Budget Footnotes

A NEWSLETTER OF THE OHIO LEGISLATIVE SERVICE COMMISSION MARCH 2018

STATUS OF THE GRF

HIGHLIGHTS

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

GRF tax revenue received during February was $19.6 million (1.2%) below the estimate published by the Office of Budget and Management (OBM) in September 2017. Though the major tax revenue sources were below estimate for the month, tax revenue received year to date was nearly $202 million (1.4%) above estimate.

Ohio's unemployment rate was 4.7% in January. Income tax withholding during the three-month period of December through February grew 4.1% compared with the corresponding months one year ago.

Through February 2018, GRF sources totaled $21.50 billion:

- Revenue from the personal income tax was $225.1 million above estimate;
- Sales and use tax receipts were $25.0 million below estimate.

Through February 2018, GRF uses totaled $21.80 billion:

- Program expenditures were $341.4 million below estimate during the first eight months of FY 2018;
- Spending on Primary and Secondary Education was above estimate by $49.1 million, due primarily to timing issues;
- All other program expenditure categories were below estimate, most notably Medicaid ($256.5 million) and Health and Human Services ($66.8 million).

VOLUME 41, NUMBER 7

STATUS OF THE GRF

ISSUE UPDATES

TRACKING THE ECONOMY

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

STATE SOURCES	Actual	Estimate*	Variance	Percent
TAX REVENUE				
Auto Sales	$91,992	$90,900	$1,092	1.2%
Nonauto Sales and Use	$601,766	$605,100	-$3,334	-0.6%
Total Sales and Use Taxes	**$693,758**	**$696,000**	**-$2,242**	**-0.3%**
Personal Income	$214,440	$239,200	-$24,760	-10.4%
Commercial Activity Tax	$318,727	$333,600	-$14,873	-4.5%
Cigarette	$63,940	$67,300	-$3,360	-5.0%
Kilowatt-Hour Excise	$35,128	$32,200	$2,928	9.1%
Foreign Insurance	$129,459	$130,000	-$541	-0.4%
Domestic Insurance	$319	$0	$319	---
Financial Institution	$51,817	$32,900	$18,917	57.5%
Public Utility	$25,148	$22,400	$2,748	12.3%
Natural Gas Consumption (MCF)	$15,547	$13,800	$1,747	12.7%
Alcoholic Beverage	$3,466	$3,600	-$134	-3.7%
Liquor Gallonage	$3,442	$3,300	$142	4.3%
Petroleum Activity Tax	$0	$0	$0	---
Corporate Franchise	-$490	$0	-$490	---
Business and Property	$0	$0	$0	---
Estate	$0	$0	$0	---
Total Tax Revenue	**$1,554,702**	**$1,574,300**	**-$19,598**	**-1.2%**
NONTAX REVENUE				
Earnings on Investments	$23	$0	$23	---
Licenses and Fees	$9,149	$8,895	$254	2.9%
Other Revenue	$1,669	$1,780	-$111	-6.2%
Total Nontax Revenue	**$10,841**	**$10,675**	**$166**	**1.6%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers In	$156	$0	$156	---
Total Transfers In	**$156**	**$0**	**$156**	**---**
TOTAL STATE SOURCES	**$1,565,699**	**$1,584,975**	**-$19,276**	**-1.2%**
Federal Grants	$697,531	$853,397	-$155,866	-18.3%
TOTAL GRF SOURCES	**$2,263,230**	**$2,438,372**	**-$175,143**	**-7.2%**

*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 February 28, 2018
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on March 2, 2018)

STATE SOURCES	Actual	Estimate*	Variance	Percent	FY 2017**	Percent Change
TAX REVENUE						
Auto Sales	$910,373	$865,400	$44,973	5.2%	$888,548	2.5%
Nonauto Sales and Use	$5,800,266	$5,870,200	-$69,934	-1.2%	$6,183,136	-6.2%
Total Sales and Use Taxes	**$6,710,639**	**$6,735,600**	**-$24,961**	**-0.4%**	**$7,071,683**	**-5.1%**
Personal Income	$5,478,634	$5,253,500	$225,134	4.3%	$5,036,297	8.8%
Commercial Activity Tax	$1,120,219	$1,113,100	$7,119	0.6%	$939,463	19.2%
Cigarette	$565,831	$566,800	-$969	-0.2%	$587,220	-3.6%
Kilowatt-Hour Excise	$232,123	$241,300	-$9,177	-3.8%	$243,419	-4.6%
Foreign Insurance	$274,816	$287,200	-$12,384	-4.3%	$302,449	-9.1%
Domestic Insurance	$381	$2,900	-$2,519	-86.9%	$155	145.9%
Financial Institution	$80,587	$70,500	$10,087	14.3%	$72,452	11.2%
Public Utility	$80,939	$76,200	$4,739	6.2%	$70,395	15.0%
Natural Gas Consumption (MCF)	$34,302	$33,100	$1,202	3.6%	$32,145	6.7%
Alcoholic Beverage	$37,746	$37,600	$146	0.4%	$38,792	-2.7%
Liquor Gallonage	$32,455	$31,100	$1,355	4.4%	$31,378	3.4%
Petroleum Activity Tax	$3,280	$2,800	$480	17.1%	$2,860	14.7%
Corporate Franchise	$1,908	$0	$1,908	---	$3,230	-40.9%
Business and Property	-$374	$0	-$374	---	-$678	44.8%
Estate	$118	$0	$118	---	$490	-75.8%
Total Tax Revenue	**$14,653,605**	**$14,451,700**	**$201,905**	**1.4%**	**$14,431,750**	**1.5%**
NONTAX REVENUE						
Earnings on Investments	$30,327	$28,000	$2,327	8.3%	$24,072	26.0%
Licenses and Fees	$22,745	$22,590	$155	0.7%	$25,656	-11.3%
Other Revenue	$237,078	$264,540	-$27,462	-10.4%	$54,263	336.9%
Total Nontax Revenue	**$290,150**	**$315,130**	**-$24,980**	**-7.9%**	**$103,991**	**179.0%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$0	---
Other Transfers In	$133,327	$128,929	$4,398	3.4%	$92,187	44.6%
Total Transfers In	**$133,327**	**$128,929**	**$4,398**	**3.4%**	**$92,187**	**44.6%**
TOTAL STATE SOURCES	**$15,077,082**	**$14,895,759**	**$181,323**	**1.2%**	**$14,627,928**	**3.1%**
Federal Grants	$6,418,871	$6,665,516	-$246,645	-3.7%	$7,974,791	-19.5%
TOTAL GRF SOURCES	**$21,495,953**	**$21,561,275**	**-$65,323**	**-0.3%**	**$22,602,719**	**-4.9%**

*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 February, GRF sources were $65.3 million (0.3%) below OBM's estimates published in September 2017. Shortfalls of $246.6 million and $25.0 million, respectively, for federal grants and for nontax revenue were partially offset by positive variances of $201.9 million for GRF tax sources and $4.4 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 February and for FY 2018 through February, respectively.

Through February in FY 2018, GRF sources were $65.3 million below estimate.

GRF sources for the month of February were $175.1 million (7.2%) below estimates, largely from a shortfall of $155.9 million (18.3%) in federal grants. In addition, GRF tax sources lagged estimates by $19.6 million (1.2%), with the most important taxes posting poor results for the month: the personal income tax (PIT), the commercial activity tax (CAT), the cigarette tax, and the sales and use tax were below expected receipts by $24.8 million, $14.9 million, $3.4 million, and $2.2 million, respectively. On the other hand, the financial institutions tax (FIT), the kilowatt-hour tax, the public utility tax, and the natural gas consumption tax had positive variances of $18.9 million, $2.9 million, $2.7 million, and $1.7 million, respectively. Regarding the FIT, the first actual tax filing for the fiscal year provided total GRF revenue of $105.6 million for the two-month January-February period, an amount $20.4 million (24.0%) above estimate. This performance reversed a deficit of $10.3 million for this tax over the first six months of the fiscal year,[2] resulting in a positive variance of $10.1 million for the year to date (YTD) through February. Both transfers in and nontax revenue categories experienced small positive variances for the month.

