LBO Budget Footnotes

A monthly newsletter of the Legislative Budget Office of LSC

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Highlights

– Ross Miller, Chief Economist

The GRF ended the first half of FY 2019 with tax revenue $128.7 million above estimates and program expenditures $318.9 million below estimates; the estimates were published by the Office of Budget and Management (OBM) in August 2018. Generally favorable results for the first half came despite personal income tax (PIT) revenue falling short of estimate for the month of December by $46.8 million. Income tax revenue fell short of estimates for the first half as well, but monthly withholding revenue under the tax increased by 5.9% compared to the first half of FY 2018.

Ohio's November unemployment rate, 4.6%, remained the same as October's rate. Nonfarm payrolls increased by 5,200 jobs for the month.

Through December 2018, GRF sources totaled $16.55 billion:

- Revenue from the sales and use tax was $136.4 million above estimate;
- PIT receipts were $44.2 million below estimate.

Through December 2018, GRF uses totaled $17.84 billion:

- Program expenditures for Medicaid were $314.2 million below estimate;
- Expenditures in the Primary and Secondary Education program category were $45.3 million above expectations, and expenditures for Justice and Public Protection were $18.4 million above expectations;
- Spending in most other program categories was below estimate.

In this issue...

Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of December 2018
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on January 2, 2019)

State Sources	Actual	Estimate*	Variance	Percent
Tax Revenue				
Auto Sales	$113,211	$109,100	$4,111	3.8%
Nonauto Sales and Use	$844,949	$837,200	$7,749	0.9%
Total Sales and Use	*$958,160*	*$946,300*	*$11,860*	*1.3%*
Personal Income	$761,503	$808,300	-$46,797	-5.8%
Commercial Activity Tax	$10,029	$9,800	$229	2.3%
Cigarette	$73,194	$75,900	-$2,706	-3.6%
Kilowatt-Hour Excise	$22,477	$22,500	-$23	-0.1%
Foreign Insurance	$8	$0	$8	---
Domestic Insurance	$0	$0	$0	---
Financial Institution	-$6,525	-$2,200	-$4,325	-196.6%
Public Utility	$4,972	$900	$4,072	452.5%
Natural Gas Consumption	$0	$200	-$200	-100.0%
Alcoholic Beverage	$1,578	$4,500	-$2,922	-64.9%
Liquor Gallonage	$4,272	$4,000	$272	6.8%
Petroleum Activity Tax	$2,732	$1,400	$1,332	95.1%
Corporate Franchise	$988	$0	$988	---
Business and Property	$0	$0	$0	---
Estate	$0	$0	$0	---
Total Tax Revenue	**$1,833,389**	**$1,871,600**	**-$38,211**	**-2.0%**
Nontax Revenue				
Earnings on Investments	$33	$0	$33	---
Licenses and Fees	$555	$681	-$127	-18.6%
Other Revenue	$232	$1,732	-$1,501	-86.6%
Total Nontax Revenue	**$819**	**$2,414**	**-$1,595**	**-66.1%**
Transfers In	**$0**	**$0**	**$0**	**---**
Total State Sources	**$1,834,208**	**$1,874,014**	**-$39,806**	**-2.1%**
Federal Grants	**$664,222**	**$747,396**	**-$83,175**	**-11.1%**
Total GRF Sources	**$2,498,430**	**$2,621,410**	**-$122,980**	**-4.7%**

*Estimates of the Office of Budget and Management as of August 2018.
Detail may not sum to total due to rounding.

Table 2: General Revenue Fund Sources
Actual vs. Estimate
FY 2019 as of December 31, 2018
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on January 2, 2019)

