Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION — JANUARY 2018

STATUS OF THE GRF

HIGHLIGHTS

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

GRF tax revenue closely tracked the estimate published in September by the Office of Budget and Management (OBM) through each of the first six months of FY 2018, ending the first half $17.5 million (0.2%) above estimate. December tax revenues were $11.9 million below estimate, however, and nontax revenue was $202.0 million below estimate for the month. Nontax revenue was expected to include a $200.0 million transfer in from unclaimed funds which was not made.

Ohio's unemployment rate fell to 4.8% in November, down from its recent peak of 5.4% in August. The national unemployment rate was 4.1% in November.

Through December 2017, GRF sources totaled $16.01 billion:

- Revenue from the personal income tax was $27.3 million above estimate;
- Sales and use tax receipts were $16.3 million above estimate.

Through December 2017, GRF uses totaled $16.80 billion:

- Total program expenditures were $205.8 million below estimate during the first half of FY 2018;
- Medicaid spending was below estimate by $136.1 million;
- All other program spending categories were also below estimate except for Primary and Secondary Education, which was $18.3 million above estimate.

VOLUME 41, NUMBER 5

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

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

Telephone: 614-466-3615

Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of December 2017
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on January 2, 2018)

STATE SOURCES	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$105,444	$105,700	-$256	-0.2%
Nonauto Sales and Use	$809,737	$817,800	-$8,063	-1.0%
Total Sales and Use Taxes	**$915,181**	**$923,500**	**-$8,319**	**-0.9%**
Personal Income	$788,612	$789,400	-$788	-0.1%
Commercial Activity Tax	$9,439	$10,600	-$1,161	-11.0%
Cigarette	$70,693	$76,400	-$5,707	-7.5%
Kilowatt-Hour Excise	$22,595	$23,100	-$505	-2.2%
Foreign Insurance	$1	$100	-$99	-98.6%
Domestic Insurance	$0	$0	$0	---
Financial Institution	-$1,965	-$5,100	$3,135	61.5%
Public Utility	$1,846	$500	$1,346	269.1%
Natural Gas Consumption (MCF)	$53	$200	-$147	-73.6%
Alcoholic Beverage	$4,448	$4,600	-$152	-3.3%
Liquor Gallonage	$3,946	$3,700	$246	6.6%
Petroleum Activity Tax	$1,710	$1,500	$210	14.0%
Corporate Franchise	$45	$0	$45	---
Business and Property	$0	$0	$0	---
Estate	$14	$0	$14	---
Total Tax Revenue	**$1,816,618**	**$1,828,500**	**-$11,882**	**-0.6%**
NONTAX REVENUE				
Earnings on Investments	$23	$0	$23	---
Licenses and Fees	$352	$610	-$258	-42.2%
Other Revenue	$1,313	$203,090	-$201,777	-99.4%
Total Nontax Revenue	**$1,689**	**$203,700**	**-$202,011**	**-99.2%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$17,625	$0	$17,625	---
Total Transfers In	**$17,625**	**$0**	**$17,625**	**---**
TOTAL STATE SOURCES	**$1,835,931**	**$2,032,200**	**-$196,269**	**-9.7%**
Federal Grants	$872,884	$855,476	$17,407	2.0%
TOTAL GRF SOURCES	**$2,708,815**	**$2,887,676**	**-$178,861**	**-6.2%**

*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 December 31, 2017
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on January 2, 2018)

STATE SOURCES	Actual	Estimate*	Variance	Percent	FY 2017**	Percent Change
TAX REVENUE						
Auto Sales	$699,336	$675,500	$23,836	3.5%	$689,237	1.5%
Nonauto Sales and Use	$4,405,251	$4,412,800	-$7,549	-0.2%	$4,642,461	-5.1%
Total Sales and Use Taxes	**$5,104,587**	**$5,088,300**	**$16,287**	**0.3%**	**$5,331,698**	**-4.3%**
Personal Income	$4,148,803	$4,121,500	$27,303	0.7%	$3,987,894	4.0%
Commercial Activity Tax	$729,044	$720,100	$8,944	1.2%	$618,715	17.8%
Cigarette	$420,847	$425,400	-$4,553	-1.1%	$438,905	-4.1%
Kilowatt-Hour Excise	$168,282	$179,500	-$11,218	-6.2%	$182,706	-7.9%
Foreign Insurance	$144,844	$155,500	-$10,656	-6.9%	$161,032	-10.1%
Domestic Insurance	$63	$3,000	-$2,937	-97.9%	$53	17.5%
Financial Institution	-$25,039	-$14,700	-$10,339	-70.3%	-$15,191	-64.8%
Public Utility	$55,565	$53,900	$1,665	3.1%	$47,555	16.8%
Natural Gas Consumption (MCF)	$16,761	$17,600	-$839	-4.8%	$16,929	-1.0%
Alcoholic Beverage	$29,626	$30,000	-$374	-1.2%	$30,731	-3.6%
Liquor Gallonage	$24,034	$23,000	$1,034	4.5%	$23,231	3.5%
Petroleum Activity Tax	$3,280	$2,800	$480	17.1%	$2,860	14.7%
Corporate Franchise	$2,938	$0	$2,938	---	-$265	1206.7%
Business and Property	-$374	$0	-$374	---	-$678	44.8%
Estate	$114	$0	$114	---	$457	-75.1%
Total Tax Revenue	**$10,823,372**	**$10,805,900**	**$17,472**	**0.2%**	**$10,826,630**	**0.0%**
NONTAX REVENUE						
Earnings on Investments	$15,841	$15,000	$841	5.6%	$14,199	11.6%
Licenses and Fees	$8,970	$10,795	-$1,825	-16.9%	$12,014	-25.3%
Other Revenue	$31,282	$260,980	-$229,698	-88.0%	$52,887	-40.9%
Total Nontax Revenue	**$56,092**	**$286,775**	**-$230,683**	**-80.4%**	**$79,100**	**-29.1%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$129,269	$103,429	$25,840	25.0%	$32,102	302.7%
Total Transfers In	**$129,269**	**$103,429**	**$25,840**	**25.0%**	**$32,102**	**302.7%**
TOTAL STATE SOURCES	**$11,008,734**	**$11,196,104**	**-$187,370**	**-1.7%**	**$10,937,832**	**0.6%**
Federal Grants	$5,004,627	$5,072,472	-$67,845	-1.3%	$6,147,200	-18.6%
TOTAL GRF SOURCES	**$16,013,361**	**$16,268,576**	**-$255,216**	**-1.6%**	**$17,085,032**	**-6.3%**

*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

Poor performance of GRF sources in December 2017 increased the cumulative FY 2018 negative variance to $255.2 million (1.6%) relative to OBM's estimates published in September 2017. At the end of November, the year-to-date shortfall was $76.4 million (0.6%). Through December, negative variances of $230.7 million for nontax revenue and $67.8 million for federal grants were partially offset by positive variances of $17.5 million for GRF tax sources and $25.8 million for transfers into the GRF. 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 December and for FY 2018 through December, respectively.

Through December in FY 2018, GRF sources were $255.2 million below estimate.

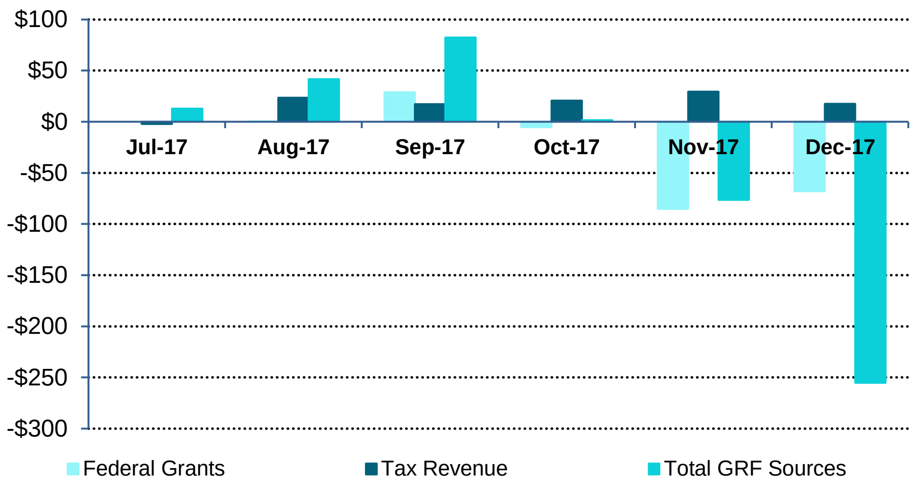
In the month of December 2017, total GRF sources of $2.71 billion were $178.9 million below estimate, from shortfalls of $202.0 million in nontax revenue and $11.9 million for GRF tax sources. A scheduled December transfer of $200.0 million from the state Unclaimed Funds (Fund 5430) to the GRF was not made by the end of the month, thus creating the large shortfall for nontax revenue. Those negative variances were partially offset by positive variances of $17.4 million for federal grants and $17.6 million for transfers in. Regarding GRF tax sources, the largest tax sources were below estimates: the sales and use tax, the cigarette tax, the commercial activity tax (CAT), and the personal income tax (PIT) were short of their respective targets by $8.3 million, $5.7 million, $1.2 million, and $0.8 million. On the other hand, the financial institution tax (FIT) and the public utility tax were above estimate by $3.1 million and $1.3 million, respectively.