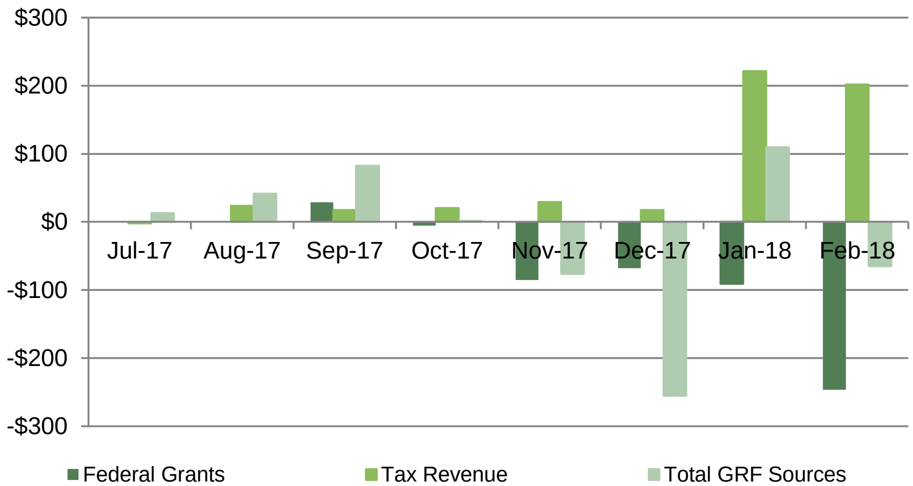
FY 2018 GRF tax sources were $201.9 million above estimate.

[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] 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.

For FY 2018 through February, the following taxes were substantially above estimates: the PIT ($225.1 million), the auto sales and use tax ($45.0 million), the FIT ($10.1 million), the CAT ($7.1 million), the public utility tax ($4.7 million), and the corporate franchise tax ($1.9 million); and taxes with large negative variances included the nonauto sales and use tax ($69.9 million), the foreign insurance tax ($12.4 million), the kilowatt-hour tax ($9.2 million), and the domestic insurance tax ($2.5 million).

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



Through February, federal grants to the GRF were $246.6 million less than estimate.

FY 2018 YTD GRF sources were $1.11 billion (4.9%) below FY 2017 GRF sources through February, due to a decline of $1.56 billion (19.5%) in federal grants. That decline was partially offset by increases of $221.9 million (1.5%) for GRF tax sources, $186.2 million (179.0%) for nontax revenue, and $41.1 million (44.6%) for transfers in.

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 ($442.3 million, 8.8%), the CAT ($180.8 million, 19.2%), the public utility tax ($10.5 million, 15.0%), the auto sales and use tax ($21.8 million, 2.5%), and the FIT ($8.1 million, 11.2%). On the other hand, revenue declined for the nonauto sales and use tax ($382.9 million, 6.2%), the foreign insurance tax ($27.6 million, 9.1%), the cigarette tax ($21.4 million, 3.6%), and the kilowatt-hour tax ($11.3 million, 4.6%). 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.

Sales and Use Tax

The sales and use tax again lagged estimates in February, but by a lesser amount than in January when its shortfall was $39.0 million (4.1%). This month, sales tax receipts to the GRF of $693.8 million were below the anticipated level by $2.2 million (0.3%), and, as in the previous month, due to weak nonauto sales and use tax receipts. February 2018 sales and use tax revenue was also $55.7 million (7.4%) below receipts in February 2017. The monthly performance increased the fiscal year shortfall of this tax to $25.0 million (0.4%), up from $22.7 million through January. Through February 2018, GRF sales and use tax receipts of $6.71 billion were $361.0 million (5.1%) 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 has failed to match expectations during most months.

For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections generally arise from the sale of motor vehicles, but auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax instead of the auto tax.[3]

Nonauto Sales and Use Tax

After its worst performance of the fiscal YTD in January, the nonauto sales and use tax was again below estimate in February. Receipts to the GRF of $601.8 million were $3.3 million (0.6%) below estimate, increasing the cumulative negative variance of this tax source to $69.9 million (1.2%), up from $66.6 million at the end of January. February 2018 revenue was also $50.8 million (7.8%) below receipts in the same month last year, for reasons described below.

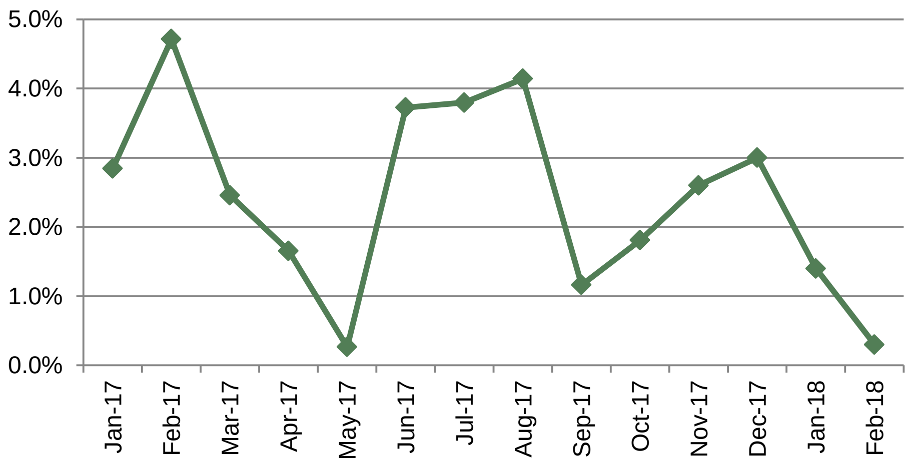
Through February in FY 2018, the sales and use tax was below estimate by $25.0 million.

YTD nonauto sales and use tax receipts were $69.9 million below estimate.

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

For the fiscal year through February, GRF receipts from this tax totaled $5.80 billion, $382.9 million (6.2%) 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, has declined in recent months as shown in Chart 2 below.[4]

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



Through February in FY 2018, the auto sales and use tax was $45.0 million above estimate.

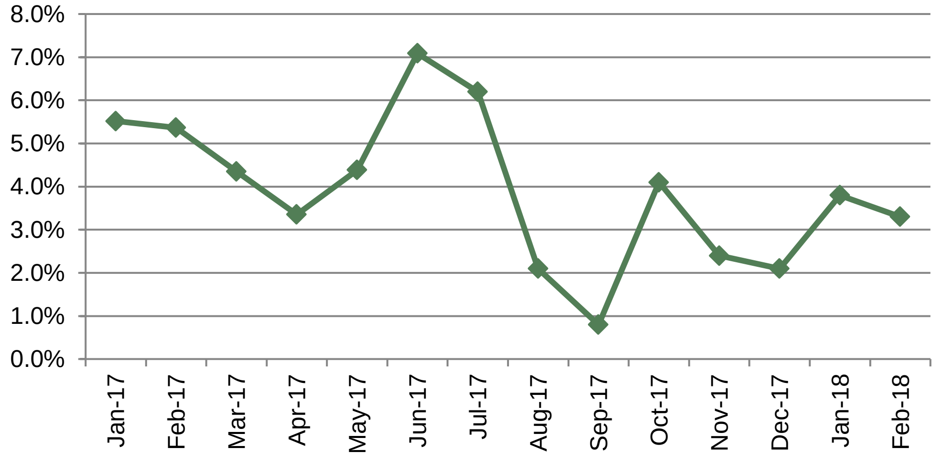
Auto Sales and Use Tax

GRF receipts of $92.0 million for the auto portion of the sales and use tax were above estimate by $1.1 million (1.2%) in February 2018. They were, however, $4.8 million (5.0%) below receipts in the same month in 2017. Total auto sales and use tax revenue of $910.4 million for the fiscal YTD was $45.0 million (5.2%) above estimate and $21.8 million (2.5%)

[4] 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.

above revenue in FY 2017 through February. 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)**



Personal Income Tax

For the YTD, total PIT GRF revenue of $5.48 billion was $225.1 million (4.3%) above estimate, and $442.3 million (8.8%) above corresponding receipts through February 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,[5] 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 $225.1 million above estimate in FY 2018 through February.