State Sources	Actual	Estimate*	Variance	Percent	FY 2018**	Percent
Tax Revenue						
Auto Sales	$743,565	$718,900	$24,665	3.4%	$699,336	6.3%
Nonauto Sales and Use	$4,594,584	$4,482,800	$111,784	2.5%	$4,405,251	4.3%
Total Sales and Use	*$5,338,148*	*$5,201,700*	*$136,448*	*2.6%*	*$5,104,587*	*4.6%*
Personal Income	$4,373,242	$4,417,400	-$44,158	-1.0%	$4,148,803	5.4%
Commercial Activity Tax	$768,754	$757,100	$11,654	1.5%	$729,044	5.4%
Cigarette	$420,313	$417,200	$3,113	0.7%	$420,847	-0.1%
Kilowatt-Hour Excise	$179,207	$178,000	$1,207	0.7%	$168,282	6.5%
Foreign Insurance	$159,037	$146,700	$12,337	8.4%	$144,844	9.8%
Domestic Insurance	$2	$0	$2	---	$63	-97.3%
Financial Institution	-$28,380	-$16,200	-$12,180	-75.2%	-$25,039	-13.3%
Public Utility	$73,072	$56,900	$16,172	28.4%	$55,565	31.5%
Natural Gas Consumption	$20,253	$17,700	$2,553	14.4%	$16,761	20.8%
Alcoholic Beverage	$27,055	$29,400	-$2,345	-8.0%	$29,626	-8.7%
Liquor Gallonage	$25,171	$24,500	$671	2.7%	$24,034	4.7%
Petroleum Activity Tax	$4,750	$2,700	$2,050	75.9%	$3,280	44.8%
Corporate Franchise	$1,179	$0	$1,179	---	$2,938	-59.9%
Business and Property	$0	$0	$0	---	-$374	100.0%
Estate	$32	$0	$32	---	$114	-71.7%
Total Tax Revenue	**$11,361,836**	**$11,233,100**	**$128,736**	**1.1%**	**$10,823,372**	**5.0%**
Nontax Revenue						
Earnings on Investments	$25,426	$19,634	$5,792	29.5%	$15,841	60.5%
Licenses and Fees	$10,343	$9,918	$425	4.3%	$8,970	15.3%
Other Revenue	$54,972	$61,700	-$6,728	-10.9%	$31,282	75.7%
Total Nontax Revenue	**$90,740**	**$91,251**	**-$511**	**-0.6%**	**$56,092**	**61.8%**
Transfers In	**$76,109**	**$80,190**	**-$4,081**	**-5.1%**	**$129,269**	**-41.1%**
Total State Sources	**$11,528,685**	**$11,404,541**	**$124,144**	**1.1%**	**$11,008,734**	**4.7%**
Federal Grants	**$5,021,310**	**$5,257,930**	**-$236,620**	**-4.5%**	**$5,004,627**	**0.3%**
Total GRF SOURCES	**$16,549,995**	**$16,662,471**	**-$112,476**	**-0.7%**	**$16,013,361**	**3.4%**

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

Revenues[1]

– Jean Botomogno, Principal Economist

Overview

GRF sources closed out the first half of FY 2019 with a cumulative negative variance of $112.5 million (0.7%) when compared to OBM's estimate released in August 2018. This was due to poor revenue for the month of December; through the first five months, they were essentially on target. The year-to-date (YTD) GRF negative variance was due to shortfalls of $236.6 million (4.5%) for federal grants,[2] $4.1 million (5.1%) for transfers in, and $0.5 million (0.6%) for nontax revenue. Those shortfalls were partially offset by a positive variance of $128.7 million (1.1%) for tax revenues. The YTD negative variance for federal grants results from GRF Medicaid spending being substantially below expectations throughout the fiscal year. In contrast, GRF tax sources have been above estimates every month, with the exception of December when this category experienced a deficit of $38.2 million. Tables 1 and 2 show GRF sources for the month of December and for FY 2019 through December, respectively. GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants.

For the year to date, PIT exhibited a cumulative negative variance of $44.2 million, attributable to a deficit of $46.8 million for the month of December. Also, the cumulative shortfall for the financial institutions tax (FIT)[3] increased to $12.2 million, up from $7.9 million through November; the alcoholic beverage tax posted a timing-related YTD shortage of $2.3 million. On the other hand, GRF tax sources above estimates included the sales and use tax ($136.4 million), the public utility tax ($16.2 million), the foreign insurance tax ($12.3 million), the commercial activity tax (CAT, $11.7 million), and the cigarette and other tobacco products tax ($3.1 million). In addition, the petroleum activity tax (PAT), the natural gas consumption tax, and the kilowatt-hour tax were above projections by $2.1 million, $2.6 million, and $1.2 million, respectively. The remaining taxes had smaller variances at the end of December.

GRF sources of $2.50 billion in December 2018 were $123.0 million below estimate, with all categories underperforming. Federal grants and GRF tax sources were below their anticipated levels by $83.2 million and $38.2 million, respectively, and nontax revenue was $1.6 million below estimate. No transfers in occurred this month as none were expected by OBM. Tax sources were brought down by the PIT shortfall, and negative variances of $4.3 million for the FIT, $2.9 million for the alcoholic beverage tax (likely due to timing), and $2.7 million for the cigarette tax. Partially offsetting the negative variances, the sales and use tax had another good month with a positive variance of $11.9 million, the public utility tax was

