Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION MARCH 2017

STATUS OF THE GRF

HIGHLIGHTS

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

February GRF revenue from the income tax was $76.9 million below the August 2016 estimate by the Office of Budget and Management (OBM), but revenue from the sales tax was on target. The weakness in income tax revenue was attributable in full to higher than expected refunds to taxpayers; withholding revenue was slightly above OBM's August 2016 estimate.

The Cleveland Federal Reserve Bank's contribution to a Federal Reserve publication reported that economic activity continued to grow moderately in recent weeks in its district, and labor markets have shown signs of tightening. The Cleveland district includes all of Ohio and parts of three neighboring states.

- Through February, GRF tax revenue totaled $14.43 billion, $411.7 million below OBM's August 2016 estimate.
- Through February, GRF program expenditures totaled $23.46 billion, $897.9 million below OBM's August 2016 estimate. Medicaid accounted for $794.2 million of the total variance.
- The GRF will meet OBM's latest (January 2017) target for FY 2017 if GRF tax revenue's negative variance for the full fiscal year is no greater than $592 million while GRF spending's negative variance for the full fiscal year is no smaller than $825 million.

VOLUME 40, NUMBER 7

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

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

STATE SOURCES	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$96,819	$84,600	$12,219	14.4%
Nonauto Sales and Use	$652,600	$665,000	-$12,400	-1.9%
Total Sales and Use Taxes	**$749,419**	**$749,600**	**-$181**	**0.0%**
Personal Income	$202,552	$279,500	-$76,948	-27.5%
Corporate Franchise	$3,352	$0	$3,352	---
Financial Institution	$33,853	$46,100	-$12,247	-26.6%
Public Utility	$22,774	$20,900	$1,874	9.0%
Kilowatt-Hour Excise	$32,034	$31,200	$834	2.7%
Natural Gas Consumption (MCF)	$13,640	$13,700	-$60	-0.4%
Commercial Activity Tax	$268,746	$294,200	-$25,454	-8.7%
Petroleum Activity Tax	$0	$0	$0	---
Foreign Insurance	$139,709	$59,300	$80,409	135.6%
Domestic Insurance	$102	$0	$102	---
Business and Property	$0	$0	$0	---
Cigarette	$70,851	$66,200	$4,651	7.0%
Alcoholic Beverage	$3,766	$3,600	$166	4.6%
Liquor Gallonage	$3,285	$3,300	-$15	-0.5%
Estate	$0	$0	$0	---
Total Tax Revenue	**$1,544,082**	**$1,567,600**	**-$23,518**	**-1.5%**
NONTAX REVENUE				
Earnings on Investments	$6	$0	$6	---
Licenses and Fees	$10,704	$7,125	$3,579	50.2%
Other Revenue	$776	$1,528	-$752	-49.2%
Total Nontax Revenue	**$11,486**	**$8,653**	**$2,833**	**32.7%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$0	$0	$0	---
Total Transfers In	**$0**	**$0**	**$0**	**---**
TOTAL STATE SOURCES	**$1,555,568**	**$1,576,253**	**-$20,684**	**-1.3%**
Federal Grants	$1,046,472	$1,091,219	-$44,747	-4.1%
TOTAL GRF SOURCES	**$2,602,040**	**$2,667,472**	**-$65,432**	**-2.5%**

*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 February 28, 2017
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on March 1, 2017)

STATE SOURCES	Actual	Estimate*	Variance	Percent	FY 2016	Percent Change
TAX REVENUE						
Auto Sales	$888,548	$888,500	$48	0.0%	$859,238	3.4%
Nonauto Sales and Use	$6,183,136	$6,303,600	-$120,464	-1.9%	$6,043,445	2.3%
Total Sales and Use Taxes	**$7,071,683**	**$7,192,100**	**-$120,417**	**-1.7%**	**$6,902,683**	**2.4%**
Personal Income	$5,036,297	$5,388,500	-$352,203	-6.5%	$5,307,617	-5.1%
Corporate Franchise	$3,230	$0	$3,230	---	$29,906	-89.2%
Financial Institution	$72,452	$89,200	-$16,748	-18.8%	$86,093	-15.8%
Public Utility	$70,395	$71,900	-$1,505	-2.1%	$73,142	-3.8%
Kilowatt-Hour Excise	$243,419	$222,500	$20,919	9.4%	$227,778	6.9%
Natural Gas Consumption (MCF)	$32,145	$32,400	-$255	-0.8%	$30,646	4.9%
Commercial Activity Tax	$939,463	$981,200	-$41,737	-4.3%	$944,625	-0.5%
Petroleum Activity Tax	$2,860	$3,000	-$140	-4.7%	$3,362	-14.9%
Foreign Insurance	$302,449	$215,500	$86,949	40.3%	$207,538	45.7%
Domestic Insurance	$155	$400	-$245	-61.2%	$353	-56.0%
Business and Property	-$678	$0	-$678	---	$86	-889.6%
Cigarette	$587,220	$580,400	$6,820	1.2%	$609,534	-3.7%
Alcoholic Beverage	$38,792	$35,900	$2,892	8.1%	$34,833	11.4%
Liquor Gallonage	$31,378	$30,400	$978	3.2%	$30,396	3.2%
Estate	$490	$0	$490	---	$905	-45.9%
Total Tax Revenue	**$14,431,750**	**$14,843,400**	**-$411,650**	**-2.8%**	**$14,489,496**	**-0.4%**
NONTAX REVENUE						
Earnings on Investments	$24,072	$17,200	$6,872	40.0%	$16,603	45.0%
Licenses and Fees	$25,656	$20,805	$4,851	23.3%	$20,304	26.4%
Other Revenue	$54,263	$53,345	$918	1.7%	$44,602	21.7%
Total Nontax Revenue	**$103,991**	**$91,350**	**$12,641**	**13.8%**	**$81,509**	**27.6%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$92,187	$31,800	$60,387	189.9%	$190,197	-51.5%
Total Transfers In	**$92,187**	**$31,800**	**$60,387**	**189.9%**	**$190,197**	**-51.5%**
TOTAL STATE SOURCES	**$14,627,928**	**$14,966,550**	**-$338,622**	**-2.3%**	**$14,761,203**	**-0.9%**
Federal Grants	$7,974,791	$8,547,347	-$572,556	-6.7%	$8,214,915	-2.9%
TOTAL GRF SOURCES	**$22,602,719**	**$23,513,897**	**-$911,179**	**-3.9%**	**$22,976,118**	**-1.6%**

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

Through February, GRF tax revenue was $411.7 million below estimate.

REVENUES

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

Overview

On January 30, 2017, OBM revised downward its August 2016 estimates of FY 2017 GRF tax revenue by $592.2 million. Expected receipts from the largest three sources of GRF tax revenues, the personal income tax (PIT), the nonauto sales and use tax, and the commercial activity tax (CAT), were reduced by $333.9 million, $199.2 million, and $32.0 million, respectively. The downward revisions were consistent with revenue experiences through the first seven months of the fiscal year. 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 earlier estimates, GRF sources[1] of $22.60 billion through February were $911.2 million (3.9%) below projections, from shortfalls of $411.7 million from tax sources and $572.6 million in federal grants, the latter primarily related to the level of spending in the Medicaid program. (See the Expenditures section of this publication.) Those negative variances were partially offset by positive variances of $60.4 million in transfers in and $12.6 million in nontax revenue. Tables 1 and 2 above show GRF sources for February and for FY 2017 through February, respectively.

GRF tax revenue was $23.5 million below estimate in February.