In February, the PIT gave back some of its strong January performance, mostly because early payouts of refunds for tax year 2017 were delayed this year. PIT revenue of $214.4 million for February was $24.8 million (10.4%) below anticipated revenues, but $11.9 million (5.9%) above receipts in February 2017. The monthly negative variance was due to both increased refunds and distributions to the LGF which

[5] 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.

were $34.8 million (7.8%) and $3.7 million (10.6%) higher than projected, respectively. Employer withholding was $17.0 million (2.4%) above estimate, the only component of gross collections that surpassed expectations. That positive variance was partially offset by shortfalls of $1.5 million (16.0%) for taxes due with annual returns, and $0.9 million (18.7%) for quarterly estimated payments.

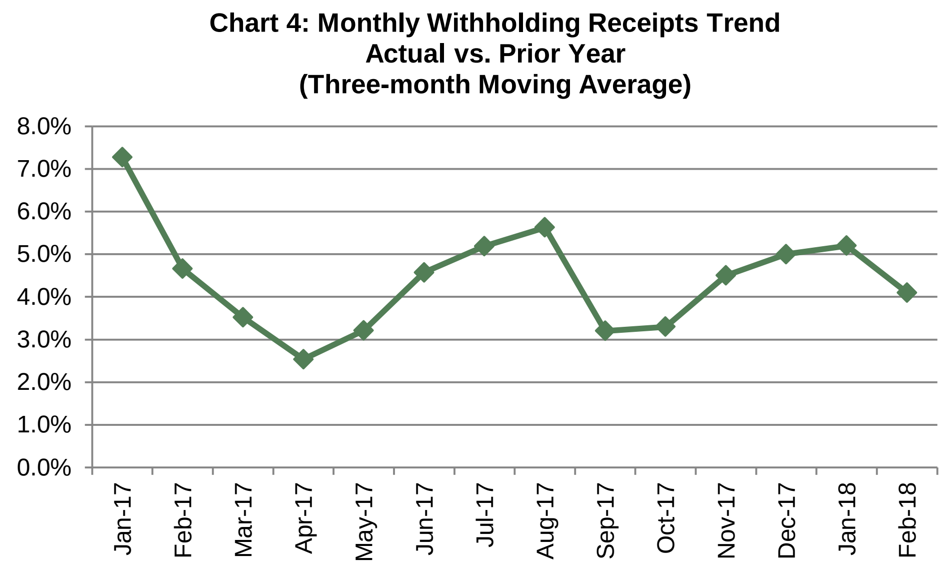
FY 2018 revenues through February from each component of the PIT relative to estimates and to revenue received in FY 2017 are detailed in the table below. PIT trends in the earlier months of FY 2018 continued for gross collections. Annual return payments posted a negative variance, while the remaining components exceeded estimates through February 2018. Refunds and LGF distributions were also higher than estimates.

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	$89.9	1.6%	$259.0	4.7%
Quarterly Estimated Payments	$173.8	33.7%	$187.1	37.2%
Trust Payments	$8.6	38.9%	$8.2	36.3%
Annual Return Payments	-$21.3	-19.0%	-$14.9	-14.1%
Miscellaneous Payments	$11.6	22.8%	$13.0	26.3%
Gross Collections	$262.6	4.1%	$452.5	7.3%
Less Refunds	$32.3	3.7%	$5.2	0.6%
Less LGF Distribution	$5.2	2.0%	$4.9	1.9%
GRF PIT Revenue	$225.1	4.3%	$442.3	8.8%

Revenue growth from monthly employer withholding has slowed.

Compared to corresponding receipts in FY 2017 through February, 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 and LGF distributions 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. Though revenue from employer withholding is still growing, the rate of growth has declined in calendar year 2018.



Commercial Activity Tax

The third CAT payment for calendar quarter taxpayers in FY 2018 provided GRF receipts of $318.7 million in February. This revenue was $14.9 million (4.5%) below estimate. For the fiscal year, however, total receipts of $1.12 billion to the GRF were $7.1 million (0.6%) above projections. February GRF revenue was also $50.0 million (18.6%) above GRF receipts in the same month last year, and FY 2018 GRF receipts were $180.8 million (19.2%) above receipts in FY 2017 through February. This strong growth was due in part to the change in allocation of revenue enacted in H.B. 49. Gross collections have been robust. Through February, they grew $98.3 million (7.4%) relative to collections in the corresponding period in FY 2017. However, growth of net collections was reduced due to increased refunds compared to the previous year.

FY 2018 CAT GRF tax receipts through February were $7.1 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

February 2018 revenue from the cigarette and other tobacco products tax of $63.9 million was $3.4 million (5.0%) below estimate, and $6.9 million (9.8%) below revenue in February 2017. As shown in Chart 5 below, the performance of this tax source has been uneven this fiscal year, probably due to the timing of remittances, with monthly positive variances alternating with shortfalls. However, GRF cigarette and other tobacco products tax revenue through February of $565.8 million was just $1.0 million (0.2%) below estimate. Total revenue included $520.3 million and $45.5 million, respectively, from sales of cigarettes and sales of other tobacco products. FY 2018 revenue was also $21.4 million (3.6%) below collections in the corresponding period in FY 2017. Receipts from cigarette sales fell $25.9 million (5.0%) while those from other tobacco products grew $4.5 million (11.1%). Revenue from the cigarette and other tobacco products tax usually trends downward, generally at a slow pace.

FY 2018 cigarette tax receipts were $1.0 million below estimate through February.

Chart 5: Cigarette Tax Variance in FY 2018
(Variance from Estimates, $ in millions)

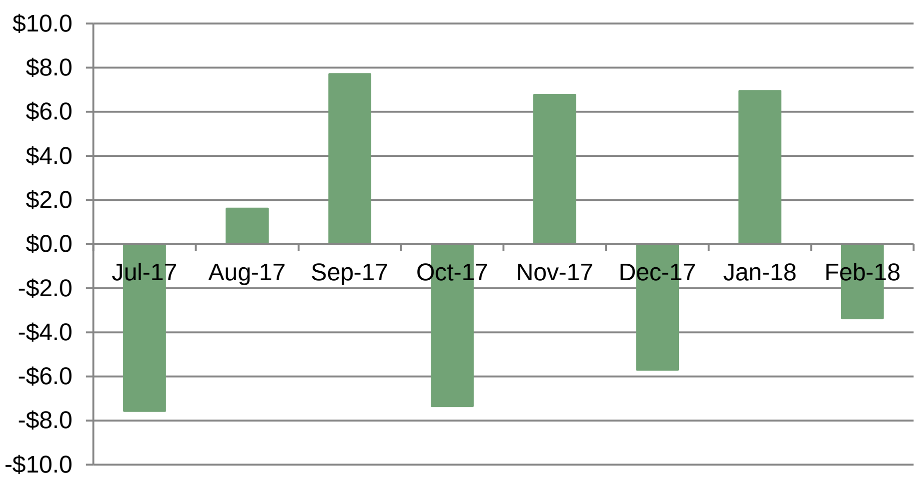


Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of February 2018
($ in thousands)
(Actual based on OAKS reports run March 6, 2018)