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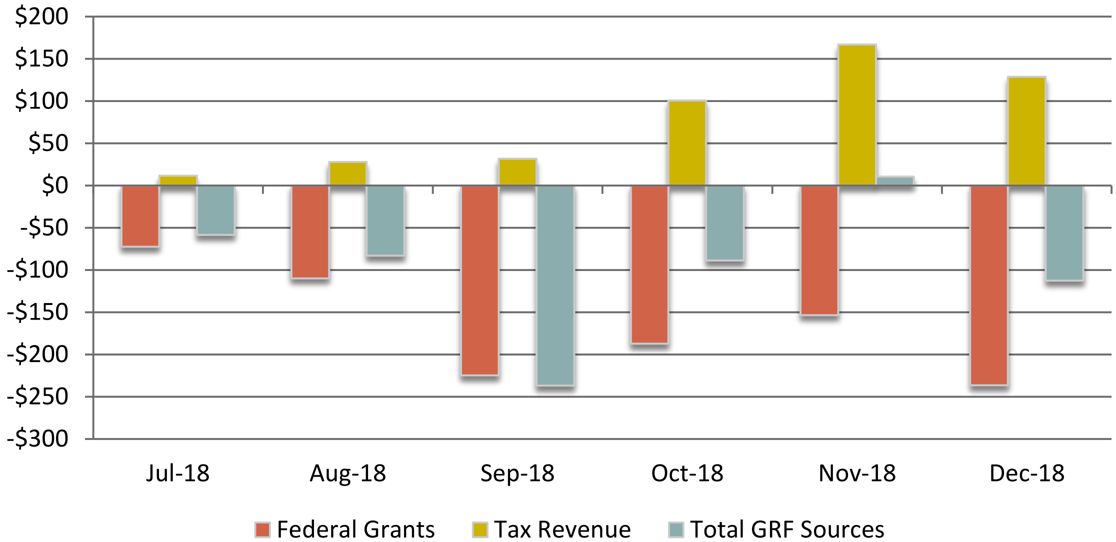
[1] This report compares actual monthly and year-to-date GRF revenue sources to OBM's estimates. If actual receipts were higher than estimate, that GRF source is deemed to have a positive variance. Alternatively, a GRF source is deemed to have a negative variance if actual receipts were lower than estimate.

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

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

$4.1 million above estimate, and the PAT exceeded projections by $1.3 million. Chart 1, below, shows cumulative variances of GRF sources through December.

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



FY 2019 GRF sources increased $536.6 million relative to sources in the corresponding six months in FY 2018. GRF tax sources, nontax revenue, and federal grants were higher by $538.5 million, $34.6 million, and $16.7 million, respectively. The increase was partially reduced by a decrease in transfers in of $53.2 million. A growing economy led to increases in receipts from the sales and use tax ($233.6 million), the PIT ($224.4 million), and the CAT ($39.7 million). Also, combined receipts from three utility-related taxes (the kilowatt-hour tax, the public utility tax, and the natural gas consumption tax) grew $31.9 million, and revenue from the foreign insurance tax increased $14.2 million.

Sales and Use Tax

First-half receipts to the GRF from the sales and use tax totaled $5.34 billion, an amount $136.4 million (2.6%) 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 4.6% above revenue through December in FY 2018. For the month of December 2018, GRF receipts of $958.2 million were $11.9 million (1.3%) above estimate, propelled by another good performance from the auto sales and use tax. December sales and use tax receipts were also $43.0 million (4.7%) above revenue in the same month in 2017.

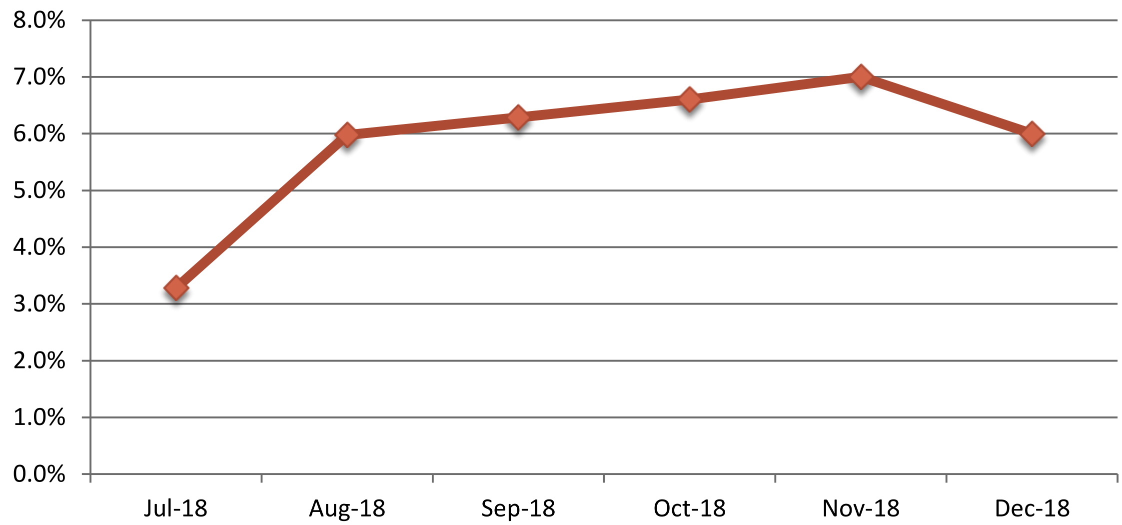
For analysis and forecasting, revenue from the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections generally arise from the sale of motor vehicles, but auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto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