In the first half of FY 2018, GRF tax sources were above estimate by $17.5 million.

[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.

For the fiscal year through December, revenue from the corporate franchise tax (CFT) totaled $2.9 million,[2] and the following taxes were above estimates: the PIT ($27.3 million), the sales and use tax ($16.3 million), the CAT ($8.9 million), the public utility tax ($1.7 million), and the liquor gallonage tax ($1.0 million). These positive variances were partially offset by a combined shortfall of $13.6 million for the two insurance taxes and negative variances of $11.2 million for the kilowatt-hour tax, $10.3 million for the FIT,[3] and $4.6 million for the cigarette tax. The remaining taxes had smaller variances. The chart below illustrates the cumulative performance of total GRF sources in the fiscal year.

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



Through December, federal grants to the GRF were $1.14 billion less than in FY 2017.

Year-to-date GRF sources were $1.07 billion (6.3%) below GRF sources through December in FY 2017. Federal grants fell $1.14 billion (18.6%), nontax revenue declined $23.0 million (29.1%), and GRF tax sources dropped $3.3 million (0.0%). These decreases were partially offset by an increase of $97.2 million (302.7%) in transfers into the GRF.

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[2] Though GRF receipts were not anticipated from the CFT in FY 2018 (because H.B. 510 of the 129th General Assembly eliminated the tax at the end of 2013), adjustments to tax filings in previous years have resulted in nonzero revenue and continued to affect GRF revenue over the years.

[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.

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 ($160.9 million, 4.0%), the CAT ($110.3 million, 17.8%), the public utility tax ($8.0 million, 16.8%) and the CFT ($3.2 million, 1206.7%). On the other hand, revenue declined for the sales and use tax ($227.1 million, 4.3%), the cigarette tax ($18.1 million, 4.1%), the foreign insurance tax ($16.2 million, 10.1%), the kilowatt-hour tax ($14.4 million, 7.9%), and the FIT ($9.8 million, 64.8%). 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

Through December in FY 2018, total GRF sales and use tax receipts of $5.10 billion were $16.3 million (0.3%) above estimate, but $227.1 million (4.3%) below receipts in the corresponding period last year. Revenue from the auto sales tax generally has been more than expected throughout the fiscal year. The nonauto portion of the tax, which had been generally weaker than expected, was below projected receipts through December 2017. For the month of December, sales and use tax revenue totaled $915.2 million. That amount lagged estimates by $8.3 million (0.9%), with both the auto and nonauto sales taxes below expected revenues. Monthly sales and use tax revenue was also $57.0 million (5.9%) below receipts in December 2016.

Through December in FY 2018, the sales and use tax was above estimate by $16.3 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]

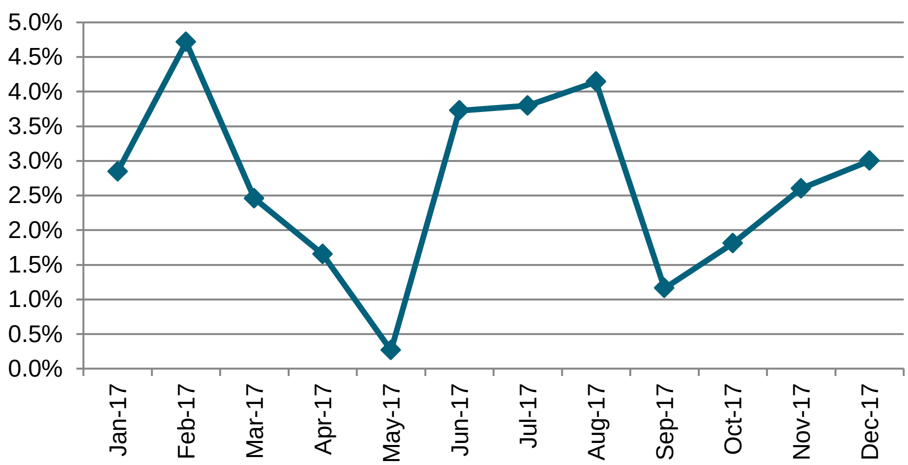
[4] Taxes arising from leases are paid immediately upon the lease signing. The clerks of court generally make auto sales and use tax payments on Mondays for taxes collected during the preceding week on motor vehicles, watercraft, and outboard motors titled. Therefore, auto sales and use tax receipts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

Nonauto Sales and Use Tax

First-half nonauto sales and use tax revenue to the GRF totaling $4.41 billion was $7.5 million (0.2%) below estimate. 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. At the end of the first quarter of FY 2018, nonauto sales and use tax receipts were $6.7 million above estimate. The tax was below estimate in October, then above anticipated revenues the following month, resulting in a cumulative positive variance of $0.5 million through November 2017. However, in December, nonauto sales and use tax revenue to the GRF of $809.7 million fell below estimate by $8.1 million (1.0%), leading to the first-half negative variance of $7.5 million. December 2017 revenue was also $55.5 million (6.4%) below receipts in the same month last year.

Through December in FY 2018, the nonauto sales and use tax was $7.5 million below estimate.

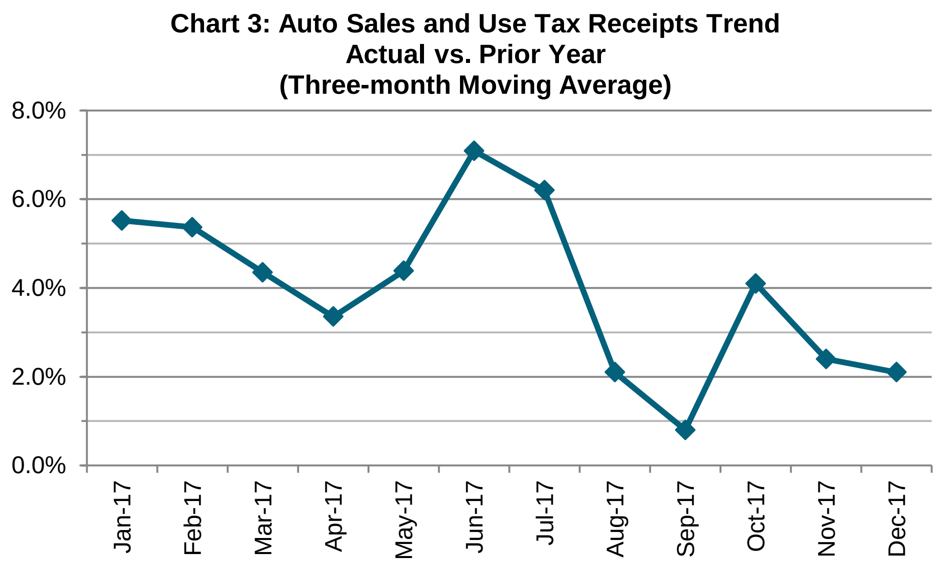
Chart 2: Nonauto Sales and Use Tax Receipts Trend
Actual vs. Prior Year (with tax base adjustment)
(Three-month Moving Average)



For the fiscal year through December, GRF receipts from this tax were $237.2 million (5.1%) 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 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, has improved in the latest months, as shown in Chart 2 above.[5]

Auto Sales and Use Tax

The auto portion of the sales and use tax was above expectations in in the first half of FY 2018. Total revenue of $699.3 million was $23.8 million (3.5%) above estimate. However, in December, GRF revenue from the auto sales tax of $105.4 million was below estimate by $0.3 million (0.2%), and $1.5 million (1.4%) below revenue in the corresponding month in FY 2017. First-half receipts from the tax were also $10.1 million (1.5%) above revenue in the first six months in FY 2017. Chart 3 provides year-over-year growth in auto sales tax collections in 2017 and shows growth has been declining in the most recent months.



Through December in FY 2018, the auto sales and use tax was $23.8 million above estimate.