PROGRAM	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	$742,917	$756,342	-$13,425	-1.8%
Higher Education	$215,666	$218,940	-$3,274	-1.5%
Other Education	$4,744	$3,422	$1,322	38.6%
Total Education	**$963,327**	**$978,704**	**-$15,377**	**-1.6%**
Medicaid	$1,304,420	$1,369,234	-$64,814	-4.7%
Health and Human Services	$77,503	$116,901	-$39,398	-33.7%
Total Welfare and Human Services	**$1,381,923**	**$1,486,135**	**-$104,211**	**-7.0%**
Justice and Public Protection	$142,711	$158,120	-$15,408	-9.7%
General Government	$23,646	$28,052	-$4,405	-15.7%
Total Government Operations	**$166,358**	**$186,171**	**-$19,814**	**-10.6%**
Property Tax Reimbursements	$114	$1,039	-$925	-89.0%
Debt Service	$37,088	$59,677	-$22,589	-37.9%
Total Other Expenditures	**$37,203**	**$60,716**	**-$23,513**	**-38.7%**
Total Program Expenditures	**$2,548,811**	**$2,711,726**	**-$162,916**	**-6.0%**
TRANSFERS				
Budget Stabilization	$0	$0	$0	---
Other Transfers Out	$0	$0	$0	---
Total Transfers Out	**$0**	**$0**	**$0**	**---**
TOTAL GRF USES	**$2,548,811**	**$2,711,726**	**-$162,915**	**-6.0%**

*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 February 28, 2018
($ in thousands)
(Actual based on OAKS reports run March 6, 2018)

PROGRAM	Actual	Estimate*	Variance	Percent	FY 2017**	Percent Change
Primary and Secondary Education	$5,592,805	$5,543,686	$49,118	0.9%	$5,432,331	3.0%
Higher Education	$1,549,503	$1,558,209	-$8,706	-0.6%	$1,547,370	0.1%
Other Education	$53,747	$53,907	-$160	-0.3%	$55,194	-2.6%
Total Education	**$7,196,055**	**$7,155,802**	**$40,253**	**0.6%**	**$7,034,894**	**2.3%**
Medicaid	$9,946,821	$10,203,313	-$256,493	-2.5%	$11,830,841	-15.9%
Health and Human Services	$893,864	$960,625	-$66,761	-6.9%	$932,504	-4.1%
Total Welfare and Human Services	**$10,840,685**	**$11,163,938**	**-$323,254**	**-2.9%**	**$12,763,345**	**-15.1%**
Justice and Public Protection	$1,483,104	$1,502,412	-$19,308	-1.3%	$1,434,175	3.4%
General Government	$249,485	$266,907	-$17,422	-6.5%	$259,935	-4.0%
Total Government Operations	**$1,732,589**	**$1,769,319**	**-$36,730**	**-2.1%**	**$1,694,110**	**2.3%**
Property Tax Reimbursements	$906,528	$908,957	-$2,429	-0.3%	$902,250	0.5%
Debt Service	$1,058,955	$1,078,235	-$19,281	-1.8%	$1,062,871	-0.4%
Total Other Expenditures	**$1,965,483**	**$1,987,192**	**-$21,709**	**-1.1%**	**$1,965,120**	**0.0%**
Total Program Expenditures	**$21,734,811**	**$22,076,251**	**-$341,440**	**-1.5%**	**$23,457,470**	**-7.3%**
TRANSFERS						
Budget Stabilization	$0	$0	$0	---	$29,483	-100.0%
Other Transfers Out	$69,445	$65,514	$3,931	6.0%	$243,162	-71.4%
Total Transfers Out	**$69,445**	**$65,514**	**$3,931**	**6.0%**	**$272,644**	**-74.5%**
TOTAL GRF USES	**$21,804,256**	**$22,141,765**	**-$337,509**	**-1.5%**	**$23,730,114**	**-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 March 7, 2018)

	Month of February 2018				Year to Date Through February 2018			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid	**$1,945,322**	**$2,028,170**	**-$82,848**	**-4.1%**	**$15,916,528**	**$16,141,663**	**-$225,135**	**-1.4%**
GRF	$1,255,938	$1,314,380	-$58,442	-4.4%	$9,488,248	$9,739,148	-$250,900	-2.6%
Non-GRF	$689,383	$713,789	-$24,406	-3.4%	$6,428,281	$6,402,515	$25,766	0.4%
Developmental Disabilities	**$199,331**	**$216,032**	**-$16,700**	**-7.7%**	**$1,784,924**	**$1,825,290**	**-$40,366**	**-2.2%**
GRF	$43,865	$49,251	-$5,385	-10.9%	$396,217	$400,208	-$3,991	-1.0%
Non-GRF	$155,466	$166,781	-$11,315	-6.8%	$1,388,707	$1,425,081	-$36,374	-2.6%
Job and Family Services	**$17,486**	**$22,593**	**-$5,107**	**-22.6%**	**$166,702**	**$177,326**	**-$10,624**	**-6.0%**
GRF	$4,067	$4,983	-$916	-18.4%	$55,964	$57,776	-$1,813	-3.1%
Non-GRF	$13,419	$17,610	-$4,191	-23.8%	$110,738	$119,549	-$8,811	-7.4%
Health	**$1,280**	**$1,336**	**-$56**	**-4.2%**	**$16,425**	**$17,303**	**-$878**	**-5.1%**
GRF	$293	$271	$22	8.3%	$2,656	$2,436	$220	9.0%
Non-GRF	$987	$1,066	-$79	-7.4%	$13,769	$14,867	-$1,098	-7.4%
Mental Health and Addiction	**$202**	**$596**	**-$394**	**-66.1%**	**$2,599**	**$3,366**	**-$767**	**-22.8%**
GRF	$0	$0	$0	--	$1,250	$1,250	$0	0.0%
Non-GRF	$202	$596	-$394	-66.1%	$1,348	$2,115	-$767	-36.3%
Aging	**$447**	**$554**	**-$107**	**-19.3%**	**$3,910**	**$4,931**	**-$1,021**	**-20.7%**
GRF	$241	$254	-$13	-5.0%	$2,269	$2,298	-$29	-1.3%
Non-GRF	$206	$300	-$94	-31.4%	$1,641	$2,633	-$992	-37.7%
Pharmacy Board	**$31**	**$36**	**-$5**	**-12.8%**	**$1,547**	**$1,633**	**-$86**	**-5.3%**
GRF	$0	$0	$0	--	$0	$0	$0	--
Non-GRF	$31	$36	-$5	-12.8%	$1,547	$1,633	-$86	-5.3%
Education	**$15**	**$189**	**-$175**	**-92.3%**	**$225**	**$387**	**-$163**	**-41.9%**
GRF	$15	$95	-$80	-84.6%	$217	$196	$21	10.5%
Non-GRF	$0	$95	-$95	-100.0%	$8	$191	-$183	-95.8%
Total GRF	**$1,304,420**	**$1,369,234**	**-$64,814**	**-4.7%**	**$9,946,821**	**$10,203,313**	**-$256,493**	**-2.5%**
Total Non-GRF	**$859,695**	**$900,273**	**-$40,578**	**-4.5%**	**$7,946,038**	**$7,968,584**	**-$22,546**	**-0.3%**
Total All Funds	**$2,164,115**	**$2,269,506**	**-$105,391**	**-4.6%**	**$17,892,859**	**$18,171,897**	**-$279,038**	**-1.5%**

*Estimates are from the Department of Medicaid.

Detail may not sum to total due to rounding.