Nonauto Sales and Use Tax

After a shortfall of $4.8 million in October 2018, the nonauto sales and use tax rebounded with positive variances of $58.4 million in November and $7.7 million in December.

The latest monthly performance increased the cumulative positive variance of this tax source to $111.8 million (2.5%), up from $104.0 million through November. Compared to revenue in December 2017, nonauto sales and use tax revenue increased $35.2 million (4.3%). For the year to date, GRF receipts of $4.59 billion were $189.3 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. Revenue growth for this tax in the August to December 2018 period has been excellent, averaging about 7% when compared to revenue in the corresponding period in FY 2018, after adjusting for a significant change in the tax base. [4]

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

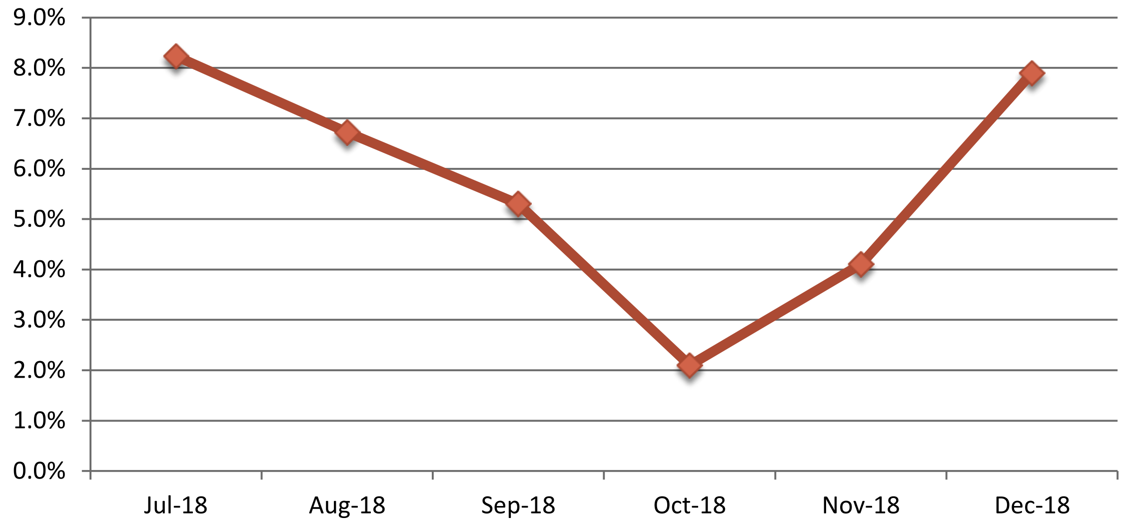


Auto Sales and Use Tax

The auto sales and use tax was above both estimates and prior-year receipts every month in the second quarter of FY 2019. GRF receipts from this tax source of $113.2 million in December were above expected revenue by $4.1 million (3.8%). This performance increased this source's cumulative positive variance to $24.7 million (3.4%), up from $20.6 million at the end of the previous month. Through December, FY 2019 auto sales tax receipts of $743.6 million were $44.2 million (6.3%) above receipts in the corresponding period in FY 2018. Chart 3, below, shows year-over-year growth in auto sales tax collections. After slowing earlier in the fiscal year, the rate of revenue growth picked up in the last fiscal quarter.

[4] 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.

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



Though most analysts expected a market contraction in calendar year (CY) 2018, nationwide new light vehicle (auto and light truck) sales actually increased, buoyed by a resilient economy. The auto industry sold about 17.3 million units, slightly up from 17.2 million units in CY 2017. Remarkably, the auto industry achieved its fourth straight year of sales above 17 million units, including all-time record sales of 17.6 million units in CY 2016. The record shift to higher-priced trucks (now at 69% of sales) from lower-priced cars has helped boost the average price per new vehicle to more than $35,000, and also increased prices of previously owned vehicles. The overall effect of those changes tends to increase the auto sales tax base and revenue from the tax. Data from the Ohio Bureau of Motor Vehicles suggest similar trends in Ohio. While the number of titled vehicles was slightly up in the first half of FY 2019, average prices for new and used vehicles in Ohio both increased compared to the corresponding period last year.