U.S. December new light vehicle (auto and light truck) sales posted a seasonally adjusted annualized rate of 17.8 million units, but vehicle sales for the month were lower for the tenth time in 2017. With 2017 in the books, light vehicle sales totaled 17.1 million units, down about 2% from 2016 and recording the first year-over-year decline since 2009. With an increase over 2016 of about 4%, light trucks continued their persistent trend higher and reached a record of almost 65% of total sales, while sales of passenger cars dropped by about 11% relative to

[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.

their 2016 level. The average price of light trucks, a category that includes SUVs, is higher than the average price of automobiles, so the high share of light truck models in unit sales supports tax revenue, despite the decline in unit sales. Thus, the performance of the auto sales tax for the next six months is likely to depend heavily on the future trajectory of light truck sales, as most analysts forecast a continued decline in total unit sales.

PIT GRF revenue was $27.3 million above estimate in FY 2018 through December.

Personal Income Tax

For the year to date, total PIT GRF revenue of $4.15 billion was $27.3 million (0.7%) above estimate and $160.9 million (4.0%) above receipts in the first half of 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.

December GRF revenue from the PIT of $788.6 million was $0.8 million (0.1%) below estimate, but $7.8 million (1.0%) above receipts in December 2016. Gross collections for the month were $12.7 million (1.5%) above estimate, but refunds were higher than projected for the third consecutive month, this time by $13.1 million (42.9%). On the other hand, quarterly estimated payments were strong, $25.4 million (29.0%) above estimate (and were also $27.1 million above their level in December 2016). That positive variance was partially offset by deficits of $11.3 million (1.5%) and $2.5 million (26.5%), respectively, for employer withholding and taxes due with annual returns. FY 2018 revenues from each component of the PIT relative to estimates and to revenue received in FY 2017 are detailed in the table below.

Revenue growth from monthly employer withholding is improving.

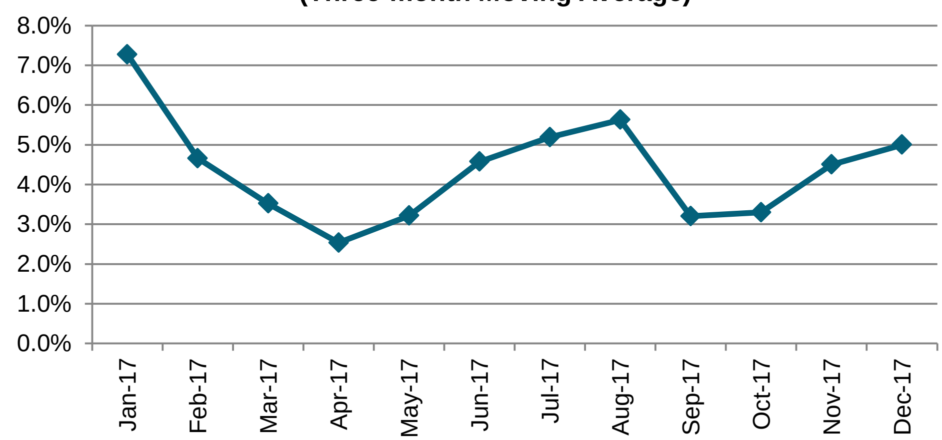
[6] Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than $500. Payments are due in April, June, and September of an individual's tax year and January of the following year. Most estimated payments are made by high-income taxpayers.

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	$47.9	1.1%	$165.2	4.1%
Quarterly Estimated Payments	$32.6	11.1%	$40.4	14.2%
Trust Payments	$2.5	21.5%	$2.0	16.5%
Annual Return Payments	-$14.0	-15.9%	-$14.0	-15.9%
Miscellaneous Payments	$15.8	55.8%	$16.7	60.6%
Gross Collections	$84.9	1.8%	$210.3	4.7%
Less Refunds	$56.1	19.3%	$47.2	15.7%
Less LGF Distribution	$1.5	0.8%	$2.2	1.2%
GRF PIT Revenue	$27.3	0.7%	$160.9	4.0%

PIT trends in the earlier months of FY 2018 continued. Except annual return payments, components of gross collections exceeded estimates through December, and refunds were larger than anticipated in the first six months of the fiscal year.

Compared to corresponding receipts in FY 2017 through December, receipts from employer withholding, quarterly estimated payments, and miscellaneous payments were higher in FY 2018, but payments with annual returns were below such payments last year. Refunds were also higher 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, which was negative for the month of September, rose in the last quarter of 2017.

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



Commercial Activity Tax

FY 2018 first-half CAT revenue to the GRF of $729.0 million was above estimate despite underperforming in the latest two months. In November, the tax was $11.4 million (3.6%) below projected revenue; December receipts of $9.4 million were $1.2 million (11.0%) below estimate. This performance reduced the CAT's year-to-date positive variance to $8.9 million (1.2%) through December, down from $10.1 million through November.

FY 2018 CAT GRF tax receipts through December were $8.9 million above estimate.

FY 2018 CAT receipts through December were also $110.3 million (17.8%) above receipts in the corresponding period in FY 2017 through December 2016. This strong growth was due in part to the change in allocation of revenue enacted in H.B. 49. Yearly gross collections increased by $49.9 million (5.6%) relative to collections in FY 2017 through December. However, CAT refunds also increased by $17.9 million (34.1%).

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 7081 and Fund 7047 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

Through December in FY 2018, GRF cigarette and other tobacco products tax revenue of $420.8 million was $4.6 million (1.1%) below estimate. This revenue included $387.1 million and $33.7 million, respectively, from sales of cigarettes and sales of other tobacco products. December tax revenue of $70.7 million was $5.7 million (7.5%) below estimate. Strong November revenue had the tax above estimate the previous month by $1.2 million for the fiscal year through November. FY 2018 revenue was also $18.1 million (4.1%) below collections in the corresponding period in FY 2017. Receipts from cigarette sales fell $20.1 million (5.2%) while those from other tobacco products grew $2.1 million (6.6%). Revenue from the cigarette and other tobacco products tax usually trends downward, generally at a slow pace.

FY 2018 cigarette tax receipts were $4.6 million below estimate through December.

Other Taxes

The kilowatt-hour tax generated $168.3 million during the first six months of the fiscal year. This was $11.2 million (6.2%) below estimate, and $14.4 million (7.9%) lower than revenue during the comparable months of FY 2017. The tax base generally is kilowatt-hours of electricity used, i.e., it generally does not depend on the price of electricity. Half of the allocation of GRF tax revenue to the Public Library Fund is debited against this tax for accounting purposes, thus good GRF tax revenue performance overall makes this tax look bad. The bulk of the negative variance, however, is likely due in part to cooler than expected summer and autumn months, which may have decreased household use of air conditioning.

Year to date, revenue from the public utility tax to the GRF was $55.6 million, an amount $1.7 million (3.1%) above estimate, and $8.0 million (16.8%) above receipts in the first half of FY 2017. About 95% of the revenue from this tax comes from natural gas utilities, so the performance of this tax is likely to improve from the cold stretch experienced in recent weeks: the impact on revenue from the January use (and much of the December use) of gas for heating would be felt in fourth quarter of this fiscal year.

The foreign insurance tax generated $144.8 million during the first half of FY 2018, $10.7 million (6.9%) below estimate, and $16.2 million (10.1%) below receipts in the corresponding period in FY 2017. This tax is paid by insurance companies headquartered in other states, based on premiums they receive to provide insurance covering risks located in Ohio. The revenue experience so far this year, though negative, reveals little about the full fiscal year experience from the tax: payments received so far represent advance payments based on previous year tax liabilities before credits. Similarly, a negative variance of $2.9 million for the domestic insurance tax (paid by insurance companies headquartered in Ohio) says little about the full year experience: virtually all revenue from the tax is received in May and June each fiscal year. Revenue from the foreign insurance tax was weak largely because $24.0 million in refunds were paid so far in FY 2018, which likely means taxpayers were claiming an unexpectedly large amount of credits against the tax.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of December 2017
($ in thousands)
(Actual based on OAKS reports run January 10, 2018)

PROGRAM	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	$614,293	$615,483	-$1,190	-0.2%
Higher Education	$218,748	$186,147	$32,601	17.5%
Other Education	$4,428	$4,410	$19	0.4%
Total Education	**$837,470**	**$806,040**	**$31,430**	**3.9%**
Medicaid	$1,294,801	$1,301,138	-$6,337	-0.5%
Health and Human Services	$104,138	$96,518	$7,620	7.9%
Total Welfare and Human Services	**$1,398,938**	**$1,397,656**	**$1,283**	**0.1%**
Justice and Public Protection	$207,110	$209,101	-$1,991	-1.0%
General Government	$30,521	$35,487	-$4,966	-14.0%
Total Government Operations	**$237,631**	**$244,588**	**-$6,956**	**-2.8%**
Property Tax Reimbursements	$41,698	$52,767	-$11,069	-21.0%
Debt Service	$16,034	$16,358	-$324	-2.0%
Total Other Expenditures	**$57,732**	**$69,125**	**-$11,393**	**-16.5%**
Total Program Expenditures	**$2,531,771**	**$2,517,408**	**$14,363**	**0.6%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$229	$0	$229	---
Total Transfers Out	**$229**	**$0**	**$229**	**---**
TOTAL GRF USES	**$2,532,000**	**$2,517,408**	**$14,591**	**0.6%**

