LBO Budget Footnotes

A monthly newsletter of the Legislative Budget Office of LSC

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Highlights

– Ross Miller, Chief Economist

February GRF tax revenue was $6.9 million below the Office of Budget and Management (OBM) estimate. The August OBM income tax revenue estimate was revised recently, as explained in this month's Revenues article. Despite the negative variance for the month, GRF tax revenue ended February $71.3 million above estimate for the first eight months of FY 2019.

Ohio payroll employment had been reported to have grown by 116,500 during 2018, but recently revised data reduced that growth to 44,700. Employment started 2019 on the right foot though, growing 20,300 in January.

Through February 2019, GRF sources totaled $21.89 billion:

- Revenue from the sales and use tax was $131.2 million above estimate;
- Personal income tax receipts were $115.2 million below estimate.

Through February 2019, GRF uses totaled $22.89 billion:

- Program expenditures were $606.6 million below estimate, due primarily to Medicaid spending, which was $555.5 million below estimate;
- Expenditures in the Health and Human Services program category were below estimates by $53.2 million;
- Expenditures for Primary and Secondary Education were above estimate by $33.8 million, due partially to timing.

In this issue...

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

State Sources	**Actual**	**Estimate***	**Variance**	**Percent**
Tax Revenue				
Auto Sales	$88,906	$97,000	-$8,094	-8.3%
Nonauto Sales and Use	$621,135	$624,400	-$3,265	-0.5%
Total Sales and Use	*$710,041*	*$721,400*	*-$11,359*	*-1.6%*
Personal Income	$222,520	$216,200	$6,320	2.9%
Commercial Activity Tax	$348,796	$329,900	$18,896	5.7%
Cigarette	$63,656	$64,400	-$744	-1.2%
Kilowatt-Hour Excise	$29,579	$32,800	-$3,221	-9.8%
Foreign Insurance	$102,669	$125,400	-$22,731	-18.1%
Domestic Insurance	$3	$0	$3	---
Financial Institution	$40,354	$44,900	-$4,546	-10.1%
Public Utility	$30,866	$25,600	$5,266	20.6%
Natural Gas Consumption	$17,937	$14,300	$3,637	25.4%
Alcoholic Beverage	$4,742	$3,300	$1,442	43.7%
Liquor Gallonage	$3,654	$3,500	$154	4.4%
Petroleum Activity Tax	$0	$0	$0	---
Corporate Franchise	$16	$0	$16	---
Business and Property	$0	$0	$0	---
Estate	$0	$0	$0	---
Total Tax Revenue	**$1,574,836**	**$1,581,700**	**-$6,864**	**-0.4%**
Nontax Revenue				
Earnings on Investments	$40	$0	$40	---
Licenses and Fees	$8,235	$8,308	-$73	-0.9%
Other Revenue	$370	$1,463	-$1,092	-74.7%
Total Nontax Revenue	**$8,645**	**$9,770**	**-$1,125**	**-11.5%**
Transfers In	**$0**	**$0**	**$0**	**---**
Total State Sources	**$1,583,481**	**$1,591,470**	**-$7,990**	**-0.5%**
Federal Grants	**$679,938**	**$757,691**	**-$77,753**	**-10.3%**
Total GRF Sources	**$2,263,419**	**$2,349,161**	**-$85,742**	**-3.6%**

*Estimates of the Office of Budget and Management as of August 2018, except for the personal income tax; the latter was revised in February 2019.

Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Actual vs. Estimate ($ in thousands)
FY 2019 as of February 28, 2019
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on March 1, 2019)

State Sources	Actual	Estimate*	Variance	Percent	FY 2018**	Percent
Tax Revenue						
Auto Sales	$956,760	$929,500	$27,260	2.9%	$910,373	5.1%
Nonauto Sales and Use	$6,047,586	$5,943,600	$103,986	1.7%	$5,800,266	4.3%
Total Sales and Use	*$7,004,346*	*$6,873,100*	*$131,246*	*1.9%*	*$6,710,639*	*4.4%*
Personal Income	$5,607,407	$5,722,600	-$115,193	-2.0%	$5,478,634	2.4%
Commercial Activity Tax	$1,183,885	$1,156,500	$27,385	2.4%	$1,120,219	5.7%
Cigarette	$557,415	$554,000	$3,415	0.6%	$565,831	-1.5%
Kilowatt-Hour Excise	$238,692	$239,500	-$808	-0.3%	$232,123	2.8%
Foreign Insurance	$256,044	$272,600	-$16,556	-6.1%	$274,816	-6.8%
Domestic Insurance	$5	$0	$5	---	$381	-98.6%
Financial Institution	$87,673	$78,900	$8,773	11.1%	$80,587	8.8%
Public Utility	$103,953	$82,500	$21,453	26.0%	$80,939	28.4%
Natural Gas Consumption	$40,432	$33,700	$6,732	20.0%	$34,302	17.9%
Alcoholic Beverage	$37,271	$36,600	$671	1.8%	$37,746	-1.3%
Liquor Gallonage	$33,990	$33,100	$890	2.7%	$32,455	4.7%
Petroleum Activity Tax	$4,750	$2,700	$2,050	75.9%	$3,280	44.8%
Corporate Franchise	$1,243	$0	$1,243	---	$1,908	-34.9%
Business and Property	$0	$0	$0	---	-$374	100.0%
Estate	$32	$0	$32	---	$118	-72.9%
Total Tax Revenue	**$15,157,138**	**$15,085,800**	**$71,338**	**0.5%**	**$14,653,605**	**3.4%**
Nontax Revenue						
Earnings on Investments	$55,110	$38,211	$16,899	44.2%	$30,327	81.7%
Licenses and Fees	$21,895	$21,445	$450	2.1%	$22,745	-3.7%
Other Revenue	$55,814	$66,440	-$10,626	-16.0%	$237,078	-76.5%
Total Nontax Revenue	**$132,819**	**$126,096**	**$6,723**	**5.3%**	**$290,150**	**-54.2%**
Transfers In	**$82,025**	**$87,690**	**-$5,665**	**-6.5%**	**$133,327**	**-38.5%**
Total State Sources	**$15,371,982**	**$15,299,586**	**$72,396**	**0.5%**	**$15,077,082**	**2.0%**
Federal Grants	**$6,517,763**	**$6,941,818**	**-$424,055**	**-6.1%**	**$6,418,871**	**1.5%**
Total GRF SOURCES	**$21,889,745**	**$22,241,404**	**-$351,659**	**-1.6%**	**$21,495,953**	**1.8%**

*Estimates of the Office of Budget and Management as of August 2018, except for the personal income tax; the latter was revised in February 2019.

**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

The year-to-date (YTD) GRF revenue shortfall grew in February. Through the latest month in FY 2019, GRF sources totaling $21.89 billion were $351.7 million (1.6%) below revised OBM estimates, up from a cumulative negative variance of $287.4 million through January 2019. As noted in the February issue of *Budget Footnotes*, the Tax Commissioner reduced Ohio employer withholding tax rates effective January 1, 2019; the reduced rates were estimated to decrease withholding revenue by $152.6 million for FY 2019, with the GRF bearing $150.6 million of the revenue loss. OBM revised its monthly estimates of personal income tax (PIT) revenue due to this change.[2] Tables 1 and 2 show GRF sources for the month of February and for FY 2019 through February, respectively, with revised estimates of PIT revenue that reflect the new withholding rates. In the February issue, Tables 1 and 2 still showed the original August OBM estimates.

GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants. The $351.7 million YTD negative variance was due to a large shortfall of $424.1 million (6.1%) for federal grants,[3] and a negative variance of $5.7 million (6.5%) for transfers in. Those shortfalls were partially offset by positive variances of $71.3 million (0.5%) for GRF tax revenues and $6.7 million (5.3%) for nontax revenue. The YTD negative variance for federal grants results from GRF Medicaid spending being $555.5 million below expectations through February. In contrast, monthly GRF tax sources have surpassed anticipations so far in FY 2019 though they have faltered in the last three months.

Regarding specific GRF taxes, the PIT posted a cumulative YTD negative variance of $115.2 million, attributable largely to shortfalls from quarterly estimated payments. Most tax sources were above estimates, including the sales and use tax ($131.2 million), the public utility tax ($21.5 million), the commercial activity tax (CAT, $27.4 million), the natural gas consumption tax ($6.7 million), and the cigarette and other tobacco products tax ($3.4 million). The financial institutions tax (FIT), which had a cumulative positive variance of $13.3 million through January saw that reduced to $8.8 million, due to a shortfall of $4.5 million in February receipts from the first payment of the fiscal year.[4] With a deficit of $16.6 million, the foreign insurance tax was the only tax other than the PIT substantially below estimate.

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[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.