Table 6: All-Funds Medicaid Expenditures by Payment Category
Actual vs. Estimate
($ in thousands)
(Actuals based on OAKS report run on March 7, 2018)

	Month of February 2018				Year to Date Through February 2018			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	$931,446	$940,665	-$9,218	-1.0%	$7,399,886	$7,435,451	-$35,565	-0.5%
ACA - Managed Care	$346,076	$352,352	-$6,276	-1.8%	$2,732,786	$2,760,741	-$27,955	-1.0%
DDD Services	$195,276	$211,520	-$16,243	-7.7%	$1,731,007	$1,768,678	-$37,671	-2.1%
Hospitals	$194,936	$195,872	-$936	-0.5%	$1,573,656	$1,581,231	-$7,575	-0.5%
Nursing Facilities	$131,237	$123,225	$8,012	6.5%	$1,028,418	$979,741	$48,677	5.0%
Physicians/All Other	$81,234	$101,824	-$20,591	-20.2%	$750,571	$803,417	-$52,846	-6.6%
Behavioral Health	$78,460	$90,944	-$12,484	-13.7%	$797,166	$793,867	$3,299	0.4%
Administration	$54,171	$82,634	-$28,464	-34.4%	$597,954	$699,071	-$101,118	-14.5%
Medicare Buy-In	$49,500	$54,848	-$5,348	-9.8%	$404,270	$412,919	-$8,649	-2.1%
Medicare Part D	$37,419	$39,458	-$2,039	-5.2%	$312,818	$323,855	-$11,037	-3.4%
Prescription Drugs	$23,837	$28,358	-$4,522	-15.9%	$217,342	$243,660	-$26,318	-10.8%
Aging Waivers	$31,252	$37,250	-$5,999	-16.1%	$262,821	$277,242	-$14,420	-5.2%
Home Care Waivers	$9,273	$10,555	-$1,283	-12.2%	$84,163	$92,024	-$7,861	-8.5%
Total All Funds	**$2,164,115**	**$2,269,506**	**-$105,391**	**-4.6%**	**$17,892,859**	**$18,171,897**	**-$279,038**	**-1.5%**

* Estimates are from the Department of Medicaid.

Detail may not sum to total due to rounding.

EXPENDITURES[6]

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

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

Overview

Through February, FY 2018 GRF program expenditures totaled $21.73 billion. These expenditures were $341.4 million (1.5%) below the estimate released by OBM in September 2017. In February, GRF Medicaid expenditures were $64.8 million (4.7%) below estimate, which increased the category's negative YTD variance from $191.7 million (2.2%) at the end of January to $256.5 million (2.5%) at the end of February.

For the month of February, GRF uses totaled $2.55 billion, which was $162.9 million below estimate. Tables 3 and 4 show GRF uses for the month of February and for FY 2018 through February, respectively. GRF uses mainly consist of program expenditures but also include transfers out. Including both program expenditures and transfers out, GRF uses were $21.80 billion at the end of February, which was $337.5 million (1.5%) below OBM's estimate.

GRF program expenditures were $341.4 million below estimate at the end of February.

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.[7] 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

Through February, FY 2018 GRF and non-GRF Medicaid expenditures were $256.5 million and $22.5 million below estimate, respectively.

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

[7] 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.

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 $256.5 million (2.5%) below the estimate for the first eight months of FY 2018. Non-GRF Medicaid expenditures were also below estimate by $22.5 million (0.3%). All-funds Medicaid expenditures were $279.0 million (1.5%) below the YTD estimate.

As can be seen from Table 5, most of the negative YTD variance in all-funds Medicaid expenditures is attributable to ODM ($225.1 million) and ODODD ($40.4 million). ODM's GRF Medicaid expenditures were $250.9 million (2.6%) below the YTD estimate while its non-GRF Medicaid expenditures were $25.8 million (0.4%) above the YTD estimate. ODODD's GRF and non-GRF Medicaid expenditures were below the YTD estimate by $4.0 million (1.0%) and $36.4 million (2.6%), respectively.

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 $35.6 million (0.5%) and $28.0 million (1.0%), 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 $35.6 million and $28.0 million, respectively.

The Administration category had the largest negative YTD variance at $101.1 million (14.5%). Of this amount, approximately $84.5 million is attributed to ODM and the remaining $16.6 million is attributed to the other Medicaid agencies. ODM's negative variance was primarily due to the following: timing-related issues; 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 $52.8 million (6.6%), due primarily to timing-related issues, as well as lower than estimated caseload for fee-for-service populations.

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 $26.3 million (10.8%) 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 $37.7 million (2.1%). Of this variance, $18.5 million was due to lower than expected expenditures for targeted case management services and the remaining $19.2 million was primarily due to timing-related issues.

On the other hand, both caseload and per-member per-month cost for Nursing Facilities have been higher than projected. As a result, this payment category's expenditures had a positive YTD variance of $48.7 million (5.0%). Nursing Facilities and Behavioral Health are the only two categories with positive YTD variances. YTD expenditures for Behavioral Health were $3.3 million (0.4%) above estimate.

Health and Human Services

GRF expenditures for Health and Human Services were $893.9 million through February, $66.8 million (6.9%) below estimate. This negative variance widened from the previous month as February spending was $39.4 million below OBM's estimate. Two agencies – the Ohio Department of Job and Family Services (ODJFS) and the Department of Mental Health and Addiction Services (MHAS) – were responsible for the February variance as ODJFS and MHAS were $19.6 million and $19.5 million below their OBM estimates, respectively. ODJFS appropriation item 600535, Early Care and Education, was below its monthly estimate by $11.2 million because of a timing issue. Multiple funding sources support this initiative, and spending patterns can be asymmetrical around periodic review periods to ensure that each funding source is contributing the proper amount. Similarly, timing issues caused a $16.5 million negative variance in MHAS appropriation item 336421, Continuum of Care Services, as a subsidy payment scheduled for February occurred in January instead.

The negative YTD variance in the Health and Human Services category widened to $66.8 million in February.

ODJFS's YTD variance widened to $49.5 million at the end of February while February's expenditures for MHAS changed the agency's YTD variance from positive $10.6 million at the end of January to a negative $8.9 million at the end of February. The Ohio Department of Health also had an $8.9 million negative YTD variance, which was largely similar to the agency's $8.2 million variance at the end of January.

Debt Service

Expenditures from the Debt Service program category were $37.1 million in February, $22.6 million (37.9%) below estimate. This negative variance was partially due to $8.5 million in lease rental payments being paid in January instead of February. The remainder of February's negative variance was from lower than expected debt service payments on the Public Works Commission's general obligation bonds. Those bonds are backed by the full faith and credit of the state. The state is obligated to fully fund any required debt service payments. The negative February variance changed the category's YTD variance from a positive $3.3 million (0.3%) at the end of January to a negative $19.3 million (1.8%) at the end of February.

Justice and Public Protection

GRF expenditures from the Justice and Public Protection program category were $1.48 billion through February, $19.3 million (1.3%) below estimate. This negative variance widened from the previous month as February spending was $15.4 million below OBM's estimate. The negative variance in February was concentrated in the Department of Rehabilitation and Correction (DRC), which had a negative February variance of $14.5 million following a positive variance in January of $31.1 million. For the YTD, the Ohio Public Defender Commission was $7.9 million below its eight-month estimate, followed by DRC ($5.9 million) and the Department of Youth Services ($5.0 million).

Primary and Secondary Education

Although GRF expenditures for Primary and Secondary Education were below estimate by $13.4 million in February, this was not enough to completely reverse the positive variances from previous months. The YTD positive variance in this category fell to $49.1 million (0.9%). The Ohio Department of Education (ODE) is the only agency that is included in this program category. Due mainly to timing, expenditures from several line items were either above or below their YTD estimates. Items with notable positive YTD variances include item 200550, Foundation Funding, at $54.9 million, item 200502, Pupil Transportation, at $9.1 million, and item 200573, EdChoice Expansion, at $6.5 million. Item 200505, School Lunch Match, on the other hand, posted a notable negative YTD variance of $6.4 million. Item 200550 is the main funding source of school foundation payments. It is not unusual to see variances in this item as individual school foundation payments are based on a variety of data that may not be finalized until much later in the fiscal year.