For the month of February, GRF sources were $65.4 million below the August estimate, with negative variances of $44.7 million for federal grants and $23.5 million for tax sources. Regarding tax sources, the foreign insurance tax posted a timing-related positive variance of $80.4 million. In addition, the cigarette tax, the corporate franchise tax (CFT), and the public utility tax were ahead of anticipated receipts by $4.7 million, $3.4 million, and $1.9 million, respectively. However, those positive variances were offset by shortfalls of $76.9 million for the PIT, $12.2 million for the financial institutions tax (FIT),[2] and $25.5 million for the CAT. Sales tax revenue essentially met the estimate.

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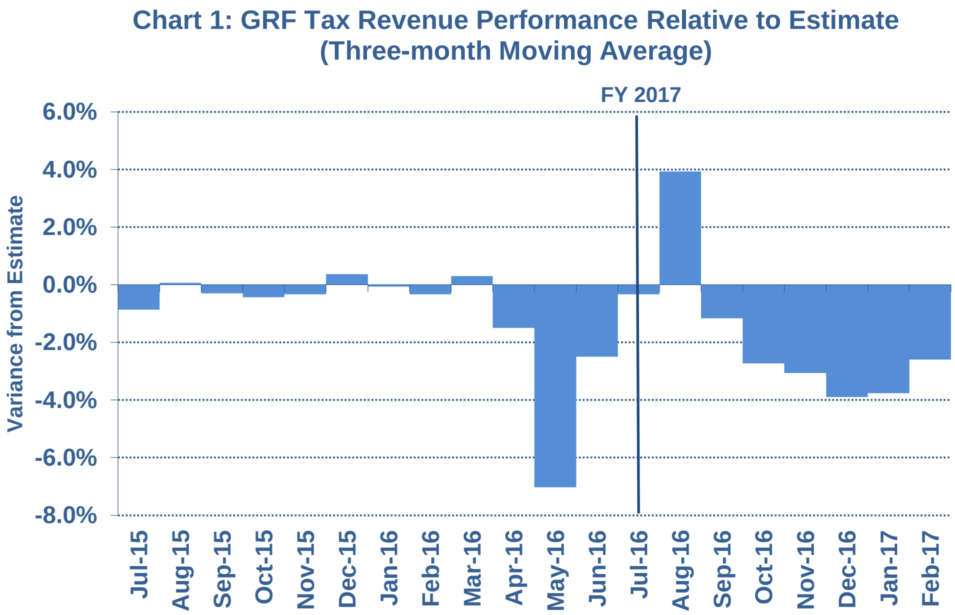
[1] GRF sources consist of state-source receipts (tax revenue, nontax revenue, and transfers in) and federal grants, which are typically federal reimbursements for Medicaid and other programs.

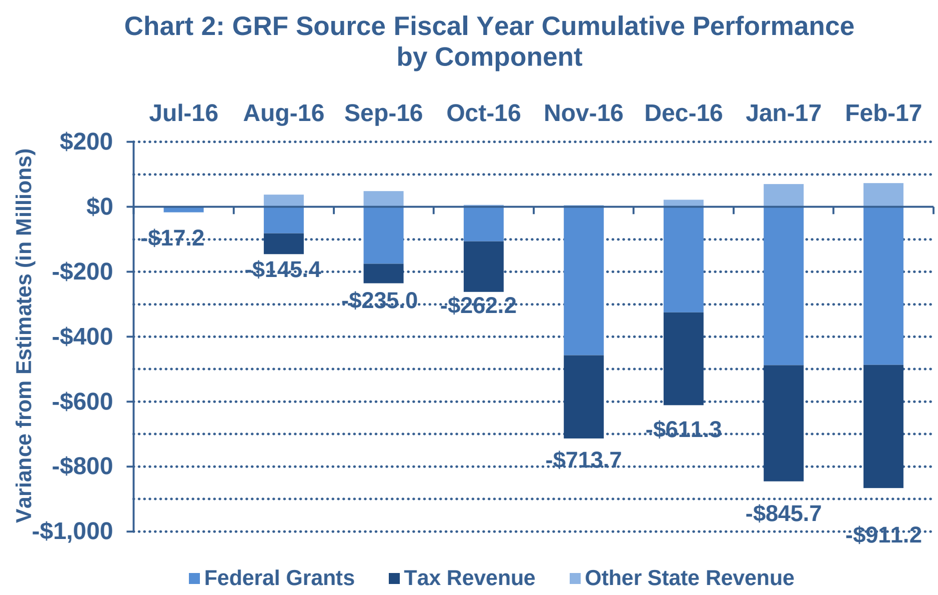
[2] The GRF typically pays out refunds under the FIT during the first half of a fiscal year as taxpayers make adjustments to previous tax filings. Receipts of the FIT are typically expected at the end of January, March, and May.

GRF tax revenue generally has been tracking below estimate during FY 2017. As shown in Table 2, all the major tax sources, except the cigarette tax, were below projections through February. The chart below depicts the declining performance of tax revenue on a monthly basis (smoothed with a three-month average). Significant underperformance began in the last quarter of FY 2016 and continued in FY 2017, despite accommodating negative adjustments made by OBM in August 2016 based on FY 2016's poor results.



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 blue bar in the online version of the chart), the GRF's cumulative sources were $911.2 million below estimate through February, as labeled in the far right column.

Through February, FY 2017 GRF sources were $911.2 million below estimate.



Compared to the corresponding period in FY 2016, tax revenue in FY 2017 was $57.7 million (0.4%) lower. The majority of the decrease can be attributed to the PIT, which collected $271.3 million less thus far in FY 2017. Also, revenues from the CFT, cigarette taxes, and the FIT decreased by $26.7 million, $22.3 million, and $13.6 million, respectively. On the other hand, sales and use tax revenue was $169.0 million higher than in FY 2016. Revenue also grew for the foreign insurance tax ($94.9 million), though most of this, if not all of it, is due to timing, and the kilowatt-hour excise tax ($15.6 million).

Sales and use tax receipts were $120.4 million below estimates through February in FY 2017.

Sales and Use Tax

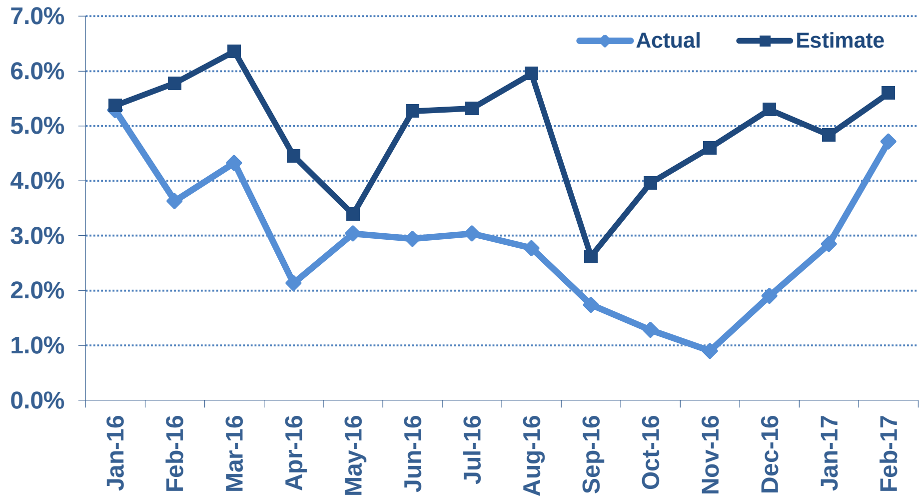
GRF monthly sales and use tax revenue of $749.4 million was $0.2 million below estimate, but $41.8 million (5.9%) above revenue in the same month last year. A negative variance from the nonauto portion of the tax was nearly offset by a positive variance from the auto sales tax. For the fiscal year to date, GRF sales and use tax receipts of $7.07 billion were $120.4 million (1.7%) below projections, though they were $169.0 million (2.4%) above receipts in FY 2016 through February. 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. 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 to the GRF was $652.6 million in February, which was $12.4 million (1.9%) below estimate, but $32.1 million (5.2%) above revenue in February 2016. Collections from this segment of the tax had been below the estimate every month, except in December. Comparing revenue, month by month, to revenue from the same month a year ago reveals growth, but growth that was steadily declining through November has turned up the last three months. For FY 2017 through February, nonauto sales and use tax revenue of $6.18 billion was $120.5 million (1.9%) below expectations, though receipts were $139.7 million (2.3%) above receipts in the corresponding period in FY 2016. The chart below illustrates the year-over-year growth of nonauto sales and use tax collections and its failure to meet estimates in the last 14 months.

