Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION APRIL 2017

STATUS OF THE GRF

HIGHLIGHTS

– Ross A. Miller, Chief Economist, 614-644-7768

March GRF tax revenue was $202.9 million below the August 2016 estimate by the Office of Budget and Management (OBM). One-third of the shortfall was due to a timing-related negative variance from the foreign insurance tax, but revenue from the income tax and the sales tax was below estimate by a combined $135.9 million.

Ohio payroll employment grew by 15,200 jobs in February. Income tax withholding during the January through March quarter was 3.5% greater than withholding during the corresponding months of 2016, which contrasts favorably with essentially flat year-over-year growth for the final quarter of calendar year 2016.

- Through March, GRF tax revenue totaled $15.86 billion, $614.6 million below OBM's August 2016 estimate;
- Through March, GRF program expenditures totaled $26.74 billion, $898.8 million below OBM's August 2016 estimate. Medicaid accounted for $871.5 million of the total variance;
- The shortfalls in year-to-date GRF tax revenue and program expenditures have both exceeded OBM's January 2017 downward revision targets for the full fiscal year, which were established at $592 million and $825 million, respectively.

VOLUME 40, NUMBER 8

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

Legislative Service Commission
77 South High Street, 9th Floor
Columbus, Ohio 43215

Telephone: 614-466-3615

Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of March 2017
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on April 3, 2017)

STATE SOURCES	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$126,795	$129,800	-$3,005	-2.3%
Nonauto Sales and Use	$651,153	$688,600	-$37,447	-5.4%
Total Sales and Use Taxes	**$777,948**	**$818,400**	**-$40,452**	**-4.9%**
Personal Income	$442,641	$538,100	-$95,459	-17.7%
Corporate Franchise	$165	$0	$165	---
Financial Institution	$33,270	$42,700	-$9,430	-22.1%
Public Utility	$1,907	$2,000	-$93	-4.6%
Kilowatt-Hour Excise	$29,097	$34,000	-$4,903	-14.4%
Natural Gas Consumption (MCF)	$0	$0	$0	---
Commercial Activity Tax	$20,538	$6,800	$13,738	202.0%
Petroleum Activity Tax	$2,155	$1,900	$255	13.4%
Foreign Insurance	$34,321	$102,200	-$67,879	-66.4%
Domestic Insurance	$3	$200	-$197	-98.6%
Business and Property	$0	$0	$0	---
Cigarette	$80,042	$77,800	$2,242	2.9%
Alcoholic Beverage	$4,064	$5,100	-$1,036	-20.3%
Liquor Gallonage	$3,408	$3,300	$108	3.3%
Estate	$4	$0	$4	---
Total Tax Revenue	**$1,429,563**	**$1,632,500**	**-$202,937**	**-12.4%**
NONTAX REVENUE				
Earnings on Investments	$10	$0	$10	---
Licenses and Fees	$30,589	$32,205	-$1,616	-5.0%
Other Revenue	$371	$705	-$334	-47.4%
Total Nontax Revenue	**$30,970**	**$32,910**	**-$1,940**	**-5.9%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$656	$0	$656	---
Total Transfers In	**$656**	**$0**	**$656**	**---**
TOTAL STATE SOURCES	**$1,461,189**	**$1,665,410**	**-$204,221**	**-12.3%**
Federal Grants	$1,048,119	$1,162,487	-$114,369	-9.8%
TOTAL GRF SOURCES	**$2,509,308**	**$2,827,897**	**-$318,590**	**-11.3%**

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

Table 2: General Revenue Fund Sources
Actual vs. Estimate
FY 2017 as of March 31, 2017
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on April 3, 2017)

STATE SOURCES	Actual	Estimate*	Variance	Percent	FY 2016	Percent Change
TAX REVENUE						
Auto Sales	$1,015,342	$1,018,300	-$2,958	-0.3%	$992,249	2.3%
Nonauto Sales and Use	$6,834,289	$6,992,200	-$157,911	-2.3%	$6,698,142	2.0%
Total Sales and Use Taxes	**$7,849,631**	**$8,010,500**	**-$160,869**	**-2.0%**	**$7,690,391**	**2.1%**
Personal Income	$5,478,938	$5,926,600	-$447,662	-7.6%	$5,727,312	-4.3%
Corporate Franchise	$3,394	$0	$3,394	---	$30,368	-88.8%
Financial Institution	$105,722	$131,900	-$26,178	-19.8%	$129,640	-18.4%
Public Utility	$72,302	$73,900	-$1,598	-2.2%	$75,407	-4.1%
Kilowatt-Hour Excise	$272,516	$256,500	$16,016	6.2%	$261,696	4.1%
Natural Gas Consumption (MCF)	$32,145	$32,400	-$255	-0.8%	$30,647	4.9%
Commercial Activity Tax	$960,001	$988,000	-$27,999	-2.8%	$959,792	0.0%
Petroleum Activity Tax	$5,014	$4,900	$114	2.3%	$5,598	-10.4%
Foreign Insurance	$336,770	$317,700	$19,070	6.0%	$316,940	6.3%
Domestic Insurance	$158	$600	-$442	-73.7%	$514	-69.3%
Business and Property	-$678	$0	-$678	---	$92	-841.0%
Cigarette	$667,262	$658,200	$9,062	1.4%	$689,009	-3.2%
Alcoholic Beverage	$42,856	$41,000	$1,856	4.5%	$41,717	2.7%
Liquor Gallonage	$34,786	$33,700	$1,086	3.2%	$33,808	2.9%
Estate	$494	$0	$494	---	$933	-47.1%
Total Tax Revenue	**$15,861,313**	**$16,475,900**	**-$614,587**	**-3.7%**	**$15,993,862**	**-0.8%**
NONTAX REVENUE						
Earnings on Investments	$24,083	$17,200	$6,883	40.0%	$16,606	45.0%
Licenses and Fees	$56,244	$53,010	$3,234	6.1%	$53,635	4.9%
Other Revenue	$54,634	$54,050	$584	1.1%	$45,240	20.8%
Total Nontax Revenue	**$134,961**	**$124,260**	**$10,701**	**8.6%**	**$115,480**	**16.9%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$92,844	$31,800	$61,044	192.0%	$194,576	-52.3%
Total Transfers In	**$92,844**	**$31,800**	**$61,044**	**192.0%**	**$194,576**	**-52.3%**
TOTAL STATE SOURCES	**$16,089,118**	**$16,631,960**	**-$542,842**	**-3.3%**	**$16,303,918**	**-1.3%**
Federal Grants	$9,022,909	$9,709,834	-$686,925	-7.1%	$9,310,931	-3.1%
TOTAL GRF SOURCES	**$25,112,027**	**$26,341,794**	**-$1,229,768**	**-4.7%**	**$25,614,849**	**-2.0%**

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

REVENUES

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

Overview

FY 2017 GRF tax revenue was $614.6 million below estimate through March.

The conclusion of the third fiscal quarter in March 2017 did not change trends observed in the previous two quarters, and the continuing slide in tax revenues, despite relatively good information on the state of the economy as a whole, has been perplexing. On January 30, 2017, OBM revised downward its August 2016 estimates of FY 2017 GRF tax revenue by $592.2 million, which was consistent with revenue experiences throughout the fiscal year. However, the variance analyses in this issue of *Budget Footnotes* are based on the August estimates as OBM did not revise its monthly estimates for the remainder of FY 2017.

Based on the August estimates, total GRF sources[1] of $25.11 billion through March were $1.23 billion (4.7%) below projections, from shortfalls of $614.6 million from tax sources and $686.9 million in federal grants, the latter primarily related to the level of spending in the Medicaid program. (See the "**Expenditures**" section of this publication.)[2] Those negative variances were partially offset by positive variances of $61.0 million in transfers in and $10.7 million in nontax revenue. Tables 1 and 2 above show GRF sources for March and for FY 2017 through March, respectively.

March GRF tax revenue was $202.9 million below estimate.