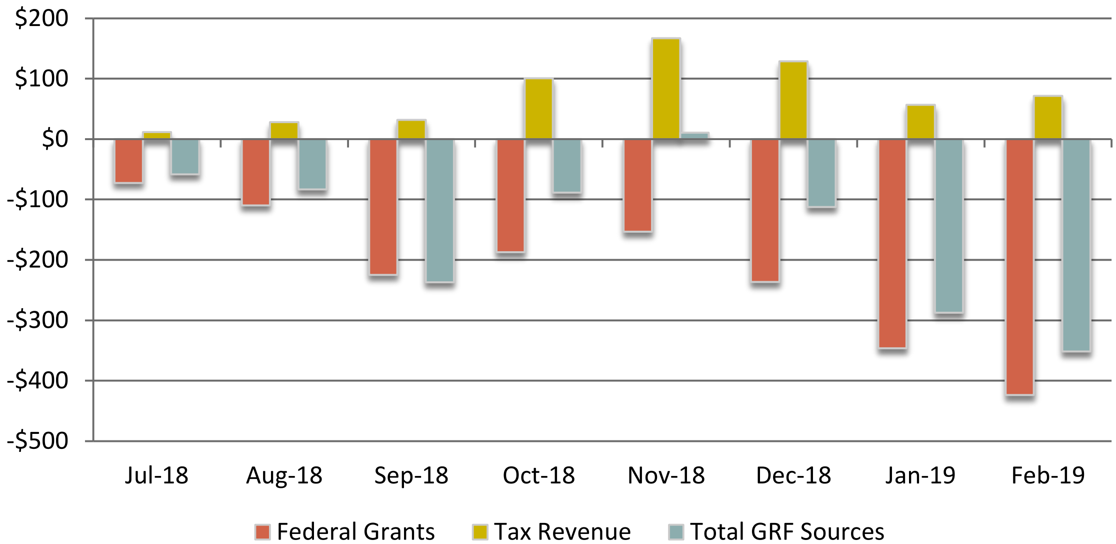
[2] The remaining $2.0 million would reduce distributions to the Local Government Fund (LGF). For accounting purposes, GRF tax revenue distributions to the LGF are debited against income tax receipts. FY 2019 estimates for sales and kilowatt-hour taxes were unchanged, though half of GRF tax revenue distributions to the Public Library Fund are debited against each of these taxes.

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

[4] Receipts of the FIT are typically expected at the end of January, March, and May.

February GRF sources of $2.26 billion were $85.7 million (3.6%) below projections. All categories underperformed, except for transfers in for which no revenue was anticipated. Continuing a year-long trend, the largest negative variance belonged to federal grants at $77.8 million. GRF tax sources and nontax revenue fell short of estimates by $6.9 million and $1.1 million, respectively. In addition to the FIT shortfall, tax sources were also brought down by negative variances of $11.4 million for the sales and use tax, $22.7 million for the foreign insurance tax, and $3.2 million for the kilowatt-hour tax. Those negative variances were partially offset by positive variances of $18.9 million for the CAT and $6.3 million for the PIT. Also, the public utility tax and the natural gas consumption tax were above projections by $5.3 million and $3.6 million, respectively. Chart 1, below, shows cumulative variances of GRF sources through February.

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



FY 2019 GRF sources increased $393.8 million relative to sources through February in FY 2018. GRF tax sources and federal grants were higher by $503.5 million and $98.9 million, respectively. The increases were partially offset by decreases of $157.3 million for nontax revenue[5] and $51.3 million for transfers in. For the largest tax sources, receipts increased for the sales and use tax ($293.7 million), the PIT ($128.8 million), and the CAT ($63.7 million). Also, revenue from the public utility tax, the FIT, and the kilowatt-hour tax increased by $23.0 million, $7.1 million, and $6.6 million, respectively. On the other hand, the foreign insurance tax and the cigarette tax experienced revenue declines of $18.8 million and $8.4 million, respectively.

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

Sales and Use Tax

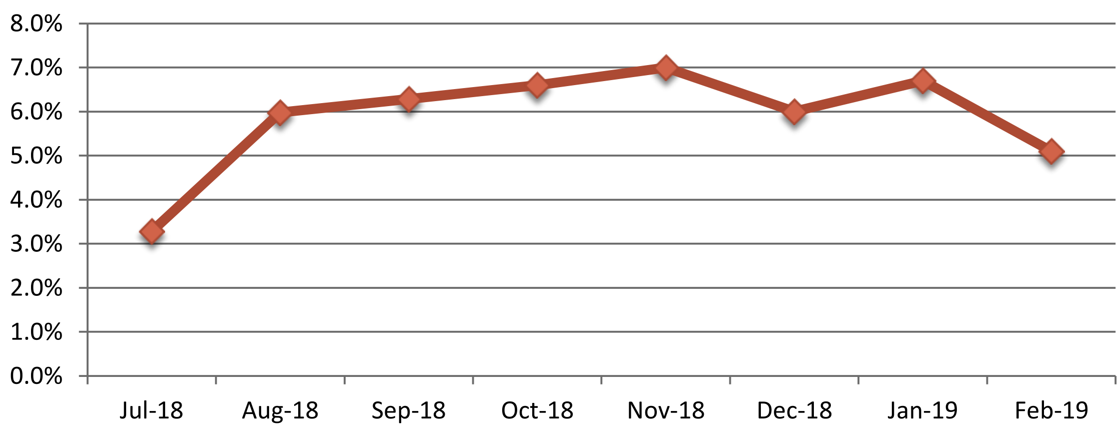
Through February, FY 2019 receipts to the GRF from the sales and use tax totaled $7.00 billion. This amount was $131.2 million (1.9%) above estimate, with both the nonauto and the auto portions of the tax ahead of projections. YTD GRF receipts from the sales and use tax were also 4.4% above revenue through February in FY 2018. For the month, GRF receipts of $710.0 million were $11.4 million (1.6%) below anticipated revenue, brought down by negative variances from both the auto tax and the nonauto tax; February was the first month this year that this tax yielded a negative variance. Monthly sales and use tax receipts were, however, $16.3 million (2.3%) above revenue in February 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

The nonauto sales and use tax has had weak results in calendar year (CY) 2019. GRF revenue from the tax of $621.1 million in February was short of estimate by $3.3 million (0.5%), following a negative variance of $4.5 million in January. The latest performance decreased the cumulative positive variance of this tax to $104.0 million (1.7%), down from $107.3 million through January. For the YTD, GRF receipts of $6.05 billion were $247.3 million (4.3%) 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 solid, supported by employment and wage gains throughout FY 2019, but the rate of growth has slowed in the latest months.

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

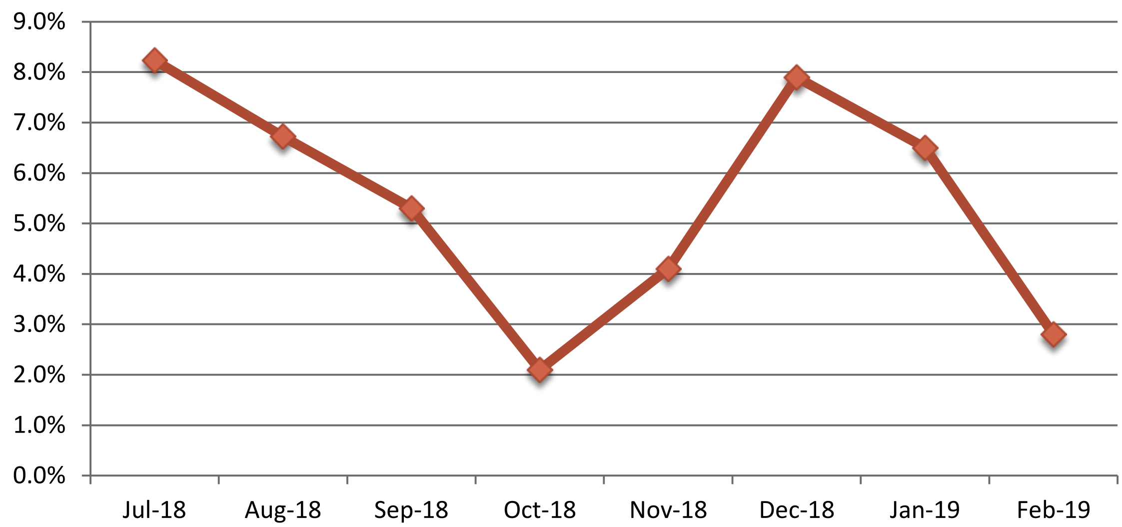


[6] Beginning July 1, 2017, the sales tax on Medicaid health insuring corporations (MHICs) was eliminated. Thus, the last payment of $71.7 million deposited in the GRF was made in July 2017 (reflecting taxable activity in June 2017). So, to adjust for changes to the existing tax base, this chart excludes 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

For only the second time this fiscal year, revenue from the auto sales and use tax for the month was below estimates and prior-year receipts. In February, GRF receipts of $88.9 million were short of estimate by $8.1 million (8.3%), and below February 2018 revenue by $3.1 million (3.4%). This latest result partially offset a strong January when this source was 9.4% above estimate and 4.4% above revenue in January 2018. Through February, auto sales tax receipts of $956.8 million were $27.3 million (2.9%) above estimate, down from $35.4 million at the end of January. YTD auto sales tax receipts were also $46.4 million (5.1%) above receipts in the corresponding period in FY 2018. Chart 3, below, shows year-over-year growth in auto sales tax collections. Revenue growth is positive, but the rate of growth has declined in recent months.