Nonauto sales and use tax revenue was $120.5 million below estimate through February in FY 2017.

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



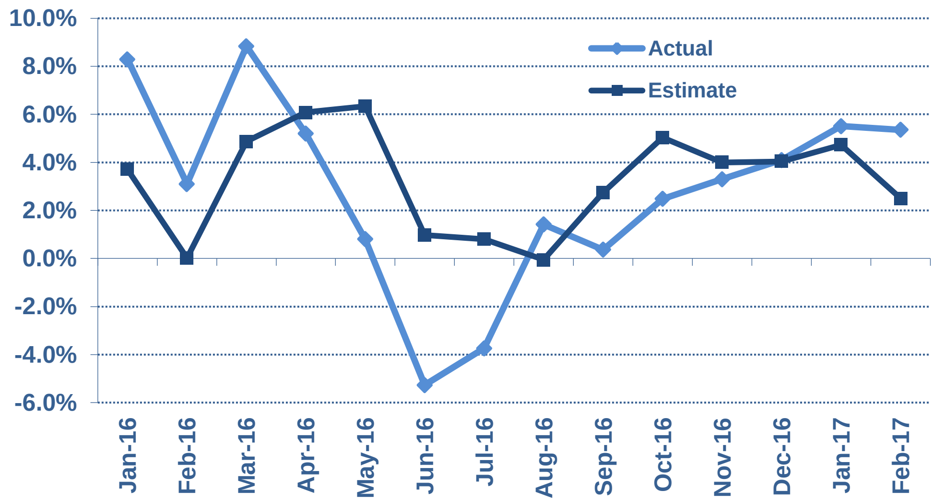
[3] Taxes arising from leases are paid immediately upon the lease signing. The clerks of court generally make auto sales and use tax payments on Mondays for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled. Therefore, auto sales and use tax receipts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

Auto sales and use tax revenue was on target through February in FY 2017.

Auto Sales and Use Tax

For the month of February, the GRF received $96.8 million from the auto sales tax. This amount was $12.2 million (14.4%) above expectations, and $9.7 million (11.1%) above receipts in the same month in 2016. For the fiscal year, GRF revenue of $888.5 million was on target relative to projections, and $29.3 million (3.4%) above revenue in FY 2016 through February. As the chart below illustrates, the pace of collections growth fell off sharply in the spring of 2016, but year-over-year growth has generally picked up in FY 2017.

Chart 4: Auto Sales and Use Tax Receipts Trend
Actual vs. Prior Year
(Three-month Moving Average)



FY 2017 PIT revenue was $352.2 million below estimate through February.

Personal Income Tax

PIT GRF revenue was $202.6 million, $76.9 million (27.5%) below the August estimate in February. However, receipts were $21.0 million (11.5%) above revenue in February 2016. At the end of February 2017, total GRF revenue from the PIT of $5.04 billion was $352.2 million (6.5%) below OBM's August estimate, and $271.3 million (5.1%) 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.

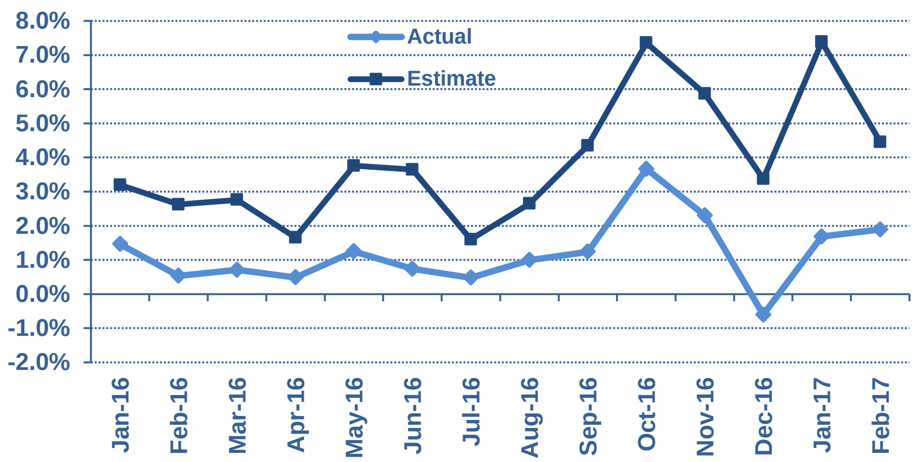
[4] Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than $500. Payments are due in April, June, and September of an individual's tax year and January of the following year. Most estimated payments are made by high-income taxpayers.

The performance of the tax is typically driven by employer withholdings and refunds. However, the underperformance in February was almost all from missed refund projections: refunds were $78.1 million (20.6%) above estimates. Quarterly estimated payment and miscellaneous payments were each $1.7 million below estimates, or 26.3% and 14.3%, respectively. On the other hand, revenue from employer withholdings was $3.5 million (0.5%) above estimates. For FY 2017 through February, the PIT revenue shortfall was due to refunds that were $194.9 million (27.4%) higher than expected. Also, employer withholding revenue was $169.0 million (3.0%) short of anticipated receipts. In addition to that negative variance, miscellaneous payments and revenue from trusts were lower than expected by $8.8 million (15.1%) and $5.7 million (20.1%). Partly offsetting those shortfalls, collections from quarterly estimated payments and annual returns payments were above anticipated revenue by $4.3 million (0.9%) and $14.5 million (15.9%), respectively.

Revenue from employer withholding was $169.0 million below estimate in FY 2017 through February.

Policy changes, which led to reduced withholding rates, took effect in August 2015 and limited year-over-year growth of employer withholdings throughout FY 2016. Chart 5 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 policy changes were phased out of the year-over-year calculations, but fell in the second fiscal quarter. Early indications are that growth turned around since December.

Chart 5: Monthly Withholding Receipts Trend
Actual vs. Prior Year
(Three-month Moving Average)



FY 2017 revenues through February 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	-$169.0	-3.0%	$73.0	1.3%
Quarterly Estimated Payments	$4.3	0.9%	-$207.7	-29.2%
Trust Payments	-$5.7	-20.1%	-$9.5	-29.6%
Annual Return Payments	$14.5	15.9%	-$22.1	-17.3%
Miscellaneous Payments	-$8.8	-15.1%	-$4.6	-8.5%
Gross Collections	-$164.6	-2.6%	-$170.9	-2.7%
Less Refunds	$194.9	27.4%	$98.2	12.2%
Less LGF Distribution	-$7.3	-2.8%	$2.2	0.9%
GRF PIT Revenue	-$352.2	-6.5%	-$271.3	-5.1%

Cigarette and Other Tobacco Products Tax

FY 2017 revenue from the cigarette tax was $6.8 million above estimate.

February GRF revenue from the cigarette and other tobacco products tax of $70.9 million was $4.7 million (7.0%) above estimate and $0.5 million (0.7%) above revenue in February 2016. For the fiscal year, receipts from the tax were $587.2 million, $6.8 million (1.2%) above estimate. Of the total revenue, $546.2 million was from sales of cigarettes and $41.0 million was from sales of other tobacco products. Compared to the corresponding period of FY 2016, receipts in FY 2017 were $22.3 million (3.7%) lower. Generally, cigarette tax receipts are trending downward long-term; however, legislative changes[5] led to increased receipts in the early months of FY 2016. Excluding floor tax receipts, FY 2017 receipts were 1.0% below receipts in FY 2016.