Personal Income Tax

The PIT experienced a shortfall of $46.8 million (5.8%) in December 2018, due to a large negative variance for quarterly estimated payments. The poor performance pushed the YTD variance of this tax into negative territory – $44.2 million (1.0%) below estimate, from a cumulative positive variance of $2.6 million in the first five months. PIT GRF receipts totaling $761.5 million for the month were also $27.1 million (3.4%) below receipts in December 2017. However, YTD revenue growth was a respectable 5.4%, when compared to the first half of FY 2018.

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

[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.

payments. The performance of the tax is typically driven by employer withholdings, which is the largest 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.

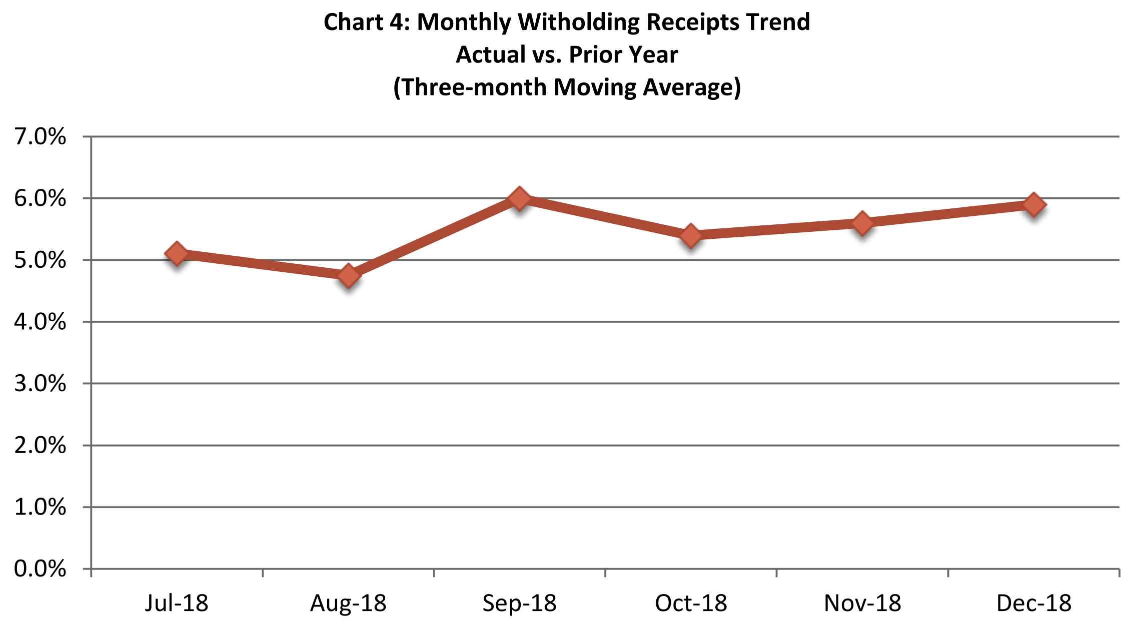
For the month of December 2018, gross collections were $44.9 million below projections. In addition to a shortfall of $68.6 million for quarterly estimated payments, miscellaneous payments and trust payments posted negative variances of $1.9 million and $1.0 million, respectively. On the other hand, employer withholding and payments with annual returns were $25.1 million and $1.6 million above estimate. While the poor results for estimated payments could be worrisome, they are likely due to timing rather than an indicator of poor full-year performance, since estimated payments are due in January rather than December.

For the year to date, revenues from each component of the PIT relative to estimates and to revenue received in FY 2018 are detailed in the table below. YTD gross collections were below estimate by $34.2 million. Shortfalls for quarterly estimated payments and miscellaneous revenue were partially offset by positive variances from withholding and annual return payments. The negative variance for gross collections was increased by higher than projected refunds and distributions to the LGF. FY 2019 refunds and LGF distributions also increased compared to their amounts in the corresponding period last year.

FY 2019 Personal Income Tax Revenue Variance and Annual Change by Component

Category	YTD Variance from Estimate		Changes from FY 2018	
	Amount ($ in millions)	Percent (%)	Amount ($ in millions)	Percent (%)
Withholding	$39.7	0.9%	$241.0	5.7%
Quarterly Estimated Payments	-$89.1	-23.1%	-$30.0	-9.2%
Trust Payments	$2.4	14.4%	$4.8	33.6%
Annual Return Payments	$21.3	24.0%	$35.5	47.7%
Miscellaneous Payments	-$8.6	-19.5%	-$8.9	-20.2%
Gross Collections	-$34.2	-0.7%	$242.3	5.2%
Less Refunds	$7.1	2.0%	$8.8	2.5%
Less LGF Distribution	$2.9	1.5%	$9.0	4.7%
GRF PIT Revenue	$44.2	-1.0%	$224.4	5.4%

Compared to FY 2018 through December, gross collections were higher in FY 2019 by $242.3 million. Regarding the two most important components of the PIT, monthly withholding receipts grew 5.9% while quarterly estimated payments fell 9.2%. The chart below illustrates the growth of monthly employer withholdings on a three-month moving average relative to one year ago. It shows growth generally between 5% and 6% in FY 2019.



