LBO Budget Footnotes

A monthly newsletter of the Legislative Budget Office of LSC

Volume: Fiscal Year 2019 Issue: April 2019

Highlights

– *Ross Miller, Chief Economist*

March GRF tax revenue was $66.0 million above the estimate published by the Office of Budget and Management (OBM) in August 2018 (adjusted downward for a change in the withholding rate under the income tax). Both the income tax and the sales tax were above estimates for the month, between them accounting for nearly $40 million of the positive variance. Year-to-date GRF tax revenue through March was $137.0 million above estimate. The spending side of the budget was well below expectations through the first three quarters, and whether FY 2019 ends in surplus will depend heavily on expenditures, which have been consistently below estimate, and April income tax revenue.

Through March 2019, GRF sources totaled $24.26 billion:

- Revenue from the sales and use tax was $156.4 million above estimate;
- Personal income tax receipts were $100.7 million below estimate;
- Commercial activity tax receipts were $30.3 million above estimate.

Through March 2019, GRF uses totaled $25.64 billion:

- Overall program expenditures were $619.7 million below estimate;
- Medicaid expenditures were $629.4 million below estimate and Health and Human Services program category expenditures were below estimates by $57.2 million;
- Expenditures for several other program categories were above estimates, including Primary and Secondary Education ($37.0 million), Property Tax Reimbursements ($33.0 million), and Justice and Public Protection ($21.7 million), due mainly to timing issues.

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Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of March 2019
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on April 1, 2019)

State Sources	Actual	Estimate*	Variance	Percent
Tax Revenue				
Auto Sales	$121,963	$121,200	$763	0.6%
Nonauto Sales and Use	$652,792	$628,200	$24,592	3.9%
Total Sales and Use	*$774,756*	*$749,400*	*$25,356*	*3.4%*
Personal Income	$465,081	$450,600	$14,481	3.2%
Commercial Activity Tax	$16,367	$13,500	$2,867	21.2%
Cigarette	$69,434	$69,900	-$466	-0.7%
Kilowatt-Hour Excise	$34,232	$32,700	$1,532	4.7%
Foreign Insurance	$71,543	$34,100	$37,443	109.8%
Domestic Insurance	$25	$0	$25	---
Financial Institution	$29,704	$41,300	-$11,596	-28.1%
Public Utility	$247	$2,400	-$2,153	-89.7%
Natural Gas Consumption	$0	$0	$0	---
Alcoholic Beverage	$2,026	$5,500	-$3,474	-63.2%
Liquor Gallonage	$3,668	$3,600	$68	1.9%
Petroleum Activity Tax	$3,650	$1,900	$1,750	92.1%
Corporate Franchise	$213	$0	$213	---
Business and Property	$0	$0	$0	---
Estate	$0	$0	$0	---
Total Tax Revenue	**$1,470,945**	**$1,404,900**	**$66,045**	**4.7%**
Nontax Revenue				
Earnings on Investments	$42	$0	$42	---
Licenses and Fees	$30,355	$32,333	-$1,978	-6.1%
Other Revenue	$10,448	$10,190	$258	2.5%
Total Nontax Revenue	**$40,845**	**$42,523**	**-$1,678**	**-3.9%**
Transfers In	**$1,014**	**$0**	**$1,014**	**---**
Total State Sources	**$1,512,804**	**$1,447,423**	**$65,381**	**4.5%**
Federal Grants	**$854,210**	**$915,168**	**-$60,957**	**-6.7%**
Total GRF Sources	**$2,367,015**	**$2,362,591**	**$4,424**	**0.2%**

*Estimates of the Office of Budget and Management as of August 2018, except for the personal income, nonauto sales, and kilowatt-hour excise taxes; the latter three were revised in February 2019.

Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Actual vs. Estimate ($ in thousands)
FY 2019 as of March 31, 2019
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on April 1, 2019)

State Sources	Actual	Estimate*	Variance	Percent	FY 2018**	Percent
Tax Revenue						
Auto Sales	$1,078,723	$1,050,700	$28,023	2.7%	$1,031,122	4.6%
Nonauto Sales and Use	$6,700,379	$6,572,000	$128,379	2.0%	$6,425,686	4.3%
Total Sales and Use	*$7,779,102*	*$7,622,700*	*$156,402*	*2.1%*	*$7,456,808*	*4.3%*
Personal Income	$6,072,488	$6,173,200	-$100,712	-1.6%	$5,957,456	1.9%
Commercial Activity Tax	$1,200,251	$1,170,000	$30,251	2.6%	$1,122,230	7.0%
Cigarette	$626,849	$623,900	$2,949	0.5%	$641,100	-2.2%
Kilowatt-Hour Excise	$272,923	$272,400	$523	0.2%	$264,367	3.2%
Foreign Insurance	$327,588	$306,700	$20,888	6.8%	$316,628	3.5%
Domestic Insurance	$31	$0	$31	---	$402	-92.3%
Financial Institution	$117,377	$120,200	-$2,823	-2.3%	$121,800	-3.6%
Public Utility	$104,200	$84,900	$19,300	22.7%	$83,421	24.9%
Natural Gas Consumption	$40,432	$33,700	$6,732	20.0%	$34,302	17.9%
Alcoholic Beverage	$39,297	$42,100	-$2,803	-6.7%	$43,401	-9.5%
Liquor Gallonage	$37,658	$36,700	$958	2.6%	$35,945	4.8%
Petroleum Activity Tax	$8,400	$4,600	$3,800	82.6%	$5,442	54.4%
Corporate Franchise	$1,456	$0	$1,456	---	$1,971	-26.2%
Business and Property	$0	$0	$0	---	-$374	100.0%
Estate	$32	$0	$32	---	$119	-72.9%
Total Tax Revenue	**$16,628,083**	**$16,491,100**	**$136,983**	**0.8%**	**$16,085,019**	**3.4%**
Nontax Revenue						
Earnings on Investments	$55,153	$38,211	$16,942	44.3%	$30,349	81.7%
Licenses and Fees	$52,250	$53,778	-$1,528	-2.8%	$50,263	4.0%
Other Revenue	$66,262	$76,630	-$10,368	-13.5%	$247,372	-73.2%
Total Nontax Revenue	**$173,665**	**$168,619**	**$5,045**	**3.0%**	**$327,984**	**-47.1%**
Transfers In	**$83,039**	**$87,690**	**-$4,651**	**-5.3%**	**$133,327**	**-37.7%**
Total State Sources	**$16,884,786**	**$16,747,409**	**$137,377**	**0.8%**	**$16,546,329**	**2.0%**
Federal Grants	**$7,371,973**	**$7,856,985**	**-$485,013**	**-6.2%**	**$7,134,929**	**3.3%**
Total GRF SOURCES	**$24,256,759**	**$24,604,395**	**-$347,635**	**-1.4%**	**$23,681,257**	**2.4%**

*Estimates of the Office of Budget and Management as of August 2018, except for the personal income, nonauto sales, and kilowatt-hour excise taxes; the latter three were revised in February 2019.

**Cumulative totals through the same month in FY 2018.

Detail may not sum to total due to rounding.

Revenues[1]

– Jean J. Botomogno, Principal Economist

Overview

With one quarter left in FY 2019, year-to-date (YTD) GRF sources totaling $24.26 billion were $347.6 million (1.4%) below revised OBM estimates, down from a cumulative negative variance of $351.7 million through February 2019. As noted in the February issue of *Budget Footnotes*, the Tax Commissioner reduced Ohio employer withholding tax rates effective January 1, 2019; the reduced rates were estimated to decrease withholding revenue by $152.6 million for FY 2019, with the GRF bearing $150.6 million of the revenue loss. OBM revised its monthly estimates of personal income tax (PIT) revenue due to this change.[2] Tables 1 and 2 show GRF sources for the month of March and for FY 2019 through March, respectively, with revised estimates of PIT revenue that reflect the new withholding rates. Note that OBM updated its GRF tax estimates again with the release of the Blue Book but without revising monthly estimates. Therefore, this report's variance analysis does not reflect the Blue Book estimates.

GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants. The YTD GRF negative variance was primarily due to a large shortfall of $485.0 million (6.2%) for federal grants,[3] which results from GRF Medicaid spending being $629.4 million below expectations through the end of the third fiscal quarter. In addition, transfers in fell short of estimates by $4.7 million (5.3%). Those shortfalls were partially offset by positive variances of $137.0 million (0.8%) for GRF tax revenues and $5.0 million (3.0%) for nontax revenue.