For the month of March, GRF sources of $2.51 billion were $318.6 million below the August estimate, with negative variances of $114.4 million for federal grants and $202.9 million for tax sources. The performance of tax sources was affected by a negative variance of $67.9 million from the foreign insurance tax (which partly reversed a timing-related surplus of $80.4 million in February). However, the negative variance in tax revenue was mainly affected by the personal income tax (PIT), which was $95.5 million below estimate, and the sales and use tax, which was short of anticipated receipts by $40.5 million. In addition, the financial institutions tax (FIT), the kilowatt-hour tax, and the alcoholic beverage tax were below target by $9.4 million, $4.9 million, and $1.0 million, respectively. The negative variances above were

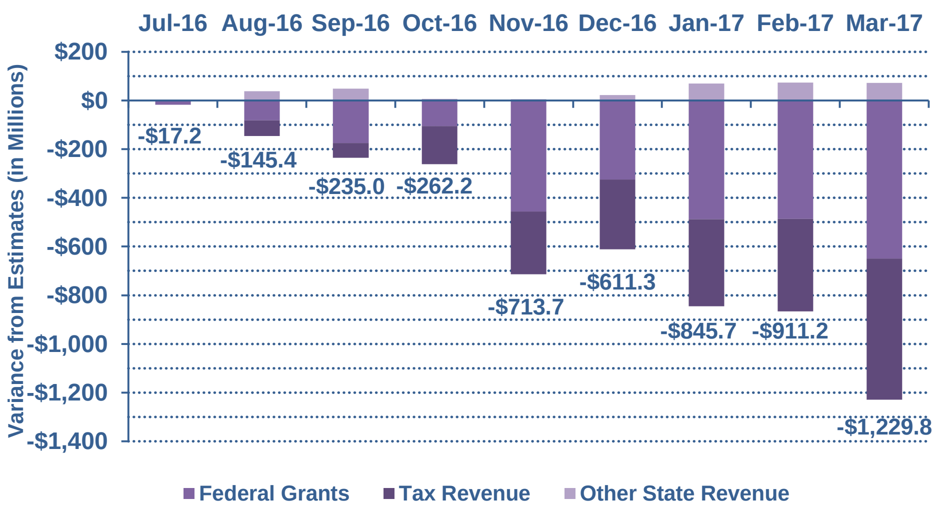
[1] GRF sources consist of state-source receipts (tax revenue, nontax revenue, and transfers in) and federal grants, which are typically federal reimbursements for Medicaid and other programs.

[2] Through March, FY 2017 GRF Medicaid spending was $871.5 million below estimate.

partially offset by positive variances of $13.7 million from the commercial activity tax (CAT) and $2.2 million from the cigarette and other tobacco products tax.

The following chart illustrates the cumulative performance of total GRF sources relative to estimates through each month of FY 2017, broken down by its largest components. Despite a small positive contribution from the "other state revenue" component (light purple bar in the online version of the chart), the GRF's cumulative sources were $1,229.8 million below estimate through March, as labeled in the far right column.

Chart 1: GRF Source Fiscal Year Cumulative Performance by Component

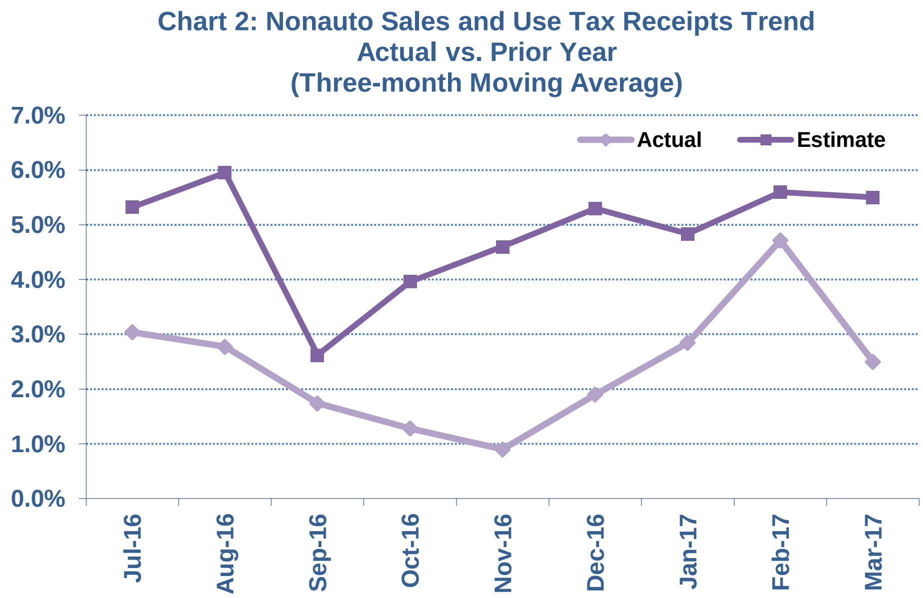


Compared to the corresponding period in FY 2016, tax revenue in FY 2017 was $132.6 million (0.8%) lower. Though most of the revenue decrease was due to lower collections from the PIT ($248.4 million), receipts from the corporate franchise tax, the cigarette taxes, and the FIT decreased by $27.0 million, $21.7 million, and $23.9 million, respectively. On the other hand, sales and use tax revenue was $159.2 million higher than in FY 2016; and revenue also grew for the foreign insurance tax ($19.8 million) and the kilowatt-hour excise tax ($10.8 million).

Sales and use tax receipts were $160.9 million below estimates through March in FY 2017.

Sales and Use Tax

For the first time in almost a year, sales and use tax revenue fell below receipts in the corresponding month in the preceding year. In March, GRF monthly sales and use tax revenue of $777.9 million was $40.5 million (4.9%) below estimate and also $9.8 million (1.2%) below revenue in the same month last year. For the fiscal year to date, GRF sales and use tax receipts of $7.85 billion were $160.9 million (2.0%) below estimate, though they were $159.2 million (2.1%) above receipts in FY 2016 through March. The sales and use tax is the largest state-sourced revenue stream to the GRF. For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto; both tax sources were below projections in March. 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.[3]



Nonauto Sales and Use Tax

Nonauto sales and use tax revenue was $157.9 million below estimate through March in FY 2017.

For the third time this fiscal year, monthly nonauto sales tax receipts were below receipts in the corresponding month in FY 2016. Nonauto sales and use tax revenue to the GRF was $651.2 million in March, an amount $37.4 million (5.4%) below estimate and $3.5 million (0.5%) below revenue in March 2016. Collections from this segment of the tax had been below the estimate every month this fiscal year, except in December. Comparing revenue, month by month, to revenue from the same month a year ago reveals growth, but the pace has decreased in the most recent months. For FY 2017 through March, nonauto sales and use tax revenue of $6.83 billion was $157.9 million (2.3%) below expectations, though receipts were $136.1 million (2.0%) above receipts in the corresponding period in FY 2016. Chart 2 above illustrates the year-over-

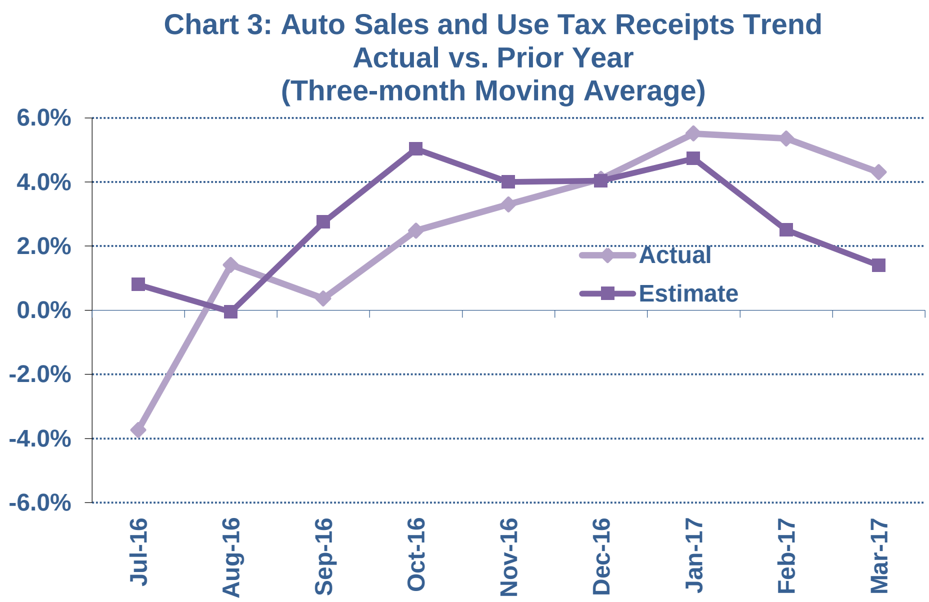
[3] Taxes arising from leases are paid immediately upon the lease signing. The clerks of court generally make auto sales and use tax payments on Mondays for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled. Therefore, auto sales and use tax receipts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

year growth of nonauto sales and use tax collections and its failure to meet estimates in FY 2017.