Commercial Activity Tax

In the second fiscal quarter, receipts to the GRF from the CAT were above estimate by $31.7 million. This was an improvement over the July to September period when the tax had recorded a shortfall of $20.1 million. Thus, through December in FY 2019, the CAT had a cumulative positive GRF variance of $11.7 million (1.5%). For the month of December 2018, CAT GRF receipts were $10.0 million, an amount that was $0.2 million (2.3%) above estimate. YTD GRF receipts were $768.8 million, $39.7 million (5.4%) above revenue in the first half of FY 2018. Gross collections from the tax increased about 6.9% relative to collections through December last fiscal year but, as stated in previous editions of this publication, increased credit claims and refunds have restrained growth in net collections to the GRF.

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 December 2018, distributions to Funds 7047 and 7081 were $117.6 million and $18.1 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

In December, GRF revenue from the cigarette and other tobacco products tax was $73.2 million, $2.7 million (3.6%) below estimate. Receipts for the month were however $2.5 million (3.5%) above revenue in December 2017. Through December, FY 2019 revenue from this GRF source totaled $420.3 million, $3.1 million (0.7%) above estimate and $0.5 million (0.1%) below receipts through December in FY 2018. YTD revenue included $382.8 million from the sale of cigarettes and $37.5 million from the sale of other tobacco products. Compared to

FY 2018, receipts from cigarette sales fell $4.3 million while those from the sale of other tobacco products increased $3.8 million. On a yearly basis, revenue from the cigarette and other tobacco products tax usually trends downward generally at a slow pace due to a decline of cigarette revenue, though receipts from the sales of other tobacco products increase yearly.

Other Taxes

The kilowatt-hour tax generated $179.2 million during the first six months of the fiscal year. This was $1.2 million (0.7%) above estimate, and $10.9 million (6.5%) above revenue during the comparable months of FY 2018. The tax base generally is kilowatt-hours of electricity used, i.e., it generally does not depend on the price of electricity. Half of the allocation of GRF tax revenue to the Public Library Fund is debited against this tax for accounting purposes, thus good GRF tax revenue performance overall can make this tax look bad.

YTD revenue from the public utility tax to the GRF was $73.1 million, an amount $16.2 million (28.4%) above estimate, and $17.5 million (31.5%) above receipts in the first half of FY 2018. About 95% of the revenue from this tax comes from natural gas utilities and revenue depends on both prices and consumption volumes. Though natural gas prices fell in 2018, consumption has been higher, according to data from the Energy Information Administration, a federal agency. Natural gas delivered to all types of Ohio consumers[6] increased over the last year, and, for electric power generation, sometimes substantially.

The foreign insurance tax generated $159.0 million during the first half of FY 2019, $12.3 million (8.4%) above estimate, and $14.2 million (9.8%) above receipts in the corresponding period in FY 2018. This tax is paid by insurance companies headquartered in other states, based on premiums they receive to provide insurance covering risks located in Ohio. The performance of the tax was likely affected by the timing of tax refunds which have been lower this fiscal year ($7.7 million) when compared to the corresponding period in FY 2018 ($24.1 million); but, the revenue experience so far this year reveals little about the full fiscal year experience from the tax as payments received so far represent advance payments based on previous year tax liabilities before credits.

Similarly, almost no revenue has been received so far in FY 2019 from the domestic insurance tax (paid by insurance companies headquartered in Ohio), but that says little about the full year experience: virtually all revenue from the tax is received in May and June each fiscal year.

[6] The following are the four types of consumers: residential, commercial, industrial, and electric power generation.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of December 2018
($ in thousands)
(Actual based on OAKS reports run January 4, 2019)