Chart 3: Auto Sales and Use Tax Receipts Trend
Actual vs. Prior Year
(Three-month Moving Average)



At 16.6 million units (at a seasonally adjusted annual average rate), nationwide new light vehicle (auto and light truck) sales in February remained roughly at January's pace, but down about 3% from a year earlier. Though temporary factors such as the winter weather and the partial shutdown of the federal government may explain the downshift in sales, the lower pace may also reflect headwind factors such as spent-up vehicle demand and lower vehicles affordability. Unit sales exceeded 17 million units in each of the last four calendar years, and average auto prices and interest rates are rising.

Personal Income Tax

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

[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 February of the following year. Most estimated payments are made by high-income taxpayers.

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.

February PIT receipts of $222.5 million were $6.3 million (2.9%) above estimate. Employer withholding, quarterly estimated payments and annual returns payments were above estimates by $14.7 million, $2.6 million, and $1.4 million, respectively. Those positive variances were partially offset by a shortfall of $1.2 million in miscellaneous payments, resulting in a combined positive variance of $17.4 million for gross collections. However, refunds were higher than anticipated by $11.9 million and distributions to the LGF were $0.9 million lower than projected.

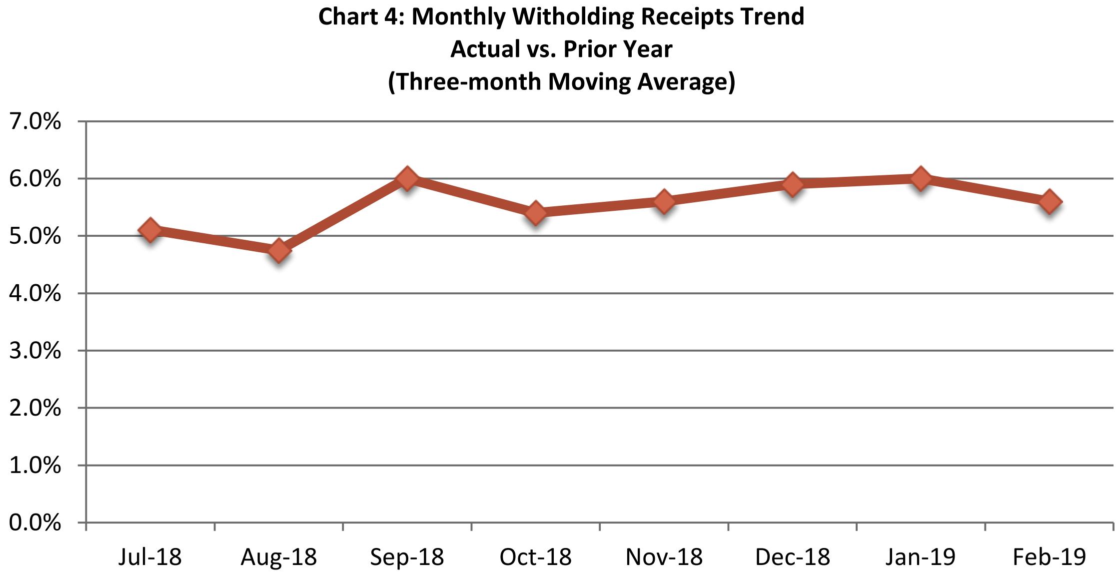
February revenue from the PIT decreased the cumulative GRF negative variance of this tax to $115.2 million (2.0%), compared to updated estimates, from a shortfall of $121.5 million through January. For the first half of FY 2019, the PIT year-over-year growth was 5.4%, but the withholding rate reduction will tend to pull the growth rate down during the remainder of the fiscal year, and that revenue growth stood at 2.4% through February. (The withholding rate reduction of January 1, 2019 was estimated to decrease receipts from this component by $47.4 million in the January-February period. So, excluding the withholding rate reduction, PIT growth would have been about 3.2%.)

Revenues from each component of the PIT relative to revised estimates and to revenue received in FY 2018 are detailed in the table below. Trends of recent months continued through the end of February. YTD gross collections were below estimate by $69.5 million; and 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, while gross collections grew from FY 2018.

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	$75.3	1.3%	$313.6	5.4%
Quarterly Estimated Payments	-$157.4	-22.6%	-$152.4	-22.1%
Trust Payments	$2.1	7.1%	$1.4	4.5%
Annual Return Payments	$22.5	21.3%	$37.2	40.9%
Miscellaneous Payments	-$12.0	-19.4%	-$12.4	-19.9%
Gross Collections	-$69.5	-1.0%	$187.4	2.8%
Less Refunds	$44.2	4.8%	$50.0	5.5%
Less LGF Distribution	$1.5	0.5%	$8.6	3.3%
GRF PIT Revenue	-$115.2	-2.0%	$128.8	2.4%

Regarding the two most important components of the PIT, employer withholding receipts[8] grew 5.4%, while quarterly estimated payments fell 22.1%. 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

The third CAT payment by quarterly calendar taxpayers in February provided GRF receipts of $348.8 million, an amount $18.9 million (5.7%) above estimate and $30.1 million (9.4%) above such revenue in the same month last year. As a result, the cumulative positive variance of this tax increased to $27.4 million (2.4%), up from $8.5 million through January. YTD GRF receipts totaled $1.18 billion, which was $63.7 million (5.7%) above revenue through February in FY 2018.

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%). Through February, Fund 7047 and Fund 7081 received $181.1 million and $27.9 million, respectively. 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.

[8] Withholding receipts consist of monthly employer withholding (about 99% of the total) and annual employer withholding (about 1% of the total). YTD through February, monthly employer withholding was 5.5% above such receipts in the corresponding period in FY 2018. On the other hand, annual employer withholding fell 17.4%.

Cigarette and Other Tobacco Products Tax

YTD revenue from the cigarette and other tobacco products tax totaling $557.4 million remained above estimate in February. In February, the tax provided $63.7 million to the GRF, an amount $0.7 million (1.2%) below estimate, and $0.3 million (0.4%) below revenue in February 2018. Through January, this GRF source was $4.2 million above anticipated receipts. So the latest monthly performance reduced the tax's cumulative variance to $3.4 million (0.6%). YTD collections in FY 2019, $506.9 million from the sale of cigarettes and $50.5 million from the sale of other tobacco products (OTP), were $8.4 million (1.5%) below revenues in the corresponding period in FY 2018. Compared to FY 2018, receipts from cigarette sales fell $13.4 million (2.6%) while those from the sale of OTP increased $5.0 million (11.0%). 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, generally 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.

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

Program Category	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	$871,304	$846,239	$25,065	3.0%
Higher Education	$210,796	$216,162	-$5,367	-2.5%
Other Education	$4,870	$3,236	$1,634	50.5%
Total Education	**$1,086,970**	**$1,065,637**	**$21,333**	**2.0%**
Medicaid	$1,054,469	$1,150,838	-$96,369	-8.4%
Health and Human Services	$80,215	$86,238	-$6,023	-7.0%
Total Health and Human Services	**$1,134,685**	**$1,237,077**	**-$102,392**	**-8.3%**
Justice and Public Protection	$153,514	$155,764	-$2,250	-1.4%
General Government	$27,495	$26,710	$785	2.9%
Total Government Operations	**$181,009**	**$182,474**	**-$1,465**	**-0.8%**
Property Tax Reimbursements	$22	$192	-$170	-88.6%
Debt Service	$64,895	$57,233	$7,662	13.4%
Total Other Expenditures	**$64,917**	**$57,425**	**$7,492**	**13.0%**
Total Program Expenditures	**$2,467,580**	**$2,542,612**	**-$75,032**	**-3.0%**
Transfers Out	**$0**	**$0**	**$0**	**---**
Total GRF Uses	**$2,467,580**	**$2,542,612**	**-$75,032**	**-3.0%**

*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 February 28, 2019
($ in thousands)
(Actual based on OAKS reports run March 5, 2019)