Auto Sales and Use Tax

After a strong performance that brought its revenue up to estimate for the year in February, the auto sales tax stumbled in March. For the month, the GRF received $126.8 million, an amount that was $3.0 million (2.3%) below expectations and $6.2 million (4.7%) below receipts in the same month in 2016. For the fiscal year, GRF revenue of $1.02 billion was $3.0 million (0.3%) below estimates and $23.1 million (2.3%) above revenue in FY 2016 through March. As the chart below illustrates, the year-over-year growth generally picked up in FY 2017 until it slowed in recent months.

Auto sales and use tax revenue was $3.0 million below estimate through March in FY 2017.



Nationwide, vehicle sales appear to have also shifted into lower gear. The sales pace of light vehicles (autos and light trucks) fell to 17.2 million units (seasonally adjusted annual rate) in the first quarter of 2017, down from 18.0 million in the final three months of 2016 and 17.3 million a year ago in the corresponding quarter in 2016. CY 2017 first-quarter auto sales fell by 9.5% compared to the October-December quarter; the corresponding figure for light trucks was a more moderate decline of 1.5%. Relative to the same quarter a year ago, nationwide unit sales of light trucks were up 6.7%, while sales of autos fell 11.7%. Auto sales were 37% of all light vehicle unit sales during the first three months of 2017. In the same quarter a year ago, they were 42% of all unit sales, and in 2015 their share was 45% of total unit sales.

Personal Income Tax

FY 2017 PIT revenue was $447.7 million below estimate through March.

The performance of the PIT has been underwhelming through the first three fiscal quarters and the main culprit for the sustained weakness of GRF tax sources in FY 2017. Typically, fourth-quarter PIT receipts may be as high as a third of total PIT fiscal year receipts; thus results of the individual income tax filing season in April and receipts from the first and second quarterly estimated payments (due in April and June, respectively) will determine the extent of the fiscal year's results for this tax source and tax receipts as a whole.

March PIT GRF revenue was $442.6 million, $95.5 million (17.7%) below the August estimate. However, receipts were $22.9 million (5.5%) above revenue in March 2016. Through the end of March 2017, total FY 2017 GRF revenue from the PIT of $5.48 billion was $447.7 million (7.6%) below OBM's August estimate, and $248.4 million (4.3%) below PIT revenue in the corresponding period in FY 2016. 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,[4] trust payments, payments associated with annual returns, and other miscellaneous payments.

Revenue from employer withholding was $192.2 million below estimate in FY 2017 through March.

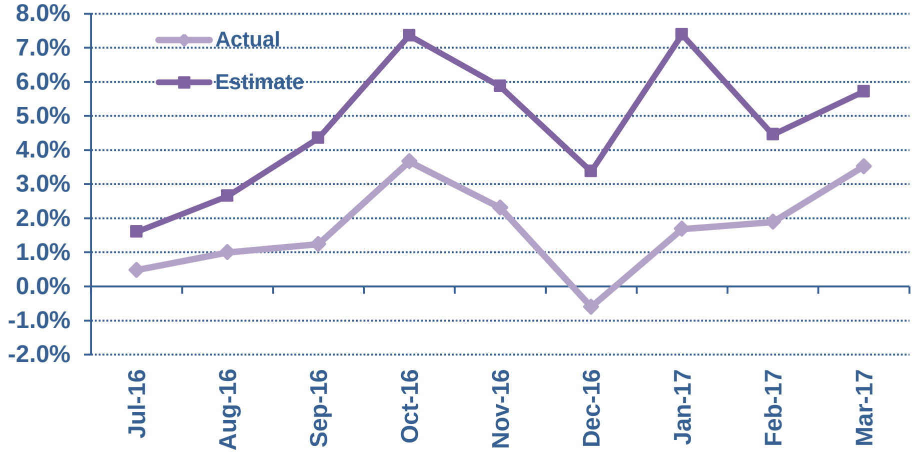
The performance of the tax is typically driven by employer withholdings and refunds. In March, employer withholding was $23.2 million below estimates, whereas refunds were $76.6 million higher than anticipated. On the other hand, quarterly estimated payments were above estimates by $3.7 million. For FY 2017 through March, the PIT revenue shortfall was due to refunds that were $271.5 million (25.8%) higher than expected. Also, employer withholding revenue was $192.2 million (3.0%) short of anticipated receipts. In addition to that negative variance, miscellaneous payments and revenue from trusts were lower than expected by $8.5 million (11.6%) and $5.7 million (19.4%). Partly offsetting those shortfalls, collections from quarterly estimated payments and annual return payments were above anticipated revenue by $8.0 million (1.6%) and $13.9 million (9.1%), respectively.

Chart 4 below illustrates how a three-month moving average of monthly employer withholdings has grown relative to one year earlier. The pace of growth increased during early FY 2017, as the effects of

[4] 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.

policy changes (which led to reduced withholding rates in August 2015)[5] were phased out of the year-over-year calculations, but fell in the second fiscal quarter. PIT revenue began growing again in December and continued in the first quarter of 2017, though the tax is substantially below estimated revenue for the fiscal year as a whole.

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



FY 2017 revenues through March from each component of the PIT relative to estimates and to revenue received in the corresponding period of FY 2016 are detailed in the table below.

FY 2017 Year-to-Date Personal Income Tax Revenue Estimate Variances and Year-over-Year Changes by Component				
Category	Year-to-Date Variance from Estimate		Year-to-Date Changes from FY 2016	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	-$192.2	-3.0%	$85.3	1.4%
Quarterly Estimated Payments	$8.0	1.6%	-$204.9	-28.3%
Trust Payments	-$5.7	-19.4%	-$9.4	-28.4%
Annual Return Payments	$13.9	9.1%	-$17.1	-9.3%
Miscellaneous Payments	-$8.5	-11.6%	-$2.8	-4.1%
Gross Collections	-$184.4	-2.5%	-$148.9	-2.1%
Less Refunds	$271.5	25.8%	$95.3	7.8%
Less LGF Distribution	-$8.3	-2.8%	$4.1	1.5%
GRF PIT Revenue	-$447.7	-7.6%	-$248.4	-4.3%

[5] H.B. 64, the budget act for the current biennium, reduced income tax rates for all brackets by 6.3% for taxable years beginning in 2015, and the withholding rate reduction was implemented in August 2015.

FY 2017 gross collections were $148.9 million below collections through the first three quarters last year. Most of the decline was due to lower quarterly estimated payments ($204.9 million) as taxpayers adjusted the payments to lower tax rates and lower taxation of business income. On the other hand, payroll continued to grow and employer withholding increased by $85.3 million compared to the corresponding period last year.

Cigarette and Other Tobacco Products Tax

FY 2017 revenue from the cigarette tax was $9.1 million above estimate.

Through March, the cigarette and other tobacco products tax was the only major tax source that consistently outperformed expectations. March GRF revenue from the cigarette and other tobacco products tax of $80.0 million was $2.2 million (2.9%) above estimate and $0.6 million (0.7%) above revenue in March 2016; and for the fiscal year, receipts from the tax were $667.3 million, $9.1 million (1.4%) above estimate. Of the total revenue, $618.7 million was from sales of cigarettes and $48.6 million was from sales of other tobacco products. Compared to the corresponding period of FY 2016, receipts in FY 2017 were $21.7 million (3.2%) lower. Generally, cigarette tax receipts are trending downward long term; however, legislative changes[6] led to increased receipts in the early months of FY 2016. Excluding floor tax receipts, FY 2017 receipts were 0.8% below receipts in FY 2016.

Commercial Activity Tax

FY 2017 revenue from the CAT was $28.0 million below estimate.

The third quarter of FY 2017 provided GRF receipts of $341.3 million from the CAT, including $20.5 million in March. March receipts were $13.7 million (202.0%) above estimate, and $5.4 million (35.4%) above revenue in the same month last year. For the fiscal year through March, CAT revenues to the GRF totaled $960.0 million, $28.0 million (2.8%) below estimate, and almost flat compared to GRF revenue in the corresponding period in FY 2016. According to OAKS, gross collections were $1.37 billion, $5.2 million (0.4%) below collections in the first three quarters of FY 2016. However, FY 2017 net collections were slightly above net collection in FY 2016 because refunds were lower this fiscal year by about $5 million.

[6] H.B. 64 increased the cigarette tax from $1.25 to $1.60 per pack of 20 cigarettes, effective July 1, 2015. This led to the payment of a "floor tax" for cigarettes in inventory at the time the new tax rate went into effect. Excluding the effect of the floor tax, the year-over-year decline in tax revenue was about 0.6%.