ISSUE UPDATES

Bureau of Workers' Compensation Launches "Better You, Better Ohio" Program

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

On January 19, 2018, the Ohio Bureau of Workers' Compensation (BWC) launched the Better You, Better Ohio Program to provide health and wellness resources for workers employed by small employers in certain higher-risk fields. Small employers are those in the private and public sector with 50 or fewer workers. Targeted occupations include auto repair and service, construction, manufacturing, health care, food service, transportation, trash collection, and wholesale and retail. Firefighters and public safety forces also qualify. Services provided through the program include health education, screenings, and chronic disease management. Workers enrolled in the program can develop health plans, set wellness goals, receive coaching, and track their progress through a website and mobile app. The program is available at no cost to employers. H.B. 27, the BWC budget act for the FY 2018-FY 2019, provided $6.0 million each fiscal year for the program.

The Better You, Better Ohio Program is the newest part of BWC's overarching Health and Safety Initiative overseen by BWC's Division of Safety and Hygiene. In addition to the $6.0 million each fiscal year devoted to Better You, Better Ohio, H.B. 27 provided $15.0 million each fiscal year for the ongoing Safety Intervention Grants Program. H.B. 27 also provided $2.5 million in FY 2018 for the development of a statewide safety campaign geared toward reducing injuries from falls, overexertion, and motor vehicle accidents. The source of funding for these efforts is cash transfers from the State Insurance Fund, a trust fund that is mainly used to pay medical and lost-time claims for injured workers.

Remediation Rates and Enrollment of First-Time Ohio Public Colleges and Universities Continue to Decline

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

In December, the Department of Higher Education (DHE) and the Ohio Department of Education (ODE) released their annual report on remediation coursework.[8] The *2017 Ohio Remediation Report* shows a continued decline in the number

[8] The full report can be viewed at: https://www.ohiohighered.org/data-reports/college-readiness.

of first-time public university and community college students requiring remedial coursework in mathematics and English. The table below illustrates the drop in the percentage of such students between academic year 2012-2013, the year before such rates began to decline in earnest, and academic year 2016-2017.

Remediation Rates of First-Time Ohio Public College or University Students by Subject Area and Academic Year		
Subject Area	**2012-2013**	**2016-2017**
Remedial Mathematics or English	40%	30%
Remedial Mathematics Only	34%	25%
Remedial English Only	20%	13%
Remedial Mathematics and English	14%	9%

Similar to the rates of enrollment in remedial coursework, the report indicates that the number of Ohio public high school graduates attending a state institution continued to decline in academic year 2016-2017. Approximately 47,050 public high school graduates attended a state institution for the first time that year, a decrease of 3.5% from the 48,749 graduates that attended in academic year 2014-2015, the only year in the last seven that experienced an increase in enrollment over the prior year.

Finally, the report recommends six strategies to continue the trend of decreased enrollment in college remediation coursework: (1) continuously review and respond to specific metrics at the student level from Pre-K through higher education, (2) ensure more high school graduates are ready for college through the use of transition classes that address academic gaps in high school, (3) improve student success in entry-level courses by aligning mathematics to academic programs of study, (4) continue the development, implementation, and evaluation of co-requisite strategies (when a student enrolls in both remedial and credit-bearing courses in the same subject at the same time) to support underprepared students, (5) strengthen advising support for all students, and (6) strengthen academic supports for adult students.

ODE Releases Annual Report on Community Schools

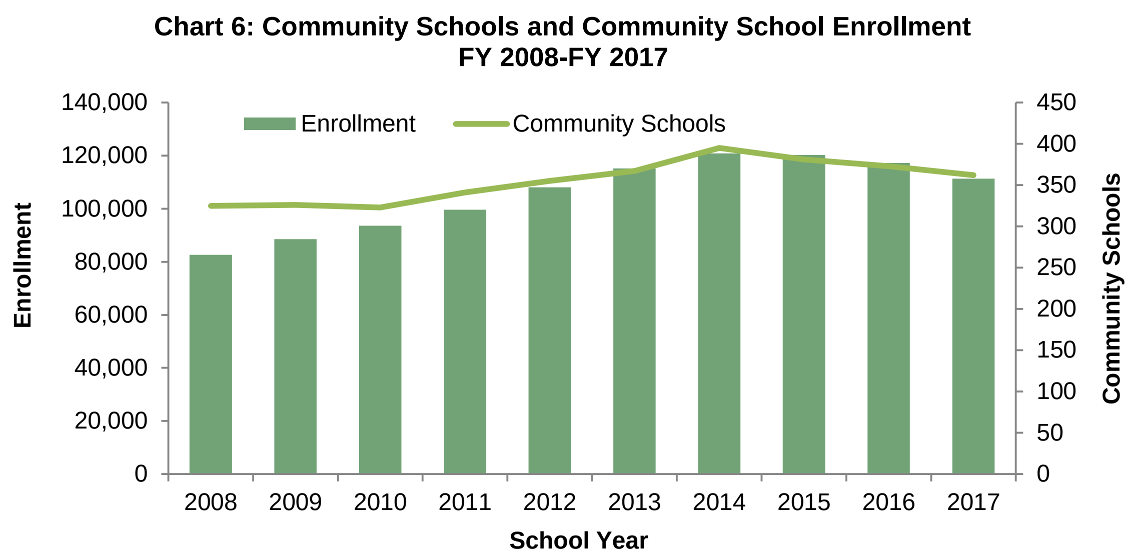
– Alexandra Vitale, Budget Analyst, 614-466-6582

In December 2017, the Ohio Department of Education (ODE) released its 15th Annual Report[9] on Ohio Community Schools. According to the report, more than 111,200 students were enrolled in community schools during FY 2017, a 5.1% decrease

[9] To see the full report, visit: http://education.ohio.gov and search for "Community Schools Annual Report."

over FY 2016. Those students attended 362 community schools, 11 fewer than the number operating the previous year. Chart 6 shows the number of community schools and community school enrollment from FY 2008 to FY 2017.

Of the 362 community schools in the state in FY 2017, approximately 66% (240) were considered to be general education community schools, 10% (36) were special education community schools, and 24% (86) were dropout prevention and recovery programs. Approximately 74% (269) of the community schools were located in six counties: Cuyahoga (81), Franklin (77), Lucas (38), Montgomery (32), Hamilton (22), and Summit (19). There were 23 (6%) Internet- or computer-based community schools (also known as e-schools) in FY 2017. These e-schools accounted for almost 30% (33,351) of total community school enrollment.



Attorney General Releases 2017 Human Trafficking Annual Report

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

On January 29, 2018, the Ohio Attorney General's Human Trafficking Commission released its annual report for 2017.[10] The report details efforts of the Human Trafficking Commission, the law enforcement community, and various public and private coalitions and groups to end demand for compelled sexual activity and forced labor and to provide protection and services to victims. Activities covered by the

[10] The report is available on the Attorney General's website (www.ohioattorneygeneral.gov).

report include law enforcement training and information sharing, development of legislation addressing violators and protections for victims, public education and outreach, human trafficking statistical research and analysis, reducing the demand for trafficking, and strengthening the existing victim services network.

The report includes human trafficking, including both sex and labor trafficking, statistics from Ohio's local law enforcement agencies. The table below summarizes these statistics for the five-year period from 2013 through 2017. It includes the number of human trafficking investigations and related numbers of arrests and successful criminal convictions, as well as the reported number of potential victims, suspected traffickers, and suspected consumers or buyers.