Regarding specific GRF taxes, the PIT posted a cumulative YTD negative variance of $100.7 million, attributable largely to shortfalls from quarterly estimated payments. The financial institutions tax (FIT), which had a cumulative positive variance of $13.3 million after the first payment in January, saw that performance become a deficit of $2.8 million, due to negative variances of $4.5 million in February and $11.6 million in March.[4] In addition, the alcoholic beverage tax posted a YTD timing-related negative variance of $2.8 million. The remaining tax sources were above estimates, including the sales and use tax ($156.4 million), the commercial activity tax (CAT, $30.3 million), the foreign insurance tax ($20.9 million), the

[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 remaining $2.0 million would reduce distributions to the Local Government Fund (LGF) and the Public Library Fund (PLF). For accounting purposes, GRF tax revenue distributions to the LGF are debited against income tax receipts, while 50% of distributions to the PLF are debited against the nonauto sales tax and 50% are debited against the kilowatt-hour tax. FY 2019 estimates for sales and kilowatt-hour taxes were also adjusted slightly to account for the rate change.

[3] Federal grants are primarily federal reimbursements for Medicaid.

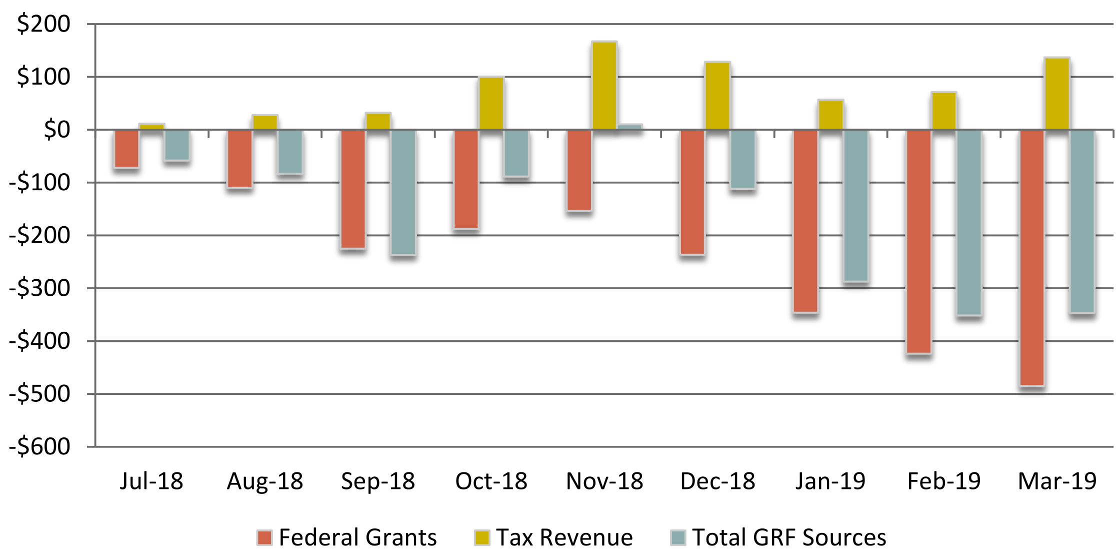
[4] Receipts of the FIT are typically expected at the end of January, March, and May.

public utility tax ($19.3 million), the natural gas consumption tax ($6.7 million), the petroleum activity tax ($3.8 million), and the cigarette tax ($2.9 million).

March GRF sources totaled $2.37 billion, an amount $4.4 million (0.2%) above projections. A positive variance of $66.0 million for GRF tax sources was partially offset by a negative variance of $61.0 million for federal grants. Also, nontax revenue was below anticipated receipts by $1.7 million. Transfers in contributed $1.0 million to the GRF though such revenue was not expected this month.

Most tax sources were above estimates in March; those sources noticeably above estimate included the foreign insurance tax ($37.4 million), the sales and use tax ($25.4 million), the PIT ($14.5 million), the CAT ($2.9 million), the petroleum activity tax ($1.7 million), and the kilowatt-hour tax ($1.5 million). On the other hand, in addition to the FIT shortfall, the public utility tax was $2.2 million below estimate, and the alcoholic beverage tax experienced a timing-related negative variance of $3.5 million. Chart 1, below, shows cumulative variances of GRF sources through March.

Chart 1: Cumulative Variances of GRF Sources in FY 2019
(Variances from August Estimates, $ in millions)



FY 2019 GRF sources increased $575.5 million relative to sources through March in FY 2018. GRF tax sources and federal grants were higher by $543.1 million and $237.0 million, respectively. The increases were partially offset by decreases of $154.3 million for nontax revenue[5] and $50.3 million for transfers in. For the largest tax sources, receipts increased for the sales and use tax ($322.3 million), the PIT ($115.0 million), and the CAT ($78.0 million). In addition, revenue from the public utility tax, the foreign insurance tax, and the kilowatt-hour tax grew by $20.8 million, $11.0 million, and $8.6 million, respectively. On the other hand, the cigarette tax, the FIT, and the alcoholic beverage tax experienced revenue declines of $14.3 million, $4.4 million, and $4.1 million, respectively.

[5] An outsize payment of unclaimed funds of over $200 million was made to the GRF in February 2018, which explains this large decline in receipts from this category in FY 2019.

Sales and Use Tax

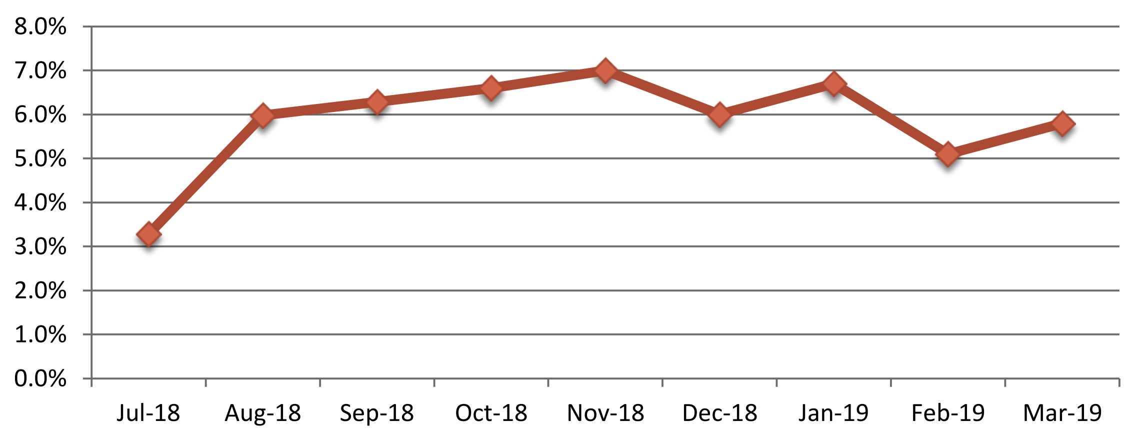
During the first three quarters of FY 2019, receipts to the GRF from the sales and use tax totaled $7.78 billion. This amount was $156.4 million (2.1%) above estimate, with both the nonauto and the auto portions of the tax ahead of projections. YTD GRF receipts from the sales and use tax were also 4.3% above revenue through March in FY 2018. For the month, GRF receipts of $774.8 million were $25.4 million (3.4%) above anticipated revenue, boosted by a strong performance from the nonauto sales tax. Monthly sales and use tax receipts were also $28.6 million (3.8%) above revenue in March 2018.

For analysis and forecasting, revenue from 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.

Nonauto Sales and Use Tax

The nonauto sales and use tax surged in March, after two months of weak results. GRF revenue of $652.8 million for the month was above projections by $24.6 million (3.9%), following a combined negative variance of $7.8 million in January and February. The latest performance increased the YTD positive variance of this tax to $128.4 million (2.0%), up from a revised $104.2 million through February. Through March, total GRF receipts of $6.70 billion were $274.7 million (4.3%) above revenue in the corresponding period in FY 2018. Chart 2, below, shows year-over-year growth in nonauto sales tax collections.[6] Revenue growth for this tax has been solid, supported by employment and wage gains throughout FY 2019. On average through three quarters, year-over-year revenue growth was 4.3%, a growth rate equaling that of the first six months of FY 2019.