Though weakness in gross collections has continued this fiscal year, third-quarter gross collections were about 2.0% above collections in the third quarter in FY 2016. CAT gross collections were lower in the first and second quarters by 0.7% and 2.5%, respectively, when compared to the corresponding quarters in FY 2016.

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

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary and Secondary Education	$861,114	$890,003	-$28,889	-3.2%
Higher Education	$185,876	$187,359	-$1,482	-0.8%
Other Education	$7,002	$3,579	$3,424	95.7%
Total Education	$1,053,993	$1,080,940	-$26,948	-2.5%
Medicaid	$1,566,289	$1,643,572	-$77,282	-4.7%
Health and Human Services	$108,790	$107,343	$1,447	1.3%
Total Welfare and Human Services	$1,675,079	$1,750,915	-$75,836	-4.3%
Justice and Public Protection	$143,178	$150,364	-$7,186	-4.8%
General Government	$25,963	$25,293	$670	2.7%
Total Government Operations	$169,140	$175,656	-$6,516	-3.7%
Property Tax Reimbursements	$233,181	$124,500	$108,681	87.3%
Debt Service	$155,511	$155,819	-$308	-0.2%
Total Other Expenditures	$388,692	$280,320	$108,372	38.7%
Total Program Expenditures	**$3,286,904**	**$3,287,831**	**-$927**	**0.0%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$13,095	$0	$13,095	---
Total Transfers Out	$13,095	$0	$13,095	---
TOTAL GRF USES	**$3,299,999**	**$3,287,831**	**$12,168**	**0.4%**

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

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

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2016**	**Percent Change**
Primary and Secondary Education	$6,293,444	$6,293,493	-$49	0.0%	$5,783,723	8.8%
Higher Education	$1,733,246	$1,744,448	-$11,201	-0.6%	$1,676,627	3.4%
Other Education	$62,196	$61,189	$1,008	1.6%	$58,890	5.6%
Total Education	$8,088,887	$8,099,130	-$10,243	-0.1%	$7,519,240	7.6%
Medicaid	$13,397,130	$14,268,617	-$871,487	-6.1%	$13,667,431	-2.0%
Health and Human Services	$1,041,294	$1,094,066	-$52,772	-4.8%	$1,024,944	1.6%
Total Welfare and Human Services	$14,438,424	$15,362,682	-$924,258	-6.0%	$14,692,375	-1.7%
Justice and Public Protection	$1,577,353	$1,600,612	-$23,259	-1.5%	$1,540,326	2.4%
General Government	$285,897	$301,928	-$16,031	-5.3%	$269,875	5.9%
Total Government Operations	$1,863,251	$1,902,540	-$39,290	-2.1%	$1,810,201	2.9%
Property Tax Reimbursements	$1,135,431	$1,044,483	$90,947	8.7%	$1,027,931	10.5%
Debt Service	$1,218,382	$1,234,322	-$15,941	-1.3%	$1,186,616	2.7%
Total Other Expenditures	$2,353,812	$2,278,806	$75,007	3.3%	$2,214,547	6.3%
Total Program Expenditures	**$26,744,374**	**$27,643,158**	**-$898,784**	**-3.3%**	**$26,236,363**	**1.9%**
TRANSFERS						
Budget Stabilization	$29,483	$29,483	$0	0.0%	$425,500	-93.1%
Other Transfers Out	$256,256	$269,541	-$13,284	-4.9%	$406,003	-36.9%
Total Transfers Out	$285,739	$299,023	-$13,284	-4.4%	$831,503	-65.6%
TOTAL GRF USES	**$27,030,113**	**$27,942,182**	**-$912,069**	**-3.3%**	**$27,067,866**	**-0.1%**

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

Table 5: Medicaid Expenditures by Department
Actual vs. Estimate
($ in thousands)
(Actuals based on OAKS report run on April 6, 2017)

	Month of March 2017				Year to Date Through March 2017			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid	**$1,959,536**	**$2,380,176**	**-$420,640**	**-17.7%**	**$17,036,457**	**$18,120,788**	**-$1,084,332**	**-6.0%**
GRF	$1,516,521	$1,589,269	-$72,748	-4.6%	$12,911,008	$13,750,156	-$839,148	-6.1%
Non-GRF	$443,015	$790,907	-$347,892	-44.0%	$4,125,449	$4,370,632	-$245,183	-5.6%
Developmental Disabilities	**$209,933**	**$231,403**	**-$21,470**	**-9.3%**	**$1,873,228**	**$1,982,029**	**-$108,801**	**-5.5%**
GRF	$43,864	$47,236	-$3,372	-7.1%	$425,497	$432,133	-$6,636	-1.5%
Non-GRF	$166,069	$184,167	-$18,098	-9.8%	$1,447,730	$1,549,896	-$102,165	-6.6%
Job and Family Services	**$16,089**	**$14,280**	**$1,809**	**12.7%**	**$159,996**	**$195,698**	**-$35,701**	**-18.2%**
GRF	$5,355	$6,531	-$1,176	-18.0%	$53,145	$79,270	-$26,126	-33.0%
Non-GRF	$10,734	$7,749	$2,985	38.5%	$106,852	$116,427	-$9,576	-8.2%
Health	**$1,531**	**$3,160**	**-$1,629**	**-51.6%**	**$20,865**	**$20,277**	**$588**	**2.9%**
GRF	$376	$254	$123	48.3%	$2,923	$2,491	$432	17.4%
Non-GRF	$1,155	$2,906	-$1,752	-60.3%	$17,942	$17,786	$156	0.9%
Aging	**$455**	**$514**	**-$58**	**-11.3%**	**$5,409**	**$5,765**	**-$356**	**-6.2%**
GRF	$173	$282	-$109	-38.6%	$2,807	$2,816	-$9	-0.3%
Non-GRF	$282	$232	$50	21.7%	$2,602	$2,949	-$346	-11.7%
Mental Health and Addiction	**$410**	**$195**	**$215**	**110.6%**	**$4,172**	**$3,411**	**$761**	**22.3%**
GRF	$0	$0	$0	---	$1,750	$1,750	$0	0.0%
Non-GRF	$410	$195	$215	110.6%	$2,422	$1,661	$761	45.8%
Total GRF	**$1,566,289**	**$1,643,572**	**-$77,282**	**-4.7%**	**$13,397,130**	**$14,268,617**	**-$871,487**	**-6.1%**
Total Non-GRF	**$621,665**	**$986,156**	**-$364,491**	**-37.0%**	**$5,702,997**	**$6,059,351**	**-$356,354**	**-5.9%**
Total All Funds	**$2,187,955**	**$2,629,728**	**-$441,773**	**-16.8%**	**$19,100,127**	**$20,327,967**	**-$1,227,841**	**-6.0%**

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

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

	March				Year to Date Through March 2017			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	$868,472	$936,971	-$68,499	-7.3%	$7,555,489	$8,189,333	-$633,843	-7.7%
Nursing Facilities	$122,377	$111,607	$10,770	9.6%	$1,137,976	$1,098,958	$39,018	3.6%
DDD Services	$198,555	$220,778	-$22,223	-10.1%	$1,812,316	$1,914,071	-$101,755	-5.3%
Hospitals	$213,057	$545,521	-$332,464	-60.9%	$1,748,397	$1,879,035	-$130,638	-7.0%
Behavioral Health	$98,821	$96,633	$2,188	2.3%	$853,188	$909,515	-$56,327	-6.2%
Administration	$71,670	$86,084	-$14,414	-16.7%	$671,370	$815,752	-$144,382	-17.7%
Aging Waivers	$28,424	$29,035	-$610	-2.1%	$258,750	$264,360	-$5,609	-2.1%
Prescription Drugs	$28,513	$33,814	-$5,301	-15.7%	$290,113	$333,798	-$43,685	-13.1%
Medicare Buy-In	$48,431	$41,306	$7,126	17.3%	$457,461	$354,184	$103,277	29.2%
Physicians	$12,530	$15,884	-$3,354	-21.1%	$127,996	$152,044	-$24,048	-15.8%
Medicare Part D	$40,806	$29,307	$11,499	39.2%	$295,795	$253,381	$42,413	16.7%
Home Care Waivers	$9,919	$13,407	-$3,488	-26.0%	$92,501	$128,574	-$36,073	-28.1%
ACA - Managed Care	$357,415	$397,686	-$40,271	-10.1%	$3,071,273	$3,335,411	-$264,137	-7.9%
All Other	$88,964	$71,695	$17,268	24.1%	$727,501	$699,552	$27,949	4.0%
Total All Funds	**$2,187,955**	**$2,629,728**	**-$441,773**	**-16.8%**	**$19,100,127**	**$20,327,967**	**-$1,227,841**	**-6.0%**

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

EXPENDITURES

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

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

Overview

Through March, GRF program expenditures were below OBM's August 2016 estimate by $898.8 million, of which $871.5 million occurred in Medicaid.