Commercial Activity Tax

FY 2017 revenue from the CAT was $41.7 million below estimate.

The third CAT payment for calendar quarter taxpayers in FY 2017 provided GRF receipts of $268.7 million in February. This revenue was $25.5 million (8.7%) below estimate, and also $18.7 million (6.5%) below revenue in the same month last year. For the fiscal year through February, CAT revenues to the GRF totaled $939.5 million, $41.7 million (4.3%) below estimate, and $5.2 million (0.5%) below GRF revenue in the

[5] 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%.

corresponding period in FY 2016. FY 2017 CAT revenue credited to the School District Tangible Property Tax Replacement Fund (Fund 7047) through February was $250.5 million. The Local Government Tangible Property Tax Replacement Fund (Fund 7081) received $62.6 million.

The performance of the CAT has been lackluster for two years. The CAT was below estimates in FY 2016, and actual all-funds revenue was slightly below FY 2015's total. Weakness in collections has continued this fiscal year. According to OAKS, gross collections were about 1.3% below those in the corresponding period in FY 2016. The CAT is the third largest GRF tax revenue source.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of February 2017
($ in thousands)
(Actual based on OAKS reports run March 7, 2017)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**
Primary and Secondary Education	$687,414	$700,518	-$13,103	-1.9%
Higher Education	$219,959	$216,325	$3,634	1.7%
Other Education	$4,052	$3,817	$235	6.2%
Total Education	$911,425	$920,659	-$9,234	-1.0%
Medicaid	$1,557,918	$1,653,100	-$95,181	-5.8%
Health and Human Services	$96,057	$100,752	-$4,695	-4.7%
Total Welfare and Human Services	$1,653,976	$1,753,852	-$99,876	-5.7%
Justice and Public Protection	$141,229	$141,920	-$690	-0.5%
General Government	$24,021	$28,294	-$4,274	-15.1%
Total Government Operations	$165,250	$170,214	-$4,964	-2.9%
Property Tax Reimbursements	$267	$0	$267	---
Debt Service	$49,538	$50,931	-$1,393	-2.7%
Total Other Expenditures	$49,805	$50,931	-$1,126	-2.2%
Total Program Expenditures	**$2,780,455**	**$2,895,655**	**-$115,200**	**-4.0%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$4,557	$0	$4,557	---
Total Transfers Out	$4,557	$0	$4,557	---
TOTAL GRF USES	**$2,785,012**	**$2,895,655**	**-$110,643**	**-3.8%**

*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 February 28, 2017
($ in thousands)
(Actual based on OAKS reports run March 7, 2017)

PROGRAM	**Actual**	**Estimate***	**Variance**	**Percent**	**FY 2016**	**Percent Change**
Primary and Secondary Education	$5,432,331	$5,403,491	$28,840	0.5%	$5,471,584	-0.7%
Higher Education	$1,547,370	$1,557,089	-$9,719	-0.6%	$1,490,713	3.8%
Other Education	$55,194	$57,610	-$2,416	-4.2%	$52,409	5.3%
Total Education	$7,034,894	$7,018,190	$16,705	0.2%	$7,014,706	0.3%
Medicaid	$11,830,841	$12,625,045	-$794,204	-6.3%	$12,201,838	-3.0%
Health and Human Services	$932,504	$986,723	-$54,218	-5.5%	$895,462	4.1%
Total Welfare and Human Services	$12,763,345	$13,611,768	-$848,423	-6.2%	$13,097,299	-2.5%
Justice and Public Protection	$1,434,175	$1,450,248	-$16,073	-1.1%	$1,370,847	4.6%
General Government	$259,935	$276,636	-$16,701	-6.0%	$248,929	4.4%
Total Government Operations	$1,694,110	$1,726,884	-$32,774	-1.9%	$1,619,776	4.6%
Property Tax Reimbursements	$902,250	$919,983	-$17,734	-1.9%	$896,539	0.6%
Debt Service	$1,062,871	$1,078,503	-$15,632	-1.4%	$1,030,890	3.1%
Total Other Expenditures	$1,965,120	$1,998,486	-$33,366	-1.7%	$1,927,428	2.0%
Total Program Expenditures	**$23,457,470**	**$24,355,328**	**-$897,858**	**-3.7%**	**$23,659,210**	**-0.9%**
TRANSFERS						
Budget Stabilization	$29,483	$29,483	$0	0.0%	$425,500	-93.1%
Other Transfers Out	$243,162	$269,541	-$26,379	-9.8%	$401,224	-39.4%
Total Transfers Out	$272,644	$299,023	-$26,379	-8.8%	$826,724	-67.0%
TOTAL GRF USES	**$23,730,114**	**$24,654,351**	**-$924,237**	**-3.7%**	**$24,485,934**	**-3.1%**

*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 March 6, 2017)

	Month of February 2017				Year to Date Through February 2017			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid	**$2,421,189**	**$2,229,665**	**$191,525**	**8.6%**	**$15,076,921**	**$15,740,613**	**-$663,692**	**-4.2%**
GRF	$1,506,079	$1,600,571	-$94,493	-5.9%	$11,394,487	$12,160,887	-$766,400	-6.3%
Non-GRF	$915,111	$629,093	$286,018	45.5%	$3,682,434	$3,579,725	$102,708	2.9%
Developmental Disabilities	**$192,214**	**$201,285**	**-$9,071**	**-4.5%**	**$1,663,295**	**$1,750,626**	**-$87,331**	**-5.0%**
GRF	$47,548	$47,267	$281	0.6%	$381,634	$384,897	-$3,263	-0.8%
Non-GRF	$144,666	$154,018	-$9,352	-6.1%	$1,281,661	$1,365,728	-$84,067	-6.2%
Job and Family Services	**$17,774**	**$9,402**	**$8,372**	**89.1%**	**$143,907**	**$181,417**	**-$37,510**	**-20.7%**
GRF	$3,654	$4,660	-$1,006	-21.6%	$47,789	$72,739	-$24,950	-34.3%
Non-GRF	$14,120	$4,742	$9,378	197.8%	$96,118	$108,678	-$12,560	-11.6%
Health	**$3,640**	**$1,385**	**$2,255**	**162.9%**	**$19,334**	**$17,117**	**$2,217**	**13.0%**
GRF	$285	$254	$31	12.3%	$2,547	$2,237	$310	13.8%
Non-GRF	$3,356	$1,131	$2,224	196.6%	$16,787	$14,880	$1,908	12.8%
Aging	**$482**	**$514**	**-$32**	**-6.2%**	**$4,953**	**$5,251**	**-$297**	**-5.7%**
GRF	$333	$282	$52	18.4%	$2,634	$2,534	$99	3.9%
Non-GRF	$149	$232	-$83	-36.0%	$2,320	$2,717	-$397	-14.6%
Mental Health and Addiction	**$615**	**$254**	**$361**	**142.5%**	**$3,762**	**$3,217**	**$546**	**17.0%**
GRF	$19	$65	-$47	-71.3%	$1,750	$1,750	$0	0.0%
Non-GRF	$596	$188	$408	216.6%	$2,012	$1,466	$546	37.2%
Total GRF	**$1,557,918**	**$1,653,100**	**-$95,181**	**-5.8%**	**$11,830,841**	**$12,625,045**	**-$794,204**	**-6.3%**
Total Non-GRF	**$1,077,997**	**$789,404**	**$288,593**	**36.6%**	**$5,081,332**	**$5,073,194**	**$8,137**	**0.2%**
Total All Funds	**$2,635,915**	**$2,442,504**	**$193,411**	**7.9%**	**$16,912,172**	**$17,698,240**	**-$786,067**	**-4.4%**