Chart 2: Nonauto Sales and Use Tax Receipts Trend Actual vs. Prior Year (With Tax Base Adjustment, Three-month Moving Average)

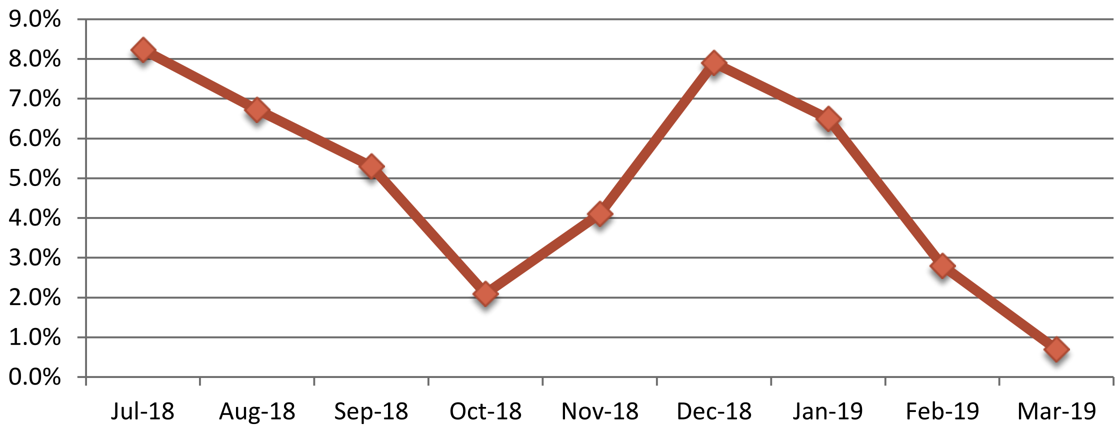


[6] Beginning July 1, 2017, the sales tax on Medicaid health insuring corporations (MHICs) was eliminated. Thus, the last payment of $71.7 million deposited in the GRF was made in July 2017 (reflecting taxable activity in June 2017). So, to adjust for changes to the existing tax base, this chart excludes monthly revenue from MHICs in July 2017 so that changes in nonauto sales and use tax revenue are on a comparable basis.

Auto Sales and Use Tax

March revenue from the auto sales and use tax of $122.0 million was $0.8 million (0.6%) above estimate, and $1.2 million (1.0%) above the amount received in the same month in 2018. With a quarter left in the fiscal year, YTD auto sales tax receipts of $1.08 billion were $28.0 million (2.7%) above estimate and $47.6 million (4.6%) above receipts in the corresponding period in FY 2018. Chart 3, below, shows year-over-year growth in auto sales tax collections. Relative to FY 2018, revenue growth is positive, but the rate has declined lately to average about 1% in the last three months. In the first half of the fiscal year, year-over-year growth for this tax source was 6.3%.

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



Nationwide new light vehicle (auto and light truck) averaged 16.9 million units (at a seasonally adjusted annual average rate) in the first quarter of calendar year (CY) 2019, below sales of about 17.1 million units in the corresponding quarter in 2018, and also trailing total sales of 17.3 million units for all of CY 2018. Though temporary factors such as the winter weather and the partial shutdown of the federal government explain part of the downshift in sales, the lower pace implies that nationwide sales may be peaking despite a good economic environment. Data from the Ohio Bureau of Motor Vehicles show that motor vehicles unit sales appear to have declined this fiscal year through March, and the rise in tax revenue relative to FY 2018 was solely due to price increases for both new and used vehicles. The price increases represent the combined effects of inflation and a shift in consumer tastes toward more expensive models, especially light trucks and sport utility vehicles (SUVs).

Personal Income Tax

PIT revenue is comprised of gross collections minus refunds and distributions to the LGF. Gross collections consist of employer withholdings, quarterly estimated payments,[7] 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

[7] 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 February of the following year. Most estimated payments are made by high-income taxpayers.

component of gross collections (about 82% of gross collections in FY 2018). Larger than expected refunds could also greatly affect the monthly performance of the tax.

March PIT receipts of $465.1 million were $14.5 million (3.2%) above estimate. Gross collections were above projections by $28.5 million, but that positive variance was partially offset by refunds which were $14.2 million higher than anticipated. With the exception of quarterly estimated payments that were below estimate by $0.5 million, the remaining components were above projections: annual returns payments, employer withholding, miscellaneous payments, and trust payments were above estimates by $18.3 million, $6.9 million, $2.8 million, and $1.0 million, respectively.

March revenue from the PIT decreased the cumulative GRF negative variance of this tax to $100.7 million (1.6%), compared to updated estimates, from a shortfall of $115.2 million through the first eight months of the fiscal year. For the first half of FY 2019, the PIT year-over-year growth was 5.4%, but the withholding rate reduction has pulled down the growth rate to 1.9% at the end of March. (The withholding rate reduction of January 1, 2019, was estimated to decrease receipts from this component by $75.1 million in the January-March quarter).

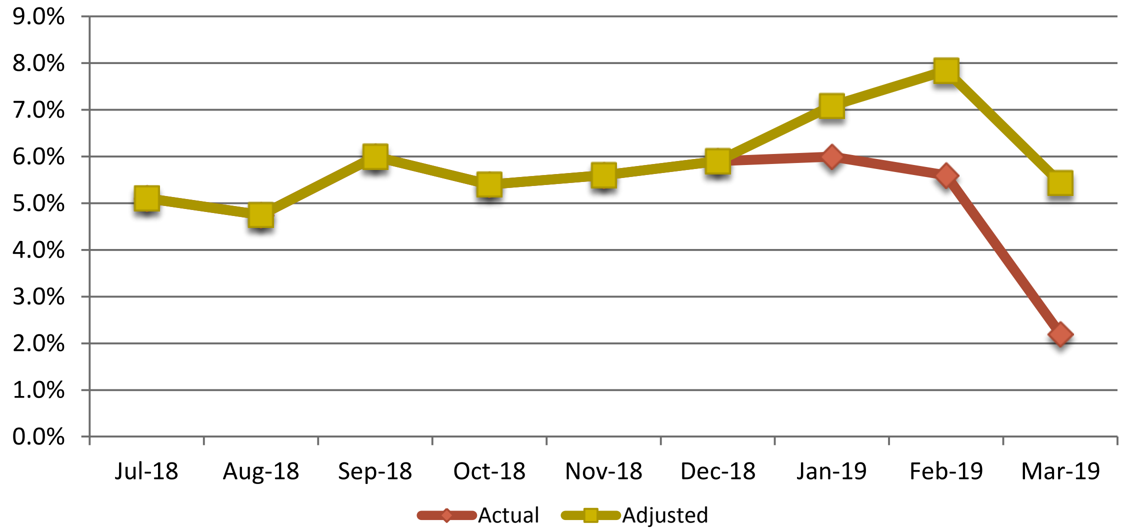
Revenues from each component of the PIT relative to revised estimates and to revenue received in FY 2018 are detailed in the table below. YTD gross collections were below estimate by $41.0 million; and shortfalls for quarterly estimated payments and miscellaneous revenue more than offset positive variances from withholding and annual return payments. Higher than projected refunds and distributions to the LGF added to the negative variance for gross collections, driving up the overall negative variance to the $100.7 million total. FY 2019 refunds and LGF distributions also increased compared to their amounts in the corresponding period last year, while gross collections grew from FY 2018.

FY 2019 PIT Revenue Variance and Annual Change by Component

Category	YTD Variance from Revised Estimate		Changes from FY 2018	
	Amount ($ in millions)	Percent (%)	Amount ($ in millions)	Percent (%)
Withholding	$82.2	1.2%	$295.8	4.5%
Quarterly Estimated Payments	-$157.9	-22.2%	-$152.9	-21.7%
Trust Payments	$3.2	10.1%	$2.5	7.8%
Annual Return Payments	$40.8	24.3%	$55.4	36.2%
Miscellaneous Payments	-$9.2	-12.6%	-$9.6	-13.2%
Gross Collections	-$41.0	-0.5%	$191.2	2.5%
Less Refunds	$58.4	4.4%	$67.3	5.2%
Less LGF Distribution	$1.3	0.4%	$8.9	3.1%
GRF PIT Revenue	-$100.7	-1.6%	$115.0	1.9%

Through March, FY 2019 employer withholding receipts[8] grew 4.5%. However, growth in monthly employer withholding only averaged 2.2% in the third quarter of the fiscal year, as a result of the January decrease in withholding rate. The chart below illustrates the growth of monthly employer withholdings on a three-month moving average relative to one year ago. It shows both the actual change in withholding receipts in FY 2019, and estimated payroll growth adjusted for the decrease in withholding tax rate in January.