For the first three quarters of FY 2017, GRF Medicaid expenditures totaled $13.40 billion. These expenditures were $871.5 million below the estimate released by OBM in August 2016.[7] GRF Medicaid expenditures' negative year-to-date variance alone has exceeded the $825 million downward adjustment made by OBM in January for GRF program expenditures as a whole for the full fiscal year. Medicaid is primarily funded by the GRF although it also receives funding from various non-GRF funds. As a joint federal-state program, both GRF and non-GRF Medicaid expenditures contain federal and state moneys. In recent years, the federal government reimburses about two-thirds of Ohio's all-funds Medicaid expenditures. The section that follows this overview provides more details on Medicaid expenditures.

Year-to-date expenditures were also below OBM's August 2016 estimates for all other program categories except for Property Tax Reimbursements and Other Education. The $90.9 million positive year-to-date variance in the Property Tax Reimbursements program category was due to timing; reimbursement payments were $108.7 million (87.3%) above estimate in March. This program category is expected to finish the fiscal year below estimate due primarily to declines in homestead exemption payments. The Other Education program category had a small positive year-to-date variance of $1.0 million. Including Medicaid, year-to-date GRF program expenditures were $898.8 million (3.3%) below OBM's August 2016 estimate.

Tables 3 and 4 show GRF uses for the month of March and for FY 2017 through March, respectively. GRF uses mainly consist of program expenditures but also include transfers out. Including both program expenditures and transfers out, year-to-date GRF uses were $912.1 million (3.3%) below OBM's August 2016 estimate.

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

Medicaid

Table 5 shows GRF and non-GRF Medicaid expenditures for the Ohio Department of Medicaid (ODM) and the five "sister" agencies – Developmental Disabilities, Job and Family Services, Health, Aging, and Mental Health and Addiction Services. Through March, all-funds Medicaid expenditures totaled $19.10 billion, $1.23 billion (6.0%) below estimate. Year-to-date GRF Medicaid expenditures were below estimate by $871.5 million (6.1%), of which $77.3 million occurred in the month of March. As expected, non-GRF Medicaid expenditures in March were below estimate by a large amount ($364.5 million, 37.0%). As reported in the previous issue of *Budget Footnotes*, ODM made both its originally scheduled February ($314.0 million) and March ($314.0 million) HCAP (Hospital Care Assurance Program) payments in February. Under HCAP, Ohio makes subsidy payments to hospitals that provide uncompensated care to low-income and uninsured individuals at or below 100% of the federal poverty level. For the year to date, non-GRF Medicaid expenditures were $356.4 million (5.9%) below estimate.

Across all funds, year-to-date Medicaid expenditures were $1.23 billion below estimate.

Table 6 details all-funds Medicaid expenditures by payment category. As seen from the table, Managed Care continues to have the largest negative year-to-date variance, which grew another $68.5 million (7.3%) in March to $633.8 million (7.7%) for the year to date. Lower than forecasted managed care rates are the main culprits. Actual rates (which are set at the beginning of each calendar year) for calendar years 2016 and 2017 are both below the ones used in the estimate. Therefore, the negative variance in Managed Care will likely continue to grow in the last quarter of FY 2017. Lower than forecasted managed care rates are also the main reason behind the negative year-to-date variance in the ACA Managed Care category. This category's negative variance also grew in March by $40.3 million (10.1%). For the year to date, ACA Managed Care registered the second largest negative variance at $264.1 million (7.9%).

The third largest negative year-to-date variance occurred in the Administration category ($144.4 million, 17.7%). Approximately 40% of Medicaid's administrative spending is driven by service levels. Therefore, variances in spending in Administration often reflect variances in spending in the service categories. Variances in this category are also driven by timing issues as billing for various contracts can be difficult to predict.

Hospitals had the fourth largest negative year-to-date variance at $130.7 million (7.0%). As indicated earlier, the originally anticipated March HCAP payments were disbursed in February. As a result, in February this category registered the only positive year-to-date variance of this fiscal year at $201.8 million. As this timing issue was resolved in March, this category's variance returned to the trend it had for all other months of the fiscal year. These negative variances were mainly due to lower than anticipated spending for the aged, blind, and disabled (ABD) population.

Medicare Buy-in, on the other hand, continues to spend more than originally anticipated, which partially offset the overwhelmingly negative year-to-date variances in various Medicaid payment categories. The positive variance in Medicare Buy-in grew another $7.1 million (17.3%) in March to a total of $103.3 million (29.2%) through March, due to larger than anticipated increases in Medicare Part B premiums for both calendar years 2016 and 2017. Due to a higher rate increase in calendar year 2017, the positive variance will likely grow at a faster rate in the second half of FY 2017 than in the first half. The Medicare Buy-in Program pays Medicare premiums, deductibles, and coinsurance for certain low-income Ohioans. Two other categories that had relatively large positive year-to-date variances are Medicare Part D ($42.4 million, 16.7%) and Nursing Facilities ($39.0 million, 3.6%).

Also worth noting, the All Other category had a positive year-to-date variance of $27.9 million (4.0%) due partly to payments for the new Comprehensive Primary Care (CPC) Program. Participating CPC practices are eligible to receive a per-member per-month incentive payment by engaging in activities that are known to improve patients' health. Payments average $4 per-member per-month. The first payments were made in February.

ISSUE UPDATES

Department of Job and Family Services Releases TANF Spending Plan

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

On March 9, 2017, the Ohio Department of Job and Family Services (ODJFS) released the Temporary Assistance for Needy Families (TANF) Spending Plan estimates for FY 2018 and FY 2019. The plan summarizes how the Department proposes to expend Ohio's federal TANF block grant allocation and meet maintenance of effort (MOE) spending requirements. TANF and MOE funds must first be used to provide cash assistance payments to low-income individuals; ODJFS provides this support through Ohio Works First. After budgeting for those payments, the funds may be used to provide short-term benefits and other services to eligible families, such as child care and food assistance. The table below summarizes these allocations, including both federal TANF moneys and MOE.

TANF Spending Plan, in millions		
Category/Program	**FY 2018**	**FY 2019**
Ohio Works First	$264.1	$251.0
Child Care	$455.2	$472.2
County Allocations	$326.8	$326.8
Title XX Services	$72.8	$72.8
State Administration	$54.7	$57.5
Department of Education	$70.3	$70.3
Food Banks	$17.1	$17.1
Ohio Association of Food Banks	$24.9	$24.9
Faith-Based Initiatives	$6.5	$6.5
Kinship Permanency	$5.3	$5.3
Independent Living	$2.0	$2.0
Other	$1.3	$1.0
Total	**$1,301.0**	**$1,307.3**

*Figures may not sum due to rounding.

Ohio's TANF block grant allocation is $728.0 million annually; to draw down the full amount, the state must spend at least $416.9 million in MOE. Total spending exceeds $1.15 billion in TANF resources annually due to a combination of spending in excess of the MOE and rolling over federal TANF funds from the previous fiscal year.

The TANF Block Grant is expended through federal fund 3V60 appropriation item 600689, TANF Block Grant. MOE payments are made from numerous appropriation items, most notably GRF appropriation items 600410, TANF State Maintenance of Effort, 600535, Early Care and Education, 200408, Early Childhood Education, and dedicated purpose fund 4A80 appropriation item 600658, Public Assistance Activities.

ODODD Releases FY 2017 Second Quarter Scorecard on Budget Initiatives

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

On March 8, 2017, the Ohio Department of Developmental Disabilities (ODODD) released its 2017 Second Quarter Scorecard, which outlines ODODD's progress on implementing various budget initiatives included in H.B. 64. H.B. 64 provided an increase of approximately $300 million to ODODD for the creation of 3,000 new state-funded Medicaid waivers, which allow individuals with disabilities to receive care in their communities or in their homes rather than in intermediate care facilities (ICFs) or other long-term care facilities. Of the 3,000 new waivers, 1,864 were designated for individuals on a waiting list for waiver services. This includes 1,000 Self-Empowered Life Funding (SELF) waivers and 864 Individual Options (IO) waivers. According to the Scorecard, all of these designated waivers have been assigned to individuals. Once an individual is assigned a waiver, the county board of developmental disabilities arranges housing and providers so the individual may begin receiving services. Of the assigned waivers, 392 individuals with SELF waivers and 437 individuals with IO waivers are receiving services.

