Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION FEBRUARY 2018

STATUS OF THE GRF

HIGHLIGHTS

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

January GRF tax revenue was $204 million, almost 10%, above the estimate published by the Office of Budget and Management (OBM) in September 2017. A very strong month from the income tax more than offset a weak result from the nonauto sales and use tax. GRF program expenditures were $27 million above estimate for the month, but remained below estimate for the fiscal year to date, by almost 1%.

Ohio's unemployment rate decreased to 4.7% in December, from 4.8% in November, and 5.4% in August. From December 2016 to December 2017, payroll employment rose by 38,500.

Through January 2018, GRF sources totaled $19.23 billion:

- Revenue from the personal income tax was $249.9 million above estimate;
- Sales and use tax receipts were $22.7 million below estimate.

Through January 2018, GRF uses totaled $19.26 billion:

- Program expenditures were $178.5 million below estimate during the first seven months of FY 2018;
- Spending on Medicaid was below estimate by $191.7 million, but spending on Primary and Secondary Education was $62.5 million above estimate, due partly to timing;
- Most other program expenditure categories were below estimate.

VOLUME 41, NUMBER 6

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

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

STATE SOURCES	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$119,045	$99,000	$20,045	20.2%
Nonauto Sales and Use	$793,249	$852,300	-$59,051	-6.9%
Total Sales and Use Taxes	**$912,294**	**$951,300**	**-$39,006**	**-4.1%**
Personal Income	$1,115,391	$892,800	$222,591	24.9%
Commercial Activity Tax	$72,448	$59,400	$13,048	22.0%
Cigarette	$81,044	$74,100	$6,944	9.4%
Kilowatt-Hour Excise	$28,713	$29,600	-$887	-3.0%
Foreign Insurance	$513	$1,700	-$1,187	-69.8%
Domestic Insurance	$0	-$100	$100	100.0%
Financial Institution	$53,809	$52,300	$1,509	2.9%
Public Utility	$227	-$100	$327	326.8%
Natural Gas Consumption (MCF)	$1,995	$1,700	$295	17.3%
Alcoholic Beverage	$4,654	$4,000	$654	16.4%
Liquor Gallonage	$4,978	$4,800	$178	3.7%
Petroleum Activity Tax	$0	$0	$0	---
Corporate Franchise	-$540	$0	-$540	---
Business and Property	$0	$0	$0	---
Estate	$5	$0	$5	---
Total Tax Revenue	**$2,275,531**	**$2,071,500**	**$204,031**	**9.8%**
NONTAX REVENUE				
Earnings on Investments	$14,464	$13,000	$1,464	11.3%
Licenses and Fees	$4,626	$2,900	$1,726	59.5%
Other Revenue	$204,127	$1,780	$202,347	11367.8%
Total Nontax Revenue	**$223,217**	**$17,680**	**$205,537**	**1162.5%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$3,902	$25,500	-$21,598	-84.7%
Total Transfers In	**$3,902**	**$25,500**	**-$21,598**	**-84.7%**
TOTAL STATE SOURCES	**$2,502,650**	**$2,114,680**	**$387,970**	**18.3%**
Federal Grants	$716,712	$739,647	-$22,934	-3.1%
TOTAL GRF SOURCES	**$3,219,362**	**$2,854,327**	**$365,035**	**12.8%**

*Estimates of the Office of Budget and Management as of September 2017.
Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Actual vs. Estimate
FY 2018 as of January 31, 2018
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on February 1, 2018)

STATE SOURCES	Actual	Estimate*	Variance	Percent	FY 2017**	Percent Change
TAX REVENUE						
Auto Sales	$818,381	$774,500	$43,881	5.7%	$791,728	3.4%
Nonauto Sales and Use	$5,198,500	$5,265,100	-$66,600	-1.3%	$5,530,536	-6.0%
Total Sales and Use Taxes	**$6,016,881**	**$6,039,600**	**-$22,719**	**-0.4%**	**$6,322,264**	**-4.8%**
Personal Income	$5,264,194	$5,014,300	$249,894	5.0%	$4,833,745	8.9%
Commercial Activity Tax	$801,493	$779,500	$21,993	2.8%	$670,716	19.5%
Cigarette	$501,891	$499,500	$2,391	0.5%	$516,369	-2.8%
Kilowatt-Hour Excise	$196,995	$209,100	-$12,105	-5.8%	$211,385	-6.8%
Foreign Insurance	$145,357	$157,200	-$11,843	-7.5%	$162,740	-10.7%
Domestic Insurance	$63	$2,900	-$2,837	-97.8%	$53	17.5%
Financial Institution	$28,770	$37,600	-$8,830	-23.5%	$38,599	-25.5%
Public Utility	$55,791	$53,800	$1,991	3.7%	$47,621	17.2%
Natural Gas Consumption (MCF)	$18,755	$19,300	-$545	-2.8%	$18,505	1.4%
Alcoholic Beverage	$34,280	$34,000	$280	0.8%	$35,026	-2.1%
Liquor Gallonage	$29,012	$27,800	$1,212	4.4%	$28,093	3.3%
Petroleum Activity Tax	$3,280	$2,800	$480	17.1%	$2,860	14.7%
Corporate Franchise	$2,397	$0	$2,397	---	-$123	2052.7%
Business and Property	-$374	$0	-$374	---	-$678	44.8%
Estate	$118	$0	$118	---	$490	-75.8%
Total Tax Revenue	**$13,098,903**	**$12,877,400**	**$221,503**	**1.7%**	**$12,887,667**	**1.6%**
NONTAX REVENUE						
Earnings on Investments	$30,304	$28,000	$2,304	8.2%	$24,067	25.9%
Licenses and Fees	$13,596	$13,695	-$99	-0.7%	$14,951	-9.1%
Other Revenue	$235,409	$262,760	-$27,351	-10.4%	$53,488	340.1%
Total Nontax Revenue	**$279,309**	**$304,455**	**-$25,146**	**-8.3%**	**$92,506**	**201.9%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$133,171	$128,929	$4,242	3.3%	$92,187	44.5%
Total Transfers In	**$133,171**	**$128,929**	**$4,242**	**3.3%**	**$92,187**	**44.5%**
TOTAL STATE SOURCES	**$13,511,383**	**$13,310,784**	**$200,599**	**1.5%**	**$13,072,360**	**3.4%**
Federal Grants	$5,721,340	$5,812,118	-$90,779	-1.6%	$6,928,319	-17.4%
TOTAL GRF SOURCES	**$19,232,723**	**$19,122,902**	**$109,819**	**0.6%**	**$20,000,679**	**-3.8%**

*Estimates of the Office of Budget and Management as of September 2017.
***Cumulative totals through the same month in FY 2017.*
Detail may not sum to total due to rounding.

REVENUES[1]

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

Overview

For FY 2018 through January, GRF sources were $109.8 million (0.6%) above OBM's estimates published in September 2017. Positive variances of $221.5 million for GRF tax sources and $4.2 million for transfers into the GRF were partially offset by shortfalls of $90.8 million and $25.1 million, respectively, for federal grants and for nontax revenue. GRF taxes and federal grants are expected to make up about 68% and 30%, respectively, of anticipated GRF sources for FY 2018. The latter mainly consists of federal reimbursements for Medicaid expenditures made from state GRF moneys. Tables 1 and 2 show GRF sources for January and for FY 2018 through January, respectively.

Through January in FY 2018, GRF sources were $109.8 million above estimate.

GRF sources in January were $365.0 million (12.8%) above projected receipts. A positive variance of $222.6 million from the personal income tax (PIT) in January 2018 and a delayed transfer of $200.0 million from state unclaimed funds helped reverse the first-half cumulative negative variance of GRF sources.[2] GRF tax sources were above anticipated revenue by $204.0 million and nontax revenue, including the payment from unclaimed funds to the GRF scheduled for December but booked this month, was above estimate by $205.5 million. Those positive variances were partially offset by negative variances of $22.9 million for federal grants and $21.6 million for transfers in. Though GRF tax sources as a whole were above projected receipts, the nonauto sales and use tax came in $59.1 million below estimate. On the other hand, the auto sales and use tax outperformed its estimate by $20.0 million. Also, the commercial activity tax (CAT) and the cigarette tax were $13.0 million and $6.9 million, respectively, above projected revenues. The first actual tax filing for the financial institution tax (FIT) in January provided $53.8 million, an amount that was $1.5 million above estimate. However, this tax source had accumulated a deficit of $10.3 million over the first six months of the fiscal year, so the year-to-date (YTD) negative variance

FY 2018 GRF tax sources continue to be above estimate.