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



The performance of the PIT has been poor so far in FY 2019. However, fourth-quarter PIT receipts may be as high as a third of total PIT fiscal year receipts; thus results of the individual income tax filing season ending in April, and receipts from the first and second quarterly estimated payments (due in April and June, respectively) will determine the extent of the fiscal year's results for this tax source, and probably that of GRF tax receipts as a whole.

Commercial Activity Tax

YTD revenue from the CAT to the GRF totaled $1.20 billion, an amount $30.3 million (2.6%) above estimate, and $78.0 million (7.0%) above revenue through March in FY 2018. GRF revenue was $16.4 million in March, $2.9 million (21.2%) above estimate and $14.4 million (713.9%) above such revenue in the same month last year. Compared to FY 2018, gross collections have been robust in FY 2019. They grew about 6% through March, but refunds and credits were lower than in the first three quarters of FY 2018, resulting in a higher growth rate for the GRF.

[8] Withholding receipts consist of monthly employer withholding (about 99% of the total) and annual employer withholding. YTD through March monthly employer withholding was 4.5% above such receipts in the corresponding period in FY 2018. On the other hand, annual employer withholding grew 4.7%.

Under continuing law, CAT receipts are deposited into the GRF (85%), the School District Tangible Property Tax Replacement Fund (Fund 7047, 13%), and the Local Government Tangible Property Tax Replacement Fund (Fund 7081, 2%). Through March, Fund 7047 and Fund 7081 received $183.6 million and $28.2 million, respectively. The distributions 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.

Cigarette and Other Tobacco Products Tax

YTD revenue from the cigarette and other tobacco products (OTP) tax totaling $626.8 million was above estimate by $2.9 million (0.5%) at the end of March. This total included $569.5 million from the sale of cigarettes and $57.3 million from the sale of OTP. FY 2019 receipts were also $14.3 million (2.2%) below revenues in the corresponding period in FY 2018. For the month of March, cigarette tax receipts were $0.5 million (0.7%) below estimate and $5.8 million (7.8%) below revenue in the same month in FY 2018.

Compared to FY 2018, FY 2019 receipts from cigarette sales fell $18.0 million (3.1%) while those from the sale of OTP increased $3.7 million (6.9%). On a yearly basis, revenue from the cigarette and OTP tax usually trends downward generally at a slow pace due to a decline of cigarette revenue, though receipts from OTP tax generally increase. The OTP tax is an ad valorem tax, generally 17% of the wholesale price paid by wholesalers for the product; thus, revenue from that portion of the tax base (about 7% of the total tax base) grows with OTP price increases.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of March 2019
($ in thousands)
(Actual based on OAKS reports run April 3, 2019)

Program Category	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	$619,357	$616,118	$3,239	0.5%
Higher Education	$188,308	$188,649	-$341	-0.2%
Other Education	$6,077	$3,042	$3,034	99.7%
Total Education	**$813,742**	**$807,809**	**$5,933**	**0.7%**
Medicaid	$1,304,191	$1,378,026	-$73,834	-5.4%
Health and Human Services	$95,128	$99,172	-$4,044	-4.1%
Total Health and Human Services	**$1,399,320**	**$1,477,198**	**-$77,878**	**-5.3%**
Justice and Public Protection	$167,461	$150,943	$16,517	10.9%
General Government	$29,932	$28,320	$1,611	5.7%
Total Government Operations	**$197,392**	**$179,263**	**$18,129**	**10.1%**
Property Tax Reimbursements	$186,379	$144,759	$41,620	28.8%
Debt Service	$148,859	$149,795	-$936	-0.6%
Total Other Expenditures	**$335,238**	**$294,554**	**$40,684**	**13.8%**
Total Program Expenditures	**$2,745,692**	**$2,758,824**	**-$13,133**	**-0.5%**
Transfers Out	**$6,150**	**$0**	**$6,150**	**---**
Total GRF Uses	**$2,751,842**	**$2,758,824**	**-$6,983**	**-0.3%**

*August 2018 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 2019 as of March 31, 2019
($ in thousands)
(Actual based on OAKS reports run April 3, 2019)

Program Category	Actual	Estimate*	Variance	Percent	FY 2018**	Percent
Primary and Secondary Education	$6,330,706	$6,293,693	$37,013	0.6%	$6,234,566	1.5%
Higher Education	$1,730,016	$1,743,021	-$13,005	-0.7%	$1,741,726	-0.7%
Other Education	$60,503	$57,876	$2,627	4.5%	$56,364	7.3%
Total Education	**$8,121,225**	**$8,094,590**	**$26,635**	**0.3%**	**$8,032,656**	**1.1%**
Medicaid	$11,381,455	$12,010,809	-$629,353	-5.2%	$10,945,983	4.0%
Health and Human Services	$999,692	$1,056,941	-$57,249	-5.4%	$999,541	0.0%
Total Health and Human Services	**$12,381,148**	**$13,067,750**	**-$686,603**	**-5.3%**	**$11,945,524**	**3.6%**
Justice and Public Protection	$1,723,646	$1,701,995	$21,652	1.3%	$1,631,355	5.7%
General Government	$283,887	$296,119	-$12,232	-4.1%	$271,514	4.6%
Total Government Operations	**$2,007,533**	**$1,998,114**	**$9,419**	**0.5%**	**$1,902,869**	**5.5%**
Property Tax Reimbursements	$1,091,920	$1,058,891	$33,030	3.1%	$989,963	10.3%
Debt Service	$1,276,519	$1,278,725	-$2,206	-0.2%	$1,202,692	6.1%
Total Other Expenditures	**$2,368,440**	**$2,337,615**	**$30,824**	**1.3%**	**$2,192,655**	**8.0%**
Total Program Expenditures	**$24,878,346**	**$25,498,069**	**-$619,724**	**-2.4%**	**$24,073,704**	**3.3%**
Transfers Out	**$759,077**	**$751,933**	**$7,143**	**1.0%**	**$69,445**	**993.1%**
Total GRF Uses	**$25,637,423**	**$26,250,003**	**-$612,580**	**-2.3%**	**$24,143,149**	**6.2%**

*August 2018 estimates of the Office of Budget and Management.
**Cumulative totals through the same month in FY 2018.
Detail may not sum to total due to rounding.

Table 5: Medicaid Expenditures by Department
Actual vs. Estimate
($ in thousands)
(Actuals based on OAKS report run on April 2, 2019)

	Month of March 2019				Year to Date through March 2019			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid								
GRF	$1,247,335	$1,325,721	-$78,386	-5.9%	$10,859,609	$11,489,915	-$630,306	-5.5%
Non-GRF	$661,049	$727,809	-$66,760	-9.2%	$6,953,961	$7,414,733	-$460,772	-6.2%
All Funds	$1,908,385	$2,053,531	-$145,146	-7.1%	$17,813,571	$18,904,648	-$1,091,077	-5.8%
Developmental Disabilities								
GRF	$50,777	$46,896	$3,881	8.3%	$453,853	$453,154	$698	0.2%
Non-GRF	$183,696	$201,314	-$17,618	-8.8%	$1,621,103	$1,690,976	-$69,873	-4.1%
All Funds	$234,473	$248,210	-$13,737	-5.5%	$2,074,956	$2,144,131	-$69,174	-3.2%
Job and Family Services								
GRF	$5,370	$4,854	$516	10.6%	$60,932	$60,826	$105	0.2%
Non-GRF	$13,275	$13,418	-$143	-1.1%	$135,615	$119,413	$16,202	13.6%
All Funds	$18,645	$18,272	$374	2.0%	$196,547	$180,239	$16,308	9.0%
Health, Mental Health and Addiction, Aging, Pharmacy Board, and Education								
GRF	$709	$555	$155	27.9%	$7,062	$6,913	$148	2.1%
Non-GRF	$3,974	$2,581	$1,393	54.0%	$25,097	$27,647	-$2,550	-9.2%
All Funds	$4,683	$3,135	$1,548	49.4%	$32,159	$34,560	-$2,402	-6.9%
All Departments:								
GRF	**$1,304,191**	**$1,378,026**	**-$73,834**	**-5.4%**	**$11,381,455**	**$12,010,809**	**-$629,353**	**-5.2%**
Non-GRF	**$861,995**	**$945,122**	**-$83,127**	**-8.8%**	**$8,735,777**	**$9,252,769**	**-$516,993**	**-5.6%**
All Funds	**$2,166,186**	**$2,323,147**	**-$156,961**	**-6.8%**	**$20,117,232**	**$21,263,578**	**-$1,146,346**	**-5.4%**

*September 2018 estimates from the Department of Medicaid
Detail may not sum to total due to rounding.