Program Category	Actual	Estimate*	Variance	Percent	FY 2018**	Percent
Primary and Secondary Education	$5,711,349	$5,677,575	$33,774	0.6%	$5,592,805	2.1%
Higher Education	$1,541,708	$1,554,372	-$12,664	-0.8%	$1,549,503	-0.5%
Other Education	$54,426	$54,833	-$407	-0.7%	$53,747	1.3%
Total Education	**$7,307,483**	**$7,286,781**	**$20,703**	**0.3%**	**$7,196,055**	**1.5%**
Medicaid	$10,077,264	$10,632,783	-$555,519	-5.2%	$9,946,821	1.3%
Health and Human Services	$904,564	$957,769	-$53,205	-5.6%	$893,864	1.2%
Total Health and Human Services	**$10,981,828**	**$11,590,553**	**-$608,724**	**-5.3%**	**$10,840,685**	**1.3%**
Justice and Public Protection	$1,556,186	$1,551,051	$5,134	0.3%	$1,483,104	4.9%
General Government	$253,956	$267,799	-$13,844	-5.2%	$249,485	1.8%
Total Government Operations	**$1,810,141**	**$1,818,851**	**-$8,709**	**-0.5%**	**$1,732,589**	**4.5%**
Property Tax Reimbursements	$905,542	$914,131	-$8,590	-0.9%	$906,528	-0.1%
Debt Service	$1,127,660	$1,128,930	-$1,270	-0.1%	$1,058,955	6.5%
Total Other Expenditures	**$2,033,201**	**$2,043,061**	**-$9,860**	**-0.5%**	**$1,965,483**	**3.4%**
Total Program Expenditures	**$22,132,654**	**$22,739,245**	**-$606,591**	**-2.7%**	**$21,734,811**	**1.8%**
Transfers Out	**$752,927**	**$751,933**	**$994**	**0.1%**	**$69,445**	**984.2%**
Total GRF Uses	**$22,885,581**	**$23,491,178**	**-$605,597**	**-2.6%**	**$21,804,256**	**5.0%**

*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 March 4, 2019)

	Month of February 2019				Year to Date through February 2019			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid								
GRF	$1,000,157	$1,097,686	-$97,529	-8.9%	$9,612,274	$10,164,194	-$551,919	-5.4%
Non-GRF	$807,388	$865,018	-$57,630	-6.7%	$6,292,912	$6,686,924	-$394,012	-5.9%
All Funds	$1,807,545	$1,962,704	-$155,159	-7.9%	$15,905,186	$16,851,118	-$945,931	-5.6%
Developmental Disabilities								
GRF	$47,544	$48,466	-$922	-1.9%	$403,076	$406,259	-$3,183	-0.8%
Non-GRF	$163,520	$173,843	-$10,323	-5.9%	$1,437,407	$1,489,662	-$52,255	-3.5%
All Funds	$211,065	$222,310	-$11,245	-5.1%	$1,840,483	$1,895,921	-$55,438	-2.9%
Job and Family Services								
GRF	$5,986	$4,131	$1,855	44.9%	$55,562	$55,972	-$411	-0.7%
Non-GRF	$15,879	$15,053	$826	5.5%	$122,340	$105,995	$16,345	15.4%
All Funds	$21,865	$19,184	$2,681	14.0%	$177,902	$161,968	$15,934	9.8%
Health, Mental Health and Addiction, Aging, Pharmacy Board, and Education								
GRF	$781	$554	$227	40.9%	$6,352	$6,359	-$6	-0.1%
Non-GRF	$1,673	$2,531	-$858	-33.9%	$21,123	$25,066	-$3,943	-15.7%
All Funds	$2,455	$3,085	-$631	-20.4%	$27,475	$31,425	-$3,950	-12.6%
All Departments:								
GRF	**$1,054,469**	**$1,150,838**	**-$96,369**	**-8.4%**	**$10,077,264**	**$10,632,783**	**-$555,519**	**-5.2%**
Non-GRF	**$988,460**	**$1,056,445**	**-$67,985**	**-6.4%**	**$7,873,782**	**$8,307,647**	**-$433,866**	**-5.2%**
All Funds	**$2,042,930**	**$2,207,284**	**-$164,354**	**-7.4%**	**$17,951,046**	**$18,940,431**	**-$989,385**	**-5.2%**

*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 March 4, 2019)

	Month of February 2019				Year to Date through February 2019			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	**$1,319,684**	**$1,449,546**	**-$129,862**	**-9.0%**	**$11,001,220**	**$11,554,061**	**-$552,841**	**-4.8%**
CFC†	$478,908	$510,180	-$31,271	-6.1%	$3,889,866	$4,009,998	-$120,131	-3.0%
Group VIII	$325,070	$393,659	-$68,589	-17.4%	$2,760,320	$3,058,090	-$297,769	-9.7%
ABD†	$231,786	$251,101	-$19,315	-7.7%	$1,858,867	$1,915,130	-$56,264	-2.9%
ABD Kids	$74,968	$84,858	-$9,889	-11.7%	$610,643	$640,526	-$29,883	-4.7%
My Care	$208,951	$209,749	-$798	-0.4%	$1,686,580	$1,639,384	$47,196	2.9%
P4P & Insurer Fee†	$0	$0	$0	-	$194,944	$290,935	-$95,990	-33.0%
Fee-For-Service	**$548,086**	**$577,422**	**-$29,335**	**-5.1%**	**$5,546,363**	**$5,920,308**	**-$373,945**	**-6.3%**
ODM Services	$342,401	$368,560	-$26,159	-7.1%	$2,880,936	$3,178,098	-$297,163	-9.4%
DDD Services	$205,506	$208,862	-$3,355	-1.6%	$1,782,208	$1,827,050	-$44,843	-2.5%
Hospital - HCAP†	$179	$0	$179	-	$634,610	$635,291	-$680	-0.1%
Hospital - Other	$0	$0	$0	-	$248,609	$279,869	-$31,260	-11.2%
Premium Assistance	**$89,962**	**$101,261**	**-$11,299**	**-11.2%**	**$709,947**	**$764,984**	**-$55,037**	**-7.2%**
Medicare Buy-In	$51,749	$59,757	-$8,008	-13.4%	$408,101	$450,650	-$42,550	-9.4%
Medicare Part D	$38,213	$41,504	-$3,292	-7.9%	$301,846	$314,334	-$12,487	-4.0%
Administration	**$85,198**	**$79,055**	**$6,143**	**7.8%**	**$693,516**	**$701,077**	**-$7,561**	**-1.1%**
Total	**$2,042,930**	**$2,207,284**	**-$164,354**	**-7.4%**	**$17,951,046**	**$18,940,431**	**-$989,385**	**-5.2%**

*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[9]

– Melaney Carter, Assistant Director

– Ivy Chen, Principle Economist

Overview

In the month of February, GRF program expenditures were $75.0 million (3.0%) below estimate, increasing the negative year-to-date (YTD) variance to $606.6 million (2.7%). As expected, there were no transfers out in February, so the YTD positive variance remained at $1.0 million (0.1%). Including both program expenditures and transfers out, GRF uses totaled $22.89 billion through February, which was $605.6 million (2.6%) below estimate. Tables 3 and 4 detail GRF uses for the month of February and for FY 2019 through February, respectively.

GRF Medicaid expenditures had the largest negative variances for both the month of February and YTD. GRF Medicaid expenditures in February were $96.4 million below estimate, increasing this category's negative YTD variance to $555.5 million (5.2%). 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.

In addition to Medicaid, the Health and Human Services, Higher Education, and Property Tax Reimbursements categories increased their negative YTD variances in February. At the end of February, Health and Human Services had the second highest negative YTD variance of $53.2 million (5.6%); Higher Education had a negative variance of $12.7 million (0.8%); and Property Tax Reimbursements had a negative YTD variance of $8.6 million (0.9%). Three other categories maintained negative YTD variances despite positive variances for the month of February. General Government had a negative YTD variance of $13.8 million (5.2%), Debt Service had a negative YTD variance of $1.3 million (0.1%), and Other Education had a negative YTD variance of $0.4 million (0.7%). On the other hand, the Primary and Secondary Education category had a positive YTD variance of $33.8 million (0.6%), which increased by $25.1 million in February. Justice and Public Protection also had a positive YTD variance at the end of February ($5.1 million), although this category's monthly variance was negative. A discussion of the more significant of these variances follows the discussion of Medicaid.

Medicaid

GRF Medicaid expenditures were $96.4 million (8.4%) and $555.5 million (5.2%), respectively, below their monthly and YTD estimates. In addition to the GRF, Medicaid is also supported by several non-GRF funds. As a joint federal-state program, both GRF and non-GRF Medicaid expenditures contain federal and state dollars. In February, non-GRF Medicaid expenditures were $68.0 million (6.4%) below estimate. For FY 2019 through February, non-GRF Medicaid expenditures were $433.9 million (5.2%) below estimate. Including both the

[9] 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.