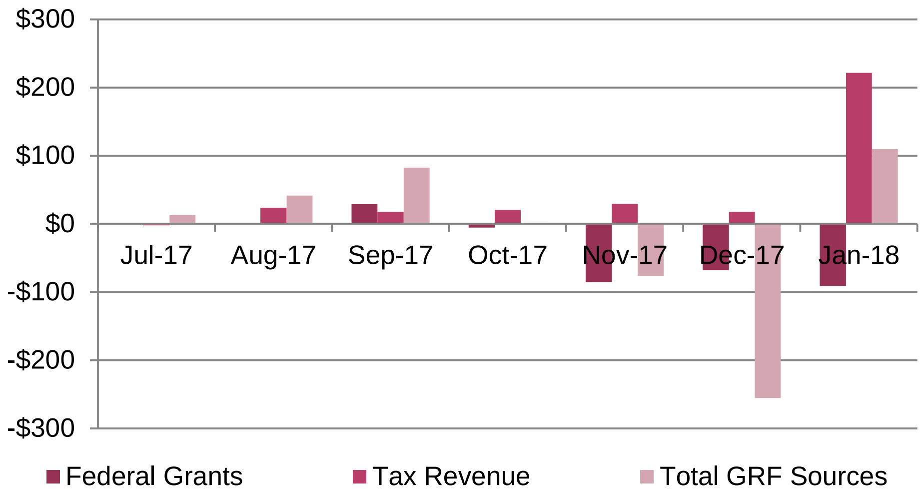
[1] This report compares actual monthly and year-to-date GRF revenue sources to OBM's estimates. If actual receipts were higher than estimate, that GRF source is deemed to have a positive variance. Alternatively, a GRF source is deemed to have a negative variance if actual receipts were lower than estimate.

[2] For the first six months of the fiscal year, GRF sources' cumulative negative variance totaled $255.2 million (1.6%).

stood at $8.8 million at the end of January.[3] For FY 2018 through January, the following taxes were substantially above estimates: the PIT ($249.9 million), the auto sales and use tax ($43.9 million), and the CAT ($22.0 million); and taxes with large negative variances included the nonauto sales and use tax ($66.6 million), the kilowatt-hour tax ($12.1 million), and the foreign insurance tax ($11.8 million).

Through January, federal grants to the GRF were $90.8 million less than estimates.

Chart 1: Cumulative Variances of GRF Sources in FY 2018
(Variance from Estimates, $ in millions)



FY 2018 YTD GRF sources were $768.0 million (3.8%) below FY 2017 GRF sources through January. Excluding federal grants which fell $1.21 billion (17.4%), receipts from the major categories increased: GRF tax sources increased $211.2 million (1.6%), nontax revenue jumped $186.8 million (201.9%), and transfers in were up $41.0 million (44.5%).

As explained in previous editions of this publication, federal grants to the GRF will decline from FY 2017 as an important source of Medicaid funding has shifted from the GRF to a dedicated purpose fund. More spending for the Medicaid program would be made from non-GRF funds this fiscal year, and the GRF will thus experience lower federal reimbursements in FY 2018. For tax sources, revenue grew for the PIT ($430.4 million, 8.9%), the CAT ($130.8 million, 19.5%), the public utility tax ($8.2 million, 17.2%), and the corporate franchise tax ($2.5 million, 2052.7%). On the other hand, revenue declined for the sales and use tax ($305.4 million, 4.8%), the foreign insurance tax ($17.4 million, 10.7%), the

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

cigarette tax ($14.5 million, 2.8%), the kilowatt-hour tax ($14.4 million, 6.8%), and the FIT ($9.8 million, 25.5%). The revenue increase for the PIT is due, in large part, to continued growth in payroll employment and wages. The increase in CAT receipts was due in part to an increase in the share of CAT revenue allocated to the GRF enacted in H.B. 49, the budget act for the current biennium, while the decline in sales tax revenue resulted from a policy change that decreased the nonauto sales and use tax base, as explained in the following section. The decrease in FIT receipts is due to increased refunds this fiscal year relative to FY 2017.

Sales and Use Tax

The sales and use tax had its worst monthly performance of the fiscal year in January, despite strong auto sales and use tax revenue. Total receipts to the GRF of $912.3 million for the month lagged estimates by $39.0 million (4.1%), dragged down by poor nonauto sales and use tax revenue. Monthly sales and use tax revenue was also $78.3 million (7.9%) below receipts in January 2017. The monthly results eliminated a first-half positive variance of $16.3 million (0.3%). Through January 2018, total GRF sales and use tax receipts of $6.02 billion were $22.7 million (0.4%) below estimate, and $305.4 million (4.8%) below receipts in the corresponding period last year. Revenue from the auto sales and use tax generally has been more than expected throughout the fiscal year, but the nonauto portion of the tax continues to be weak.

Through January in FY 2018, the sales and use tax fell below estimate by $22.7 million.

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.[4]

Nonauto Sales and Use Tax

The monthly performance of the nonauto sales and use tax has been uneven this fiscal year, with an equal number of monthly positive and negative variances, through December. However, in January 2018, the nonauto sales and use tax revenue produced its worst performance of the fiscal year to date. Receipts to the GRF of $793.2 million were $59.1 million

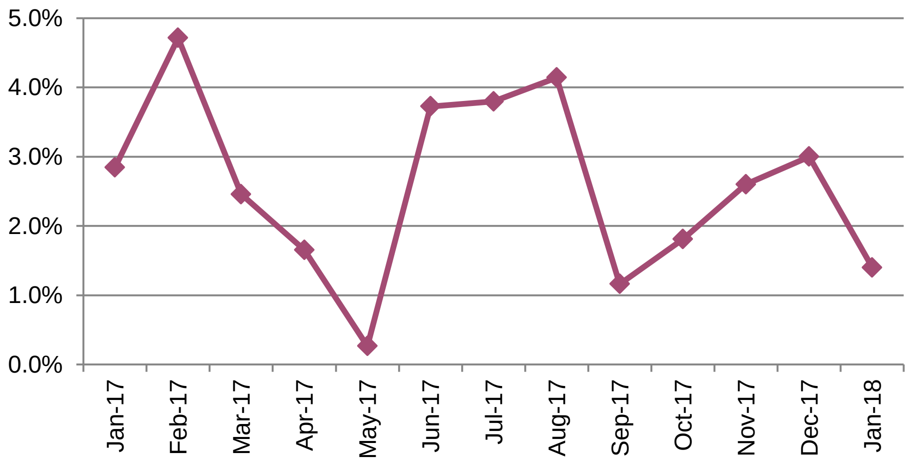
[4] Taxes arising from leases are paid immediately upon the lease signing. The clerks of court generally make auto sales and use tax payments on Mondays for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled. Therefore, auto sales and use tax receipts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

(6.9%) below estimate, increasing the cumulative negative variance of this tax source to $66.6 million (1.3%), up from $7.6 million (0.2%) at the end of December 2017. January 2018 revenue was also $94.8 million (10.7%) below receipts in the same month last year.

For the fiscal year through January, GRF receipts from this tax totaled $5.20 billion, $332.0 million (6.0%) below revenue in the corresponding period in FY 2017, due to a change in law that reduced the taxable base. Starting July 1, 2017, H.B. 49 replaced the sales tax on Medicaid health insuring corporations (MHICs) with a provider assessment on both Medicaid and non-Medicaid managed care companies, with proceeds deposited in a non-GRF fund. Sales tax revenue attributable to MHICs had grown to be a sufficiently large portion of nonauto sales and use tax revenue overall by FY 2017, that declines in revenue from this tax source are generally expected this year when compared to the corresponding months in FY 2017. Monthly revenue growth on a year-ago basis, after adjusting for the decrease in the tax base described above, declined in the latest months as shown in Chart 2 below.[5]

YTD nonauto sales and use tax receipts were $66.6 million below estimate.