The remaining 1,136 waivers were designated in the following manner: 800 exit waivers and 336 diversion waivers. Diversion waivers allow individuals who are seeking admission to an ICF the option of living in a community setting. Prior to admission to an ICF, an individual is counseled and informed of his or her options. According to the Scorecard, 235 preadmission counseling sessions have taken place and 38 individuals were assigned a diversion waiver. Exit waivers assist individuals seeking to move out of an ICF. All 800 exit waivers have been assigned. Thus far, 26 individuals with a diversion waiver and 84 individuals with an exit waiver are receiving services.

The Scorecard also provides various statistics regarding ICF downsizing and conversion, provision of day services by county DD boards, rental assistance provided, and community/integrated employment. The Scorecard can be found at the following link: http://dodd.ohio.gov/Communications/SiteAssets/Scorecard.Q2%20Final.pdf.

Ohio Task Force on Affordability and Efficiency in Higher Education Evaluates Action Plans of Public Universities

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

In early February, the Ohio Task Force on Affordability and Efficiency in Higher Education released a report[8] that evaluated progress made by the 14 public universities in 2016 with their action plans, which they had submitted in response to the October 2015 recommendations of the Task Force. The evaluation report assigned each public university a rating of "strong progress," "continued progress needed," or "unacceptable" toward a five-year goal of establishing efficiency savings or new revenue sources that directly benefit students[9] and toward each of the six other key recommendations of the Task Force. As shown in the table below, the majority of universities earned the middle rating, continued progress needed, on these seven measures. The strongest results were for providing financial advising and literacy and conducting operations review. Five universities earned the highest rating, strong progress, on both measures. Four universities earned the highest rating on producing a diagnostic to identify cost drivers and opportunities for efficiencies. However, this is also the measure with the greatest number of low ratings; four universities were rated unacceptable on this indicator.

University Progress Report Ratings by Recommendation – 2016

Recommendation	Strong Progress	Continued Progress Needed	Unacceptable
Provide financial advising and literacy	5	9	0
Conduct operations review	5	7	2
Produce cost diagnostic	4	6	4
Develop five-year goals	3	11	0
Utilize joint contracts	3	11	0
Utilize existing contracts	1	10	3
Develop digital capabilities	1	10	3

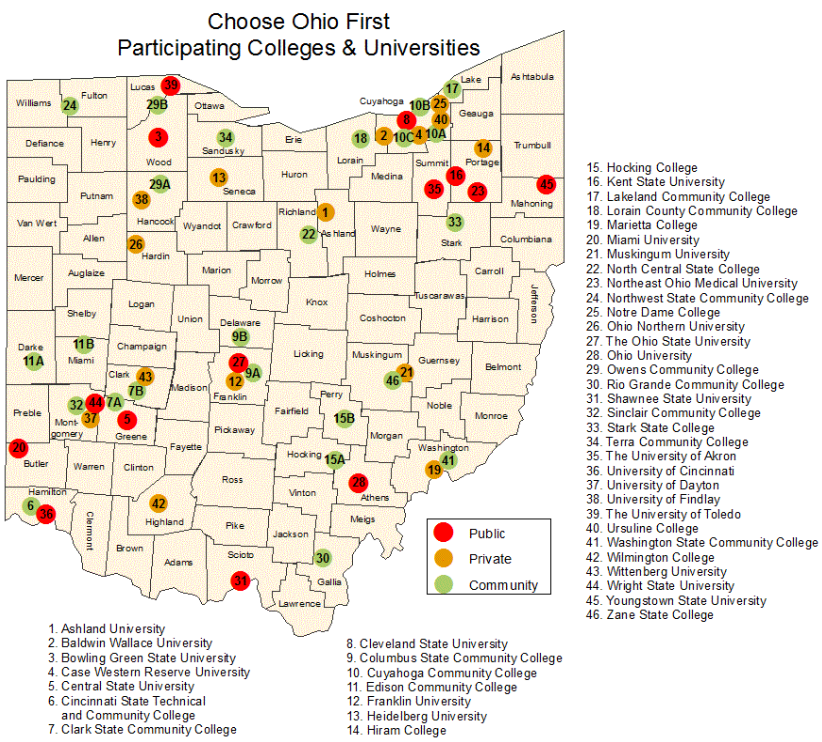
[8] The full report can be read at: https://www.ohiohighered.org/affordability-efficiency/task-force – select "Progress Report: An evaluation of how institutions responded to Action Steps to Reduce College Costs."

[9] According to the report, these universities proposed approximately $1.2 billion in efficiency savings and new revenue sources over the next five years in their action plans.

Forty-Six Public and Private Colleges and Universities Participate in Choose Ohio First Program

– Adam Wefler, Budget Analyst, 614-644-1721

With the Controlling Board's approval, in March 2017 the Department of Higher Education (DHE) awarded a total of $7.5 million in Choose Ohio First scholarships to 32 of the 46 participating colleges and universities across the state. These competitive awards will be used by those colleges and universities to provide scholarships, averaging $4,000 per student, for Ohio residents pursuing degrees in STEMM (science, technology, engineering, mathematics, and medicine) fields or STEMM education. The Choose Ohio First Program was originally established in 2007 to increase the number of Ohio residents who pursue degrees in STEMM fields or STEMM education. Since then, 46 public and private colleges and universities (see map below) have received the Choose Ohio First designation with enrolled scholars receiving scholarship moneys. These institutions provide support specifically targeted to Choose Ohio First scholars to increase retention and graduation rates of those scholars. The number of STEMM degrees awarded in Ohio increased by 51% from 26,644 in FY 2008 to 40,283 in FY 2016.



State Fire Marshal Awards $3.0 Million in MARCS Grants

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

On March 2, 2017, the Division of the State Fire Marshal within the Department of Commerce announced nearly $3.0 million in awards under the Multi-Agency Radio Communications System (MARCS) Grant program. Overall, 166 fire departments in 25 counties received awards, ranging from approximately $240 up to nearly $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 2017. The table below shows the total MARCS Grant funding by county.

MARCS Grant Funding by County, FY 2017

County	Number of Fire Departments	Total Funding	County	Number of Fire Departments	Total Funding
Adams	8	$314,997	Madison	1	$3,120
Ashland	1	$2,640	Meigs	3	$6,960
Belmont	15	$35,520	Monroe	5	$10,320
Brown	1	$2,016	Morgan	5	$14,640
Coshocton	1	$2,400	Pike	9	$43,900
Darke	14	$606,212	Preble	9	$320,938
Hancock	8	$104,945	Putnam	12	$87,600
Hardin	2	$8,640	Ross	8	$38,880
Harrison	10	$37,200	Shelby	7	$206,586
Highland	3	$146,799	Vinton	2	$6,000
Hocking	4	$24,240	Wayne	12	$75,360
Knox	3	$47,910	Wood	16	$627,524
Licking	7	$223,336	**Total – $2,998,683**		

The purpose of the grant program is to help offset the costs that local fire departments incur for MARCS-related radio user fees and equipment that ultimately promote interoperability between fire responders. The State Fire Marshal awards MARCS grants based on a variety of criteria including: (1) the fire department's annual budget, (2) the annual number of fire incidents, and (3) the resident population served by the department. Eligible grant recipients include volunteer fire departments, joint fire districts, and certain private fire companies that serve a population of 25,000 or less. Funding for both the MARCS grants and the equipment and training 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).

Ohio EPA Awards Nearly $1.0 million in Mosquito Control Grants

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

On February 22, 2017, the Ohio Environmental Protection Agency (Ohio EPA) announced the award of $996,900 in mosquito control grants to 40 local health departments and related governmental entities in 27 counties.[10] The table below summarizes the grant totals by county. The purpose of these competitive grants is to support a larger statewide effort by the Ohio Department of Health to lessen the likelihood of an outbreak of mosquito-borne viruses such as Zika, West Nile, and La Cross Encephalitis. The grants are supported by money appropriated from the Scrap Tire Management Fund (Fund 4R50) which is primarily supported by a $0.50 per tire fee on the sale of tires, and the Environmental Protection Remediation Fund (Fund 5410), which is mainly supported by money collected from enforcement settlement actions.