GRF and non-GRF, all funds Medicaid expenditures were $164.4 million (7.4%) below estimate in February and $989.4 million (5.2%) below estimate YTD at the end of February.

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. Managed Care had the largest overall negative variance of $552.8 million (4.8%), followed by FFS ($373.9 million, 6.3%), Premium Assistance ($55.0 million, 7.2%), and Administration ($7.6 million, 1.1%).

Expenditures from all Managed Care categories were below their YTD estimates except for MyCare, which had a positive YTD variance of $47.2 million (2.9%). MyCare is a managed care program for Ohioans who are eligible for both Medicaid and Medicare. Group VIII had the largest negative YTD variance within the Managed Care category at $297.8 million (9.7%), followed by CFC (Covered Families and Children) at $120.1 million (3.0%), and P4P & Insurer Fee (Pay for Performance and Health Insurer Fee) at $96.0 million (33.0%). The negative variances for Group VIII and CFC were mainly due to lower than expected caseloads. For the first eight months of FY 2019, the average monthly managed care caseloads for Group VIII and CFC were 8.1% (51,400) and 2.1% (33,000), respectively, below estimates. Finally, $61.0 million of the $96.0 million negative YTD variance in the P4P & Insurer Fee category was due to lower than expected Health Insurer Fee payments. 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 companies and is incorporated into Ohio's Medicaid managed care capitation rates.[10]

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.

Health and Human Services

The negative YTD variance in the Health and Human Services program category increased $6.0 million in February to $53.2 million (5.6%). The most significant negative YTD variance was $36.5 million for the Ohio Department of Job and Family Services (ODJFS),

[10] 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.

followed by $10.2 million for the Ohio Department of Mental Health and Addiction Services (ODMHAS).

The negative YTD variance for ODJFS is spread over all but one of the GRF appropriation items included in this category. The two items with the largest negative YTD variances, both around $6.0 million, were items 600410, TANF State Maintenance of Effort, and 600416, Information Technology Projects. Item 600410 is used in conjunction with Ohio's federal Temporary Assistance for Needy Families (TANF) block grant to provide cash assistance and noncash services, such as child care, to low-income families in Ohio. This item has had negative variances in most months of the fiscal year so far. 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). The negative YTD variance for this item comes primarily from negative monthly variances in the beginning of the fiscal year. This item's negative variance decreased in February due to a positive monthly variance of $2.6 million.

The negative YTD variance for ODMHAS came primarily from three line items. Item 336510, Residential State Supplement, had a negative YTD variance of $4.0 million, item 336412, Hospital Services, had a negative YTD variance of $3.7 million, and item 336423, Addiction Services Partnership with Corrections, had a negative YTD variance of $3.2 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. This item's negative YTD variance comes primarily from the first four months of the fiscal year. Item 336412 funds inpatient operations at the state's six regional psychiatric hospitals. About half of this item's YTD variance is due to a negative variance of $1.6 million in February. Item 336423 funds services provided by ODMHAS inside of correctional facilities used by the Department of Rehabilitation and Correction (DRC).

General Government

Despite a small positive February variance of $0.8 million, the General Government category had a negative YTD variance of $13.8 million. Close to half of this YTD variance (46.0%) was caused by the Secretary of State's single GRF appropriation item 050508, Statewide Voting and Tabulation Equipment. This item was created by S.B. 135 of the 132nd General Assembly to reimburse counties for expenditures related to voting systems acquired between January 2014 and August 2018. The appropriation for FY 2019 is $10.0 million and the estimates reflect roughly equal payments each month. However, H.B. 41 of the 132nd General Assembly, effective March 20, 2019, amended the program to allow reimbursements also for expenditures incurred after August 2018. Changes in the program have caused a delay in the reimbursements.

Higher Education

The negative YTD variance in the Higher Education category increased by $5.4 million in February to $12.7 million (0.8%). About half of this YTD variance (52.8%) occurred in item 235563, Ohio College Opportunity Grant, which was below estimates YTD by $6.7 million. The second largest negative YTD variance was in item 235438, Choose Ohio First Scholarship, which had a negative YTD variance of $3.4 million. The Ohio College Opportunity Grant (OCOG) is Ohio's need-based financial aid program. The Choose Ohio First Scholarship provides scholarships to students pursuing Science, Technology, Engineering, Mathematics, and Medicine (STEMM) degrees or STEMM education degrees. Both of these programs are funded through reimbursements to institutions of higher education, so actual expenditures may differ from estimates due to the timing of reimbursement requests.

Primary and Secondary Education

The Ohio Department of Education's (ODE) positive YTD variance of $33.8 million was dominated by item 200550, Foundation Funding, which had a positive YTD variance of $43.1 million at the end of February. 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. A positive monthly variance for this item in February of $16.3 million partially offset a negative monthly variance in January of $22.3 million. Except for January, however, this item has had positive monthly variances since September.

Item 200502, Pupil Transportation, had the second largest positive YTD variance of $6.0 million. Item 200502 is used to fund the transportation portion of the school funding formula, as well as transportation funding for students with disabilities that is provided outside of the formula.

Issue Updates

2019 Federal Poverty Level Standards

– Ryan Sherrock, Economist

The U.S. Department of Health and Human Services recently published the updated Federal Poverty Level (FPL) standards for 2019. These levels are used to set eligibility criteria for many assistance programs, such as Medicaid and the Children's Health Insurance Program (CHIP). Assistance programs often use a percentage of the FPL to determine eligibility (e.g., 138% or 200% FPL). The FPL is adjusted for household size and geographic region. The 48 contiguous states and the District of Columbia (DC) all use the same FPL while Alaska and Hawaii each have their own to account for higher costs of living in those regions. The table below shows the updated FPLs for the 48 contiguous states and DC.

2019 FPL for the 48 Contiguous States and DC	
Persons in Household	**Poverty Level**
1	$12,490
2	$16,910
3	$21,330
4	$25,750
5	$30,170
6	$34,590

Note: Add $4,420 for each additional household member.

FPLs are published annually and become effective each January. The 2019 levels are calculated by taking the 2017 Census Bureau's poverty thresholds and adjusting them, using the Consumer Price Index, for price changes between 2017 and 2018. The FPL represents the minimum amount of income required to provide basic necessities such as food, clothing, and shelter.

Ohio is Awarded $83.3 Million in Federal Emergency Relief Funding for Roads and Bridges

– Tom Middleton, Senior Budget Analyst

On February 5, 2019, the Federal Highway Administration (FHWA) announced that Ohio was awarded nearly $83.3 million to make repairs to roads and bridges damaged by storms, floods, and other emergency events. The FHWA Emergency Relief Program reimburses states for the reconstruction or replacement of damaged highways and bridges, as well as the arrangement of detours and replacement of guardrails and other damaged safety devices. Ohio's share of funding under this announcement flows to the Ohio Department of Transportation (ODOT) and includes reimbursements for emergencies dating from as far back as March 2011 and as recent as March 2018. The table below lists the Emergency Relief funding awarded to ODOT by emergency event.

FHWA Emergency Relief Funding Awards to Ohio, February 2019		
Emergency Event	**Time Period of Event**	**Award Amount**
Heavy rainfall and flooding	February-March 2018	$63,029,374
Heavy rainfall and flooding	March-April 2017	$2,089,375
Storms and landslides	March 2015	$11,927,927
State Route 7 rock falls	January 2012	$900,000
Jefferson County landslides	March 2011	$5,360,000
	Total	**$83,306,676**

BWC Awards $243,000 in School Safety Grants

– Dan Redmond, Budget Analyst

On January 17, 2019, the Bureau of Workers' Compensation (BWC) announced ten recipients of school safety grants totaling $243,000. The grants, part of the School Safety and Security Grants Program (SSSG), are the first of $4 million that BWC will distribute for Prekindergarten-12 safety upgrades for fiscal years 2019 and 2020. SSSG is an expansion of BWC's Safety Intervention Grants Program and pays for approved equipment through a 3-to-1 match (up to a maximum of $40,000). Eight public school districts and two private schools received grants in amounts ranging from $11,000 to $40,000. The table below lists the recipient school or district, the grant amount, and the intended use of the funds.