Chart 2: Nonauto Sales and Use Tax Receipts Trend
Actual vs. Prior Year (with tax base adjustment)
(Three-month Moving Average)



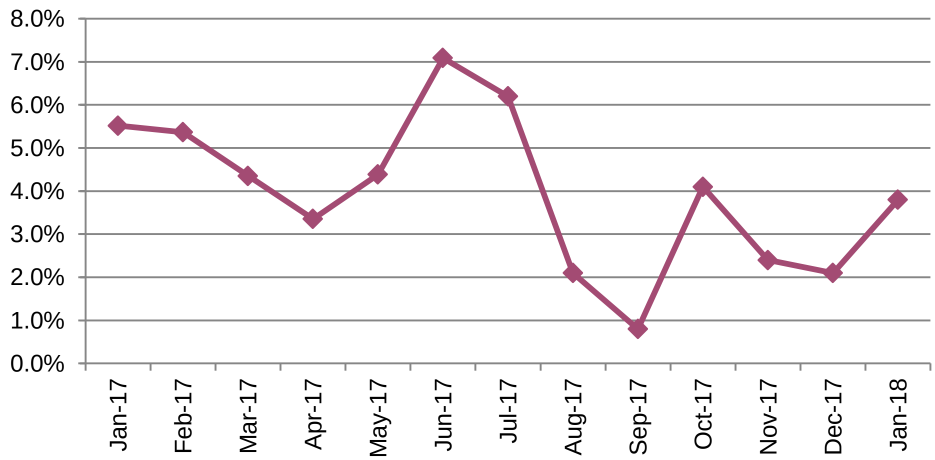
Underscoring the lack of performance of this tax source, nonauto sales and use tax adjusted receipts growth fell 2.5% when compared to revenue in the same month last year.

[5] Please note that to adjust for changes to the existing tax base, this chart excludes monthly revenue from MHICs starting in August 2016 in FY 2017 so that changes in nonauto sales and use tax revenue are on a comparable basis.

Auto Sales and Use Tax

The auto portion of the sales and use tax surpassed expectations in January 2018. Receipts of $119.0 million were $20.0 million (20.2%) ahead of projections and $16.6 million (16.2%) above January 2017 revenue. Total revenue of $818.4 million for the fiscal year to date was $43.9 million (5.7%) above estimate and $26.7 million (3.4%) above revenue in the first seven months of FY 2017. Chart 3 provides year-over-year growth in auto sales and use tax collections in 2017.

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



Through January in FY 2018, the auto sales and use tax was $43.9 million above estimate.

Nationwide, light vehicle sales fell about 2% in 2017 when compared to 2016. However, the nationwide decline in unit sales may not have occurred in Ohio, based on recent information from the Ohio Bureau of Motor Vehicles (BMV). The BMV reported titles for both new and used vehicles grew in calendar year (CY) 2017 and both portions of the auto tax taxable base increased, as show in the table below. New vehicles and used vehicles provided about 41% and 59%, respectively, of the total taxable base in 2017. However, growth was generally higher in the first half of 2017 (compared to the corresponding period in 2016), than in the last six months of 2017 (compared to the second half of 2016). In the July to December period in 2017 (which corresponds to the first six months of FY 2018), titles grew 2.7%, the increase in taxable amount was 2.8%, and the average taxable amount grew just 0.1%.

CY 2017	Titles	Total Taxable Amount ($ in millions)	Average Taxable Amount
New vehicles	382,305	$10,584	$27,685
Used vehicles	1,770,774	$14,821	$8,370
Total	2,153,079	$25,405	$11,800
Growth from CY 2016			
New vehicles	2.8%	4.5%	2.6%
Used vehicles	4.3%	3.8%	-0.4%
Total	4.0%	4.1%	0.5%

For FY 2018 as a whole, OBM expects a decline of 2.5% in revenue from the Ohio auto sales and use tax when compared to FY 2017; but so far it appears the auto tax base has not declined.

Personal Income Tax

For the year to date, total PIT GRF revenue of $5.26 billion was $249.9 million (5.0%) above estimate and $430.4 million (8.9%) above corresponding receipts through January in FY 2017. PIT revenue is comprised of gross collections, minus refunds and distributions to the Local Government Fund (LGF). Gross collections consist of employer withholdings, quarterly estimated payments,[6] trust payments, payments associated with annual returns, and other miscellaneous payments. The performance of the tax is typically driven by employer withholdings, which is the largest component of gross collections, and to a lesser extent, the amount of refunds to taxpayers.

PIT GRF revenue was $249.9 million above estimate in FY 2018 through January.

Results from the PIT in January 2018 were strong, and GRF revenue of $1.12 billion was $222.6 million (24.9%) above estimate and $269.5 million (31.9%) above receipts in January 2017. Quarterly estimated payments led the way with a positive variance of $142.1 million (65.1%).[7] In addition, employer withholding and trust payments were $25.7 million (3.2%) and $6.2 million, respectively, above estimates. Those positive variances were partially offset by shortfalls of

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

[7] Estimated payments were also $147.5 million (69.2%) higher than corresponding receipts in January 2017. Oversized revenue from the January quarterly estimated payments may be due to taxpayers reacting to higher than expected nonwage income and capital gains in CY 2017.

$6.5 million (43.0%) for taxes due with annual returns and $3.5 million (28.9%) for miscellaneous payments. The filing of tax returns was delayed by a week this year and that probably affected refunds which were $58.6 million (41.5%) below estimate and $66.3 million (44.5%) below refunds in January 2017. In the previous three months, refunds were higher than estimated by a combined $65.4 million.

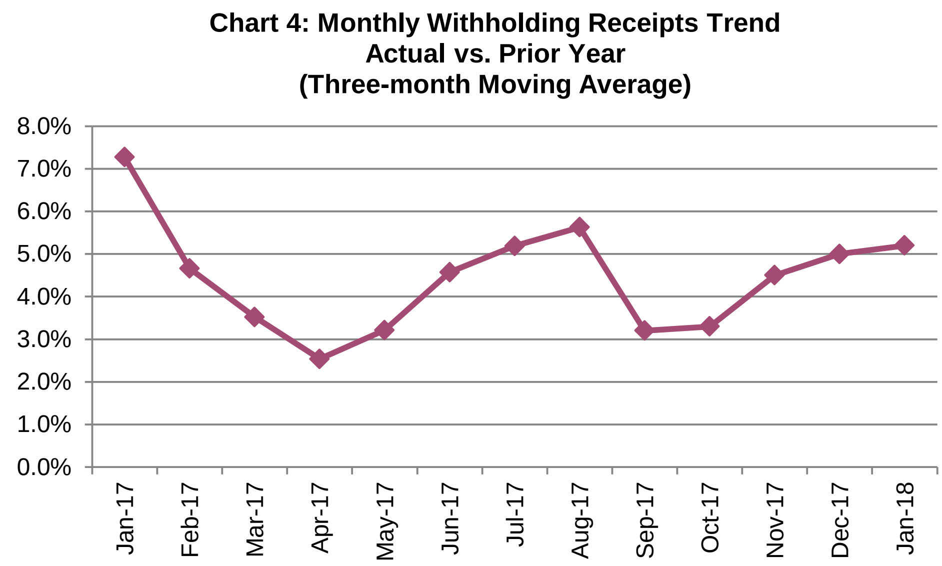
FY 2018 revenues through January from each component of the PIT relative to estimates and to revenue received in FY 2017 are detailed in the table below. PIT trends in the earlier months of FY 2018 continued. Except annual return payments, components of gross collections exceeded estimates through January 2018, with refunds and LGF distributions deviating from estimates by relatively small amounts.

FY 2018 Personal Income Tax Revenue
Estimate Variances and Year-over-Year Changes by Component

Category	Variance from Estimate		Changes from FY 2017	
	Amount ($ in millions)	Percentage (%)	Amount ($ in millions)	Percentage (%)
Withholding	$72.8	1.5%	$220.4	4.5%
Quarterly Estimated Payments	$174.8	34.2%	$187.9	37.7%
Trust Payments	$8.7	41.2%	$8.3	38.4%
Annual Return Payments	-$19.9	-19.3%	-$17.5	-17.4%
Miscellaneous Payments	$12.4	30.6%	$13.5	34.5%
Gross Collections	$248.9	4.4%	$412.7	7.5%
Less Refunds	-$2.5	-0.6%	-$19.2	-4.3%
Less LGF Distribution	$1.5	0.7%	$1.4	0.6%
GRF PIT Revenue	$249.9	5.0%	$430.4	8.9%

Revenue growth from monthly employer withholding is improving.

Compared to corresponding receipts in FY 2017 through January, receipts from employer withholding, quarterly estimated payments, and miscellaneous payments were all higher in FY 2018, but payments with annual returns were below such payments last year. Refunds were also lower than in the corresponding period in FY 2017. The chart below illustrates the growth of monthly employer withholdings on a three-month moving average relative to one year ago. It shows revenue growth from employer withholding rising in recent months.