2017 Ohio EPA Mosquito Control Grant Awards by County (Total: $996,900)

County	Award	County	Award	County	Award
Allen	$19,400	Hamilton	$62,100	Mahoning	$15,700
Ashtabula	$17,000	Henry	$50,000	Portage	$62,350
Auglaize	$43,700	Huron	$25,500	Richland	$17,200
Coshocton	$8,000	Knox	$31,000	Seneca	$49,950
Crawford	$11,300	Lawrence	$16,000	Shelby	$16,250
Cuyahoga	$6,500	Licking	$49,950	Stark	$40,000
Darke	$69,400	Lorain	$95,400	Summit	$60,000
Franklin	$60,600	Lucas	$47,350	Williams	$30,100
Geauga	$27,900	Madison	$6,000	Wood	$58,250

Criminal Justice Services Awards $570,000 in Federal Law Enforcement Grants

– Maggie Wolniewicz, Senior Budget Analyst, 614-995-9992

On January 6, 2017, the Office of Criminal Justice Services (OCJS) awarded $570,347 in federal grants from the Edward Byrne Memorial Justice Assistance Grant Program for Law Enforcement (JAG LE) to 67 law enforcement agencies in 36 counties. Of the total award, 83% ($475,800) will be used to purchase equipment and materials that are directly related to law enforcement functions, including body and cruiser

[10] Ohio EPA launched the mosquito control grant initiative in June 2016. In 2016 it awarded two rounds of grants totaling just over $1.0 million to 49 grantees in 45 counties.

cameras, surveillance equipment, and radios. The remaining 17%, or $94,547, will be used for the hiring, training, and employment of law enforcement officers and other support personnel.

Under the JAG LE program, law enforcement agencies that are not otherwise eligible for direct federal funding may apply for a maximum of $20,000 per project with a 10% cash match requirement. The following table shows those counties with law enforcement agencies that received awards in January 2017, the number of projects per county, and the total amount of funding received. Project awards ranged from $1,950 to $17,665. All awards are for seven months of funding, beginning February 1, 2017 until August 31, 2017.

Federal Law Enforcement Grant Awards by County (Total: $570,347)

County (# of Projects)	Award	County (# of Projects)	Award	County (# of Projects)	Award
Ashtabula (1)	$13,220	Hardin (2)	$17,200	Pickaway (1)	$8,000
Belmont (1)	$4,406	Henry (1)	$6,750	Portage (4)	$31,330
Champaign (1)	$6,435	Hocking (2)	$17,985	Preble (1)	$7,798
Clermont (2)	$18,911	Jackson (2)	$12,389	Stark (4)	$33,050
Cuyahoga (5)	$43,822	Licking (4)	$33,604	Summit (2)	$19,184
Delaware (1)	$9,000	Lucas (2)	$18,772	Trumbull (2)	$17,184
Fairfield (2)	$9,750	Madison (1)	$6,840	Tuscarawas (2)	$14,348
Franklin (1)	$14,041	Mahoning (4)	$31,694	Union (1)	$11,130
Gallia (1)	$10,000	Medina (2)	$16,654	Van Wert (1)	$10,859
Geauga (1)	$15,548	Meigs (3)	$14,500	Vinton (1)	$5,665
Greene (1)	$9,649	Miami (1)	$12,622	Warren (1)	$11,160
Hamilton (2)	$19,980	Morgan (1)	$10,000	Wood (3)	$26,867

TRACKING THE ECONOMY

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

Overview

Nationwide employment growth slowed sharply in March. Employment strengthened in January and February, in both the nation and Ohio. The March slowdown may have been at least in part a consequence of adverse weather in parts of the country. Consumer spending was weak in January and February, as demand for utility service was held down for part of the period by mild weather and as motor vehicle sales slowed. Manufacturing production strengthened early this year. Residential building and sales continued to advance. Inflation-adjusted gross domestic product (real GDP) likely rose again in the first quarter but at a subdued rate. Inflation has turned higher.

In March, the nation's central bank tightened monetary policy slightly. It increased the target for federal funds, overnight borrowings between banks, by ¼ percentage point to a range of ¾% to 1%. This increase followed ¼ percentage point increases in the target range in December of 2015 and 2016. Prior to that, the central bank kept the interest rate target near zero for seven years. A majority of the members of the Federal Open Market Committee (FOMC), the decision-making body within the central bank, expected to raise the federal funds target two more times this year. The next FOMC meeting is May 2-3.

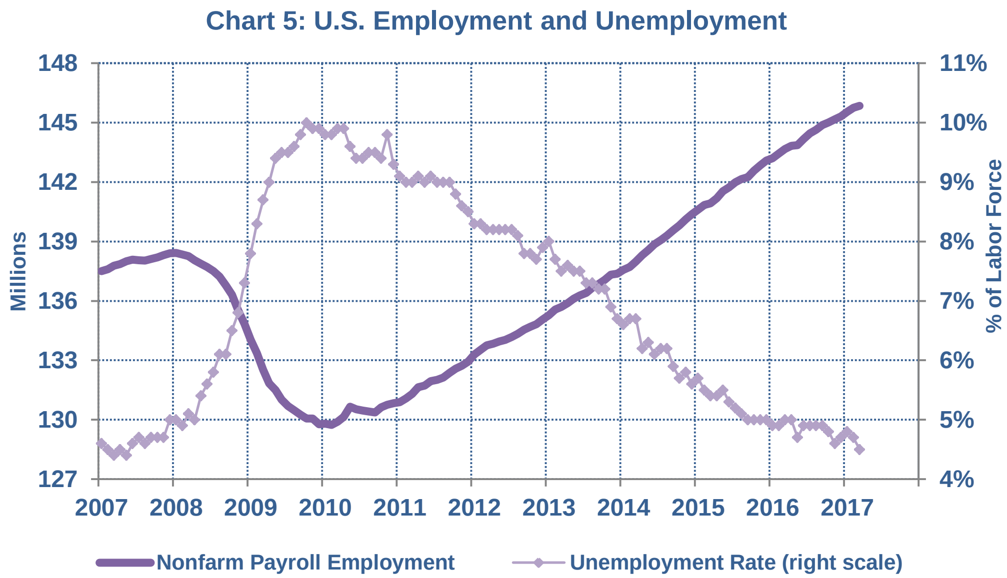
The National Economy

Employment and Unemployment

In March, total nonfarm payroll employment in the U.S. rose by only 98,000.

In March, total nonfarm payroll employment in the U.S. rose by only 98,000, after downward-revised gains of 219,000 in February and 216,000 in January. The unemployment rate fell 0.2 percentage point to 4.5%, lowest since 2007. Trends in employment and unemployment are shown in Chart 5.

Year-to-date employment gains averaged 178,000 per month, about matching increases in 2016 when month-to-month increases averaged 187,000. If continued for a full year, employment gains at these rates would increase total employment by about 1.6%, a slowdown from increases that averaged about 2.1% per year in 2014 and 2015. Employment in durable goods manufacturing and in mining reached low points last year and rose since. Most additions to the number of persons with jobs continue to be in private services.



The March slowdown in net hiring may be at least in part a consequence of bad weather, notably the storm that hit the East Coast last month. One indicator of this is the number of employees who would usually work full time but who instead worked part time in the March survey period because of bad weather. This number jumped to more than 3.1 million last month from 0.6 million in February, and 0.4 million that is more typical in the month of March. The adverse weather may have delayed some new hires from starting work. If the small employment increase in March was mainly due to weather effects, this slowdown may be reversed in April.

Unemployment fell in March to 7.2 million persons, the fewest people counted as unemployed since 2007. The unemployed in February included 1.7 million persons who had been out of work more than six months, the fewest since 2008. Employed persons included 5.6 million working part time who would have preferred to work full time but had their hours of work reduced or could not find full-time employment. The number of these involuntary part-time workers was the lowest since 2008 but was high relative to numbers in earlier years.

The nationwide unemployment rate fell in March to 4.5%, lowest since 2007.

A survey of hiring plans at U.S. employers shows that 22% plan to add to payrolls in the second quarter and only 3% expect to reduce staffing. On a seasonally adjusted basis, net hiring intentions are within the range in which they have varied for the past two years. Plans to add to payrolls are widespread across industries.[11]

[11] ManpowerGroup Employment Outlook Survey: Q2-2017.

Production, Shipments, and Inventories

Real GDP growth picked up in last year's second half, after slow growth in late 2015 and the 2016 first half. The total output of the economy rose at an upward revised 2.1% annual rate in last year's fourth quarter, following growth at a 3.5% rate in the third quarter. In the three quarters before that, growth averaged only about a 1.0% annual rate. The strengthening in the 2016 second half reflected inventory rebuilding, modest growth of nonresidential fixed investment and of exports instead of declines, and stronger growth of consumer spending. Since the start of the current economic expansion in 2009, real GDP growth has averaged only a 2.1% annual rate, the slowest of any expansion in the past seven decades. Sluggish expansion is foreseen continuing this year; the Federal Reserve Bank of Atlanta's GDPNow analysis of monthly source data anticipates growth in the 2017 first quarter at a weak 1.2% annual rate.[12]

Manufacturing production, in the industrial production index, rose 0.6% in January and 0.5% in February.