*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 December 31, 2017
($ in thousands)
(Actual based on OAKS reports run January 10, 2018)

PROGRAM	Actual	Estimate*	Variance	Percent	FY 2017**	Percent Change
Primary and Secondary Education	$4,143,826	$4,125,559	$18,267	0.4%	$4,083,012	1.5%
Higher Education	$1,149,269	$1,157,628	-$8,359	-0.7%	$1,145,504	0.3%
Other Education	$41,908	$42,310	-$402	-1.0%	$46,299	-9.5%
Total Education	**$5,335,002**	**$5,325,496**	**$9,506**	**0.2%**	**$5,274,814**	**1.1%**
Medicaid	$7,624,963	$7,761,110	-$136,147	-1.8%	$9,110,179	-16.3%
Health and Human Services	$654,805	$685,799	-$30,994	-4.5%	$673,799	-2.8%
Total Welfare and Human Services	**$8,279,768**	**$8,446,909**	**-$167,141**	**-2.0%**	**$9,783,978**	**-15.4%**
Justice and Public Protection	$1,123,579	$1,153,153	-$29,575	-2.6%	$1,108,123	1.4%
General Government	$189,479	$203,608	-$14,129	-6.9%	$198,523	-4.6%
Total Government Operations	**$1,313,058**	**$1,356,761**	**-$43,704**	**-3.2%**	**$1,306,646**	**0.5%**
Property Tax Reimbursements	$906,420	$907,392	-$972	-0.1%	$900,987	0.6%
Debt Service	$897,879	$901,408	-$3,528	-0.4%	$907,140	-1.0%
Total Other Expenditures	**$1,804,300**	**$1,808,800**	**-$4,500**	**-0.2%**	**$1,808,128**	**-0.2%**
Total Program Expenditures	**$16,732,127**	**$16,937,966**	**-$205,839**	**-1.2%**	**$18,173,566**	**-7.9%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$29,483	-100.0%
Other Transfers Out	$69,001	$65,514	$3,487	5.3%	$238,587	-71.1%
Total Transfers Out	**$69,001**	**$65,514**	**$3,487**	**5.3%**	**$268,070**	**-74.3%**
TOTAL GRF USES	**$16,801,128**	**$17,003,480**	**-$202,352**	**-1.2%**	**$18,441,635**	**-8.9%**

*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 January 8, 2018)

	Month of December 2017				Year to Date Through December 2017			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid	**$1,893,245**	**$1,956,324**	**-$63,079**	**-3.2%**	**$12,115,144**	**$12,186,162**	**-$71,018**	**-0.6%**
GRF	$1,238,662	$1,243,824	-$5,161	-0.4%	$7,272,990	$7,409,109	-$136,119	-1.8%
Non-GRF	$654,582	$712,500	-$57,918	-8.1%	$4,842,155	$4,777,053	$65,101	1.4%
Developmental Disabilities	**$249,014**	**$218,160**	**$30,853**	**14.1%**	**$1,358,273**	**$1,391,666**	**-$33,393**	**-2.4%**
GRF	$48,432	$50,709	-$2,277	-4.5%	$300,996	$301,333	-$337	-0.1%
Non-GRF	$200,582	$167,452	$33,130	19.8%	$1,057,277	$1,090,333	-$33,056	-3.0%
Job and Family Services	**$20,420**	**$19,867**	**$552**	**2.8%**	**$129,995**	**$134,196**	**-$4,201**	**-3.1%**
GRF	$6,737	$5,713	$1,024	17.9%	$45,722	$45,673	$49	0.1%
Non-GRF	$13,683	$14,154	-$471	-3.3%	$84,273	$88,523	-$4,250	-4.8%
Health	**$3,974**	**$1,798**	**$2,176**	**121.0%**	**$13,612**	**$13,994**	**-$382**	**-2.7%**
GRF	$412	$375	$36	9.7%	$2,026	$1,864	$163	8.7%
Non-GRF	$3,562	$1,423	$2,140	150.4%	$11,586	$12,130	-$544	-4.5%
Mental Health and Addiction	**$344**	**$508**	**-$164**	**-32.4%**	**$2,223**	**$2,601**	**-$378**	**-14.5%**
GRF	$128	$121	$7	5.8%	$1,250	$1,250	$0	0.0%
Non-GRF	$215	$387	-$171	-44.4%	$972	$1,351	-$378	-28.0%
Aging	**$565**	**$755**	**-$190**	**-25.2%**	**$2,891**	**$3,823**	**-$932**	**-24.4%**
GRF	$415	$383	$32	8.4%	$1,786	$1,790	-$4	-0.2%
Non-GRF	$150	$372	-$222	-59.8%	$1,105	$2,033	-$928	-45.7%
Pharmacy Board	**$1,221**	**$54**	**$1,167**	**2168.8%**	**$1,480**	**$1,561**	**-$81**	**-5.2%**
GRF	$0	$0	$0	--	$0	$0	$0	--
Non-GRF	$1,221	$54	$1,167	2168.8%	$1,480	$1,561	-$81	-5.2%
Education	**$14**	**$25**	**-$11**	**-43.3%**	**$200**	**$177**	**$24**	**13.3%**
GRF	$14	$12	$2	13.3%	$193	$91	$102	111.8%
Non-GRF	$0	$12	-$12	-100.0%	$8	$86	-$78	-91.0%
Total GRF	**$1,294,801**	**$1,301,138**	**-$6,337**	**-0.5%**	**$7,624,963**	**$7,761,110**	**-$136,147**	**-1.8%**
Total Non-GRF	**$873,995**	**$896,353**	**-$22,358**	**-2.5%**	**$5,998,855**	**$5,973,069**	**$25,785**	**0.4%**
Total All Funds	**$2,168,796**	**$2,197,491**	**-$28,695**	**-1.3%**	**$13,623,818**	**$13,734,179**	**-$110,361**	**-0.8%**

*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 January 8, 2018)

	Month of December 2017				Year to Date Through December 2017			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	$909,762	$918,015	-$8,253	-0.9%	$5,553,766	$5,552,704	$1,061	0.0%
ACA - Managed Care	$338,612	$341,998	-$3,385	-1.0%	$2,049,616	$2,056,078	-$6,462	-0.3%
DDD Services	$235,786	$212,206	$23,580	11.1%	$1,314,277	$1,344,650	-$30,373	-2.3%
Hospitals	$148,532	$190,246	-$41,714	-21.9%	$1,306,409	$1,323,655	-$17,246	-1.3%
Nursing Facilities	$126,318	$119,699	$6,620	5.5%	$766,366	$732,651	$33,714	4.6%
Physicians/All Other	$81,923	$85,068	-$3,145	-3.7%	$566,010	$597,135	-$31,126	-5.2%
Behavioral Health	$96,863	$87,143	$9,721	11.2%	$620,480	$590,745	$29,735	5.0%
Administration	$75,924	$82,336	-$6,412	-7.8%	$477,169	$527,554	-$50,385	-9.6%
Medicare Buy-In	$51,185	$51,064	$121	0.2%	$304,994	$303,439	$1,555	0.5%
Medicare Part D	$38,041	$39,661	-$1,621	-4.1%	$237,340	$244,595	-$7,255	-3.0%
Prescription Drugs	$24,361	$27,850	-$3,489	-12.5%	$164,858	$187,386	-$22,528	-12.0%
Aging Waivers	$31,984	$31,841	$143	0.4%	$199,135	$205,193	-$6,059	-3.0%
Home Care Waivers	$9,504	$10,364	-$861	-8.3%	$63,400	$68,393	-$4,993	-7.3%
Total All Funds	**$2,168,796**	**$2,197,491**	**-$28,695**	**-1.3%**	**$13,623,818**	**$13,734,179**	**-$110,361**	**-0.8%**

* Estimates are from the Department of Medicaid.

Detail may not sum to total due to rounding.

EXPENDITURES[7]

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

– *Charles Dobson, Economist, 614-466-1523*

Overview

For the month of December, GRF uses were $14.6 million (0.6%) above the estimate released by OBM in September 2017. GRF uses mainly consist of program expenditures but also include transfers out. Through December, FY 2018 GRF uses totaled $16.80 billion, $202.4 million (1.2%) below estimate. GRF program expenditures were $16.73 billion, $205.8 million (1.2%) below the year-to-date estimate. This negative variance was partially offset by a positive year-to-date variance of $3.5 million (5.3%) in transfers out, which totaled $69.0 million through December. Tables 3 and 4 show GRF uses for the month of December and for FY 2018 through December, respectively.