Table 6: All Funds Medicaid Expenditures by Payment Category
Actual vs. Estimate
($ in thousands)
(Actuals based on OAKS report run on April 2, 2019)

	Month of March 2019				Year to Date through March 2019			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	**$1,351,443**	**$1,453,122**	**-$101,679**	**-7.0%**	**$12,352,663**	**$13,007,184**	**-$654,520**	**-5.0%**
CFC†	$489,276	$511,269	-$21,993	-4.3%	$4,379,142	$4,521,266	-$142,124	-3.1%
Group VIII	$344,976	$393,578	-$48,602	-12.3%	$3,105,297	$3,451,668	-$346,372	-10.0%
ABD†	$229,524	$252,548	-$23,024	-9.1%	$2,088,391	$2,167,678	-$79,288	-3.7%
ABD Kids	$74,164	$85,184	-$11,020	-12.9%	$684,807	$725,710	-$40,903	-5.6%
My Care	$213,502	$210,542	$2,960	1.4%	$1,900,082	$1,849,926	$50,156	2.7%
P4P & Insurer Fee†	$0	$0	$0		$194,944	$290,935	-$95,990	-33.0%
Fee-For-Service	**$643,312**	**$702,766**	**-$59,454**	**-8.5%**	**$6,189,676**	**$6,623,074**	**-$433,399**	**-6.5%**
ODM Services	$314,611	$350,020	-$35,409	-10.1%	$3,195,547	$3,528,119	-$332,572	-9.4%
DDD Services	$222,458	$243,161	-$20,703	-8.5%	$2,004,666	$2,070,212	-$65,546	-3.2%
Hospital - HCAP†	$0	$0	$0		$634,610	$635,291	-$680	-0.1%
Hospital - Other	$106,243	$109,584	-$3,341	-3.0%	$354,853	$389,453	-$34,601	-8.9%
Premium Assistance	**$88,623**	**$98,852**	**-$10,229**	**-10.3%**	**$798,570**	**$863,836**	**-$65,266**	**-7.6%**
Medicare Buy-In	$50,695	$59,760	-$9,065	-15.2%	$458,796	$510,410	-$51,614	-10.1%
Medicare Part D	$37,928	$39,092	-$1,164	-3.0%	$339,774	$353,426	-$13,651	-3.9%
Administration	**$82,808**	**$68,407**	**$14,400**	**21.1%**	**$776,323**	**$769,484**	**$6,839**	**0.9%**
Total	**$2,166,186**	**$2,323,147**	**-$156,961**	**-6.8%**	**$20,117,232**	**$21,263,578**	**-$1,146,346**	**-5.4%**

*September 2018 estimates from the Department of Medicaid

†CFC - Covered Families and Children; ABD - Aged, Blind, and Disabled; HCAP - Hospital Care Assurance Program; P4P - Pay For Performance, Insurer Fee - Health Insurer Fee

Detail may not sum to total due to rounding.

Expenditures[9]

– *Wendy Zhan, Director*

– *Ivy Chen, Principle Economist*

Overview

In the month of March, overall GRF program expenditures were largely in line with estimate, being $13.1 million (0.5%) below estimate. However, three program categories had March variances that were bigger than the overall variance. GRF Medicaid expenditures were $73.8 million (5.4%) below estimate. This negative variance was partially offset by timing-related positive variances of $41.6 million in property tax reimbursements and $16.5 million in Justice and Public Protection. GRF transfers out were $6.2 million in March when no transfers were expected. Including both program expenditures and transfers out, GRF uses totaled $2.75 billion in March, which was $7.0 million (0.3%) below estimate.

Through March, GRF program expenditures totaled $24.88 billion, which was $619.7 million (2.4%) below the year-to-date (YTD) estimate. GRF transfers out were $759.1 million, $7.1 million (1.0%) above estimate. GRF uses totaled $25.64 billion through March, which was $612.6 million (2.3%) below estimate. Tables 3 and 4 detail GRF uses for the month of March and for FY 2019 through March, respectively.

Medicaid continued to dominate the negative variances in GRF program expenditures. Through March, GRF Medicaid expenditures were $629.4 million (5.2%) below estimate. Health and Human Services had the second largest negative YTD variance at $57.2 million (5.4%). These negative variances were partially offset by positive YTD variances of $37.0 million (0.6%) in Primary and Secondary Education, $33.0 million (3.1%) in Property Tax Reimbursements, and $21.7 million (1.3%) in Justice and Public Protection. The majority of the YTD variances in Health and Human Services and Primary and Secondary Education occurred in months prior to March. See the prior issue of *Budget Footnotes* for more detailed information on the variances in those two categories.

The positive YTD variance in Property Tax Reimbursements was due entirely to this category's expenditures being 28.8% higher than estimate in March. Property tax reimbursement funds are disbursed upon the request of county auditors. The timing of these requests may vary from that assumed in the OBM estimate. The positive YTD variance in Property Tax Reimbursements is expected to narrow in the next few months. Similarly, a quarterly payment of $16.2 million from the Department of Rehabilitation and Correction's GRF appropriation item 501405, Halfway House, was disbursed in March, one month sooner than expected, which accounted for the majority of the positive monthly and YTD variances in Justice and Public Protection. Item 501405 pays for the costs of the community residential programs that provide supervision and treatment services for various offenders.

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[9] 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.

The remainder of this report will discuss the variances in Medicaid, including both GRF and non-GRF Medicaid expenditures. Medicaid is mainly funded by the GRF but it is also supported by several non-GRF funds.

Medicaid

As indicated earlier, GRF Medicaid expenditures were $73.8 million (5.4%) and $629.4 million (5.2%), respectively, below their monthly and YTD estimates. Non-GRF Medicaid expenditures were also below their monthly and YTD estimates, by $83.1 million (8.8%) and $517.0 million (5.6%), respectively. Including both the GRF and non-GRF, all funds Medicaid expenditures were $157.0 million (6.8%) below estimate in March and $1,146.3 million (5.4%) below the YTD estimate at the end of March. As a joint federal-state program, both GRF and non-GRF Medicaid expenditures contain federal and state dollars.

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. Therefore, they also account for the vast majority of variances in Medicaid expenditures. The other six agencies – Job and Family Services, Health, Aging, Mental Health and Addiction Services, State Board of Pharmacy, and Education – account for the remaining one percent of the total Medicaid budget. Unlike ODM and ODODD, the six "sister" agencies incur only administrative spending.

Table 6 shows all funds Medicaid expenditures by payment category. Overall expenditures were below their YTD estimates for three of the four major payment categories. Managed Care had the largest overall negative variance of $654.5 million (5.0%), followed by Fee-For-Service (FFS, $433.4 million, 6.5%), and Premium Assistance ($65.3 million, 7.6%). The fourth payment category, Administration, posted a small positive YTD variance of $6.8 million (0.9%) due entirely to a positive monthly variance of $14.4 million (21.1%) for the category in March.

Expenditures from all Managed Care categories were below their YTD estimates except for MyCare, which had a positive YTD variance of $50.2 million (2.7%). MyCare is a managed care program for Ohioans who are eligible for both Medicaid and Medicare. Group VIII had the largest negative YTD variance within the Managed Care category at $346.4 million (10.0%), followed by CFC (Covered Families and Children) at $142.1 million (3.1%), and P4P & Insurer Fee (Pay for Performance and Health Insurer Fee) at $96.0 million (33.0%). The negative variances for Group VIII and CFC were mainly due to lower than expected caseloads. For the first nine months of FY 2019, the average monthly managed care caseloads for Group VIII and CFC were 8.3% (52,900) and 2.1% (33,800), respectively, below estimates. Finally, $61.0 million of the $96.0 million negative YTD variance in the P4P & Insurer Fee category was due to lower than expected Health Insurer Fee payments. The Health Insurer Fee – a source of funding for the Marketplaces under the federal Affordable Care Act (ACA) – is a tax by the federal government on certain entities that provide health insurance. The tax applies to Medicaid managed care companies and is incorporated into Ohio's Medicaid managed care capitation rates.