Commercial Activity Tax

After underperforming in the previous two months, January CAT receipts to the GRF of $72.4 million were $13.0 million (22.0%) above estimate, and $20.4 million (39.3%) above revenue in January 2017. And for the fiscal year, total receipts of $801.5 million to the GRF were $22.0 million (2.8%) above projections and $130.8 million (19.5%) above receipts in the corresponding period in FY 2017 through January. This strong growth was due in part to the change in allocation of revenue enacted in H.B. 49. Yearly gross collections increased by $67.8 million (7.0%) relative to collections in FY 2017 through January 2017. However, CAT refunds also increased by $19.8 million (31.1%).

FY 2018 CAT GRF tax receipts through January were $22.0 million above estimate.

H.B. 49 increased the share of CAT revenue credited to the GRF from 75% to 85% beginning July 1, 2017, and decreased the shares allocated to reimburse school districts from 20% to 13% (Fund 7047) and to other local taxing units from 5% to 2% (Fund 7081) for their loss of tangible personal property tax revenues. While the allocation change increases the amount of CAT receipts directly credited to the GRF, it reduces "excess" CAT receipts that are transferred back to the GRF. Under continuing law, CAT receipts deposited into Fund 7047 and Fund 7081 are used to make reimbursement payments to school districts and other local taxing units, respectively, for the phase out of property taxes on general business tangible personal property. Any receipts in excess of amounts needed for such payments are transferred back to the GRF. In other words, the CAT allocation change has no net effect on its total contribution to the GRF.

Cigarette and Other Tobacco Products Tax

January 2018 revenue from the cigarette and other tobacco products tax of $81.0 million was $6.9 million (9.4%) above estimate. The performance of this tax source has been uneven, probably due to the timing of remittances, with monthly positive variances alternating with shortfalls. Through January 2018, GRF cigarette and other tobacco products tax revenue of $501.9 million was $2.4 million (0.5%) above estimate. This revenue included $463.1 million and $38.8 million, respectively, from sales of cigarettes and sales of other tobacco products. FY 2018 revenue was also $14.5 million (2.8%) below collections in the corresponding period in FY 2017. Receipts from cigarette sales fell $16.9 million (3.5%) while those from other tobacco products grew $2.5 million (6.8%). Revenue from the cigarette and other tobacco products tax usually trends downward, generally at a slow pace.

FY 2018 cigarette tax receipts were $2.4 million above estimate through January.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of January 2018
($ in thousands)
(Actual based on OAKS reports run February 2, 2018)

PROGRAM	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	$706,062	$661,786	$44,276	6.7%
Higher Education	$184,568	$181,641	$2,928	1.6%
Other Education	$7,096	$8,176	-$1,080	-13.2%
Total Education	**$897,726**	**$851,602**	**$46,124**	**5.4%**
Medicaid	$1,017,438	$1,072,970	-$55,532	-5.2%
Health and Human Services	$161,556	$157,925	$3,631	2.3%
Total Welfare and Human Services	**$1,178,993**	**$1,230,895**	**-$51,902**	**-4.2%**
Justice and Public Protection	$216,814	$191,139	$25,675	13.4%
General Government	$36,359	$35,247	$1,113	3.2%
Total Government Operations	**$253,173**	**$226,386**	**$26,788**	**11.8%**
Property Tax Reimbursements	-$6	$526	-$532	-101.2%
Debt Service	$123,987	$117,150	$6,837	5.8%
Total Other Expenditures	**$123,981**	**$117,676**	**$6,304**	**5.4%**
Total Program Expenditures	**$2,453,874**	**$2,426,559**	**$27,315**	**1.1%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$444	$0	$444	---
Total Transfers Out	**$444**	**$0**	**$444**	**---**
TOTAL GRF USES	**$2,454,317**	**$2,426,559**	**$27,759**	**1.1%**

*September 2017 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 2018 as of January 31, 2018
($ in thousands)
(Actual based on OAKS reports run February 2, 2018)

PROGRAM	Actual	Estimate*	Variance	Percent	FY 2017**	Percent Change
Primary and Secondary Education	$4,849,888	$4,787,344	$62,543	1.3%	$4,744,916	2.2%
Higher Education	$1,333,837	$1,339,269	-$5,431	-0.4%	$1,327,411	0.5%
Other Education	$49,003	$50,486	-$1,482	-2.9%	$51,142	-4.2%
Total Education	**$6,232,728**	**$6,177,099**	**$55,630**	**0.9%**	**$6,123,470**	**1.8%**
Medicaid	$8,642,401	$8,834,080	-$191,679	-2.2%	$10,272,922	-15.9%
Health and Human Services	$816,361	$843,724	-$27,363	-3.2%	$836,447	-2.4%
Total Welfare and Human Services	**$9,458,761**	**$9,677,804**	**-$219,042**	**-2.3%**	**$11,109,370**	**-14.9%**
Justice and Public Protection	$1,340,393	$1,344,292	-$3,900	-0.3%	$1,292,946	3.7%
General Government	$225,838	$238,855	-$13,016	-5.4%	$235,914	-4.3%
Total Government Operations	**$1,566,231**	**$1,583,147**	**-$16,916**	**-1.1%**	**$1,528,860**	**2.4%**
Property Tax Reimbursements	$906,414	$907,918	-$1,504	-0.2%	$901,983	0.5%
Debt Service	$1,021,866	$1,018,558	$3,308	0.3%	$1,013,333	0.8%
Total Other Expenditures	**$1,928,280**	**$1,926,476**	**$1,804**	**0.1%**	**$1,915,316**	**0.7%**
Total Program Expenditures	**$19,186,001**	**$19,364,525**	**-$178,524**	**-0.9%**	**$20,677,015**	**-7.2%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$29,483	-100.0%
Other Transfers Out	$69,445	$65,514	$3,931	6.0%	$238,605	-70.9%
Total Transfers Out	**$69,445**	**$65,514**	**$3,931**	**6.0%**	**$268,087**	**-74.1%**
TOTAL GRF USES	**$19,255,446**	**$19,430,039**	**-$174,594**	**-0.9%**	**$20,945,102**	**-8.1%**

*September 2017 estimates of the Office of Budget and Management.

**Cumulative totals through the same month in FY 2017.

Detail may not sum to total due to rounding.

Table 5: Medicaid Expenditures by Department
Actual vs. Estimate
($ in thousands)
(Actuals based on OAKS report run on February 6, 2018)

	Month of January 2018				Year to Date Through January 2018			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid	**$1,856,062**	**$1,927,331**	**-$71,269**	**-3.7%**	**$13,971,207**	**$14,113,493**	**-$142,287**	**-1.0%**
GRF	$959,320	$1,015,659	-$56,339	-5.5%	$8,232,309	$8,424,768	-$192,458	-2.3%
Non-GRF	$896,743	$911,672	-$14,930	-1.6%	$5,738,897	$5,688,726	$50,172	0.9%
Developmental Disabilities	**$227,319**	**$217,592**	**$9,727**	**4.5%**	**$1,585,593**	**$1,609,258**	**-$23,665**	**-1.5%**
GRF	$51,355	$49,624	$1,731	3.5%	$352,352	$350,958	$1,394	0.4%
Non-GRF	$175,964	$167,967	$7,997	4.8%	$1,233,241	$1,258,300	-$25,059	-2.0%
Job and Family Services	**$19,221**	**$20,537**	**-$1,316**	**-6.4%**	**$149,215**	**$154,733**	**-$5,517**	**-3.6%**
GRF	$6,175	$7,121	-$946	-13.3%	$51,897	$52,793	-$897	-1.7%
Non-GRF	$13,046	$13,416	-$370	-2.8%	$97,319	$101,939	-$4,620	-4.5%
Health	**$1,533**	**$1,973**	**-$440**	**-22.3%**	**$15,145**	**$15,966**	**-$822**	**-5.1%**
GRF	$336	$302	$35	11.5%	$2,363	$2,165	$197	9.1%
Non-GRF	$1,196	$1,671	-$475	-28.4%	$12,782	$13,801	-$1,019	-7.4%
Mental Health and Addiction	**$174**	**$168**	**$5**	**3.1%**	**$2,396**	**$2,769**	**-$373**	**-13.5%**
GRF	$0	$0	$0	--	$1,250	$1,250	$0	0.0%
Non-GRF	$174	$168	$5	3.1%	$1,146	$1,519	-$373	-24.6%
Aging	**$572**	**$554**	**$18**	**3.3%**	**$3,463**	**$4,377**	**-$914**	**-20.9%**
GRF	$242	$254	-$12	-4.8%	$2,028	$2,044	-$16	-0.8%
Non-GRF	$331	$300	$31	10.2%	$1,435	$2,333	-$898	-38.5%
Pharmacy Board	**$35**	**$36**	**-$1**	**-2.1%**	**$1,515**	**$1,597**	**-$82**	**-5.1%**
GRF	$0	$0	$0	--	$0	$0	$0	--
Non-GRF	$35	$36	-$1	-2.1%	$1,515	$1,597	-$82	-5.1%
Education	**$10**	**$21**	**-$11**	**-53.9%**	**$210**	**$198**	**$12**	**6.1%**
GRF	$10	$11	-$1	-10.4%	$202	$102	$101	99.0%
Non-GRF	$0	$11	-$10	-97.4%	$8	$97	-$89	-91.7%
Total GRF	**$1,017,438**	**$1,072,970**	**-$55,532**	**-5.2%**	**$8,642,401**	**$8,834,080**	**-$191,679**	**-2.2%**
Total Non-GRF	**$1,087,489**	**$1,095,242**	**-$7,753**	**-0.7%**	**$7,086,343**	**$7,068,311**	**$18,032**	**0.3%**
Total All Funds	**$2,104,926**	**$2,168,212**	**-$63,286**	**-2.9%**	**$15,728,744**	**$15,902,391**	**-$173,647**	**-1.1%**