For the first half of FY 2018, GRF uses were $202.4 million below estimate.

GRF Medicaid expenditures were $136.1 million (1.8%) below the year-to-date estimate. Year-to-date expenditures from the Health and Human Services and Justice and Public Protection program categories were also below estimates, by $31.0 million (4.5%) and $29.6 million (2.6%), respectively. Together, these three program categories accounted for 95.6% ($196.7 million) of the total negative year-to-date variance in GRF program expenditures.

The entire negative year-to-date variance in the Health and Human Services program category occurred in months prior to December; this category's December expenditures were $7.6 million (7.9%) above estimate. The Ohio Department of Job and Family Services (ODJFS) contributed the largest amount ($25.7 million, 82.9%) to the category's total negative year-to-date variance.

The majority of the Justice and Public Protection program category's negative year-to-date variance also occurred in months prior to December; this category's December expenditures were $2.0 million (1.0%) below estimate. The Department of Rehabilitation and Correction (DRC) contributed the largest amount ($22.5 million, 76.2%) to the category's total negative year-to-date variance.

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[7] 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.

For additional information on the negative variances in the Health and Human Services and Justice and Public Protection program categories, please refer to the November and December issues of *Budget Footnotes.* The remainder of this report will discuss in more detail the variances in Medicaid expenditures.

Medicaid

Medicaid is mainly funded by the GRF but is also supported by several non-GRF funds. As indicated earlier, GRF Medicaid expenditures were $136.1 million (1.8%) below the estimate for the first half of FY 2018. This negative variance was partially offset by a positive year-to-date variance of $25.8 million (0.4%) in non-GRF Medicaid expenditures. Including both the GRF and non-GRF, all-funds Medicaid expenditures were $110.4 million (0.8%) below the year-to-date estimate.

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 1%. Unlike ODM and ODODD, the six "sister" agencies incur only administrative spending.

As can be seen from Table 5, almost the entire amount of the negative year-to-date variance in GRF Medicaid expenditures can be attributable to ODM. ODM's non-GRF Medicaid expenditures, however, were $65.1 million (1.4%) above estimate. This positive variance was partially offset by a negative year-to-date variance of $33.1 million (3.0%) in non-GRF Medicaid expenditures from ODODD. Across all funds, expenditures from ODM and ODODD were $71.0 million (0.6%) and $33.4 million (2.4%), respectively, below their year-to-date estimates.

Medicaid is a joint federal-state program. Both GRF and non-GRF Medicaid expenditures contain federal and state dollars. 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.

For the first six months of FY 2018, GRF Medicaid expenditures were $136.1 million below estimate while non-GRF Medicaid expenditures were $25.8 million above estimate.

Table 6 shows all-funds Medicaid expenditures by payment category. Expenditures from Managed Care and ACA-Managed Care, the two largest payment categories, were close to estimates with expenditures being $1.1 million (0.0%) above and $6.5 million (0.3%) below estimates, respectively. 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 largely in line with estimates.

Administration had the largest negative year-to-date variance at $50.4 million (9.6%). Of this amount, approximately $41.0 million is attributed to ODM and the remaining $9.4 million is attributed to the other Medicaid agencies. ODM's negative variance was due partly to prior fiscal year contracts that have not yet been paid and partly to caseload-driven contracts requiring lower payments to vendors than anticipated.

The Physicians/All Other category had the second largest negative year-to-date variance at $31.1 million (5.2%), due partially to lower than estimated caseload for home health services.

The third largest negative year-to-date variance can be attributable to services provided by ODODD (labeled "DDD Services" in the table). Year-to-date expenditures from ODODD were below estimate by $30.4 million (2.3%). This variance was primarily due to lower than expected expenditures for targeted case management services and timing issues related to ODODD waiver claims.

Due largely to lower than estimated per-member per-month prescription drug costs for the Aged, Blind, and Disabled (ABD) population, the Prescription Drugs payment category registered the fourth largest negative year-to-date variance of $22.5 million (12.0%).

Another payment category with a notable negative year-to-date variance is Hospitals. As indicated in the prior issue of *Budget Footnotes*, ODM made a $50 million Hospital Upper Payment Limit (UPL) payment in November, one month earlier than assumed in the estimate, which led to a positive year-to-date variance of $24.5 million at the end of November for this category. December expenditures from the Hospitals payment category were $41.7 million below estimate, which changed the category's year-to-date variance to a negative $17.2 million (1.3%) at the end of December. This variance was largely due to lower than estimated per-member per-month hospital service costs for the ABD and dual-eligible (individuals eligible for both Medicaid and Medicare) populations.

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 year-to-date variance at $33.7 million (4.6%).

The Behavioral Health payment category had the second largest positive year-to-date variance at $29.7 million (5.0%), of which $9.7 million occurred in the month of December. The category's positive variance was largely due to higher than anticipated per-member per–month behavioral health service costs for the ABD population. Another contributing factor may be that providers submitted behavioral health claims at a faster pace than normal in anticipation of the implementation of the Behavioral Health Redesign on January 1, 2018. At this stage of the redesign, the goal is to modernize behavioral health service packages. The next goal is the integration of behavioral health into Medicaid Managed Care, which is anticipated to occur on July 1, 2018.

ISSUE UPDATES

First Medicaid Local Sales Tax Transition Payments Distributed in October

- Philip A. Cummins, Senior Economist, 614-387-1687

The Department of Taxation distributed the first round of Medicaid local sales tax transition payments, totaling about $103.4 million, to counties and local transit authorities in October. H.B. 49 appropriated $207 million in transition payments to help these units of local government adjust to the revenue loss due to the repeal of the sales tax on Medicaid managed care companies, effective July 1, 2017. The second round of payments is to be paid in January 2018. The total amount to be paid to each county and transit authority from the two rounds combined is listed in Section 387.20 of H.B. 49, ranging from a low of $35,327 to Holmes County to a high of $25 million to Cuyahoga County. The amounts were selected based on two criteria: (1) an amount to hold harmless each county or transit authority for calendar year (CY) 2017 by providing a quarter-year's reimbursement based on the average amount of sales tax revenue each county or transit authority received during 2015 and 2016 plus (2) a supplemental amount that is based on each county's capacity for absorbing the sales tax revenue loss. Total sales tax revenue from Medicaid managed care companies distributed to counties and transit authorities during CY 2016, the last full year of such revenue, was $209.3 million.

The recently enacted H.B. 69 increases transition payments to counties and transit authorities by up to $80 million. Of this total, $50 million is to be paid between January 1 and February 1, 2018, and up to $30 million, contingent upon the amount of surplus GRF revenue at the end of FY 2018, is to be paid between August 1 and September 1, 2018. Unlike the allocations of the $207 million transition payments, H.B. 69 does not specify the actual allocations of the additional payments for individual counties and transit authorities. Instead, it specifies an average annual Medicaid sales tax revenue amount for each county and transit authority. The up to $80 million additional payments will be allocated based on each county's or transit authority's proportionate share of the total average annual Medicaid sales tax revenue.

All transition payments for counties and transit authorities will be made from the Medicaid Local Sales Tax Transition Fund (Fund 7104). H.B. 49 created this fund and authorized cash transfers into the fund from two sources to fund the payments: up to $200 million from the Health and Human Services Fund (Fund 5SA4) and up to $207 million of unclaimed funds administered by the Department of Commerce. In August, $200 million cash was transferred from Fund 5SA4 into Fund 7104. H.B. 69 directs up to $30 million in FY 2018 GRF surplus revenue to be transferred into Fund 7104 for transition payments in FY 2019.

Nurse Leadership Project Launched in January

- Charles Dobson, Economist, 614-466-1523

On January 1, 2018, a three-year Nurse Leadership Project was launched to increase staff engagement and retention at nursing facilities with the goal of improving both quality of life and continuity of care for nursing home residents. Project participation is limited to facilities that have 100 to 130 residents and a turnover rate in nursing staff of over 30%. Each qualifying facility may send one registered nurse with at least two years of experience in long-term care to participate in the project. The project anticipates training a total of 72 nurse leaders across the state. Each participating nurse is required to mentor at least one additional nurse.

The project will provide leadership training sessions, core knowledge courses, and personal mentor relationships for participants. It is designed to address issues such as effective communication, accountability, delegation, and mentorship between nurses in leadership positions and direct care staff. Specific project goals include: a 5% decrease in the direct care staff turnover rate for the first year with additional 1% decreases for the following two years and a 7% increase in resident and family satisfaction scores in the first year followed by 2% increases in subsequent years.