The negative YTD variance in FFS was primarily due to lower than expected FFS caseloads. Beginning January 1, 2018, newly eligible individuals are removed from FFS and enrolled onto managed care shortly after receiving Medicaid benefits. Previously, when ODM prepared the estimates, newly eligible individuals could remain in the FFS system for several weeks while they decided which managed care plan in which to enroll.[10]

Expenditures from Medicare Buy-In and Medicare Part D, the two premium assistance payment categories, have been below estimates all year long. The negative variances in both categories have grown somewhat each month. Medicare Buy-In helps certain Medicare eligible individuals who have limited income to pay Medicare premiums, deductibles, and coinsurance. Medicare Part D pays the federal government back ("claw back") the prescription drug costs for individuals who are eligible for both Medicaid and Medicare.

[10] The Health Insurer Fee was in effect from 2014 through 2016. The U.S. Congress approved a one-year moratorium for 2017, but the tax went back into effect (and remains in effect) for 2018. Congress suspended the tax once again in 2019; if not further delayed, it will be collected again beginning in 2020.

Issue Updates

BMV Issues More Than 450,000 Special License Plates in 2018

– Maggie West, Senior Budget Analyst

In calendar year 2018, the Bureau of Motor Vehicles (BMV) issued or renewed a total of 453,559 special license plates. The number of different active plates totaled 337, each of which generally falls into one of four categories: organizational (174 plates), collegiate (56 plates), military (102 plates), and disability (5 plates). The table below lists the top five organizational, collegiate, and military plates issued in 2018, the number of each, and the total number issued for each category.

Of the 337 different active special license plates, the 56 collegiate, and 141 of the 174 organizational plates, require a contribution that varies by type of plate from $5 to $40. These contributions generally are earmarked for programs related to health, sports, children, pets, colleges, and the environment. These special license plates as a group generated over $3 million in contributed revenue. The military and disability plates do not generate revenue as they are issued at no cost to the registrant.

Special license plates generally are subject to minimum registration requirements, which if not met, may result in termination of the plate. According to the BMV, no license plates were terminated for failure to meet that requirement in 2018.

Top Five Special License Plates Issued by Category,* Calendar Year 2018

Organizational License Plate	Total	Collegiate License Plate	Total	Military License Plate	Total
Historical (Motor Vehicles)	17,103	Ohio State University (Block O)	18,868	U.S. Armed Forces Veteran (Army)	32,416
Wildlife (Cardinal)	14,876	University of Cincinnati	3,074	U.S. Armed Forces Veteran (Marine)	19,624
Ohio Pets	9,904	Ohio State University (Spirit Mark)	2,264	Vietnam Veteran	18,102
One Nation Under God	9,427	Ohio University	2,080	U.S. Armed Forces Veteran (Navy)	16,074
Lake Erie Lighthouse	9,374	Miami University (Block M)	1,909	U.S. Armed Forces Veteran (Air Force)	13,970
Organizational License Plate Total	**179,768**	**Collegiate License Plate Total**	**37,603**	**Military License Plate Total**	**174,403**

*Does not include 61,785 disability plates issued to individuals and governmental entities.

Appropriation Increase for the Ohio Pharmacy Service Center

– Ryan Sherrock, Economist

On February 11, 2019, the Controlling Board approved a request from the Ohio Department of Mental Health and Addiction Services (OhioMHAS) to increase the FY 2019 appropriation for the Ohio Pharmacy Service Center (OPSC) by $10.0 million. The funding for this increase comes from sales to numerous entities, including several state departments. Funds will be used to purchase additional pharmaceutical and medical supplies, such as naloxone and specialty medications for cancer, Crohn's disease, and Hepatitis C. In addition, these funds will be used to purchase other supplies as requested by participating entities. For instance, OPCS recently started purchasing CPAP machines, oxygen concentrators, and nursery items (e.g., food, diapers, and over-the-counter medications) at the request of the Department of Rehabilitation and Corrections (DRC). The respiratory items will be used for inmates needing specialized care at DRC facilities, while the nursery items will be used at the Ohio Reformatory for Women's nursery center.[11]

OPSC is a self-supporting center that is under the administration of OhioMHAS. It purchases wholesale pharmaceuticals and medical supplies on behalf of certain state and community agencies. OPSC also provides pharmacy dispensing and delivery services, as well as consultation in pharmacy standards and drug information. It handles the bidding and procurement of goods and services and in return receives revenues for providing these services. Besides OhioMHAS and DRC, other participating state agencies include the departments of Youth Services and Developmental Disabilities. Various county, municipal, and nonprofit entities may participate as well.

Compassionate Touch Project Launched in April

– Alexander B. Moon, Economist

On April 1, 2019, a three-year Compassionate Touch Project was launched to reduce behavioral expression in people with dementia. The AGE-u-cate Training Institute, which is headquartered in Texas, will administer the project. The project's goal is to replace the unnecessary usage of antipsychotic medications with nonpharmacological solutions, which include skilled touch techniques and specialized communication. A total of 140 nursing homes located throughout Ohio will be selected to take part in the project. In turn, each nursing home will select ten residents to participate. Residents chosen must be diagnosed with dementia or a related condition, exhibit behavioral expressions that might be decreased by using compassionate touch (CT) techniques, and must be on one or more antipsychotic medications. The project will provide two hours of onsite training for direct-care and support staff, followed by six hours of online e-learning for CT coaches. The project will then facilitate in-house training for additional staff and family caregivers. The project is anticipated to benefit nursing home residents by decreasing restlessness and physical discomfort while increasing trust in caregivers. It is also expected to reduce the incidence of resident physical or verbal behaviors towards others.

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[11] The Ohio Reformatory for Women, located in Marysville, opened its nursery program in June 2001 to allow incarcerated inmates to maintain custody of their infants and to provide parenting instruction. The program is the only nursery program in Ohio that is located within a prison.

The federal Centers for Medicare and Medicaid (CMS) approved approximately $700,000 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.

State Awards $90,000 for Human Trafficking Prevention

– Nicholas J. Blaine, Budget Analyst

On January 22, 2019, the Ohio Children's Trust Fund (OCTF), in collaboration with the Ohio Human Trafficking Task Force awarded $90,000 in grant funding to support seven trafficking prevention programs. Funds will be used to identify and assist at-risk youth populations and to provide them with information and resources to prevent human trafficking. The table below shows the recipient, counties served by each recipient, and the award amount.

2019 Human Trafficking Prevention Grants		
Recipient	**County Service Area**	**Grant Award**
Asian American Community Services	Franklin	$6,920
The Children's Center of Medina County	Medina	$11,588
Gracehaven	Franklin	$11,750
COMPASS Family & Community Services	Mahoning	$15,000
Survivor Advocacy Outreach Program	Athens, Gallia, Hocking, Meigs, Morgan, Perry, Vinton	$15,000
YMCA Youth Opportunities Program	Lucas	$15,000
YWCA-Hamilton	Butler	$15,000

The OCTF is governed by a 15-member board which consists of state agency administrators, gubernatorial appointees, and legislators. Board members are responsible for child abuse and neglect prevention policy and the monitoring of expenditures from the Ohio Children's Trust Fund. The Ohio Human Trafficking Task Force, which consists of representatives from various state agencies, was created in 2012 by an executive order. The Task Force coordinates efforts to identify victims, creates a coordinated law enforcement system to investigate and prosecute trafficking crimes, and provides services to victims to help them regain control of their lives. In addition to awarding grants, the Ohio Human Trafficking Task Force published a report in January 2019 detailing its work from 2017 to 2018.[12]

[12] https://humantrafficking.ohio.gov/OhioHumanTraffickingTaskForceReport0119.pdf.

Ohio Awarded $103.5 million to Support Homeless Programs under HUD's Continuum of Care Program

– Shannon Pleiman, Budget Analyst

In February and January, the U.S. Department of Housing and Urban Development (HUD) awarded a total of $103.5 million in grants under the Continuum of Care Program to support 294 homeless programs in Ohio. Of this amount, $90.7 million was awarded to 261 existing projects and $12.8 million will support 33 new homeless projects. The goal of the program is to promote a communitywide commitment of ending homelessness. Homeless prevention and assistance services in Ohio are coordinated by eight urban federally designated entitlement counties, referred to as Continuums of Care (CoC), and the Balance of State CoC, which represents the other 80 counties. The table below displays grant funding awarded for existing and new projects by Ohio CoC.