*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 March 6, 2017)

	February				Year to Date Through February 2017			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	$852,094	$941,072	-$88,978	-9.5%	$6,686,395	$7,252,362	-$565,967	-7.8%
Nursing Facilities	$132,540	$125,793	$6,748	5.4%	$1,015,599	$987,350	$28,249	2.9%
DDD Services	$188,369	$196,571	-$8,202	-4.2%	$1,613,761	$1,693,293	-$79,532	-4.7%
Hospitals	$684,562	$384,953	$299,609	77.8%	$1,535,339	$1,333,514	$201,826	15.1%
Behavioral Health	$98,062	$93,736	$4,325	4.6%	$754,941	$812,882	-$57,942	-7.1%
Administration	$70,497	$66,369	$4,128	6.2%	$599,700	$729,668	-$129,968	-17.8%
Aging Waivers	$31,428	$30,735	$693	2.3%	$230,326	$235,325	-$4,999	-2.1%
Prescription Drugs	$29,069	$34,245	-$5,175	-15.1%	$261,600	$299,984	-$38,384	-12.8%
Medicare Buy-In	$47,964	$41,207	$6,757	16.4%	$409,025	$312,878	$96,147	30.7%
Physicians	$13,670	$16,955	-$3,285	-19.4%	$115,466	$136,160	-$20,694	-15.2%
Medicare Part D	$39,829	$29,275	$10,554	36.1%	$254,988	$224,074	$30,914	13.8%
Home Care Waivers	$9,566	$13,341	-$3,775	-28.3%	$82,567	$115,167	-$32,600	-28.3%
ACA - Managed Care	$357,540	$395,597	-$38,057	-9.6%	$2,713,858	$2,937,724	-$223,866	-7.6%
All Other	$80,726	$72,655	$8,071	11.1%	$638,607	$627,857	$10,750	1.7%
Total All Funds	**$2,635,915**	**$2,442,504**	**$193,411**	**7.9%**	**$16,912,172**	**$17,698,240**	**-$786,067**	**-4.4%**

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

EXPENDITURES

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Overview

At the end of February, year-to-date GRF uses were $924.2 million below the estimates released by OBM in August. The Medicaid variance made up 85.9% of that total variance in uses.

Through February, FY 2017 GRF program expenditures totaled $23.46 billion. These expenditures were $897.9 million (3.7%) below the estimate released by OBM in August 2016. This negative year-to-date variance is larger than an $825 million downward revision made by OBM in January 2017 for FY 2017. As part of its executive budget proposal submission, OBM lowered its estimates for GRF revenues and disbursements for FY 2017 as a whole. However, OBM did not revise its monthly disbursement estimates for the remainder of FY 2017. Therefore, the variance analyses for this and future Expenditures reports will continue to be based on OBM's August 2016 estimates.

Year-to-date program expenditures were below their August estimates for all but one category; Primary and Secondary Education had a relatively small positive variance of $28.8 million (0.5%) due partly to timing. GRF Medicaid expenditures were $794.2 million below the year-to-date estimate, of which $95.2 million occurred in February. More details on Medicaid expenditures are discussed below.

Tables 3 and 4 show GRF uses for the month of February and for FY 2017 through February, respectively. GRF uses mainly consist of program expenditures but also include transfers out. Including both program expenditures and transfers out, GRF uses were $23.73 billion at the end of February, which is $924.2 million (3.7%) below OBM's August 2016 estimate.

Medicaid

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.

Table 5 shows GRF and non-GRF Medicaid expenditures from 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. As seen from the table, across all funds, Medicaid expenditures of $2.64 billion in February were above estimate by $193.4 million (7.9%). GRF Medicaid expenditures of $1.56 billion were $95.2 million (5.8%) below estimate while non-GRF

Medicaid expenditures of $1.08 billion were $288.6 million (36.6%) above estimate. February's positive non-GRF variance is due to a timing issue with Hospital Care Assurance Program (HCAP) payments that is described below. This positive variance will be offset by an anticipated negative variance next month. Through the first eight months of FY 2017, across all funds, Medicaid expenditures totaled $16.91 billion, $786.1 million (4.4%) below the year-to-date estimate. GRF Medicaid expenditures were $11.83 billion, $794.2 million (6.3%) below estimate, while non-GRF Medicaid expenditures were $5.08 billion, $8.1 million (0.2%) above estimate.

A timing issue caused a large positive variance in non-GRF spending in the hospitals category in February. This variance will be reversed in March.

Table 6 details all-funds Medicaid expenditures by payment category. As seen from the table, Managed Care had the largest negative variance for the year to date at $566.0 million (7.8%), growing from the previous month. Much of this negative variance can be attributed to lower than forecasted managed care rates. Actual rates are set at the beginning of each calendar year. Actual rates for calendar years 2016 and 2017 are both below the ones used in the estimate. As a result, the negative variance in Managed Care will likely continue to grow in the remaining months of FY 2017. The negative variance in the actual versus forecasted managed care rates is also the main driving force behind the negative year-to-date variance in the ACA-Managed Care category ($223.9 million, 7.6%).

After Managed Care and ACA-Managed Care, the category with the third largest negative year-to-date variance is Administration ($130.0 million, 17.8%), shrinking slightly from January. 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 Administration are also driven by timing issues as billing for various contracts can be difficult to predict.

The Behavioral Health category had a positive variance in February of $4.3 million (4.6%) that reduced its year-to-date negative variance to $57.9 million (7.1%). The negative year-to-date variance in this category will likely continue to shrink somewhat through the end of the fiscal year, as ODM expects higher spending than originally estimated in the final months of FY 2017 due to the behavioral health redesign.

Hospitals, which has had a negative year-to-date variance for the first seven months of the fiscal year now has a positive variance ($201.8 million, 15.1%) due to significant overspending of $299.6 million in February. This occurred because ODM made both its originally scheduled February ($314.0 million) and March ($314.0 million) HCAP 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. Due to the early payment, the Hospitals category will have a larger than usual negative variance in March, canceling out most or all of the positive variance this month and putting the category back into having a negative year-to-date variance. While ODM's spending for Hospitals is more than anticipated on individuals who are dual-enrolled in Medicaid and Medicare, this is being more than offset by ODM spending less than anticipated on the aged, blind, and disabled population. In addition, hospital upper payment limit (UPL) payments and hospital-based physician UPL payments are below estimates year to date by about $54.8 million and $5.8 million, respectively. The UPL program allows the state to direct supplemental payments, up to the difference between the Medicare and the Medicaid amounts, to providers.

After Hospitals, the second largest positive year-to-date variance is in the Medicare Buy-In category ($96.1 million, 30.7%). This category's positive variance resulted from 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.

The first payments to providers under the Comprehensive Primary Care Program were made in February.

Also worth noting, the All Other category had a positive variance of $8.1 million in February due to the first payments for the Comprehensive Primary Care (CPC) Program being sent to providers. 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 and are made quarterly; the next payment is scheduled for April.

Issue Updates

Department of Higher Education Releases First-Year Data on Changing Campus Culture Initiative

– Adam Wefler, Budget Analyst, 614-466-0632

On January 20, the Ohio Department of Higher Education (ODHE) released the first-year implementation report on the Changing Campus Culture initiative, which was initially launched in October 2015. During its first year, the initiative saw a dramatic increase in participation among Ohio's public and private institutions of higher education. By October 2016, all 88 Ohio campuses had implemented evidence-based training programs for preventing sexual violence, compared with 33% in October 2015. Climate survey data was collected by 92% of campuses, up from 27% a year ago. The percentage of campuses that have begun sexual violence awareness campaigns increased from 49% to 77%. Many campuses have also increased support services for survivors of sexual violence. In October 2015, 41% of Ohio's colleges and universities had survivor-centered support service programs. Now, 95% of campuses have trained community members available, and 85% have confidential advisors on hand to assist survivors.

