book that summarizes information from outside contacts and collected on or before January 7, 2019. The Federal Reserve Bank of Cleveland's district includes all of Ohio and parts of Kentucky, Pennsylvania, and West Virginia.

Existing home sales in Ohio dropped to 10,236 in December, a 6.9% decrease from a year earlier, according to the Ohio Association of Realtors. In December, sales were down for all multiple listing services in the state, except Athens, Heartland (Hancock and Wyandot counties and nearby areas), and Mansfield. In the full year 2018, existing home sales fell by 1.0% compared to the previous year. In 2018, the average sales price of homes sold in Ohio was $182,618 compared to $173,203 in 2017, an increase of 5.4%.