HUD's Continuum of Care Program Grants by CoC			
Continuum of Care	**Funding for Existing Projects**	**Funding for New Projects**	**Total Funding**
Cuyahoga County	$25,340,507	$2,822,408	$28,162,915
Hamilton County	$16,313,734	$3,163,098	$19,476,832
Franklin County	$11,497,453	$1,266,309	$12,763,762
Montgomery County	$9,034,824	$1,294,023	$10,328,847
Summit County	$4,243,259	$592,607	$4,835,866
Lucas County	$3,246,880	$708,460	$3,955,340
Stark County	$2,877,067	$88,228	$2,965,295
Mahoning County	$1,772,654	$146,388	$1,919,042
Balance of State	$16,369,464	$2,747,062	$19,116,526
Total	**$90,695,842**	**$12,828,583**	**$103,524,425**

H.B. 62 Exempts Schools, County DD Boards, and Transit Systems from its State Motor Fuel Tax Increases

– Wendy Zhan, Director

H.B. 62, the transportation budget of the 133rd General Assembly, increases the state motor fuel tax (MFT) rate by 10.5¢ per gallon for gas and 19¢ per gallon for diesel, effective July 1, 2019. However, it exempts school districts,[13] county developmental disability (DD) boards, and public transit systems from the increases. Currently, school districts and county DD boards are refunded at a rate of 6¢ per gallon while transit systems are refunded 27¢ per gallon. In other words, school districts and county DD boards currently pay the state MFT in an amount of 22¢ per gallon while transit systems pay 1¢ per gallon. These entities will continue to pay the same MFT rates under H.B. 62.

It is estimated that H.B. 62 will increase the refunds in FY 2020 by approximately $2.4 million for school districts and county DD boards and by approximately $2.7 million for transit systems. In FY 2018, school districts and county DD boards were refunded $1.4 million of the state MFT for fuel purchased for their operations while transit systems were refunded $3.8 million. The table below shows the MFT refunds for school districts and county DD boards as well as for transit systems from FY 2013 through FY 2018.

State Motor Fuel Tax Refunds, FY 2013-FY 2018			
Fiscal Year	**School District & County DD Board**	**Transit System**	**Total**
FY 2013	$1,270,111	$4,159,630	$5,429,742
FY 2014	$1,628,118	$4,652,706	$6,280,825
FY 2015	$1,464,966	$4,153,446	$5,618,412
FY 2016	$1,733,082	$4,122,787	$5,855,869
FY 2017	$1,434,279	$4,459,976	$5,894,254
FY 2018	$1,388,045	$3,768,447	$5,156,493

[13] Including joint vocational school districts and educational service centers.

Tracking the Economy

– Eric Makela, Economist

Overview

The U.S. economy continues to expand, though some economic indicators have turned weaker this year. Nonfarm payroll employment rose by 196,000 nationally in March, and the U.S. unemployment rate remained at 3.8%. Manufacturing production, in the industrial production index, declined in January and February. Inflation-adjusted gross domestic product (real GDP) grew at an annualized rate of 2.2% in the fourth quarter of 2018, and by 2.9% in all of 2018, up from 2.2% growth in 2017. The value of new construction projects nationally rose a seasonally adjusted 1.0% in February, the third consecutive increase after declines earlier in 2018. Home sales nationally have perked up in recent months.

The unemployment rate in Ohio decreased by 0.1 percentage point to 4.6% in February. Approximately 8,200 nonagricultural wage and salary jobs were lost in Ohio during the month. Between February 2018 and February 2019, nonagricultural wage and salary employment rose by 36,100. The number of existing homes sold in Ohio is down 1.1% year to date from 2018.

The Federal Reserve, the nation's central bank, decided to keep its short-term interest rate target between 2.25% and 2.50% during a March 19-20 meeting of its Federal Open Market Committee (FOMC). The post-meeting statement noted slower growth of the economy as well as lower inflation, though inflation excluding food and energy prices remains near the committee's 2% objective.[14] The statement reiterated a pledge to be patient in deciding on future interest rate changes. Interest rates on federal funds futures declined in recent weeks; this trend suggests investors are banking on the FOMC lowering the short-term interest rate at some point during the next 12 months.[15]

The National Economy

Real GDP grew at a 2.2% annual rate in the fourth quarter of 2018, revised downward from the initial estimate of 2.6%. The deceleration in real GDP growth in the fourth quarter of 2018 reflects slower than previously estimated growth in personal consumption expenditure, nonresidential fixed investment, and government spending. Seasonally adjusted, annualized real GDP growth has remained above 2.0% each quarter since the first quarter of 2017. Nonresidential fixed investment rose in 2018, while residential fixed investment fell 0.3%. Exports grew by 4.0% during 2018 after 3.0% growth in 2017. Imports grew by 4.5% in 2018 after 4.6% growth in 2017.

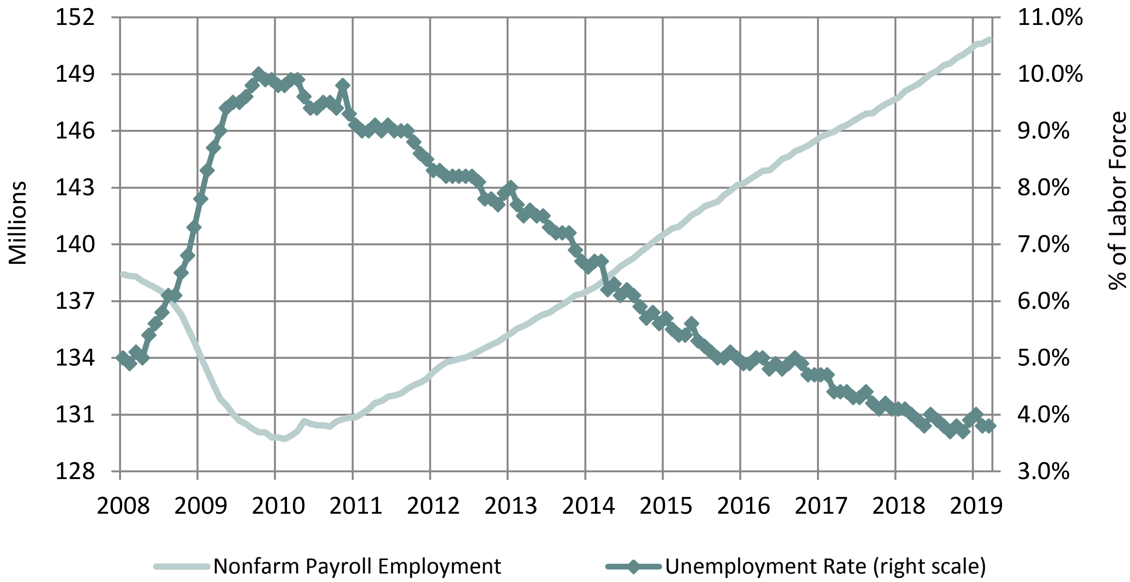
The U.S. unemployment rate remained at 3.8% in March, unchanged from February and down 0.2 percentage point from March 2018. Total nonfarm payroll employment increased by 196,000 during the month. The labor force participation rate[16] was 63.0% in the U.S. during March, up slightly from 62.9% in March 2018.

[14] https://www.federalreserve.gov/newsevents/pressreleases/monetary20190320a.htm.

[15] https://research.stlouisfed.org/datatrends/usfd/page14.php.

[16] Equal to the number of workers plus the number of unemployed people divided by the civilian noninstitutionalized population.

Chart 5: U.S. Employment and Unemployment



The health care sector added 49,000 jobs in March, mostly in the areas of ambulatory health care services (+27,000) and hospitals (+14,000). Employment in professional and technical services grew by 34,000 in March; food services and drinking places added 27,000 jobs nationally during that time. Employment in most other major industries, including manufacturing, showed little change over the month.

Nationally, industrial production was unchanged in February, following 0.1% declines in December and January. Among major market groups,[17] business equipment was estimated to have the largest percentage drop in production during February. The industrial production index (IPI) underwent its annual revision during March. Historical IPI growth rates were revised slightly upward for calendar years 2016 and 2017, and revised slightly downward for 2018.

According to the Institute for Supply Management (ISM), the country's manufacturing sector expanded in March. The rise in production was more widespread than as measured by ISM in February. The new orders and employment metrics were also reported to have grown faster in March than in February.

The consumer price index for all items rose 0.2% in February, after three consecutive months of no increase. The price index for energy commodities[18] rose by a seasonally adjusted 1.5% in February after declining in four of the previous six months. Year over year, the price of all items, excluding the more volatile sub-indexes for food and energy, increased 2.1%.