The Changing Campus Culture Initiative, which is designed to combat sexual violence on Ohio's college campuses, received $2 million in GRF funding in FY 2016 under H.B. 64. A diverse advisory board was tasked with collecting data and generating recommendations. In October 2015, the advisory board issued a report that calls for campuses to implement five recommended strategies to prevent and respond to sexual violence. The goal is to have all five recommendations implemented in every campus. These five recommendations are:

- Use data to guide action;
- Empower staff, faculty, campus law enforcement, and students to prevent and respond to sexual violence through evidence-based training;
- Communicate a culture of shared respect and responsibility;
- Develop a comprehensive response protocol; and
- Adopt a survivor-centered response.

Department of Aging Increases Rates for PASSPORT Providers

– Justin Pinsker, Budget Analyst, 614-466-5709

On January 1, 2017, the Ohio Department of Aging (ODA), in conjunction with the Ohio Department of Medicaid (ODM), increased the rate for certain PASSPORT services (see table below). The amounts were increased to increase access for waiver services for Medicaid consumers, align rules with the Ohio Home Care Waiver, and to replace the previous regional rate system with a statewide rate system. The largest rate increases went to agency nursing services provided by a licensed practical nurse (LPN), increasing $2.75 from $37.90 to $40.65, and agency nursing services provided by a registered nurse (RN), increasing $2.00 from $45.40 to $47.40. The base rate is the rate for the first 35-60 minutes of a service delivered, and the unit rate is for either less than 35 minutes of service provision or for each additional 15 minutes of services provided in excess of the base amount. ODA estimates the rate increases will total approximately $11.5 million in FY 2017, $16.7 million in FY 2018, and $17.6 million in FY 2019.

PASSPORT Service Rates, Effective January 1, 2017

Provider Type	Base Rate		Unit Rate	
	Old	New	Old	New
Personal Care-Agency Provider	N/A	N/A	$4.34	$4.49
Home Care Attendant	N/A	N/A	$2.86	$2.95
RN Nursing Services – Agency	$45.40	$47.40	$8.32	$8.72
RN Nursing Services – Nonagency	$38.60	$38.95	$6.96	$7.03
LPN Nursing Services – Agency	$37.90	$40.65	$6.82	$7.37
LPN Nursing Services – Nonagency	$31.65	$33.20	$5.57	$5.88

PASSPORT is a home and community-based Medicaid waiver program that enables older individuals to stay at home by providing them with in-home, long-term care services. ODA administers the program and ODM pays for reimbursement of service providers. To be eligible for the program, a person must be over age 60 and meet Medicaid eligibility for nursing facility care. In addition, the person must be frail enough to require a nursing facility level of care and have a physician's consent that he or she is able to safely remain at home. PASSPORT services include home care attendant services, emergency response systems, enhanced community living, home medical equipment, nursing services, and independent living assistance.

Medicaid Increases Reimbursement Rates for Ventilator-Dependent Nursing Facility Residents

– Ivy Chen, Principal Economist, 614-644-7764

Effective February 1, 2017, ODM implemented an enhanced reimbursement rate through an alternative payment system for ventilator-dependent nursing home patients to increase access to care for those individuals. The enhanced payment rate is approximately $640 per Medicaid day for nursing facilities that provide services to ventilator-dependent individuals and that meet the criteria and conditions to participate in the Department's alternative purchasing model for the provision of services to ventilator-dependent individuals. This enhancement payment rate is established based on 60% of the average per day Medicaid payment in FY 2016 for long-term care hospitals whose primary patients are those who depend on ventilators. The implementation of this enhanced payment rate is expected to increase reimbursements for nursing facilities by approximately $6.5 million in FY 2017 and by about $40 million in each of FY 2018 and FY 2019.

Bureau of Motor Vehicles Issues Over 436,000 Special License Plates in 2016

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

In calendar year 2016, the Bureau of Motor Vehicles (BMV) issued a total of 436,224 special license plates. The number of different plates available totaled over 240, each of which generally falls into one of four categories: organizational, collegiate, military, or disability. The table below lists the top five organizational, collegiate, and military plates issued in 2016, the number of each, and the total number issued for each category.

Of the available 240 different special license plates, the 30 collegiate, and 95 of the organizational plates, require a contribution that varies by type of plate from $5 to $35. These contributions generally are earmarked for programs related to health, sports, children, pets, colleges, and the environment. These special license plates as a group generated over $3 million in contributed revenue. The BMV also offers 89 military plates, as well as a disability plate, but those do not generate revenue as they are issued at no cost to the registrant.

Special license plates generally are subject to minimum registration requirements, which if not met, may result in termination of the plate. According to the BMV, no license plates were terminated for failure to meet that requirement in 2016.

Top Five Special License Plates Issued by Category, Calendar Year 2016					
Organizational License Plate	Total	Collegiate License Plate	Total	Military License Plate	Total
Historical (Motor Vehicles)	18,509	The Ohio State University (Block O)	21,218	U.S. Armed Forces Veteran (Army)	29,769
Wildlife (Cardinal)	16,670	University of Cincinnati	3,118	Vietnam Veteran	18,958
Lake Erie Lighthouse	10,505	Ohio University	2,088	U.S. Armed Forces Veteran (Marine)	18,200
Ohio Pets (Pet Friendly)	10,393	Miami University (Block M)	1,939	U.S. Armed Forces Veteran (Navy)	14,719
One Nation Under God	10,004	University of Dayton	1,635	U.S. Armed Forces Veteran (Air Force)	12,794
Organizational License Plate Total	**170,244**	**Collegiate License Plate Total**	**38,312**	**Military License Plate Total**	**166,993**

2016 Ohio State Fair Generated a Profit of Nearly $711,000

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

The Ohio Expositions Commission reported a profit of almost $711,000 from the 2016 State Fair, which was held from July 27 through August 7. Overall revenue from the event was approximately $9.0 million, of which $6.6 million (73.3%) was derived from admission fees, ticket sales for entertainment and attractions, and exhibit space rental fees. The remaining $2.4 million (26.7%) came from event sponsorship, parking and camping fees, and other sources such as concessions and livestock auction revenues. Total expenses for the 2016 State Fair were $8.3 million, with payroll and entertainment and personal service contracts accounting for approximately $5.2 million (62.7%) of that amount. The remaining $3.1 million (37.3%) was spent on advertising, fairground maintenance, supplies, utilities, and other items. Over 921,000 individuals attended the 2016 State Fair, 61,000 fewer people compared to the record-setting attendance in 2015.

The Exposition Commission has an FY 2017 budget of $14.5 million, of which $13.9 million is funded by anticipated revenues from the State Fair and approximately 175 other events held on the state fairground throughout the year. A GRF appropriation of $375,000 is used to support the Junior Fair held in conjunction with the State Fair. Under certain conditions, the Commission may tap the State Fair Reserve Fund (Fund 6400) if receipts from the annual event fall short of expenses. The last time the Commission exercised this authority was in 2002. As of February 24, 2017, Fund 6400 had a cash balance of $125,337.

Ohio EPA Awards $12.8 million in Diesel Emission Reduction Project Grants

– Robert Meeker, Budget Analyst, 614-466-3839

On January 31, 2017, the Ohio Environmental Protection Agency (Ohio EPA) announced the award of Diesel Emission Reduction Grants (DERG) totaling $12.8 million for 30 public and private sector diesel fleet projects (see table below).[6] The grant awards will be used for projects that refurbish or replace aging diesel engines with newer, cleaner diesel technology or alternative fuel technology. Awards range from $53,667 to $987,000 with an average award of $427,000.