The federal Centers for Medicare and Medicaid (CMS) approved approximately $1 million in funding for the project. The funding comes from civil monetary penalties imposed on nursing facilities that do not meet federal health and safety standards. States are required to use these grant funds to improve residents' outcomes in Medicaid, or Medicare, certified nursing homes. The Ohio Department of Medicaid recommended the project to CMS and will receive quarterly progress reports and a final report that evaluates project outcomes and results.

ODH Awards Franklin County $1.6 million for Smoking Cessation

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

On November 16, 2017, the Ohio Department of Health (ODH) awarded Franklin County Public Health (FCPH) a three-year grant totaling approximately $1.6 million for the Community Cessation Initiative. The goal of the initiative is to increase the number of Franklin County residents that attempt to quit smoking by 15%. FCPH will partner with the following local organizations to implement the initiative: the Columbus Metropolitan Housing Authority, Columbus Public Health, Healthcare Collaborative of Greater Columbus, Kirwin Institute for the Study of Race and Ethnicity, Ohio Association of Community Health Centers, and The Breathing Association. These organizations will identify gaps in existing service delivery and outreach efforts and adopt interventions targeting pregnant women, individuals with mental illness, and low-income individuals. A referral system will also be created to refer individuals to cessation services and to follow-up care to manage relapses. Each partner organization will have a different focus. For example, Columbus Public Health will provide smoking cessation programs for pregnant women, while the Columbus Metropolitan Housing Authority will help residents in federally funded public housing attempt to quit in preparation for a smoke-free policy that goes into effect in 2018. Another initiative goal will be to gather data on the number of insurance plans that deny cessation services and to work with those insurance companies to change noncoverage policies.

According to data from ODH, the current tobacco use rate in Franklin County for adults aged 18 and older is 18.7%, while the rate for the state is 21.0%. The national rate is currently 18.1%. The Centers for Disease Control and Prevention has set a national target rate of 12.0% for adult tobacco use by 2020. The current juvenile (12 to 17 years of age) rate for Franklin County is 7.6%. The state and national juvenile rates are 9.3% and 7.5%, respectively.

Ohio Drug Courts Gain Access to Prescription Drug Monitoring System

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

Beginning on November 7, 2017, judges and designated employees of certified specialized docket courts for drugs have gained access to the Ohio Automated Rx Reporting System (OARRS). Established in 2006 and maintained by the State Board of Pharmacy, OARRS collects information on controlled prescription drugs dispensed by pharmacies or furnished by prescribers to Ohio patients to help address prescription drug abuse, misuse, and diversion. H.B. 49 requires the Pharmacy Board to provide information requested by a judge of a certified drug court relating to a current or prospective participant of a drug court program. Certified drug courts often also include other specialized docket programs, including mental health courts, veterans courts, OVI/DUI courts, and family dependency courts, where a program participant is being treated for a substance abuse disorder. Information accessed through OARRS is expected to benefit case management for specialized docket courts. As of November 2017, there were 236 specialized docket courts in the state.

The expansion of OARRS to the courts is funded through a two-year, $399,365 federal grant that was awarded to the Pharmacy Board in September 2016.[8] Prior to expanding access to specialized docket courts, there were approximately 76,000 OARRS users: 54,720 prescribers or prescriber delegates (72%), 16,720 pharmacists (22%), and 4,560 law enforcement organizations (6%). Just under 16.5 million reports were requested in 2016.

[8] See the December 2016 issue of *Budget Footnotes* for additional details on this federal grant.

Ohio Third Frontier Commission Awards Opioid Technology Grants

- Tom Middleton, Senior Budget Analyst, 614-728-4813

On December 7, 2017, the Development Services Agency (DSA) announced the award of just under $10.0 million in grants to seven entities to advance new technology that combats drug abuse and addiction across the state. The grants were approved under the Ohio Third Frontier Commission's Ohio Opioid Abuse, Prevention, and Treatment Technology Initiative. This initiative aims to accelerate the development and commercialization of new products in the categories of medical devices, diagnostics, pharmaceuticals, and health technology to address the opioid crisis facing Ohio. The recipients and the amounts awarded are summarized in the table below.

Ohio Opioid Abuse, Prevention, and Treatment Technology Awards		
Entity	**Location**	**Grant Amount**
Elysium Therapeutics, Inc.	Danville, California	$2,989,159
Sollis Therapeutics	Columbus	$2,000,000
University of Akron	Akron	$2,000,000
Cordata Healthcare Innovations	Cincinnati	$1,500,000
DeUmbra, Inc.	Austin, Texas	$860,678
Sober First LLC dba Ascent	Cleveland	$464,000
Innovative Medical Equipment	Lyndhurst	$177,000
	Total	**$9,990,837**

The Ohio Opioid Abuse, Prevention, and Treatment Technology Initiative is one part of a two-pronged, $20.0 million strategy to combat opioid addiction throughout the state. The other prong, launched in October 2017, is the Ohio Opioid Technology Challenge, which will use up to $8.0 million in Third Frontier funding to be awarded as prizes for prevention, treatment, and overdose solutions that reduce morbidity and mortality associated with opioid use and addiction. The innovation consulting firm NineSigma, Inc., will manage the Ohio Opioid Technology Challenge on behalf of the Ohio Third Frontier Commission. The first challenge awards are expected in early 2018. All research and development initiatives under the Third Frontier Program are funded from the proceeds of general obligation (GO) bonds issued by the state.

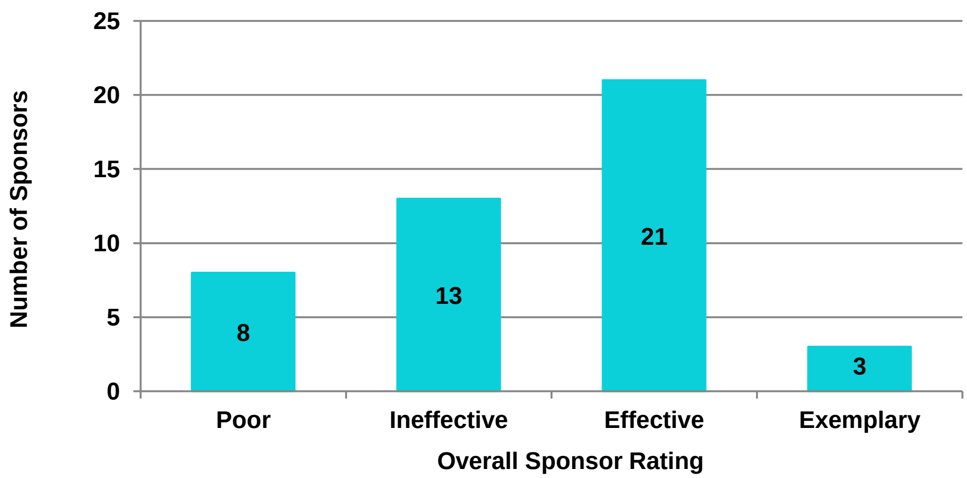
ODE Releases Community School Sponsor Evaluations for the 2016-2017 School Year

- Robert Moore, Budget Analyst, 614-466-4280

On November 15, 2017, the Ohio Department of Education (ODE) released community school sponsor evaluations for the 2016-2017 school year. Of the 45 community school sponsors evaluated, 24 (53.3%) received an overall rating of either "effective" (21, 46.7%) or "exemplary" (3, 6.7%) and 21 (46.7%) were rated either "ineffective" (13, 28.9%) or "poor" (8, 17.8%). The chart below illustrates the number of sponsors receiving each rating for the 2016-2017 school year. On the whole, community school sponsor ratings improved from the 2015-2016 school year, when over 92% of sponsors were rated either ineffective or poor.

The overall rating is comprised of three equally weighted components that receive their own individual ratings: (1) academic performance of students enrolled in schools sponsored by the entity, (2) compliance with rules and laws, and (3) adherence to quality practices, such as performance contracting, evaluation, termination and renewal decision making, and technical assistance to community schools.

Community School Sponsor Ratings, 2016-2017 School Year



Sponsors that receive an overall rating of exemplary for two consecutive years may take advantage of certain incentives, including longer contract terms with ODE, an unlimited number of schools the entity may sponsor, and no territorial restrictions on sponsorship. Sponsors rated ineffective may not sponsor additional schools, while those that receive a poor rating or three consecutive ineffective ratings have their sponsorship authority revoked, subject to an available appeals process. The overall number of sponsors evaluated dropped from 65 in the 2015-2016 school year to 45 in the 2016-2017 school year. Nearly all of the entities that are no longer sponsoring schools had their sponsorship authority revoked due to poor ratings.