Program Category	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	$645,694	$615,956	$29,739	4.8%
Higher Education	$188,489	$187,996	$493	0.3%
Other Education	$7,245	$4,243	$3,002	70.8%
Total Education	**$841,429**	**$808,195**	**$33,234**	**4.1%**
Medicaid	$1,086,133	$1,156,563	-$70,430	-6.1%
Health and Human Services	$109,489	$111,594	-$2,105	-1.9%
Total Health and Human Services	**$1,195,622**	**$1,268,157**	**-$72,535**	**-5.7%**
Justice and Public Protection	$207,923	$200,197	$7,726	3.9%
General Government	$29,628	$35,324	-$5,696	-16.1%
Total Government Operations	**$237,551**	**$235,521**	**$2,030**	**0.9%**
Property Tax Reimbursements	$990	$15,147	-$14,157	-93.5%
Debt Service	$19,701	$19,963	-$262	-1.3%
Total Other Expenditures	**$20,692**	**$35,110**	**-$14,418**	**-41.1%**
Total Program Expenditures	**$2,295,294**	**$2,346,982**	**-$51,689**	**-2.2%**
Transfers Out	**$0**	**$0**	**$0**	**---**
Total GRF Uses	**$2,295,294**	**$2,346,982**	**-$51,689**	**-2.2%**

*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 December 31, 2018
($ in thousands)
(Actual based on OAKS reports run January 4, 2019)

Program Category	Actual	Estimate*	Variance	Percent	FY 2018**	Percent
Primary and Secondary Education	$4,197,036	$4,151,767	$45,269	1.1%	$4,143,826	1.3%
Higher Education	$1,147,019	$1,153,654	-$6,635	-0.6%	$1,149,269	-0.2%
Other Education	$45,173	$42,014	$3,159	7.5%	$41,908	7.8%
Total Education	**$5,389,228**	**$5,347,434**	**$41,793**	**0.8%**	**$5,335,002**	**1.0%**
Medicaid	$7,789,622	$8,103,831	-$314,210	-3.9%	$7,624,963	2.2%
Health and Human Services	$675,073	$724,303	-$49,230	-6.8%	$654,805	3.1%
Total Health and Human Services	**$8,464,694**	**$8,828,134**	**-$363,440**	**-4.1%**	**$8,279,768**	**2.2%**
Justice and Public Protection	$1,197,257	$1,178,894	$18,363	1.6%	$1,123,579	6.6%
General Government	$193,952	$200,832	-$6,880	-3.4%	$189,479	2.4%
Total Government Operations	**$1,391,209**	**$1,379,726**	**$11,483**	**0.8%**	**$1,313,058**	**6.0%**
Property Tax Reimbursements	$905,520	$913,447	-$7,927	-0.9%	$906,420	-0.1%
Debt Service	$934,361	$935,139	-$778	-0.1%	$897,879	4.1%
Total Other Expenditures	**$1,839,880**	**$1,848,585**	**-$8,705**	**-0.5%**	**$1,804,300**	**2.0%**
Total Program Expenditures	**$17,085,011**	**$17,403,880**	**-$318,869**	**-1.8%**	**$16,732,127**	**2.1%**
Transfers Out	**$752,840**	**$751,933**	**$906**	**0.1%**	**$69,001**	**991.1%**
Total GRF Uses	**$17,837,851**	**$18,155,814**	**-$317,962**	**-1.8%**	**$16,801,128**	**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 January 4, 2019)

	Month of December 2018				Year to Date through December 2018			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid								
GRF	$1,021,539	$1,095,116	-$73,577	-6.7%	$7,432,716	$7,743,849	-$311,133	-4.0%
Non-GRF	$1,278,289	$1,038,900	$239,389	23.0%	$4,419,348	$5,019,563	-$600,215	-12.0%
All Funds	$2,299,829	$2,134,017	$165,812	7.8%	$11,852,064	$12,763,411	-$911,348	-7.1%
Developmental Disabilities								
GRF	$55,243	$54,646	$597	1.1%	$307,026	$309,092	-$2,065	-0.7%
Non-GRF	$195,081	$199,240	-$4,159	-2.1%	$1,122,180	$1,151,196	-$29,016	-2.5%
All Funds	$250,324	$253,886	-$3,562	-1.4%	$1,429,206	$1,460,288	-$31,081	-2.1%
Job and Family Services								
GRF	$8,305	$5,861	$2,443	41.7%	$44,971	$45,672	-$701	-1.5%
Non-GRF	$16,993	$12,886	$4,107	31.9%	$92,313	$76,510	$15,803	20.7%
All Funds	$25,298	$18,748	$6,550	34.9%	$137,284	$122,182	$15,102	12.4%
Health, Mental Health and Addiction, Aging, Pharmacy Board, and Education								
GRF	$1,046	$940	$106	11.3%	$4,908	$5,219	-$311	-6.0%
Non-GRF	$2,064	$2,905	-$841	-28.9%	$16,769	$19,859	-$3,090	-15.6%
All Funds	$3,111	$3,845	-$734	-19.1%	$21,678	$25,078	-$3,400	-13.6%
All Departments:								
GRF	**$1,086,133**	**$1,156,563**	**-$70,430**	**-6.1%**	**$7,789,622**	**$8,103,831**	**-$314,210**	**-3.9%**
Non-GRF	**$1,492,429**	**$1,253,933**	**$238,496**	**19.0%**	**$5,650,610**	**$6,267,128**	**-$616,518**	**-9.8%**
All Funds	**$2,578,562**	**$2,410,496**	**$168,066**	**7.0%**	**$13,440,232**	**$14,370,959**	**-$930,727**	**-6.5%**