The Ohio Economy

Ohio's unemployment rate decreased by 0.1 percentage point in February, to 4.6%. The number of unemployed people decreased 4,000 during the month; over the past 12 months,

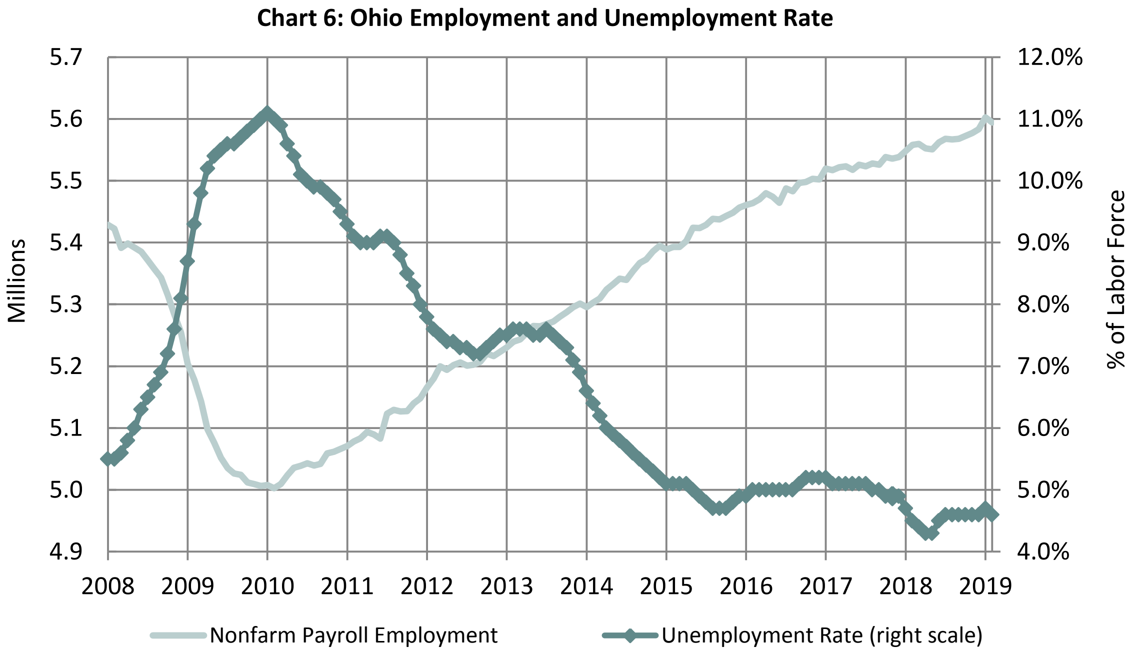
[17] As identified by the Board of Governors of the Federal Reserve.

[18] Gasoline, fuel oil, and other fuels.

the number of unemployed people has gone up by approximately 8,000 and stood at 265,000 in February.

Ohio lost 8,200 nonagricultural wage and salary jobs during the month of February, after a rise of a revised 19,100 in January, according to the latest business establishment survey conducted by the U.S. Department of Labor and the Ohio Department of Job and Family Services. In February, Ohio's wage and salary worker total stood at 5.59 million.

Nonfarm employment in goods-producing industries decreased 4,800 over the month, with losses in the construction (-3,800) and manufacturing (-1,100) industries countered by a modest gain in mining and logging (+100). Employment was down in February in trade, transportation, and utilities (-1,900), as well as in leisure and hospitality (-1,500). Government employment decreased by 300, as gains in federal (+500) and state (+200) government were outweighed by losses in local government (-1,000).



From February 2018 to February 2019, nonagricultural wage and salary employment grew by 36,100 (0.6%). The private service-producing sector added 29,300 jobs while employment in goods-producing industries rose by 11,100 year to year. During that time, local government employment in Ohio decreased by 4,700, or 0.9%.

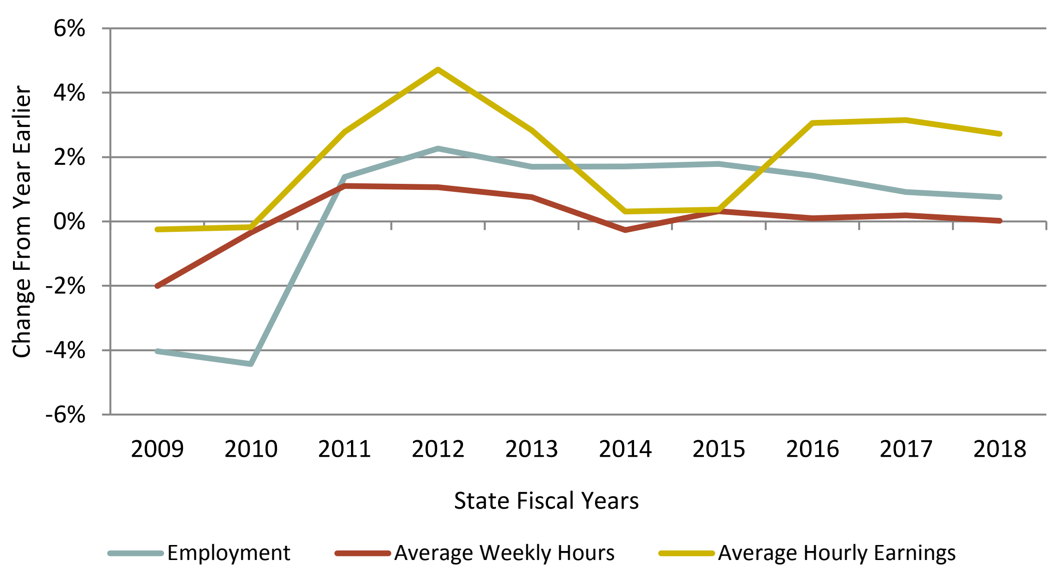
According to the most recent estimates from the Bureau of Economic Analysis, Ohio's personal income increased by 3.5% during 2018, as compared to 2017. Dividends, interest, and rent income rose 4.4%, while transfer receipts increased 3.1%. Ohioans' net earnings, measured as wages, salaries, benefits, and proprietors' income less Social Security and Medicare taxes, increased by 3.4% year over year.

According to the Ohio Association of Realtors, existing home sales were up 2.7% in February compared with February 2018. The average sale price for existing homes was 8.1% higher during the first two months of 2019, as compared to the first two months of 2018. Year to date, the total value of existing home sales in 2019 has increased 6.8% from 2018.

In Ohio private service-providing industries, the average weekly earnings of all employees increased from around $766 in 2017 to $789 in 2018, an increase of 2.9%. The average number of hours worked per week was little changed, and the increase in earnings for workers in these industries was mostly due to the rise in average hourly earnings. In the manufacturing sector, the average number of hours worked by each employee per week decreased by 0.2 hours from 2017 to 2018. Average weekly earnings increased from approximately $1,083 to $1,111, an increase of around 2.6%. The average hours worked by production employees in the retail trade industry increased by 0.3 hours, while their average hourly earnings were little changed. The average weekly earnings of retail trade production workers increased 1.2% over the year, to approximately $449.

Chart 7 shows the growth trends of total employment, average weekly work hours, and average weekly earnings for Ohio workers. Employment has grown steadily between 2009 and 2018. The length of the average workweek has remained largely unchanged for Ohioans, particularly since 2014. Average hourly earnings for Ohioans increased by 2.7% in 2018, following growth of 3.2% in 2017 and 3.1% in 2016. This growth suggests the real rate of pay has increased on average. However, these statistics ignore the distributional effects in the source data.[19]

Chart 7: Ohio Employment, Work Hours, and Earnings Growth



[19] For example, all people can work the same number of hours but only the highest-paid employees might get raises.

The most recent version of the Beige Book of the Federal Reserve Bank reported on economic activity in the Cleveland District:[20]

"The District economy grew at a modest pace, with services driving much of that growth. Seasonal factors temporarily weighed on growth in construction and freight. Employment increased modestly in many sectors. Wages grew moderately across the board. Selling prices rose moderately, as companies passed through cost increases to their customers. A drop in mortgage rates spurred slight improvement in home sales."

[20] The report is part of the latest Federal Reserve System Beige Book that summarizes information from outside contacts collected on or before February 25, 2019. The Federal Reserve Bank of Cleveland's district includes all of Ohio and parts of Kentucky, Pennsylvania, and West Virginia.