BWC School Safety Grants			
School or District	**County**	**Amount**	**Use of Funds**
Fort Laramie Local	Shelby	$40,000	Security cameras and software licenses
Adena Local	Ross	$39,974	Security cameras and a panic alarm system
Temple Emanu El	Cuyahoga	$28,951	Security film for panels/doors, concrete crash barriers, a security camera system, and a key card system
Yeshiva Derech Hatorah	Cuyahoga	$28,620	Building entrance modifications to restrict access
Jennings Local	Putnam	$24,699	Security camera and secure keycard systems
Highland Local	Morrow	$22,025	Secured door hardware throughout the district's four schools
Chippewa Local	Wayne	$21,467	Security camera and software licenses to install on district buses
Hopewell Loudon Schools	Seneca	$13,915	Installation of a motorized bleacher system
Plymouth-Shiloh Local	Richland	$12,218	Installation of indoor/outdoor security cameras
Indian Creek Local	Jefferson	$10,838	Purchase of trauma response kits to be distributed to the district's four schools
	Total	**$242,705**	

71,000 Students Participated in CCP Program in FY 2018

– Alexandra Vitale, Budget Analyst

In November 2018, the Department of Higher Education (DHE) announced that more than 71,000 students participated in the College Credit Plus (CCP) program in the 2017-2018 school year, a 4.6% increase from the approximately 68,000 students who took CCP classes the year before. More than 93% of those students passed their CCP courses and, thus, received college credit. According to DHE, 46.8% of participating students were seniors, 28.9% were juniors, and 14.2% were freshmen or sophomores. The remaining participants were home-school or private school students for which a grade level was not reported (9.6%) or were in 7th or 8th grade (0.5%). Most students took one or two college courses through the program.

The CCP program, which replaced the former Post-Secondary Enrollment Options Program (PSEO) starting in FY 2016, allows qualified public, nonpublic, and home-instructed students in grades 7-12 to take college courses at public expense for both college and high school credit. Under CCP, funding for public students is deducted from the state aid allocated to the educating district or school. Funding for nonpublic and home-instructed students is paid directly by the state through certain GRF and non-GRF appropriations. Overall, the amount paid to colleges under the program increased from $45.0 million for FY 2017 to $48.6 million for FY 2018, based on the latest available figures from the Ohio Department of Education. Additional details on the CCP program are available on DHE's website at http://www.ohiohighered.org/ccp.

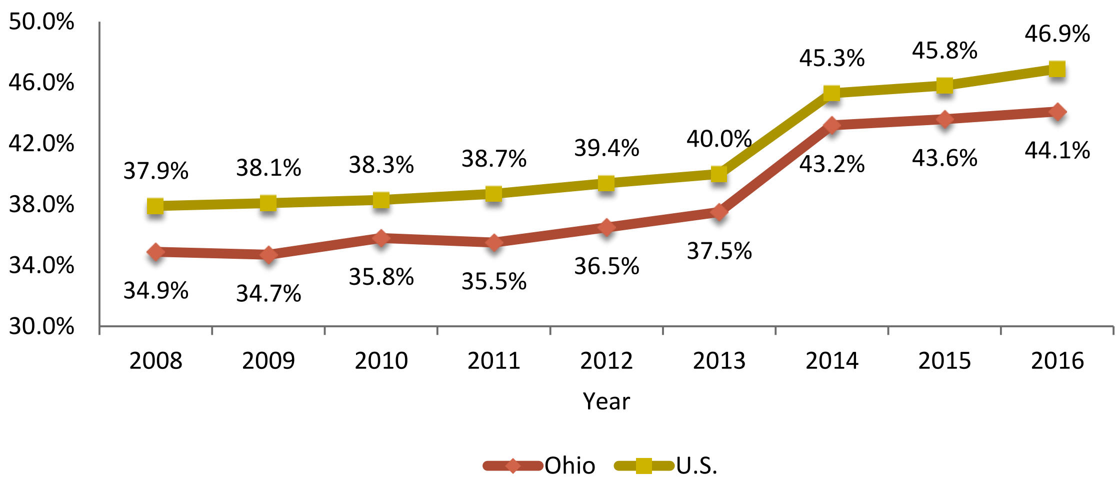
DHE Issues First Annual Report on State's Progress Toward Goal of 65% Degree or Certificate Attainment by 2025

– Edward M. Millane, Senior Budget Analyst

As required by H.B. 49, the Department of Higher Education (DHE), in collaboration with the Department of Education (ODE), issued a report on the progress the state is making toward achieving its goal of 65% of Ohioans ages 25-64 having a degree, certificate, or other postsecondary credential of value in the marketplace by 2025.[11] The report also discusses several initiatives and strategies that the state has implemented to accelerate progress towards achieving its 2025 goal.

As seen in the chart below, Ohio's overall rate of degree or certificate attainment increased from 34.9% in 2008 to 44.1% in 2016, an increase of 9.2 percentage points. While Ohio's rate has steadily increased over this period of time, the 44.1% attainment rate in 2016 was still nearly three percentage points below the national average of 46.9%. According to the report, the large percentage point increases in both Ohio's and the U.S.'s average attainment rates between 2013 and 2014 are likely due to the inclusion of workforce-relevant certificates in total postsecondary credentials beginning in 2014.

Chart 5: Average Degree and Certificate Attainment Rates for Ohio and U.S.



Source: Lumina Foundation *A Stronger Nation 2018*

[11] DHE's report cites data from the Lumina Foundation's *A Stronger Nation 2018.* DHE's full report can be viewed at: https://www.ohiohighered.org/attainment. Lumina's full report can be viewed at: https://www.luminafoundation.org/resources/a-stronger-nation-report.

Controlling Board Approves Ohio EPA Request to Establish Marsh Restoration Fund

– Jessica Murphy, Budget Analyst

On February 11, 2019, the Controlling Board approved an Ohio Environmental Protection Agency (Ohio EPA) request to create the Marsh Restoration Fund (Fund 5VA0) with an appropriation of $250,000 in FY 2019 for a remediation and restoration project adjacent to the Mentor Marsh located within the City of Mentor (Lake County). The project includes the removal, disposal, and replacement of contaminated soil. The appropriated funds are to be used to initiate a contract for engineering design and planning services. While the project's total cost, as well as its timeline for completion, is uncertain, a related civil litigation settlement agreement has resulted in the defendants remitting $10.6 million to the Ohio EPA explicitly for use on this project.[12]

The project site is approximately nine acres on which between 200,000 and 300,000 tons of waste salt was disposed of in 1966, and later covered with fly ash (a coal byproduct) and lime kiln dust. In the ensuing years, two events occurred: contaminated ground water leached from the site, and the ecology of the adjacent marsh changed from a freshwater swamp forest to an area dominated by salt-tolerant reed grass.

Under the terms of the settlement agreement, a 62-acre property referred to as the "Salt Fill Site" adjacent to the Mentor Marsh, which includes the project site, is to be donated to the Lake County Land Reutilization Corporation, an Ohio nonprofit corporation. Once the project is completed, the Salt Fill Site is expected to be offered to the Cleveland Museum of Natural History. The museum and the Ohio Department of Natural Resources Division of Natural Areas and Preserves jointly own and manage the 646-acre marsh as a state nature preserve.

Ohio EPA Awards $187.8 Million in Wastewater and Drinking Water Infrastructure Improvement Loans

– Robert Meeker, Budget Analyst

At the end of January 2019, the Ohio Environmental Protection Agency (Ohio EPA) announced that low-interest and principal forgiveness loans totaling $187.8 million had been awarded to 39 local governments for wastewater and drinking water infrastructure improvement projects. The loans were approved during the fourth quarter of calendar year 2018 (October to December). Ohio EPA estimates that loan recipients will save a total of more than $36.9 million statewide compared to market-rate loans.

Individual loans range from $58.2 million (Northeast Ohio Regional Sewer District) to $10,000 (Bellefontaine, Logan County) with a median award of $200,000. Of the loan total, $10.3 million is in the form of principal forgiveness loans which do not need to be repaid. Of

[12] The plaintiffs in the settlement are the state of Ohio and the city of Mentor. The defendants are the Osborne Concrete & Stone Co., and various related trusts, estates, and other individuals and entities.

the 22 local governments receiving principal forgiveness loans, ten (45%) received a principal forgiveness amount that is more or less 100% of the loan award.

The loans are backed with money drawn from the Ohio Water Pollution Control Loan Fund (WPCLF) and the Water Supply Revolving Loan Account (WSRLA). Both funds are managed by the Ohio EPA with assistance from the Ohio Water Development Authority. The WPCLF provides below-market rate, zero interest rate, and principal forgiveness loans for the planning, design, and construction of wastewater treatment facilities and sewer systems. The WSRLA provides below-market rate loans to public water systems for the planning, design, and construction of improvements to community water systems and nonprofit noncommunity public water systems. Both the WPCLF and WSRLA are funded with federal capitalization grants, loan repayments, and bond proceeds.