Over 68,000 Students Participate in College Credit Plus Program in FY 2017

- Alexandra Vitale, Budget Analyst, 614-466-6582

On November 20, 2017, the Ohio Department of Higher Education (ODHE) announced that over 68,000 high school students participated in the College Credit Plus (CCP) Program in FY 2017, a 26% increase from the approximately 54,000 students who took CCP classes in FY 2016. More than 90% of participants passed their CCP courses in FY 2017 and, thus, received college credit. According to ODHE, 44% of participating students were seniors, 28% were juniors, and 14% were freshmen and sophomores. The remaining participants were home school or private school students for which a grade level was not reported (13%) or were in 7th or 8th grade (1%). Most participants took one or two college courses through the program.

The CCP Program, which replaced the former Post-Secondary Enrollment Options Program (PSEO) starting in FY 2016, allows qualified public, nonpublic, and home instructed students in grades 7-12 to take college courses for both college and high school credit. Under CCP, funding for public students is deducted from the state aid allocated to the educating district or school. Funding for nonpublic and home instructed students is paid directly by the state through certain GRF and non-GRF appropriations. Overall, the amount paid to colleges under the program increased from $37.9 million in FY 2016 to $44.8 million in FY 2017, according to the latest available figures from ODE. Additional details on the CCP Program are available on ODHE's website at: http://www.ohiohighered.org/ccp.

Attorney General Releases Economic Development Compliance Report

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

On December 1, 2017, the Ohio Attorney General's Office released its latest Economic Development Compliance Report,[9] a required annual review of recipient compliance with the terms and conditions of state awards for economic development administered by DSA. For purposes of this review, DSA economic development awards are grouped into four categories: workforce training grants, project grants, tax credits, and project loans.

[9] The full report is available at: http://www.ohioattorneygeneral.gov/Files/Publications-Files/Publications-for-Business/2017-Economic-Development-Accountability-Report.

The latest report examined 272 awards with a performance period ending in CY 2016. Of those recipients, 213 were determined to be substantially compliant, having met at least 90% of the performance metrics set forth in their agreement, with an overall compliance rate of 78.3%. The remaining 59 recipients were determined to be noncompliant. The report also indicates each award category's compliance rate: workforce training grants (100%), project grants (89.4%), tax credits (68.1%), and project loans (63.8%). Furthermore, the report provides information on remedial actions taken by DSA, which includes seeking grant reimbursements totaling $519,000 from seven recipients, reducing the tax credit term or rate for 19 recipients, and increasing the loan interest rate for 13 recipients.

The table below shows the compliance rates reported in the 2013-2016 reviews. As seen from the table, the decrease in the 2016 overall compliance rate was due entirely to the compliance rate decreases in tax credit and project loan award categories. After showing steady increases from the 2013 to 2015 reviews, the tax credit awards' compliance rate decreased from 80.0% for 2015 to 68.1% for 2016 while the compliance rate for the project loan award category dropped from 82.8% to 63.8% during the same period. In contrast, all workforce training grant awards have met at least 90% of their performance metrics over the last four years. The project grant award compliance rate continued to increase, from 86.3% in 2015 to 89.4% in 2016.

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

Controlling Board Approves $2.8 million Entertainment Budget for the 2018 Ohio State Fair

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

On December 18, 2017, the Controlling Board approved the Ohio Expositions Commission's proposed budget of approximately $2.8 million to enter into entertainment and related contracts for the 2018 Ohio State Fair. This is an increase of 27.2% over the $2.2 million spent on entertainment during the 2017 Ohio State Fair. Of the approved 2018 budget, about $2.3 million (82.1%) will be for entertainment contracts for name acts, back-up bands, free on-grounds entertainment, and related expenses. The remaining amount of just over $0.5 million (17.9%) will go toward contracts for entertainment support (stage hands, sound, lighting, etc.) and other special entertainment events.

Controlling Board approval of the entertainment budget for the 2018 Ohio State Fair allows for the Expositions Commission to negotiate and sign contracts with popular entertainers and acts before they are booked at other venues. The contracts will be paid using FY 2019 appropriations. The Ohio Expositions Commission has an FY 2019 budget of just under $16.0 million. Of that total, just over $15.2 million is funded by anticipated revenues from the Ohio State Fair and approximately 175 other events held on the state fairgrounds throughout the year.

TRACKING THE ECONOMY

– *Philip A. Cummins, Senior Economist, 614-728-1687*
– *Ruhaiza Ridzwan, Senior Economist, 614-387-0476*

Total nonfarm payroll employment in the U.S. rose 148,000 in December to 2.1 million higher than a year earlier.

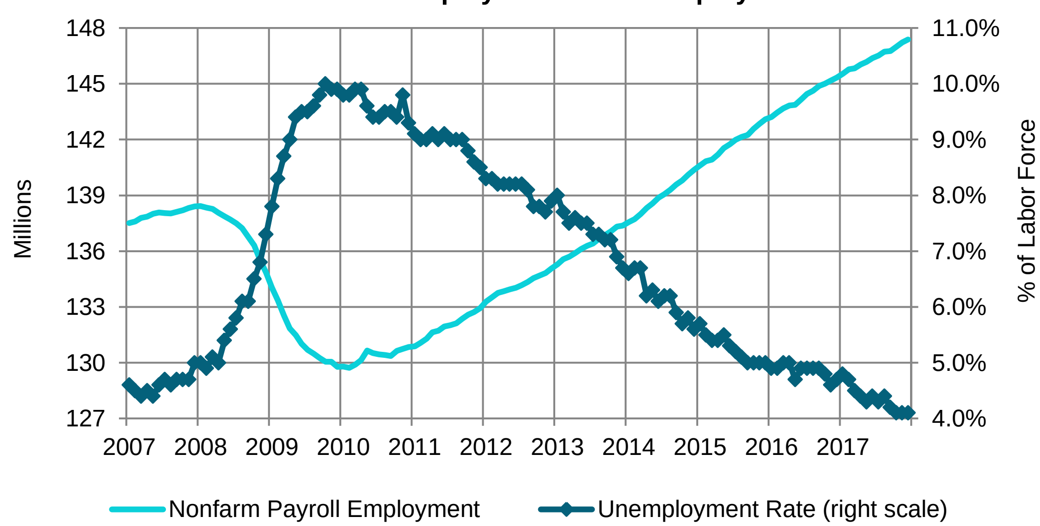
Overview

Most economic indicators point to further expansion. Inflation-adjusted U.S. gross domestic product (real GDP) growth picked up in last year's second and third quarters, and real GDP growth continued in the fourth quarter based on monthly data. Employment rose through December and the nation's average unemployment rate remained at 4.1%, a 17-year low. Short-term federal fiscal stimulus was recently enacted, monetary policy remains supportive of economic growth, and growth in foreign economies adds to demand for U.S. exports. Ohio's economy also continues to grow though less rapidly than that of the nation. Inflation in 2017 was up from 2015 lows but remains well contained.

The National Economy

Total nonfarm payroll employment in the U.S. rose 148,000 in December to 2.1 million higher than a year earlier. Nationwide average unemployment held at 4.1% of the labor force in December for the third straight month. Trends in U.S. employment and the unemployment rate are shown in Chart 5.

Chart 5: U.S. Employment and Unemployment



The employment increase in the latest month trailed average monthly gains earlier in the year, but the increase in the October-December quarter was largest since the 2016 third quarter. Among industries, job increases in December were reported in health care, construction, and manufacturing. For the year, the increase in total nonfarm payrolls nearly matched that in 2016, when 2.2 million jobs were added. Annual employment increases were larger earlier in the recovery from the severe 2007-2009 recession. In the 12 months of 2017, significant increases in employment were reported in mining, construction, and manufacturing, and in various private service-providing industries. Hourly wage increases of nonfarm employees on private payrolls averaged 2.5% in 2017, down from 2.9% in 2016 but within the range in which year-over-year pay gains have fluctuated since late 2015.

The nation's average unemployment rate in October through December was the lowest in 17 years.

The nation's average unemployment rate in October through December was the lowest in 17 years. Unemployment, at 6.6 million persons, was down from 7.5 million a year earlier. Of those without jobs and actively looking for work in December, 1.5 million had been unemployed for more than six months.

The nation's real GDP rose at a 3.2% annual rate in the 2017 third quarter, revised downward slightly in the U.S. Bureau of Economic Analysis' (BEA's) latest estimate. This broad measure of the economy grew at a 3.1% rate in the second quarter, following slower growth since the first quarter of 2015. The pickup in growth reflects strengthening in nonresidential fixed investment and exports, along with continued growth of consumer spending. On the other hand, residential fixed investment fell in the latest two quarters, chiefly due to lower spending for brokers' commissions and other ownership transfer costs, and slowing in the pace of improvements to existing structures.