DERG Awards Announced in January 2017

Diesel Fleet Project Type	Projects	Number of Vehicles or Engines Replaced	Total Amount Awarded	% of Amount Awarded
Public Sector School Buses	12	118	$4,511,163	35.2%
Public Sector Transit Buses	7	11	$4,001,056	31.2%
Private Sector*	11	106	$4,303,830	33.6%
TOTAL	**30**	**235**	**$12,816,049**	**100.0%**

* Private sector entities are required to apply through a public sector partner such as a metropolitan planning organization, local government, or state agency.

DERG is administered jointly by the Ohio EPA and the Ohio Department of Transportation and is supported with federal Congestion Mitigation and Air Quality Program (CMAQ) funds allocated to Ohio by the Federal Highway Administration. Grants awarded as part of the DERG program cover up to 80% of an eligible project's total cost. Recipients are required to provide a minimum 20% in matching funds, which cannot be sourced from other federal funds or from in-kind services. To be eligible, the recipient's equipment must be operated in Ohio CMAQ-eligible areas for at least 65% of the time. These areas include 38 counties (or parts of counties), largely in central, southwest, and northeast Ohio. The projects awarded during this grant cycle cover 25 counties.

BWC Awards $944,000 in Workplace Safety Grants

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

On January 25, 2017, the Bureau of Workers' Compensation (BWC) awarded over $944,000 in workplace safety grants to 41 employers in 28 counties. These grants were awarded under the Safety Intervention Grant Program and will be used to purchase

[6] The Ohio EPA estimates the 30 projects will reduce air pollutants (fine particulates and nitrogen oxides) by more than 137 tons annually.

equipment designed to substantially reduce or eliminate workplace injuries and illnesses. Of the 41 grant recipients, 22 are private employers and their award total is approximately $412,000. The remaining 19 recipients are public employers and their award total is approximately $532,000. Eight employers were each awarded the maximum grant of $40,000 that is allowed under the program. A full list of the grant award recipients, including the specific employers and award amounts, can be found at: https://www.bwc.ohio.gov/home/current/releases/2017/012517.asp.

BWC's Safety Intervention Grant Program offers private and public employers funding for training, wellness programs, and equipment intended to reduce workplace injuries and illnesses. Grants are made available to employers with a three to one matching amount up to a maximum of $40,000. The funding for this program comes from assessments charged to employers that are calculated as a percentage of paid premiums. Those amounts are 1.0% of paid premiums for private employers and 0.75% of paid premiums for public employers. In total, BWC offers approximately $15.0 million in Safety Intervention Grants in each fiscal year.

TRACKING THE ECONOMY

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Overview

The national economy appears to be continuing to expand, as indicated by increases reported for January in employment, factory and mining production, and home sales. Consumer spending, housing starts, and total construction spending slowed in January, however. Sales of light motor vehicles remained at a high level in January and February but were down from the pace in the fourth quarter of last year. Inflation-adjusted gross domestic product (real GDP) rose at a 1.9% annual rate in last year's fourth quarter, and rose only 1.6% for all of last year.

The national economy appears to be continuing to expand.

In Ohio, total employment fell in January after trending upward last year. The rate of growth in employment in 2016 was slower than in the previous six years. Home sales in the state continue to expand.

The nation's central bank, the Federal Reserve, has kept its short-term interest rate target, for the federal funds rate, unchanged since it raised the target range to ½% to ¾% at the December meeting of its monetary policy-setting committee. This group, the Federal Open Market Committee (FOMC), next meets March 14-15. Federal Reserve Chair Yellen said in a speech on March 3 that "(t)he economy has essentially met the employment portion of our mandate and inflation is moving closer to our 2 percent objective." Market participants appear to expect another firming of policy at the March meeting.[7]

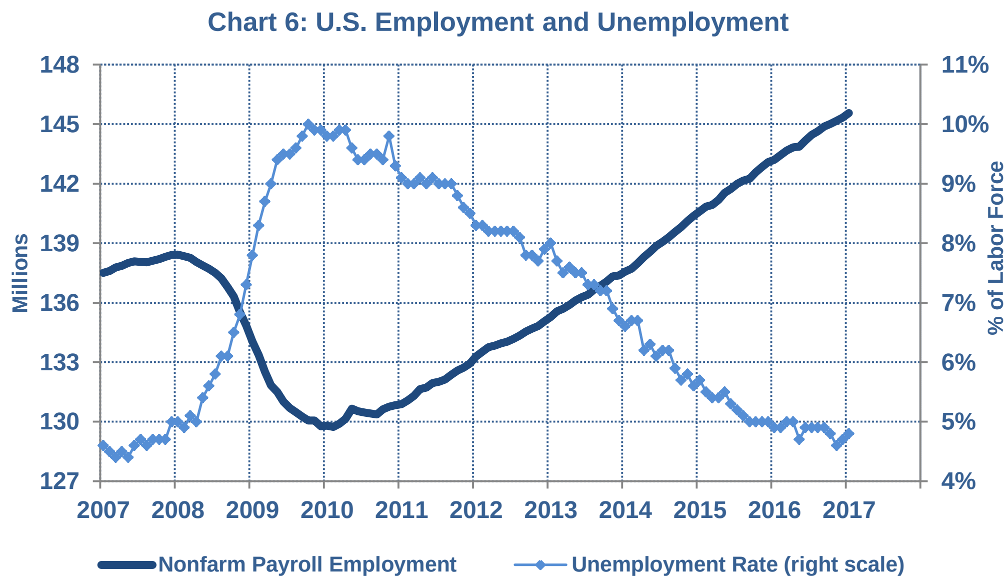
The National Economy

Employment and Unemployment

Total nonfarm payroll employment in the U.S. increased 227,000 from December to January, up from monthly gains averaging 187,000 in 2016. The unemployment rate rose to 4.8% in January from 4.7% in

[7] One measure of market expectations is federal funds futures prices. Based on trading in contracts for 30-day federal funds futures, the CME Group estimated on March 7 that the probability of a quarter-point increase in the range at that meeting was more than 84%. This estimate of market expectations was downloaded from the following website: http://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html.

December and 4.6% in November, the lowest since 2007. Trends in employment and unemployment are shown in Chart 6.



The next report on nationwide employment and unemployment in February is scheduled for release March 10 by the U.S. Bureau of Labor Statistics.

Production, Shipments, and Inventories

In January, output of factories rose 0.2% and that of mining rose 2.8%.

Real GDP rose at a 1.9% annual rate in last year's fourth quarter, the same growth rate as estimated initially but based on more complete information. The figures continue to show an upturn in growth in the second half of last year after slower growth earlier. Consumer spending expanded at a 3% annual rate in the 2016 second half and residential fixed investment rose briskly in the fourth quarter after two quarters of declines. Business fixed investment, however, remained sluggish. Real exports, on balance, rose only slightly last year, the second consecutive year of minimal growth. For the full year 2016, real GDP rose 1.6%, down from 2.6% growth the year before and a 2.4% increase in 2014.

Total industrial production fell 0.3% in January as utility output fell 5.7%. In contrast, output of factories rose 0.2% and that of mining rose 2.8%. The industrial production index is a weighted average of estimated output of manufacturing (about 80%), mining (9%), and utilities (11%). The plunge in utility output was attributed by the source agency, the Federal Reserve, to exceptionally warm weather that cut demand for heating. The increase in mining reflected increases in the major industry groups in this sector including oil and gas extraction, coal, and others. The index for all industrial production remains about 2% below its peak in late 2014.

Factory production continued to rise in February, as indicated by a survey of purchasing managers with the Institute for Supply Management. Survey responses noting increases also outnumbered reports of decreases for new orders, order backlogs (unfilled orders), inventories, and employment, along with widespread reports of higher prices paid. A comparable survey of purchasing managers with nonmanufacturing organizations also showed continued expansion of economic activity.