*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 February 6, 2018)

	Month of January 2018				Year to Date Through January 2018			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	$914,674	$942,082	-$27,408	-2.9%	$6,468,440	$6,494,786	-$26,346	-0.4%
ACA - Managed Care	$337,095	$352,311	-$15,216	-4.3%	$2,386,711	$2,408,389	-$21,678	-0.9%
DDD Services	$221,454	$212,508	$8,946	4.2%	$1,535,731	$1,557,159	-$21,428	-1.4%
Hospitals	$72,312	$61,704	$10,607	17.2%	$1,378,720	$1,385,359	-$6,639	-0.5%
Nursing Facilities	$130,815	$123,865	$6,951	5.6%	$897,181	$856,516	$40,665	4.7%
Physicians/All Other	$103,328	$104,458	-$1,130	-1.1%	$669,337	$701,593	-$32,256	-4.6%
Behavioral Health	$98,227	$112,178	-$13,951	-12.4%	$718,706	$702,923	$15,784	2.2%
Administration	$66,614	$88,883	-$22,269	-25.1%	$543,783	$616,437	-$72,654	-11.8%
Medicare Buy-In	$49,776	$54,632	-$4,856	-8.9%	$354,771	$358,071	-$3,301	-0.9%
Medicare Part D	$38,058	$39,802	-$1,744	-4.4%	$275,399	$284,397	-$8,999	-3.2%
Prescription Drugs	$28,648	$27,916	$732	2.6%	$193,505	$215,301	-$21,796	-10.1%
Aging Waivers	$32,435	$34,798	-$2,363	-6.8%	$231,570	$239,991	-$8,421	-3.5%
Home Care Waivers	$11,490	$13,075	-$1,585	-12.1%	$74,890	$81,468	-$6,578	-8.1%
Total All Funds	**$2,104,926**	**$2,168,212**	**-$63,286**	**-2.9%**	**$15,728,744**	**$15,902,391**	**-$173,647**	**-1.1%**

* Estimates are from the Department of Medicaid.

Detail may not sum to total due to rounding.

EXPENDITURES[8]

– *Russ Keller, Senior Economist, 614-644-1751*
– *Charles Dobson, Economist, 614-466-1523*

Overview

Through January, GRF program expenditures were $19.19 billion, which was $178.5 million (0.9%) below the estimate released by OBM in September 2017. GRF transfers out were $69.4 million, which was $3.9 million (6.0%) above the YTD estimate. Including both program expenditures and transfers out, GRF uses totaled $19.26 billion through January, which was $174.6 million (0.9%) below the YTD estimate.

Through January, FY 2018 GRF uses were $174.6 million below estimate.

Due mainly to timing issues, GRF program expenditures in January were $27.3 million (1.1%) above estimate. Expenditures from the Primary and Secondary Education program category were $44.3 million (6.7%) above estimate in January, due largely to sooner than expected payments for EdChoice and several other school choice programs funded under GRF appropriation item 200550, Foundation Funding, the main funding source of school foundation payments. A large portion of anticipated February payments for such programs was disbursed in January, resulting in a large monthly variance and increasing the category's positive YTD variance to $62.5 million (1.3%).

Expenditures from the Justice and Public Protection program category were $25.7 million (13.4%) above estimate in January. The main culprit was also timing issues. As reported in last month's *Budget Footnotes*, the majority of the negative YTD variance in Justice and Public Protection occurred in months prior to December. January's positive variance reduced the category's negative YTD variance from $29.6 million (2.6%) at the end of December to $3.9 million (0.3%) at the end of January.

The negative variance in GRF Medicaid expenditures, on the other hand, grew by $55.5 million in January. The category's negative YTD variance increased to $191.7 million. More details on Medicaid's variances will be provided in the section that follows this overview.

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

Another program category with a relatively large negative YTD variance is Health and Human Services. Also reported in the last month's *Budget Footnotes*, the entire negative YTD variance in this program category occurred in months prior to December; the category's expenditures were $7.6 million (7.9%) and $3.6 million (2.3%) above estimates in December and January, respectively. The category's negative YTD variance fell from $38.6 million (6.6%) at the end of November to $27.4 million (3.2%) at the end of January. YTD expenditures from the departments of Job and Family Services and Health were $29.9 million and $8.2 million, respectively, below estimates. These negative variances were partially offset by a positive YTD variance of $10.6 million from the Department of Mental Health and Addiction Services.

Through January, FY 2018 GRF Medicaid expenditures were $191.7 million below estimate while non-GRF Medicaid expenditures were $18.0 million above estimate.

Medicaid

Medicaid is a joint federal-state program. It is mainly funded by the GRF but is also supported by several non-GRF funds. Both GRF and non-GRF Medicaid expenditures contain federal and state dollars.[9] Table 5 shows GRF and non-GRF Medicaid expenditures for the Ohio Department of Medicaid (ODM), the Ohio Department of Developmental Disabilities (ODODD), and six other "sister" agencies that also take part in administering Ohio Medicaid. ODM and ODODD account for about 99% of the total Medicaid budget. The other six agencies – Job and Family Services, Health, Aging, Mental Health and Addiction Services, State Board of Pharmacy, and Education – account for the remaining one percent. Unlike ODM and ODODD, the six "sister" agencies incur only administrative spending.

As indicated earlier, GRF Medicaid expenditures were $191.7 million (2.2%) below the estimate for the first seven months of FY 2018. This negative variance was partially offset by a positive YTD variance of $18.0 million (0.3%) in non-GRF Medicaid expenditures. Including both the GRF and non-GRF, all-funds Medicaid expenditures were $173.6 million (1.1%) below the YTD estimate.

[9] Federal reimbursements for Medicaid expenditures made from the state GRF are deposited into the GRF as revenue to help support the GRF appropriations for Medicaid. Federal reimbursements for Medicaid expenditures made from state non-GRF funds are deposited into various non-GRF funds for expenditures. In recent years, the federal government has reimbursed about two-thirds of Ohio's total Medicaid expenditures.

As can be seen from Table 5, almost the entire amount of the negative YTD variance in all-funds Medicaid expenditures can be attributable to ODM ($142.3 million, 1.0%) and ODODD ($23.7 million, 1.5%). ODM's GRF Medicaid expenditures were $192.5 million (2.3%) below the YTD estimate while its non-GRF Medicaid expenditures were $50.2 million (0.9%) above the YTD estimate. ODODD's GRF Medicaid expenditures were above the YTD estimate by $1.4 million (0.4%) but its non-GRF Medicaid expenditures were below the YTD estimate by $25.1 million (2.0%).

Table 6 shows all-funds Medicaid expenditures by payment category. Expenditures from Managed Care and ACA-Managed Care, the two largest payment categories, were largely in line with estimates with expenditures being $26.3 million (0.4%) and $21.7 million (0.9%), respectively, below the YTD estimates. Overall, more than 80% of Ohioans enrolled in Medicaid receive services through managed care. The ACA-Managed Care category tracks managed care expenditures for individuals who became eligible for Medicaid through the federal Affordable Care Act.

Expenditures from Managed Care and ACA-Managed Care, the two largest payment categories, were below estimates by $26.3 million and $21.7 million, respectively.

The Administration category had the largest negative YTD variance at $72.7 million (11.8%). Of this amount, approximately $62.0 million is attributed to ODM and the remaining $10.7 million is attributed to the other Medicaid agencies. ODM's negative variance was primarily due to the following: timing-related issues ($25.0 million), prior fiscal year contracts that have not yet been paid, and caseload-driven contracts requiring lower payments to vendors than anticipated.