Ohio Law Enforcement Human Trafficking Statistics, 2013-2017						
Human Trafficking Statistic	**2013**	**2014**	**2015**	**2016**	**2017**	**Five-year Total**
Investigations	30	85	102	135	202	**554**
Arrests	16	98	104	79	70	**367**
Criminal Convictions	7	17	33	28	18	**103**
Potential Victims	23	181	203	151	208	**766**
Suspected Traffickers	21	113	130	170	221	**655**
Suspected Consumers/Buyers	70	68	192	102	257	**689**

Medicaid Funds Infant Mortality Projects in Nine Counties

– Anthony Kremer, Budget Analyst, 614-466-5654

On January 31, 2018, the Ohio Department of Medicaid (ODM) announced that nine counties received approximately $20.4 million to fund community projects to reduce infant mortality. The counties selected have neighborhoods or communities within their jurisdiction with infant mortality rates that are amongst the highest in the state. ODM, together with the five Medicaid managed care plans and the Ohio Department of Health, engaged communities in these counties to identify projects that connect women and infants to quality health care and care management. While project activities vary for each community, several projects will focus on expanding home visiting services and providing access to additional community health workers. For more information on project activities, please refer to ODM's website (http://medicaid.ohio.gov/NEWS/PressReleases.aspx). The table below shows the amount each county received.

Infant Mortality Project Funding	
County	**Amount**
Franklin	$3,616,464
Montgomery	$3,283,745
Cuyahoga	$3,097,870
Lucas	$2,206,645
Hamilton	$2,050,000
Summit	$1,738,201
Mahoning	$1,561,338
Butler	$1,473,538
Stark	$1,323,512
TOTAL	**$20,351,313**

Ohio's goal is to obtain an infant mortality rate of 6.0 or lower for every race or ethnic group, as measured by the number of infant deaths per 1,000 live births. As seen from the table below, in 2016 Ohio achieved this goal in only one category – white infants – with a mortality rate of 5.8. In all categories, Ohio's rate was higher than the U.S. rate.

Infant Mortality Rates, Ohio (2016) and U.S. (2015) [11]		
Category	**Ohio**	**U.S.**
All races	7.4	5.9
Black	15.2	11.3
White	5.8	4.9
Hispanic	7.3	5.0

Ohio Selected for National Study on Child Welfare Worker Turnover

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

On January 23, 2018, the Ohio Department of Job and Family Services (ODJFS) announced that Ohio will be included in a national research study regarding child welfare worker recruitment and retention. According to ODJFS, turnover at child welfare agencies is up to six times the average rate for all industries. Eight Ohio counties will be included in the study: Champaign, Clark, Hamilton, Knox, Montgomery, Summit, Trumbull, and Wayne. The study will be led by the Quality

[11] 2015 was the last available year for national data from the Centers for Disease Control and Prevention

Improvement Center for Workforce Development, an entity that is led by University of Nebraska-Lincoln in partnership with seven other public and private entities across the nation and seeks to improve child welfare workforce outcomes. Study activities include analyzing college social work programs and surveying child welfare workers, as well as testing and implementing workforce interventions that support these workers.

Ohio was one of eight sites chosen through a competitive selection process to participate in the project. Other sites include Louisiana, Nebraska, Oklahoma, Virginia, Washington, Milwaukee, and the Eastern Band of Cherokee Indians. Project funding comes from the U.S. Department of Health and Human Services' Children's Bureau and is expected to total $15.0 million; $1.0 million during the first year and $3.5 million for each of the four subsequent years.

Ohio Department of Transportation Approves $422 Million in Major/New Highway Construction Projects for FY 2018

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

On January 25, 2018, the Ohio Department of Transportation (ODOT) announced that $422.4 million in highway construction project funding was approved for FY 2018. This funding represents the Major/New Construction Program component of ODOT's overall construction budget, which is approved by the Department's Transportation Review Advisory Council (TRAC). The Major/New Construction Program consists of highway projects that generally add capacity to the state's network of roads and cost over $12 million.

TRAC approved the FY 2018 Major/New funding commitments with set spending amounts for each qualifying construction project. The two largest commitments in FY 2018 are (1) $200 million for the Opportunity Corridor Project in Cleveland and (2) $160 million for work on Interstate Route 75 in Lucas County. The Lucas County project is to be paid for using revenue from bonds issued by the Ohio Turnpike and Infrastructure Commission. These bonds are backed by toll revenues collected from motorists using the Ohio Turnpike.

The types of construction projects overseen by TRAC typically require several years of planning and construction before they are completed. Thus, for this current review period, TRAC committed construction funding beyond the $422.4 million for FY 2018. Approximately $1.22 billion is proposed for Major/New construction projects over the six-year period from FY 2018 to FY 2023. The actual funding commitment in each of the future fiscal years may be revised as TRAC approves funding for specific projects on an annual basis subject to funding availability and other contingencies.

All funding of Major/New Construction projects are financed out of the Highway Operating Fund (Fund 7002). The fund is comprised of three main sources of revenue: (1) federal highway trust fund distributions, (2) ODOT's portion of revenue from the 28-cent per gallon Ohio motor fuel tax, and (3) proceeds from bonds issued by the state and backed by future federal highway and Ohio motor fuel tax revenues, as well as some toll revenue collected on the Ohio Turnpike, as mentioned above.

Departments of Rehabilitation and Correction and Youth Services to Merge Administrative Operations

– Joseph Rogers, Senior Budget Analyst, 614-644-9099

On December 18, 2017, the Controlling Board approved a waiver of competitive selection for the departments of Rehabilitation and Correction (DRC) and Youth Services (DYS) to enter into a commercial real estate lease that would allow them to merge certain administrative operations into a single location in Franklin County. This merger will allow the agencies to share services related to accreditation/research, finance/construction project management, human resources, information technology, quality assurance, records management, religious and volunteer services, and possibly education.

The move will have a one-time cost of about $530,000 and will increase the annual rent paid by the agencies by almost $690,000 due to a higher per square foot rate of $11.25 for the new location. (The per square foot rates currently paid by DRC and DYS are generally lower.) However, the departments estimate that savings from sharing services will more than offset these increased costs, resulting in a net annual expenditure reduction of approximately $260,000. According to the Department of Administrative Services, a key to successful shared services and collaboration between agencies is working in close proximity to one another.

TRACKING THE ECONOMY

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Overview

The U.S. economy continues to advance. Inflation-adjusted gross domestic product (real GDP) rose at a 2.5% annual rate in last year's fourth quarter, and is growing in the current quarter as indicated by monthly statistics. Growth of employment strengthened in February and unemployment remained low. After-tax incomes of consumers were boosted by federal tax cuts enacted in December. Some sectors slowed including new vehicle unit sales and mining activity. Consumer price inflation picked up early this year.

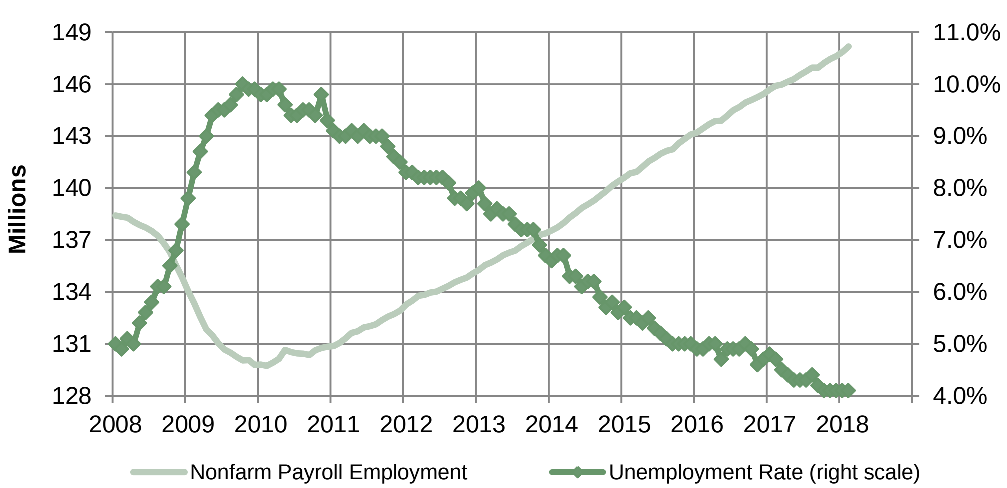
In Ohio, employment turned higher in January, continuing last year's uptrend. The state's unemployment rate fell to 4.7%, matching the low for the current economic expansion previously reached in 2015. Other reports indicate that economic activity in the region continued to expand into this year.