Factory production continued to rise in February, as indicated by a survey of purchasing managers.

Consumer Spending and Incomes

Personal income rose 0.4% in January, measured in dollars of current purchasing power and seasonally adjusted. Incomes were boosted by higher wages and salaries and by increased transfer payments. The price index for consumer spending also rose 0.4% for the month. Real personal consumption expenditures fell 0.3% in January, as spending fell for both services, particularly utility services, and for durable goods, notably new vehicles and household durables. The fall in consumption of utility services plausibly reflects the effect of the unseasonably mild winter weather.

In February, sales of light motor vehicles remained strong. On a seasonally adjusted basis, the sales rate was around the record pace for all of last year. Compared with the elevated rate in last year's fourth quarter, though, light vehicle sales in January and February were lower, indicating weakness in this component of first quarter consumer spending, compared with the fourth quarter.

Construction and Real Estate

Housing starts fell 3% in January, seasonally adjusted, but were 10% above the year-earlier rate. Seasonal adjustment of these data is particularly uncertain in the winter months. For all of last year, housing starts rose 6%, with particular strength in starts on construction of single-family homes and slackening starts on apartments, especially in the Northeast region of the country.

Nationwide sales of new homes rose 4% from December to January, after increasing 12% in all of 2016 compared with the previous year. Sales of used homes rose 3% in January after rising 4% from 2015 to

2016.[8] Used home sales in January were reported to be at the strongest rate, seasonally adjusted, in nearly a decade.

U.S. home prices continued to rise through year end 2016, according to estimates from the Federal Housing Finance Agency. Average home prices in 2016 were 6% higher than a year earlier, extending an uptrend underway since 2011.

Total construction put in place nationwide declined 1% in January from December, seasonally adjusted. These figures are in current dollars, not adjusted for inflation. In all of 2016, construction activity rose 5%, including a 5% increase in private residential construction, an 8% increase in private nonresidential construction, partially offset by a 1% decline in public construction. Private office construction rose 30% last year, private lodging construction (hotels, motels, and similar buildings) rose 27%, and construction of private commercial structures rose 11%.

Inflation

The personal consumption expenditures price index in January was 1.9% higher than a year earlier.

The personal consumption expenditures price index rose 0.4% in January, as noted above, and was 1.9% higher than a year earlier, the highest inflation rate as measured by this index since 2012. The most recent published FOMC meeting minutes say that the group judges inflation at 2% per year, measured by this index, to be most consistent with the agency's mandate.

The consumer price index (CPI) rose 0.6% in January, the largest monthly increase since February 2013, as gasoline prices jumped 7.8%. Compared with a year earlier, the CPI for all items was 2.5% higher, the highest in nearly five years, with prices of various energy goods and services up 10% to 20% or more. Excluding both energy and food, the CPI was 2.3% higher than in January 2016, equaling or exceeding year-over-year changes in this inflation measure since 2008.

The producer price index for final demand, a measure of factory and wholesale prices, rose 0.6% in January to 1.6% higher than in January 2016. Final demand goods prices were 3.1% higher than a year earlier, the largest increase since 2012, with energy goods prices up sharply.

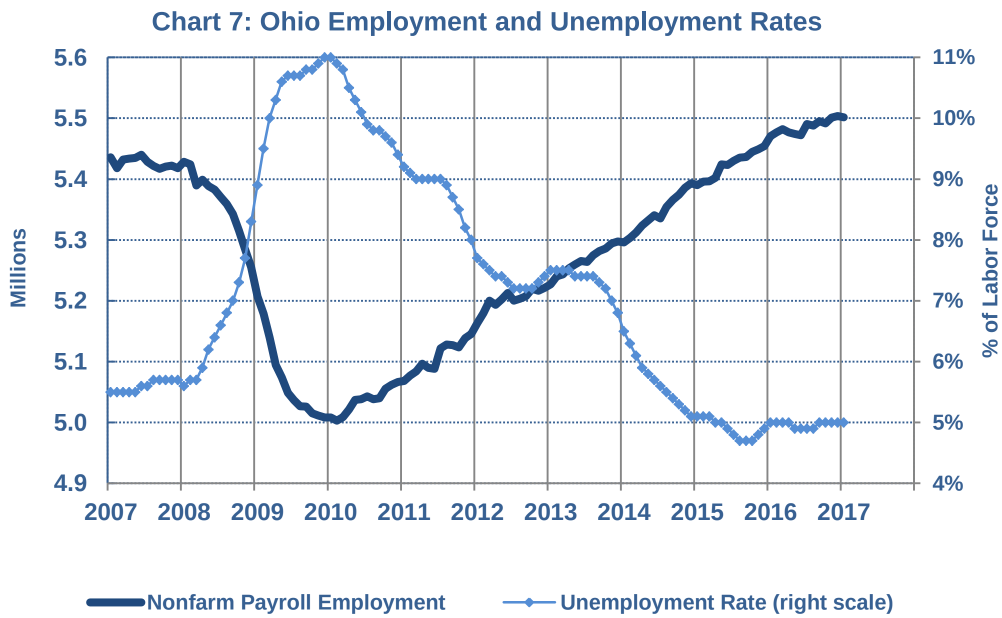
[8] Used or existing home sales are from the National Association of Realtors and are closings on purchase/sales contracts.

The Ohio Economy

Employment and Unemployment

Total nonfarm payroll employment in Ohio declined 2,100 from December to January, to 31,100 (0.6%) higher than a year earlier. Unemployment as a share of the labor force in January was unchanged at 5.0%. Trends in Ohio employment and unemployment are shown in Chart 7.

Total nonfarm payroll employment in Ohio in January was 31,100 (0.6%) higher than a year earlier.



Both employment and unemployment were revised for earlier months and years, with employment generally revised downward and unemployment upward. Revisions were small. On average, total nonfarm payroll employment in 2016 was revised downward by 0.1%. The statewide average unemployment rate in 2016 was revised upward slightly, less than 0.1 percentage point, and the low point of recent years for this rate, in August and September 2015, was revised upward from 4.6% to 4.7%.

The uptrend in employment is continuing but is slower than earlier in the expansion. In the year to December 2016, the number of nonfarm payroll jobs increased 0.9%, the smallest rise since the 2007-2009 recession. In 2010-2015, yearly increases averaged 1.4%.

The number of existing homes sold in Ohio for all of 2016 was 7.5% more than in 2015.

Ohio Home Sales

The number of existing homes sold in Ohio increased by 1.6% in January compared to the preceding January, according to the Ohio Association of Realtors. The average price of homes sold through realtors statewide was 7.5% higher than a year earlier. For all of 2016, the group reported 151,594 housing units sold in Ohio, 7.5% more than in 2015, at an average price of $163,503, up 5.1% from the previous year.

Regional Economic Conditions

Economic activity in the Federal Reserve District that includes Ohio grew at a moderate pace in late 2016-early 2017, according to a report from the Federal Reserve Bank of Cleveland.[9] Retailers cite increased consumer confidence, low interest rates, and incentive programs of product manufacturers as factors in rising sales. Production at factories in the region strengthened slightly, but continues to be restrained by the high value of the dollar relative to foreign currencies, and by weakness in the oil and gas sector. Commercial construction activity remains at a high level. Labor markets continue to tighten, particularly for skilled trades, engineering, data analytics, and similar positions, resulting in rising wages and benefits, and lengthening of the time needed to fill job openings.

[9] Based on the latest Beige Book, a Federal Reserve System publication that summarizes information gathered on or before February 17, 2017, from outside contacts. The Federal Reserve Bank of Cleveland's district includes all of Ohio and nearby parts of Kentucky, Pennsylvania, and West Virginia.