The Physicians/All Other category had the second largest negative YTD variance at $32.3 million (4.6%), due partially to a lower than estimated caseload for home health services.

Two other payment categories with significant negative YTD variances are Prescription Drugs and services provided by ODODD (labeled "DDD Services" in the table). YTD expenditures for Prescription Drugs were $21.8 million (10.1%) below estimate, due largely to lower than estimated per-member per-month prescription drug costs for the Aged, Blind, and Disabled (ABD) population. YTD expenditures from ODODD were below estimate by $21.4 million (1.4%). Of this variance, $16.0 million was due to lower than expected expenditures for targeted case management services.

On the other hand, both caseload and per-member per-month costs for Nursing Facilities have been higher than projected. As a result, this payment category's expenditures had the largest positive YTD variance at $40.7 million (4.7%).

The Behavioral Health payment category had the second largest positive YTD variance at $15.8 million (2.2%) due largely to higher than anticipated per-member per–month behavioral health service costs for the ABD population.

ISSUE UPDATES

Ohio Department of Medicaid Begins Electronic Visit Verification

– Charles Dobson, Economist, 614-644-1523

On January 8, 2018, the Ohio Department of Medicaid (ODM) began using an Electronic Visit Verification (EVV) system for monitoring many home and community-based services. The system verifies when provider visits occur and their duration, recording the visit start and end times and Global Positioning System (GPS) coordinates in near real-time. With the adoption of the EVV system, ODM hopes to promote quality of care, reduce billing errors, and improve payment accuracy. The use of EVV is being implemented in phases. During this first phase, providers that bill for certain services provided through the Ohio Home Care Waiver Program and Medicaid fee-for-service will be required to use EVV. In future phases, ODM will require Medicaid managed care plans to use the EVV system, as well as providers billing for Aging and Developmental Disabilities Waiver services.

ODM contracted with the New York-based Sandata Technologies LLC to provide the EVV system and any training and technical assistance required. The EVV system is provided at no cost to home and community-based service providers. However, home and community-based providers are allowed to use their own EVV systems as long as the systems meet ODM interface requirements. A provider is responsible for any costs associated with using alternate systems.

The federal 21st Century CURES Act required the implementation of EVV for certain home and community-based services. States are required to implement EVV systems in order to receive full federal reimbursement for those services.

Behavioral Health Redesign Launched January 1, 2018

– Charles Dobson, Economist, 614-644-1523

On January 1, 2018, a redesign of the behavioral health system was implemented, which resulted in an updated benefit package for community behavioral health services. The redesign is an ongoing effort between ODM and the Ohio Department of Mental Health and Addiction Services (ODMHAS) to enhance the quality and delivery of care for mental health and substance use disorder treatment. This phase of the redesign does the following: updates Medicaid behavioral health billing codes to align with national standards, develops a single fee schedule for mental health and substance use disorder services, ties rates to the qualifications of the provider, and expands services for individuals with the most intensive needs. At this point, the changes only impact fee-for-service claims and claims for individuals enrolled onto MyCare Ohio. The last phase of the redesign, which is anticipated to occur on July 1, 2018, will integrate behavioral health into Medicaid managed care.

H.B. 49 required ODM and ODMHAS to beta test the billing system. Any Medicaid behavioral health provider was able to volunteer to participate in testing. Before implementation was allowed to occur, at least half of the participating providers were required to submit clean claims that were properly adjudicated. Many providers volunteered to take part in the testing, which began October 25, 2017, and ended December 15, 2017. The results were that claims were entered correctly in 99% of the cases and a majority of claims were paid on the first submission. As a result, the testing requirement was met and implementation was able to proceed.

Eight Counties Selected to Participate in Foster Care Pilot Program

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

On December 20, 2017, the Ohio Attorney General announced that eight counties – Allen, Clark, Cuyahoga, Fairfield, Highland, Montgomery, Summit, and Stark – had been chosen to participate in 30 Days to Family Ohio, a pilot program for foster care recruitment and support in counties significantly impacted by opioid use. The selection criteria for participating counties included the number of families/children in need of services, geographic location, and the readiness or ability of the county's public children services agency (PCSA) to implement the program. The process to select two additional participating counties is still underway. Each participating county's PCSA will receive at least $60,000 to fund a full-time staff member for family search and engagement and foster family recruitment.

The pilot program is being administered by the Waiting Child Fund, a Cleveland-based nonprofit organization that focuses on foster care. Total funding for the program is $1.2 million, consisting of $960,000 federal Victims of Crime grant previously designated by the Attorney General for the Waiting Child Fund and $240,000 that the Waiting Child Fund has committed to raising from private donations and foundations to provide the federally required 20% match. Up to one-half of the program's total funding will be retained for direct use by the Waiting Child Fund, primarily for the cost of hiring practice coaches, foster parent recruiters, and other personnel to support the work in each of the pilot PCSAs. The Waiting Child Fund will also be working with Virginia-based PolicyWorks to evaluate the program.

30 Days to Family is an intense, short-term intervention that aims to place children with safe and appropriate relatives within 30 days of entering foster care. The model was developed by the St. Louis-based Foster & Adoptive Care Coalition and first implemented in St. Louis, Missouri in 2011. In 2017, PolicyWorks prepared an

evaluation of the program, which found the program is successful in achieving its primary goal of increasing placements with relatives. The full evaluation report is available online at: comm.eval.org/theoriesofevaluation/viewdocument/30-days-to-family-theory-of-change. The report identified key areas of cost savings related to the greater likelihood of children in the program successfully exiting the foster care system to guardianship, which reduces the number of days in care. The report also found that the program led to reduced welfare placement and Medicaid expenditures in Missouri as a result of a lower percentage of children placed in medical, mental health, and residential treatment facilities.

Ohio Housing Finance Agency Awards Close to $1.0 million to Pilot Program Aimed at Reducing Infant Mortality

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

On December 20, 2017, the Ohio Housing Finance Agency (OHFA) awarded close to $1.0 million to CelebrateOne, a Franklin County-based organization created to reduce infant mortality. The money will be used to implement a pilot program that provides rental assistance, health care, and social services to low-income households at risk for infant mortality. As shown in the table below, the award will fund: (1) rental assistance for ten units of public housing administered by the Columbus Metropolitan Housing Authority, (2) a grant manager and community health worker supervisor to assist families with rental, medical care, and social services, (3) housing stabilization services in partnership with the Homeless Families Foundation, and (4) evaluation of the pilot program by Children's HealthWatch and Nationwide Children's Hospital. The money for the grant comes from OHFA's General Fund, which receives payments for administering certain state and federal housing programs and a portion of interest payments and loan servicing fees under the agency's housing loan programs.

CelebrateOne Pilot Program Grant by Function	
Function	**Amount**
Rental Assistance	$682,326
Grant Manager and Community Health Worker Supervisor	$139,925
Housing Stabilization Services	$104,186
Evaluation	$64,534
Total	**$990,971**

S.B. 332 of the 131st General Assembly, which consisted of recommendations by the Commission on Infant Mortality, required OHFA to include reducing infant mortality as a priority housing need in the agency's annual plan. In FY 2017, OHFA identified low-income households at risk for infant mortality as one of four particularly vulnerable populations in an Ohio Housing Needs Assessment. According to the Ohio Department of Health's (ODH's) latest Ohio Infant Mortality Report,[10] Ohio's infant mortality rate for all races increased from a rate of 7.2 (number of infant deaths in the first year of life per 1,000 live births) in 2015 to 7.4 in 2016.

Ohio Facilities Construction Commission Assists 721 Schools with Assessment and Replacement of Lead Plumbing Fixtures

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

In December 2017, the Ohio Facilities Construction Commission (OFCC) reported that it had approved grants for 721 public and chartered nonpublic school buildings under the Lead Plumbing Fixture Replacement Assistance Grants program. This program, created in H.B. 390 of the 131st General Assembly, allows any public or chartered nonpublic school building built prior to 1990 to apply for up to $15,000 in reimbursement for drinking water testing and, if necessary, fixture replacement. A school may claim reimbursement for the cost of replacing drinking fountains, water coolers, plumbing fixtures, and limited connected piping if a drinking water assessment meeting certain requirements finds that those fixtures are the cause of lead above the federal action level of 15 parts per billion in drinking water. The deadline for a school to apply for assistance expired on August 31, 2017.