Nationwide total employment on nonfarm payrolls rose 313,000 in February.

The National Economy

Nationwide total employment on nonfarm payrolls rose a robust 313,000 in February, and unemployment as a share of the labor force was unchanged at 4.1%. Trends in employment and the unemployment rate are shown in Chart 7.

Chart 7: U.S. Employment and Unemployment



Including upward revisions to the number of nonfarm payroll jobs in December and January, which added 54,000 to employment, monthly job gains averaged 242,000 during the latest three months. Job gains in February were widespread among industries, including construction, retailers, professional and business services, manufacturing, finance, and mining.

The nationwide unemployment rate remained at 4.1% for the fifth consecutive month in February.

Unemployment was about unchanged in February at 6.7 million persons. The unemployment rate remained at 4.1% for the fifth consecutive month. The number of persons unemployed for more than six months was also about unchanged at 1.4 million persons.

Real GDP rose at a 2.5% annual rate in the 2017 fourth quarter, in the second estimate from the U.S. Bureau of Economic Analysis (BEA), slightly slower than initially estimated (2.6%). All final demand sectors expanded, including consumer spending, nonresidential and residential fixed investment, exports, and government spending, at both the federal level and the state and local level. Inventory accumulation slowed. Imports rose. Growth was slower than in the second and third quarters, when real GDP rose in excess of a 3% rate in each quarter.

In the current quarter, real consumer spending fell 0.1% in January (from the previous month, not at an annual rate), as durable goods spending slowed after being elevated in late 2017. Notable also was a jump in disposable (after-tax) personal income in January, reflecting BEA's estimates of the effects of the federal Tax Cuts and Jobs Act (TCJA) of December 2017 on both personal current taxes and one-time bonuses.

In his first testimony before Congress, the new Federal Reserve Chair characterized the pace of economic growth into this year as solid and inflation as low and stable. The accompanying presentation materials showed the short-term interest rate target for federal funds increasing 0.75 percentage point this year, based on the median forecast of members of the central bank's monetary policy decision-making committee.

U.S. industrial production fell 0.1% in January after expanding strongly in last year's fourth quarter. The drop in January resulted from a 1.0% fall in mining output, the second consecutive monthly loss, though strong gains earlier in 2017 raised the index for mining to 8.8% higher in January than a year earlier. Manufacturing production was unchanged in January and also in December, and was 1.8% higher than a year earlier.

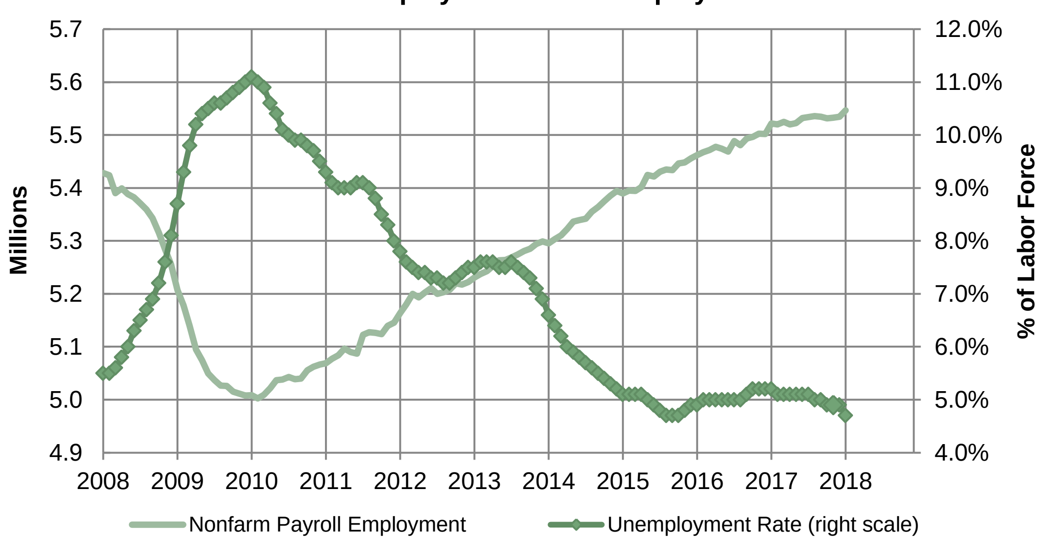
The consumer price index (CPI) rose 0.5% in January, a relatively large one-month increase, to 2.1% higher than a year earlier. The rise from December to January was widespread among CPI components. The index for energy increased 3.0% in January, that for food rose 0.2%, and the CPI for all items less food and energy rose 0.3% for the month to 1.8% above its year-earlier level. Another measure, the deflator for personal consumption expenditures, was 1.7% above a year earlier for the third consecutive month, and was 1.5% higher excluding food and energy.

The Ohio Economy

In January, Ohio's economy continued to add jobs and its unemployment rate dropped to 4.7% from a revised 4.9% in December. In January 2017, Ohio's unemployment rate was 5.2%. The U.S. unemployment rate was 4.1% in January, unchanged from December, and a decrease from 4.8% in January of last year. The number of unemployed Ohioans was 271,000 in January, a decrease of 10,000 from December. The number of unemployed Ohioans decreased by 26,000 compared to January of last year. Chart 8 below shows trends in the state's payroll employment and unemployment rate over the last ten years.

Ohio's unemployment rate dropped to 4.7% in January.

Chart 8: Ohio Employment and Unemployment Rates



The state's total nonfarm payroll employment, seasonally adjusted, rose to 5,546,400 in January from December's revised total of 5,534,300, an increase of 12,100 jobs, or 0.2%, following an increase of 1,800 jobs in December. Total employment in earlier months was revised, with revisions generally downward for the most recent three years, but the net effect of the revisions was small. In January, employment gains occurred in most sectors. The private-service sector added 7,600 jobs, largely in professional and business services, educational and health services, and trade, transportation, and utilities. Goods-producing industries added 1,300 jobs, as gains in construction, nondurable goods manufacturing, and mining and logging offset losses in durable goods manufacturing. Government employment increased by 3,200, in state government and local government.

Compared to January 2017, Ohio's total nonfarm payroll employment increased by 24,600. The increase was largely in manufacturing, leisure and hospitality, educational and health services, construction, and financial activities. Decreases in employment occurred in professional and business services, trade, transportation, and utilities, and state and local government.

The state's total nonfarm payroll employment rose in January by 12,100 jobs.

In January, Ohio's housing market cooled off slightly. The number of existing home sales in Ohio decreased by 1.0% in January compared to January of last year, according to the Ohio Association of Realtors. The statewide average sales price of homes sold in January was $161,897, or 4.8% higher than the month a year ago.

Business activity in the Cleveland Federal Reserve District continued to expand at a moderate pace over the past seven weeks, according to the Beige Book.[12] Labor markets in the region tightened. Some employers raised pay especially for lower-wage workers due to shortages of available employees. Several contacts indicated that savings from the corporate tax cut under the TCJA would allow them to pay higher wages. Input prices continued to rise. Retail sales continued to increase, but auto sales fell. Manufacturers reported increased activity in January compared to a year earlier. Demand for residential and commercial real estate in the region remained strong. New and existing single family home prices continued to increase moderately. Bankers reported loan demand from the commercial real estate sector picked up. Business lending activity remained strong. Growth in nonfinancial services sector increased at a moderate-to-strong pace.

[12] The Federal Reserve Bank of Cleveland's district consists of all of Ohio, western Pennsylvania, eastern Kentucky, and the northern panhandle of West Virginia. Comments summarized above are from the latest edition of the Beige Book, a Federal Reserve publication that summarizes comments from business and industry contacts outside of the Federal Reserve System collected on or before February 26, 2018.