Tracking the Economy

– Eric Makela, Economist

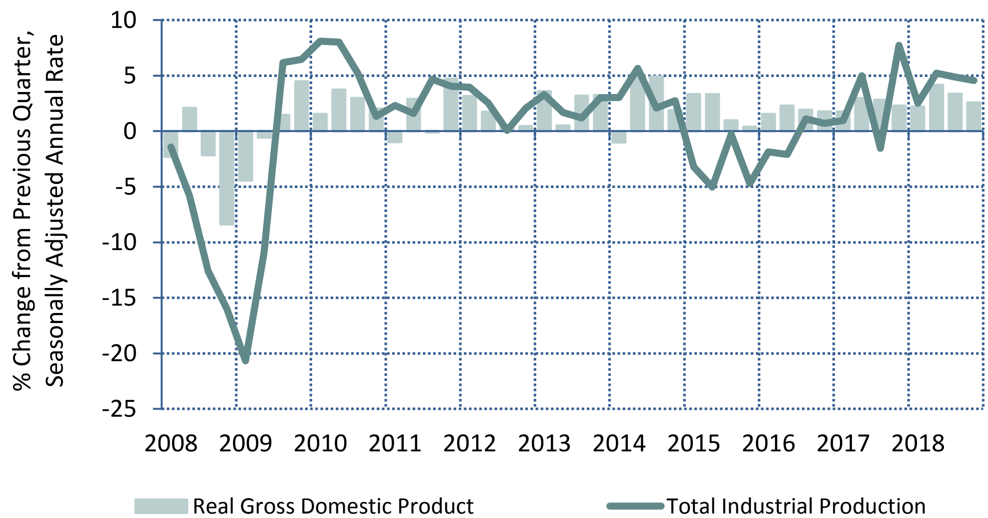
State of the Economy

Economic growth nationally was strong through much of the previous biennium. Ohio's economy continued to expand, though not as rapidly as that of the nation. Economic statistics have been mixed in early 2019. Annual growth of inflation-adjusted gross domestic product (real GDP) was 2.6% nationally in the fourth quarter of 2018. National industrial production grew at a rate of 4.6% during that time, but fell in the month of January. Employment numbers have been good in recent months, although February employment gains in the nation were minimal. The Federal Reserve Bank's Open Market Committee (FOMC) has tempered plans for further increases in the federal funds rate, resorting to a more patient approach when assessing current economic conditions.[13] On March 6, 2019, the final vehicle rolled off the assembly line at General Motors' assembly plant in Lordstown, Ohio. At least 1,700 positions were lost.[14]

The National Economy

The national economy continued to grow in 2018, extending a recovery and expansion that began in 2009. Economic indicators have turned mixed in early 2019, with employment up strongly in January but stagnating in February. Real GDP grew by 2.9% in 2018, the highest rate of growth since 2015. Growth was supported by federal tax cuts and spending increases. Interest rates generally rose during the past two years but remain low in a longer-term historical context, and monetary policy tightening of the past few years appears now to be on hold. Chart 6 illustrates quarterly changes in real GDP and industrial production from 2008 through last year. Industrial production is predominantly manufacturing, and also includes mining and utility output.

Chart 6: United States Output Measures



[13] https://www.federalreserve.gov/newsevents/pressreleases/monetary20190130a.htm.

[14] https://www.chicagotribune.com/business/ct-biz-gm-lordstown-ohio-plant-closing-20190306-story.html.

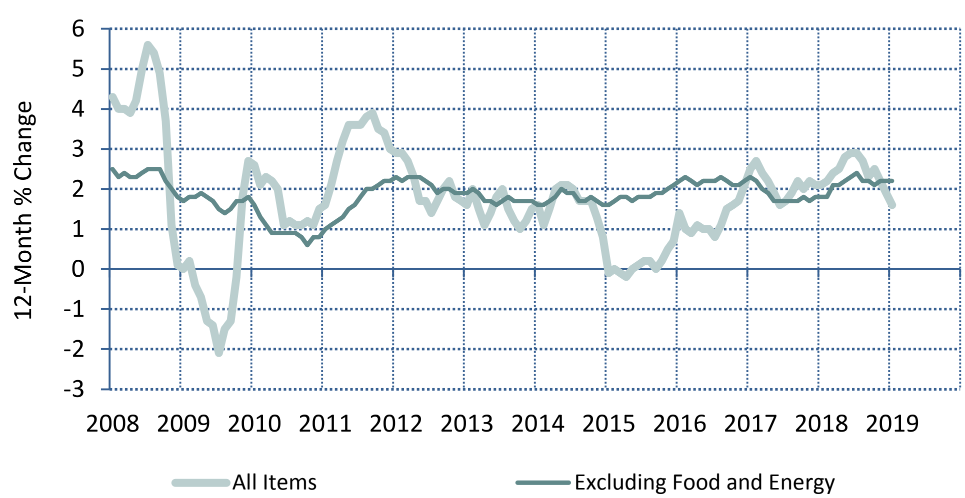
Total nonfarm payroll increased by 20,000 in February after rising 311,000 in January, according to the U.S. Bureau of Labor Statistics. The unemployment rate, measured as the number of unemployed persons divided by the number of persons in the labor force, declined to 3.8%, down 0.2 percentage points from a month earlier. The number of unemployed persons decreased by 300,000 to 6.2 million persons. Employment in professional and business services increased by 42,000 workers. Construction employment declined by 31,000 in February; year over year, the construction industry has added 223,000 jobs.

Consumer spending was strong during much of 2018, supported by employment and wage gains and the tax cuts in late 2017. Consumer durable goods spending grew during the year. Retail sales slowed late in 2018. Overall sales of new cars and light trucks were 17.2 million units in 2018, up 0.5% from 2017. The market share of light trucks and SUVs increased sharply over the last year. During 2018, automakers announced plans to reduce manufacturing in the U.S., coupled with plans to reduce the variety of models offered, particularly among the passenger car segment.

The rate of real private residential fixed investment reached its highest level (seasonally adjusted) in ten years in the fourth quarter of 2017, then declined slowly during 2018. Nonresidential fixed investment accelerated during 2018 to 7% higher than a year earlier. The largest percent change among the major investment subcategories was in intellectual property products. Export demand rose, as did government spending at both the federal level and the state and local level.

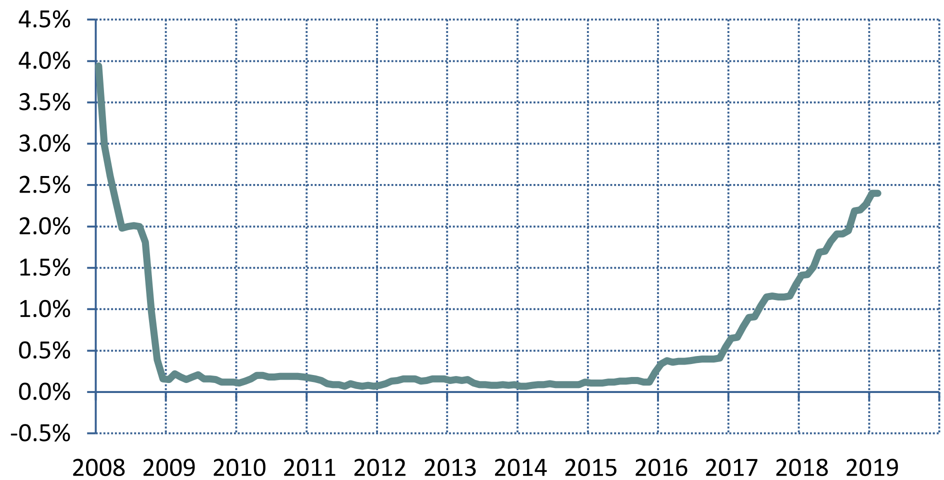
Inflation, measured by the consumer price index (CPI), remained slightly above the Federal Reserve's 2% target for much of CY 2018, and slowed in recent months. The measure which includes food and energy products has been volatile over recent history due to variable energy prices. Overall price inflation was minimal in 2015 and was slow to pick up for much of 2016 after a steep drop in energy prices at the end of 2014. The drop in energy prices in late 2018 resulted in no month-to-month increase in the all-items CPI since October 2018.

Chart 7: Consumer Price Index



The Federal Reserve began raising short-term interest rates in December 2015, and in December 2016 determined economic conditions were strong enough for a second quarter-point increase in the target range. The Federal Reserve's interest rate range was raised consistently over 2017 and 2018 due to strength in the economy, financial markets, and labor market. Future interest rate increases may be more gradual than previously appeared likely. The statement released after the January meeting of the central bank's monetary policy decision-makers 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.