Under the program, over 14,600 tests have been performed on plumbing fixtures. Of the drinking water samples tested, about 1,400 (9.6%) were above the federal action level. As a result, 676 fixtures have been replaced. The remaining fixtures are no longer in use. However, about 160 schools have yet to complete their testing. To date, OFCC has reimbursed about $500,000 for eligible drinking water assessments and fixture replacements. Schools approved for the grants may submit requests for reimbursement until May 31, 2018.

INFOhio Rolls Out Portal to Digital Resources for Preschool Children

– Jason Glover, Budget Analyst, 614-466-8742

In December 2017, INFOhio, a state-supported organization providing digital library resources and other services for public schools, launched the Early Learning Portal to help parents and educators prepare children ages three through five for school. The portal contains links to more than 50 early learning websites and mobile

[10] The full report, which was released in October 2017, is available at: www.odh.ohio.gov.

device applications selected by expert educators and librarians based on the resource's quality, educational value, message, safety and privacy, sales and marketing practices, usability, age-appropriateness, and support options. Each resource aligns with Ohio's Early Learning and Development Standards for children from birth to age five. Nearly all resources in the portal are available at no charge, with a few carrying a minimal fee. Development costs for the Early Learning Portal amounted to $56,000, shared equally between GRF funds appropriated in the budgets of the Ohio Department of Education (ODE) and the Ohio Department of Job and Family Services (ODJFS). ODE and ODJFS also partnered with the Governor's Office in developing the portal. The portal is accessible on INFOhio's website at: www.infohio.org/early-learning.

ODE Launches OhioMeansJobs-Readiness Seal

– Allison Schoeppner, LSC Fellow, 614-644-3854

In December 2017, ODE released the criteria and guidance materials for public and chartered nonpublic schools to begin implementing the OhioMeansJobs-Readiness Seal on high school transcripts and diplomas. Established in H.B. 49, the seal acknowledges high school students in the class of 2018 and onward who demonstrate various professional skills associated with success in the workforce or higher education.

To earn the seal, a student must demonstrate proficiency in 15 essential professional skills, including reliability, punctuality, teamwork, critical thinking, problem solving, digital technology, and global/intercultural fluency. A student may demonstrate the skills at school, at work, or in the community, but they must be validated by at least three mentors overall. The list of skills was determined by ODE, the Governor's Office of Workforce Transformation, and the Department of Higher Education, as well as surveys of Ohio business leaders. In support of the new seal, ODE posted various resources on its website (www.education.ohio.gov) to assist students, parents, and educators in navigating the process of earning the seal. These resources include information about required criteria for students, guidance documents, and validation forms for mentors.

Under H.B. 49, a student in the class of 2018 who earns the seal may also apply it toward a set of alternative graduation criteria if the student fails to meet one of the three existing testing pathways otherwise required to obtain a diploma.

Controlling Board Approves Additional $3.25 million for ARCO Recycling Site Cleanup in Cuyahoga County

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

On January 22, 2018, the Controlling Board approved an Ohio Environmental Protection Agency (Ohio EPA) request for $3.25 million in additional funding in FY 2018 to complete remediation of the ARCO Recycling site in East Cleveland (Cuyahoga County). This funding increase, which is supported by fees on the disposal of construction and demolition debris that are deposited into the Recycling and Litter Prevention Fund (Fund 5320), is in addition to $3.65 million that was earmarked for the remediation effort in H.B. 49 and $1.58 million that will be supported by other existing funds appropriated to the Ohio EPA. In total, the ARCO site cleanup is expected to cost $8.48 million.

In January 2017, the Ohio EPA determined that the ARCO Recycling site was being used as an illegal dump for concrete, dirt, lumber, and demolished home materials rather than a recycling facility. After action by the Attorney General, the owner of the site agreed to allow the Ohio EPA, in partnership with the Cuyahoga County Board of Health, to begin cleanup of the site. As part of the consent agreement, the owner agreed to reimburse the Ohio EPA for the cost of the cleanup efforts, although the amount has yet to be determined. H.B. 49 earmarked $3.65 million in FY 2018 for the site cleanup.

Due to a major fire at the site on October 28, 2017, total cleanup costs are expected to increase by $4.83 million. Costs added to the cleanup include those associated with fighting the fire, taking fire prevention measures, managing the 13 million gallons of water used to fight the fire, and increasing the speed of the cleanup to forestall additional hotspots and fires. As indicated earlier, Fund 5320 will provide $3.25 million to fund the cost increase and the remaining $1.58 million will be funded by EPA's existing appropriations.

Department of Natural Resources Awards $240,000 in Boating Safety Education Grants

– Tom Wert, Budget Analyst, 614-466-0520

On January 16, 2018, the Ohio Department of Natural Resources (ODNR) announced the recipients of Boating Safety Education Grants totaling $240,003. As shown in the table below, ten community boating safety programs in eight counties will receive grants of between $8,875 and $30,000. These grants are used by state and local government, nonprofit organizations, educational institutions, and other eligible entities to provide watercraft safety programs that benefit the general boating public.

Boating Safety Education Grants may range from $1,000 to $30,000 and require a grantee cost share or in-kind contribution of 25%. Grants are made from the Waterways Safety Fund (Fund 7086), which receives 0.875% of Ohio's motor fuel tax revenues, boating registration and related fees, federal grants, and fines.

FY 2018 Boating Safety Education Grant Recipients		
County	**Grant Recipient**	**Grant Amount**
Butler	Great Miami Rowing Center	$20,426
Cuyahoga	Berea Power Squadron	$8,875
	Mayfield Village Parks and Recreation	$28,027
Delaware	The Adaptive Adventure Sports Coalition	$29,791
Franklin	American Kayaking Association	$22,321
	HERO USA	$28,696
Hocking	Hocking College	$30,000
Mercer	U.S. Freshwater Boaters Alliance	$17,889
Preble	Miami Valley Boy Scout Council	$24,000
Summit	Barberton Parks and Recreation	$29,978
	Total	**$240,003**

Tracking the Economy

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Overview

The nation's economy is expanding in most sectors. Another increase in payroll employment was reported for January, when the unemployment rate remained at a 17-year low. U.S. inflation-adjusted gross domestic product (real GDP) rose again in last year's fourth quarter. Industrial production bounced back in the fourth quarter, recovering from hurricane disruptions. Inflation in the U.S. remains well contained, with several broad measures of prices showing increases short of the 2% target of the Federal Reserve, the nation's central bank.

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Prospects appear favorable for further economic growth. Purchasing power of households and corporations is being augmented by enhanced after-tax cash flows from the recently enacted federal tax cuts. Interest rates remain low, even with recent increases, supporting further growth. Economies in much of the rest of the world are firming also, and the synchronized expansion abroad supports demand for U.S. exports.[11] Recent stock market turmoil appears unlikely, at this juncture, to derail the economic expansion. Under new Federal Reserve Chair Jerome Powell, who replaced retiring Janet Yellen, the central bank is expected to continue raising short-term interest rates and reducing its exceptionally large holdings of securities.

In Ohio, economic activity also is expanding. Employment in the state continues to trend upward. Unemployment fell to 4.7% of the state's labor force in December, matching lows reached in 2015, the lowest unemployment rates here since 2001. Ohio's real GDP grew briskly in last year's third quarter.

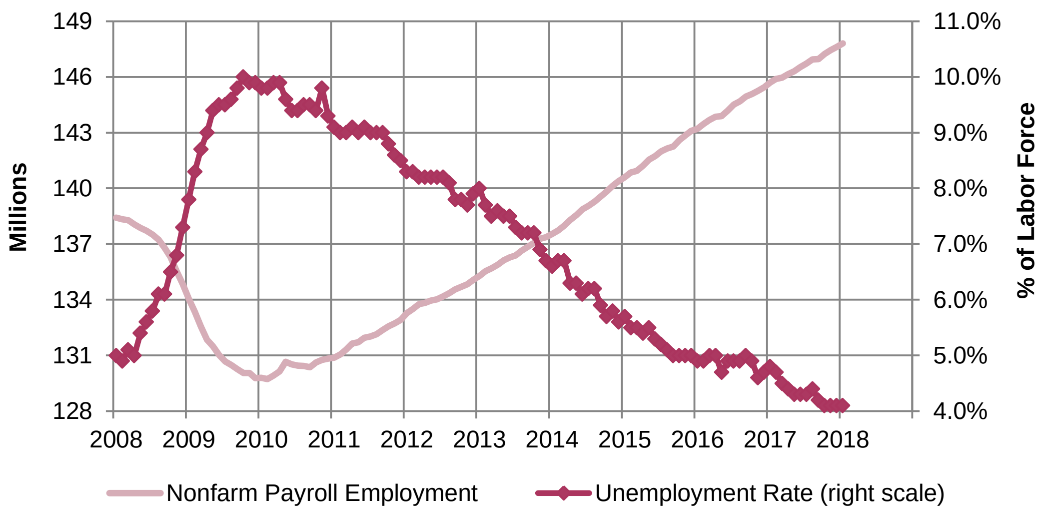
[11] The International Monetary Fund summarizes economic developments around the globe in its World Economic Outlook Update, January 22, 2018, http://www.imf.org/en/publications/weo/issues/2018/01/11/world-economic-outlook-update-january-2018.