Fourth quarter data through November show continued growth of business spending on equipment and an upturn in growth of real consumer spending. In December, unit sales of light motor vehicles strengthened. Weakness in residential fixed investment may be reversed in the fourth quarter as used home sales rose in November to the highest seasonally adjusted rate in nearly 11 years, according to the National Association of Realtors. New home unit sales in the month were at the highest rate in over ten years, and new housing units under construction rose sharply in October and November.

Industrial and manufacturing production expanded in the fourth quarter through November. The industrial production index rose 0.2% in November, after increasing 1.2% in October, and was 3.4% higher in November than a year earlier. Manufacturing production rose 1.4% in

October and 0.2% in November. Factory output growth continued in December, according to purchasing managers surveyed.[10]

The consumer price index (CPI) increased 0.4% from October to November, and was 2.2% higher in November than a year earlier. Most of the increase in the latest month was due to higher energy costs. Excluding food and energy, the CPI rose 0.1% in November to 1.7% above a year ago. A related inflation measure, the personal consumption expenditures deflator, was 1.8% higher for the month from a year earlier, and 1.5% higher excluding food and energy.

The consumer price index was 2.2% higher in November than a year earlier.

Recently enacted federal tax legislation is expected to boost economic activity in 2018 by putting more purchasing power in the hands of workers through lower withholding, and by enhancing expected after-tax returns on prospective business investments, making marginal projects more attractive.[11] The legislation lowers tax rates for individuals and businesses and makes numerous other changes. Congress' Joint Committee on Taxation estimates that increases in labor supply and in investment in response to these incentives will boost GDP by 0.8% to 0.9% for most of the next ten years, relative to a baseline forecast, with the increase falling to 0.1% to 0.2% toward the end of the ten-year projection.

Following its December meeting, the Federal Open Market Committee, the monetary policy-setting group within the central bank, raised its short-term market interest rate target by 0.25 percentage point to a range of 1.25% to 1.5%.[12] The interest rate target has been raised five times, in quarter-point increments, starting in December 2015, after holding near zero for seven years. Almost all committee members expect to increase their short-term interest rate target next year, with the median forecast for an increase of 0.75 percentage point.

[10] Survey results cited are from the Institute for Supply Management.

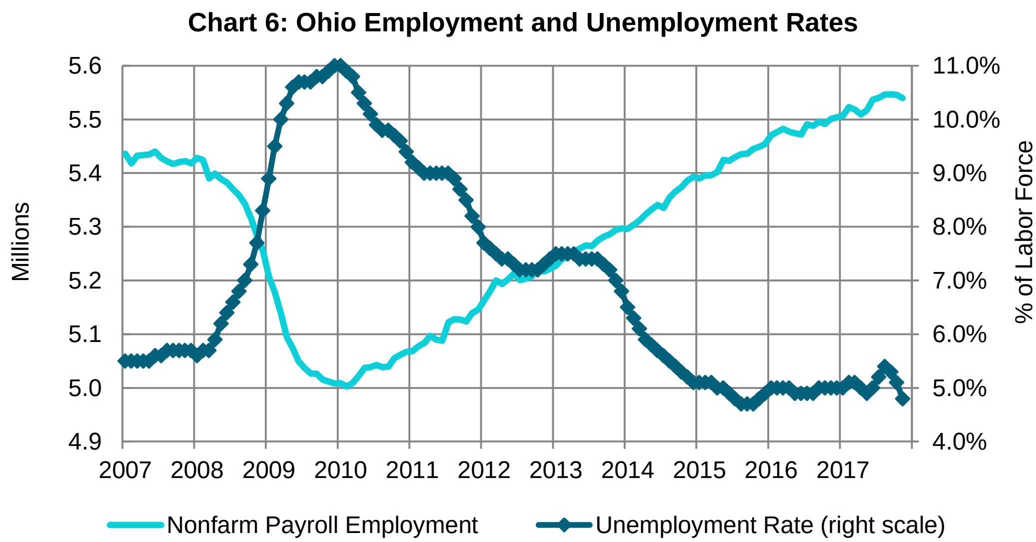
[11] This paragraph is based in part on Joint Committee on Taxation, "Macroeconomic Analysis of the Conference Agreement for H.R. 1, the 'Tax Cuts and Jobs Act'" published December 22, 2017, JCX-69-17.

[12] The target is specified in terms of federal funds, which are unsecured, mostly overnight loans of dollar reserves held with the Federal Reserve and traded in an interbank over-the-counter market.

The Ohio Economy

In November, Ohio's economy experienced reduced payroll employment, but the state unemployment rate dropped to 4.8% from 5.1% in October.[13] In November 2016, Ohio's unemployment rate was 5.0%. The U.S. unemployment rate was 4.1% in November 2017. The number of unemployed Ohioans was 279,000 in November, a decrease of 17,000 from October. The number of unemployed Ohioans decreased by 6,000 compared to November of last year. Chart 6 below shows trends in the state's payroll employment and unemployment rate over the last 11 years.

In November, Ohio's unemployment rate dropped to 4.8%.



The state's total nonfarm payroll employment, seasonally adjusted, declined by 5,600 (-0.1%) in November from the revised total in October, following a decrease of 1,200 jobs in October. Employment gains in goods-producing industries (+2,300) were more than offset by job losses in private service-providing industries (-5,600) and government employment (-2,300). Gains primarily occurred in financial activities and manufacturing; job losses were primarily in trade, transportation, and utilities, and in professional and business services.

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[13] Statistics on unemployment rates are based on a survey of households, while payroll employment is based on a survey of business establishments. In addition to unemployment, the household survey-based estimates include employment and the labor force. Employment on this basis increased from October to November, exhibiting a divergence from the establishment survey-based estimate. Such a divergence is not unusual, though in most months the two employment measures move in the same direction.

Compared to a year ago, total nonfarm payroll employment increased by 38,600, or 0.7%. During the same period, total nonfarm payrolls nationwide grew 1.4%. The increase in Ohio's total nonfarm payroll employment was largely in educational and health services (+14,500), leisure and hospitality (+12,300), financial activities (+9,500), construction (+5,700), and nondurable goods manufacturing (+4,700). Job losses were primarily in government (-9,700). In the 12 months ending in November 2017, Ohio's total nonfarm payroll employment growth was slightly lower than the year-over-year increase in the previous year.

Compared to a year ago, Ohio's total nonfarm payroll employment increased by 38,600, or 0.7%.

Ohio's personal income rose 0.8% in the third quarter of 2017, following 0.2% growth in the second quarter, according to BEA estimates. Personal income growth also accelerated in the third quarter in 31 other states and the District of Columbia. Nationwide, average state personal income rose 0.7% in the third quarter of 2017, up from 0.6% in the second quarter. Personal income growth in Ohio and most other states was accounted for mainly by higher net earnings. The leading contributors to Ohio's personal income growth in the third quarter were increased earnings in the healthcare and social assistance industry, construction, wholesale trade, and the finance and insurance industry.

Between July 1, 2016, and July 1, 2017, Ohio's total population increased from 11.62 million to 11.66 million, an increase of 36,055 or 0.3%, according to the U.S. Census Bureau's estimates released on December 20, 2017. In comparison, the U.S. total population grew by 0.7% during the same period. Between July 1, 2016, and July 1, 2017, total births in the state outnumbered deaths by 22,458. Migration of people into the state exceeded migration out of state by 13,926 as new Ohio residents from foreign countries totaled 22,131, partly offset by domestic net outmigration of 8,205. Ohio ranked 32nd out of all 50 states and the District of Columbia in terms of percentage population change, but ranked 18th in terms of total population change. Nationwide, Idaho was the fastest growing state (2.2%). Ohio remained the nation's seventh most populous state with 3.6% of the nation's population while California remained the most populous state.

In 2017, more Ohioans continued to move out of the state than residents of other states moved to Ohio, according to the United Van Lines' 41st Annual National Movers study. The study tracks United Van Lines customers' state-to-state migration patterns within the 48 contiguous states and the District of Columbia over the past year. The main reasons for Ohioans who moved out of the state were for a job and retirement while proximity to family was the primary factor for residents of other states to move to Ohio. In 2017, Ohio ranked seventh in terms of the percentage of moves that were out of the state (56%), while Illinois had the highest percentage of moves out of the state (63%). The top destination state for the percentage of inbound moves for residents of other states in 2017 was Vermont (68%).

In November, the number of existing home sales in Ohio increased by 4.1% compared to November 2016, according to the Ohio Association of Realtors. The average statewide sales price of homes sold in November was $174,689, an increase of 7.7% over the year. From January through November 2017, existing home sales increased by 1.1% compared to the corresponding period in 2016. The statewide sales price of homes sold during the first 11 months of 2017 averaged $173,032, or 5.5% higher than during the corresponding months in 2016.

Between July 1, 2016, and July 1, 2017, Ohio's total population increased 0.3%.