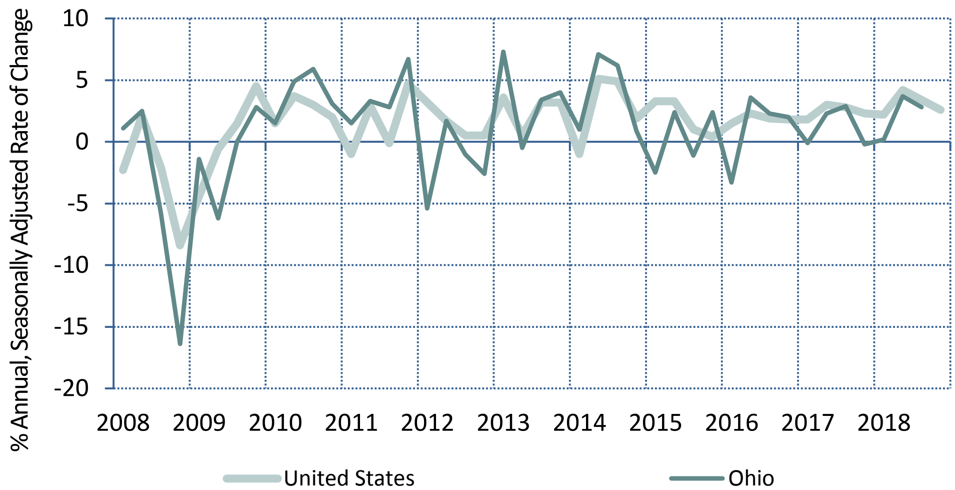
Chart 8: Effective Federal Funds Rate



The Ohio Economy

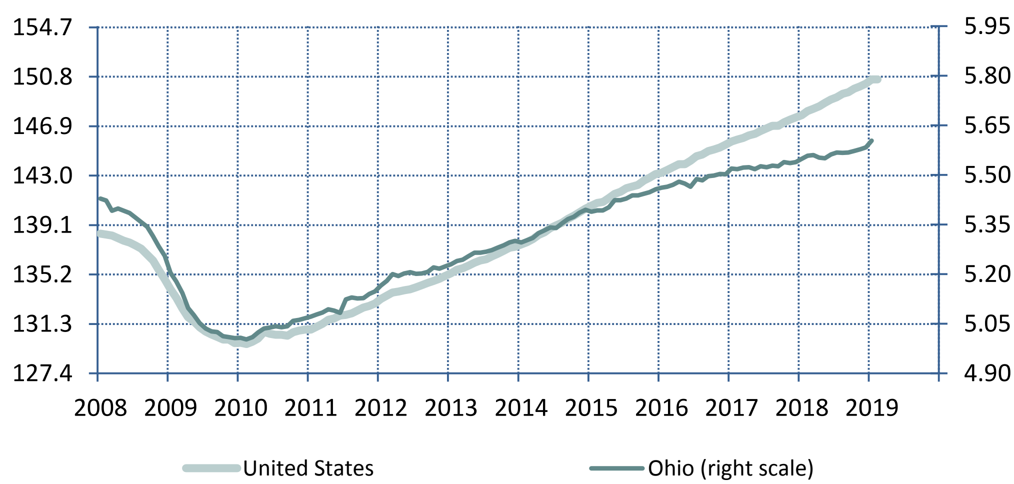
The economy in Ohio has been growing along with the national economy since mid-2016, although the growth rate in real GDP has generally been slower in Ohio than nationally since 2015. In the third quarter of 2018, Ohio's economy grew at an annualized 2.8% rate, down from 3.7% during the second quarter and approximately the same as the third quarter of 2017. Over the same two quarters, national real GDP growth was 3.4% and 4.2%, respectively. During the third quarter of 2018, Ohio's fastest growing sector, as measured by its contribution to total GDP growth, was wholesale trade, followed closely by finance and insurance.

Chart 9: Real Gross Domestic Product
Seasonally Adjusted



In the year to December 2018, Ohio nonfarm payroll employment grew by a revised 44,700 jobs (0.8%), and increased a further 20,300 from December to January.[15] The pace of growth picked up modestly in the past year, after slower growth in 2017. The healthcare and social assistance sector added the most jobs in Ohio in the past year, while retail trade lost the most jobs. In private industry, the goods-producing sector added 18,700 jobs in the past year, while the service-providing sector gained 38,600 workers.

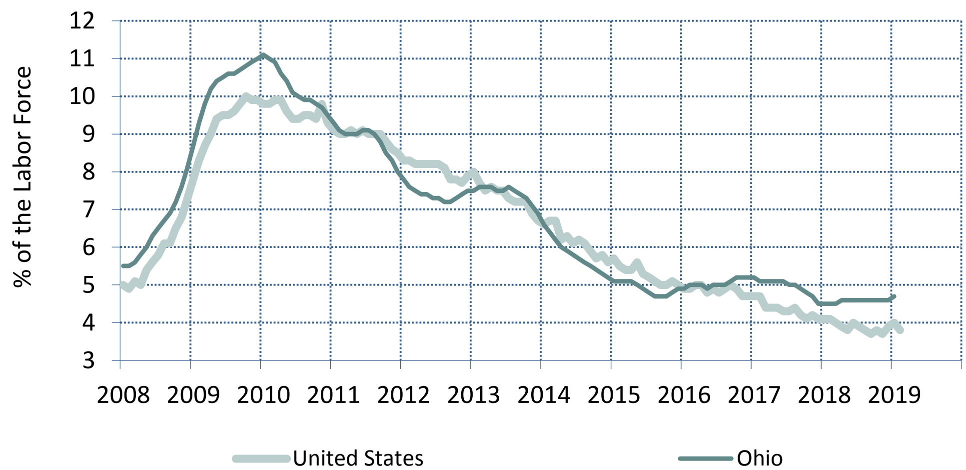
Chart 10: Total Nonfarm Payroll Employment
Millions, Seasonally Adjusted



[15] Prior to revision, Ohio nonfarm payroll employment was reported to have grown 116,500 (2.1%) in the year to December. Nationwide, total nonfarm payroll employment rose 1.8% in that period.

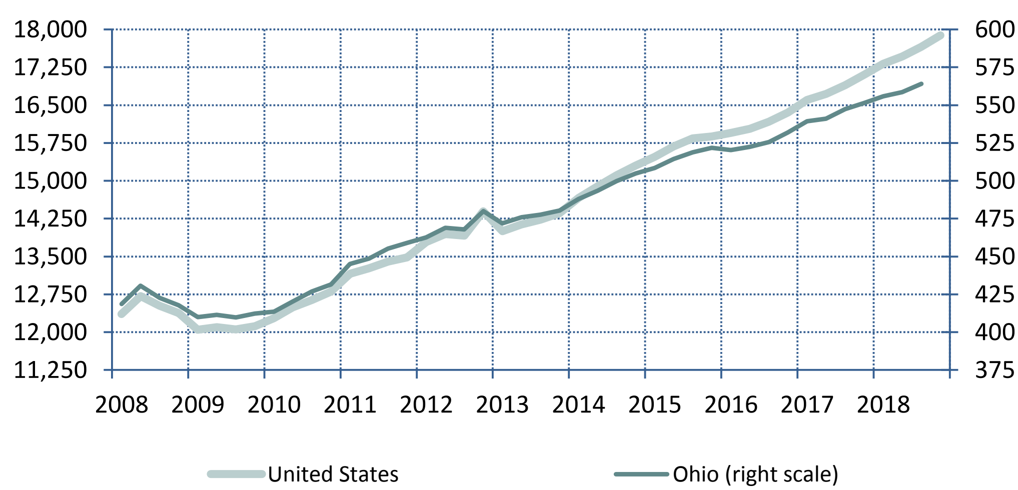
Ohio's unemployment rate in January was 4.7%, up from 4.6% a month prior. Ohio's unemployment rate has been higher than the national average since May 2016. The number of unemployed workers in Ohio was 269,000 in January, an increase of 2,000 from December. The Ohio civilian labor force did not gain a significant number of participants in December 2018, and declined by 0.3% year over year.

Chart 11: Unemployment Rate
Seasonally Adjusted



Personal income, total earnings from wages, investments, transfers, and business income, has grown in Ohio and nationally in nearly every quarter since 2009, as seen in Chart 12. Figures in the chart reflect dollars of current purchasing power. Ohio's personal income grew 3.1% year over year, ending in the third quarter of 2018, while personal income in the U.S. rose 4.4%.

Chart 12: Personal Income
Billions of Dollars, Seasonally Adjusted Annualized Quarters



The Ohio statewide housing market, following a series of moderately strong years, softened in 2018. Housing construction growth, as indicated by building permits for new privately owned units (Chart 13), slowed last year. On the national level, new housing construction activity grew but more slowly than in 2017. Ohio existing home sales, as measured in units, decreased by 0.7% in 2018 as compared to a year prior. According to Ohio Realtors, the average sale price of an existing Ohio home was $182,484 in 2018, an increase of $9,281 over the average sale price in 2017. The total dollar volume of existing home sales was increased by 4.6% in 2018.

Chart 13: New Privately Owned Housing Units Authorized by Building Permits