Manufacturing production, as measured in the industrial production index, rose 0.6% in January and 0.5% in February, after little growth in 2016. Mining output also grew strongly in the first two months of this year. However, total industrial production, combining output of factories, mines, and utilities, was about flat on balance in the first two months of 2017 as the unusually warm weather held down utility output. Annual revision of the indexes, based on more complete source data, shows greater weakness in 2015 than previously estimated, particularly in durable goods manufacturing and mining.

A survey of purchasing managers at manufacturers showed continued expansion in March in new orders, production, and order backlogs, accompanied by widespread reports of higher prices for raw materials. Comments from survey respondents generally indicated favorable business conditions. A comparable survey of purchasing managers with business and government entities other than manufacturers also showed continued expansion.[13]

Consumer Spending and Incomes

Inflation-adjusted consumer spending fell 0.1% in February after declining 0.2% in January. This marked slowdown follows real growth of nearly 3% in 2016 and more than 3% in 2015. The weakness in January and February appears to reflect in part a retreat in motor vehicle sales from a record pace in late 2016 to a near-record pace, and in part slow

[12] Forecast as of April 4, from https://www.frbatlanta.org/cqer/research/gdpnow/?panel=1.

[13] These monthly surveys are conducted by the Institute for Supply Management.

utility sales as a result of the mild winter weather. Employee compensation and income from most other sources continued to grow through February. Real disposable personal income was 2.3% higher in February than a year earlier.

Sales of light motor vehicles slowed in March. The sales pace fell to a 16.5 million unit seasonally adjusted annual rate from 17.5 million in January and February, and 18.0 million in the 2016 fourth quarter. In view of continued growth of consumers' incomes, the sales slowdown may prove temporary.

Construction and Real Estate

Housing markets continued vigorous in early 2017, with tight inventories helping to push prices higher. New home unit sales in January and February were 7% higher than a year earlier. Year-to-date home sales reported by the National Association of Realtors, generally previously occupied homes, were 3% higher.

Starts on construction of new housing in January and February were at an annual rate of 1.27 million units, seasonally adjusted. Starts on both homes and apartments were higher in this year's first two months than a year earlier. Year-to-date housing starts were 7% higher than in January-February 2016, continuing the uptrend underway for the past eight years that has resulted in more than a doubling in the number of units started, from the lowest level on records kept since 1959.

A nationwide index of housing prices published by the Federal Housing Finance Agency was 5.7% higher in January than a year earlier. Prices have risen in most months since 2011. This index is based on repeat sales of the same houses, using data on transactions in single-family properties owned or insured by Fannie Mae or Freddie Mac.

The dollar value of year-to-date construction spending was 3% higher through February than a year earlier. Private residential construction was 6% higher and private nonresidential construction was 7% higher, while public construction was 8% lower than in January and February 2016.

Inflation

Inflation measured by the change in the personal consumption expenditures deflator rose in February. This index was 2.1% higher in February than a year earlier, its largest increase since 2012. Excluding food and energy, the personal consumption expenditures deflator was 1.8% higher than in February 2016, one of the largest increases in this inflation measure since 2012.

The personal consumption expenditures deflator was 2.1% higher in February than a year earlier, its largest increase since 2012.

The consumer price index (CPI) rose 0.1% in February to 2.7% higher than a year earlier. The small one-month change resulted in part from a decline in the gasoline price. But the change from a year earlier was the most rapid since 2012. Excluding food and energy prices, the CPI was 2.2% higher than a year earlier, the index's 15th consecutive month in a 2.1% to 2.3% range.

The producer price index for final demand, an indicator of inflation in prices charged by wholesalers and manufacturers, rose 0.3% in February to 2.2% higher than a year earlier, its largest year-over-year increase since 2012. At earlier stages in the production process, price increases have accelerated over the past year.

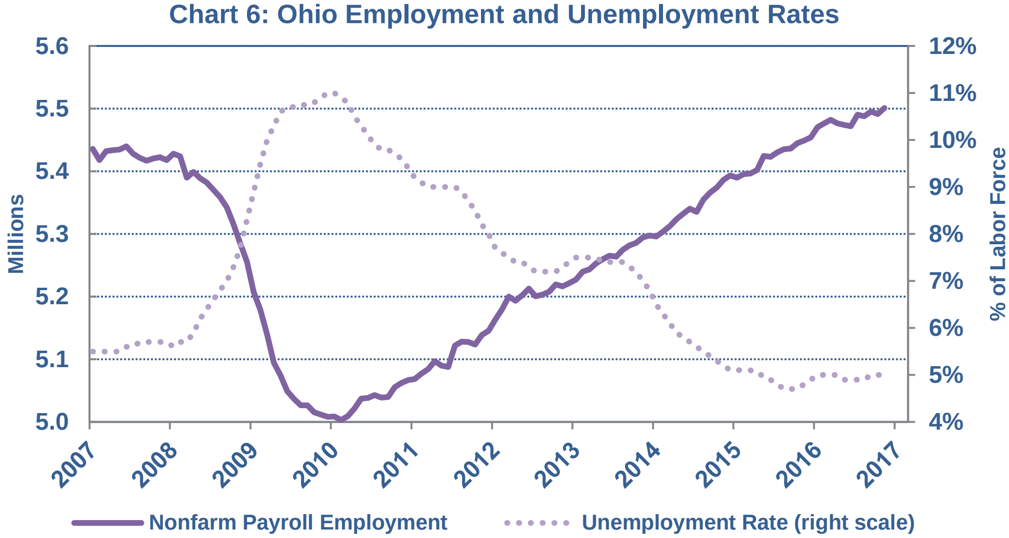
The Ohio Economy

Employment and Unemployment

In February, Ohio's total nonfarm payroll employment increased for the fourth consecutive month.

In February, the state's total nonfarm payroll employment, seasonally adjusted, increased for the fourth consecutive month, by 15,200 jobs, or 0.3%, from January's revised total. The state's unemployment rate rose slightly from 5.0% in January to 5.1% in February, the highest level since March 2015. In comparison, the U.S. unemployment rate was 4.7% in February. The state's unemployment rate has not been lower than the U.S. unemployment rate since December 2015. The number of unemployed Ohioans grew by 7,000 from 287,000 in January to 294,000 in February. From a year earlier, the number of unemployed Ohioans increased by 9,000. Chart 6 shows trends in Ohio's payroll employment and unemployment rate over the last ten years.

Chart 6: Ohio Employment and Unemployment Rates



In February, the increase in employment was due to increases in both goods-producing industries and private service-providing industries. Increases in construction (+6,300) and manufacturing (+900) outweighed job losses in mining and logging (-200). Increases in private service-providing industries were largely in leisure and hospitality (+4,000), in educational and health services (+3,900), and in trade, transportation, and utilities (+2,000). Government employment decreased by 1,000, all in state government, which lost 3,100 jobs. In the 12 months prior to February, Ohio's total nonfarm payroll employment increased by 45,400 or 0.8%. Most of job gains over the year were in educational and health services (+13,600), in trade, transportation, and utilities (+9,900), in construction (+8,900), and in nondurable goods manufacturing (+7,200). The largest decrease in employment was in government with a total decrease of 4,600 jobs compared to a year earlier. The decreases were in state government (-3,800) and local government (-1,500).

Personal Income

Ohio's personal income rose 0.8% in the fourth quarter of 2016 compared with 0.9% in the third quarter, according to estimates of the U.S. Bureau of Economic Analysis. Nationwide, average state personal income increased 0.9% in the fourth quarter of 2016, down from 1.1% in the third quarter. For the entire year of 2016, Ohio's personal income rose 3.0%, below the national average increase of 3.6%. Personal income growth in Ohio and most other states resulted mainly from higher net earnings. In 2016, Ohio's personal income growth ranked 31st in the nation (from highest percent change to lowest).

Ohio Home Sales

In February, the number of home sales in Ohio decreased by 0.1% compared to a year earlier, according to the Ohio Association of Realtors. In the first two months of 2017, existing home sales increased by 0.7% compared to the first two months in 2016. The average sale price in January and February was $153,331, 7.4% higher than in the corresponding months a year earlier.