The National Economy

Total nationwide nonfarm payroll employment rose 200,000 in January, and unemployment as a percent of the labor force was unchanged at 4.1%. U.S. employment and the unemployment rate are shown in Chart 5.

Total nationwide nonfarm payroll employment rose 200,000 in January, somewhat above the average monthly increase last year.

Chart 5: U.S. Employment and Unemployment



The rise in payroll employment last month was in line with the average monthly increase over the past seven years, though somewhat above the average last year. Increases were reported for last month in construction, restaurants and bars, health care, and durable goods manufacturing. Compared with a year earlier, employment increased in numerous private goods-producing and service-providing industries. The annual revision by the U.S. Bureau of Labor Statistics (BLS) to historical payroll employment figures raised total employment slightly, about 0.1% for 2017.

The country's unemployment rate held in January at 4.1%, a 17-year low, for the fourth consecutive month. With release of the January figures, BLS updated its estimate of the civilian noninstitutional population ages 16 and older, an annual adjustment, increasing the number for December 2017 by 488,000 (0.2%). The unemployment rate was unaffected. About 6.7 million people were counted as unemployed in January.

Real GDP grew at a 2.6% annual rate in the 2017 fourth quarter, in the first estimate from the U.S. Bureau of Economic Analysis. This follows growth at 3.1% and 3.2% rates in the second and third quarters, respectively, the strongest back-to-back quarters in three years. Consumer spending and nonresidential fixed investment continued to expand, and residential fixed investment growth resumed after two quarters of contraction. Growth of exports and government spending turned higher. Inventory building slowed. Import growth picked up.

Industrial production rose in December, by 0.9%, after contracting 0.1% in November. The December increase mostly resulted from higher utility output and, to a lesser degree, from continued recovery in mining. Manufacturing output rose only 0.1% in December, the fourth consecutive monthly increase, to 2.4% higher than a year earlier. Fourth quarter mining output rose at a robust 12.7% annual rate after slow growth in the third quarter, attributed to hurricane disruptions.

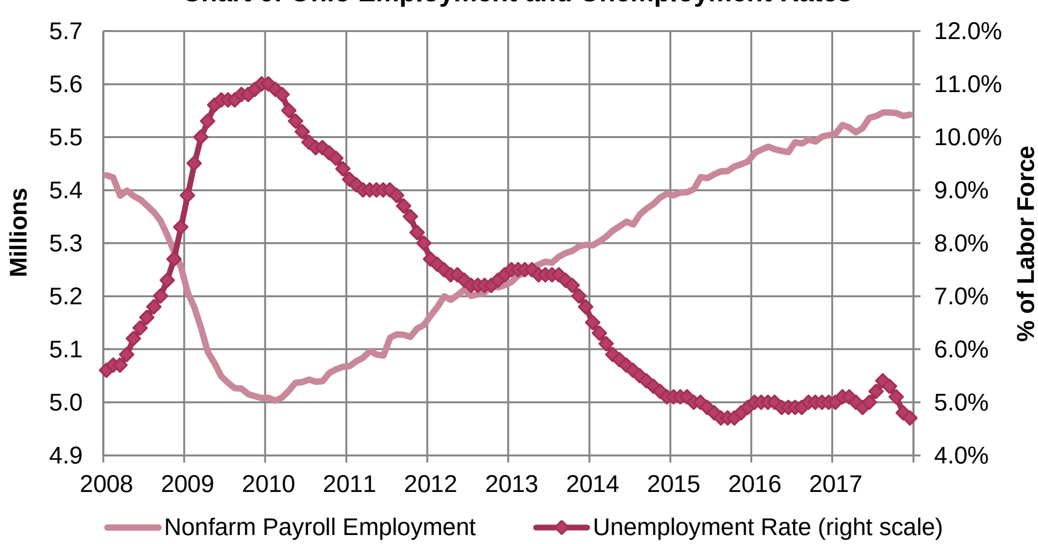
The consumer price index (CPI) rose 0.1% in December to 2.1% higher than a year earlier. Excluding food and energy, the CPI rose 0.3% in December to 1.8% above a year ago. The latter index has been above its year-earlier value by 1.7% or 1.8% in each of the latest eight months. Another measure of inflation, the personal consumption expenditures deflator, was up 1.7% from a year earlier in December, and 1.5% higher excluding food and energy.

In December, Ohio's unemployment rate fell for the fourth consecutive month to 4.7%.

The Ohio Economy

In December, the state's unemployment rate fell for the fourth consecutive month to 4.7% from 4.8% in November. In December of 2016, the state's unemployment rate was 5.0%. The U.S. unemployment rate was 4.1% in December 2017. The number of unemployed Ohioans was 270,000 in December, the fewest unemployed Ohians since October 2015. The number of unemployed Ohioans decreased by 9,000 in December from a month earlier, and by 14,000 from a year earlier. Chart 6 below shows trends in the state's payroll employment and unemployment rate over the last ten years.

Chart 6: Ohio Employment and Unemployment Rates



Ohio's total nonfarm payroll employment, seasonally adjusted, increased to 5,542,200 in December from November's revised total of 5,539,700, an increase of 2,500 jobs. Goods-producing industries added 1,200 jobs, government employment increased by 700, and employment in the private service-providing sector increased by 600 jobs. The largest job gains occurred in manufacturing, leisure and hospitality, state government, and financial activities. Job losses were largely in professional and business services, construction, and local government.

Compared to a year ago, Ohio's total nonfarm payroll employment increased by 38,500, mostly in the private service-providing sector, which accounted for 26,800 more jobs. The largest gains in 2017 occurred in leisure and hospitality (+14,900), followed by educational and health services (+12,600), manufacturing (+10,200), and financial activities (+9,800). Decreases in employment were primarily in trade, transportation, and utilities (-10,400), information (-2,600), and professional and business services (-1,000). Government employment dropped by 4,700 during this period, mostly in state government (-2,200) and local government (-1,500).

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Ohio's real GDP grew 3.9% at a seasonally adjusted annual rate in the third quarter of 2017. Ohio's growth was slightly higher than real GDP growth for all 50 states plus the District of Columbia during the same period, which was 3.4%. Ohio's growth was largely in finance and insurance, durable goods manufacturing, and real estate, rental, and leasing. Ohio's GDP growth was higher than its neighboring states – Michigan (3.5%), Pennsylvania (3.2%), West Virginia (2.9%), Indiana (2.7%), and Kentucky (2.2%). Ohio's growth ranked seventh among the 50 states.

The number of existing homes sold in Ohio dropped by 3.1% in December compared to a year earlier, according to the Ohio Association of Realtors. The statewide sales price of homes sold in December averaged $170,706, or 6.9% higher than a year earlier. In 2017, sales of existing homes were 0.9% higher than in 2016. The average sales price in 2017 was $172,870, or 5.7% higher than the average price in 2016.

Economic activity in the region continued to expand at a moderate pace, according to a Federal Reserve Bank of Cleveland report.[12] Labor

[12] The report is from the latest Federal Reserve System Beige Book that summarizes information gathered on or before January 8, 2018, from outside contacts. The Federal Reserve Bank of Cleveland's district includes all of Ohio and parts of Kentucky, Pennsylvania, and West Virginia.

markets in the region tightened. Contacts in construction and nonfinancial services reported strong increases in input costs. Retail sales during the early part of the holiday shopping season were moderately higher than the same period a year ago. New motor vehicle sales were above year-ago levels. Manufacturing production grew at a slow pace, but some contacts expected manufacturing production to grow at a moderate pace in the near term. Production at auto assembly plants in the region from January through November of 2017 dropped by about 20% compared to the corresponding months a year ago. The drop was due to "retooling for a next-generation sport utility vehicle and cutbacks in small passenger car production." Sales of new and existing single family homes remained strong. Nonresidential construction remained elevated. Volumes of freight transportation grew at a moderate to strong pace.

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