*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 January 4, 2019)

	Month of December 2018				Year to Date through December 2018			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	**$1,478,785**	**$1,587,471**	**-$108,686**	**-6.8%**	**$8,359,733**	**$8,654,509**	**-$294,776**	**-3.4%**
CFC†	$486,709	$497,435	-$10,726	-2.2%	$2,927,934	$2,988,230	-$60,295	-2.0%
Group VIII	$340,971	$378,385	-$37,414	-9.9%	$2,103,375	$2,269,998	-$166,623	-7.3%
ABD†	$233,900	$237,502	-$3,602	-1.5%	$1,399,484	$1,413,918	-$14,434	-1.0%
ABD Kids	$76,297	$79,053	-$2,756	-3.5%	$462,014	$471,214	-$9,199	-2.0%
MyCare	$211,940	$205,096	$6,844	3.3%	$1,271,982	$1,220,216	$51,766	4.2%
P4P & Insurer Fee†	$128,969	$190,000	-$61,031	-32.1%	$194,944	$290,935	-$95,990	-33.0%
Fee-For-Service	**$934,560**	**$653,530**	**$281,029**	**43.0%**	**$4,038,143**	**$4,619,271**	**-$581,128**	**-12.6%**
ODM Services	$371,992	$405,966	-$33,974	-8.4%	$2,213,053	$2,426,141	-$213,089	-8.8%
DDD Services	$244,921	$247,565	-$2,644	-1.1%	$1,382,583	$1,410,055	-$27,472	-1.9%
Hospital - HCAP†	$317,647	$0	$317,647	-	$317,659	$635,291	-$317,631	-50.0%
Hospital - Other	$0	$0	$0	-	$124,848	$147,784	-$22,936	-15.5%
Premium Assistance	**$89,182**	**$98,772**	**-$9,590**	**-9.7%**	**$530,414**	**$563,176**	**-$32,761**	**-5.8%**
Medicare Buy-In	$51,808	$60,119	-$8,311	-13.8%	$304,837	$331,100	-$26,264	-7.9%
Medicare Part D	$37,374	$38,653	-$1,279	-3.3%	$225,577	$232,075	-$6,498	-2.8%
Administration	**$76,034**	**$70,722**	**$5,313**	**7.5%**	**$511,941**	**$534,003**	**-$22,061**	**-4.1%**
Total	**$2,578,562**	**$2,410,496**	**$168,066**	**7.0%**	**$13,440,232**	**$14,370,959**	**-$930,727**	**-6.5%**

*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[7]

– Melaney Carter, Assistant Director

– Ivy Chen, Principal Economist

Overview

In the month of December, GRF program expenditures were $51.7 million (2.2%) below estimate, increasing the negative YTD variance to $318.9 million (1.8%). As expected, there were no transfers out in December, so the YTD positive variance remained at $0.9 million (0.1%). Including both program expenditures and transfers out, GRF uses totaled $17.84 billion through December, which was $318.0 million (1.8%) below estimate. Tables 3 and 4 detail GRF uses for the month of December and for FY 2019 through December, respectively.

Medicaid expenditures had the largest negative variances for both the month of December and year to date. Medicaid expenditures in December were $70.4 million below estimate, increasing this category's negative YTD variance to $314.2 million (3.9%). Medicaid is mainly funded by the GRF but it is also supported by several non-GRF funds. More details on both the GRF and non-GRF variances in Medicaid expenditures are discussed in the section that follows this overview.

In addition to Medicaid, the Health and Human Services, General Government, and Debt Service categories increased their negative YTD variances in December. At the end of December, Health and Human Services had the second highest negative YTD variance of $49.2 million (6.8%); General Government had a negative variance of $6.9 million (3.4%); and Debt Service had a negative YTD variance of $0.8 million (0.1%). Three categories added to positive YTD variances in December: Primary and Secondary Education had a positive YTD variance of $45.3 million (1.1%) at the end of December; Justice and Public Protection had a positive YTD variance of $18.4 million (1.6%); and Other Education was $3.2 million (7.5%) above its YTD estimate. Higher education had a small positive monthly variance in December, but maintained a negative YTD variance of $6.6 million (0.6%). Finally, the Property Tax Reimbursements category's YTD variance turned from a positive variance of $6.2 million (0.7%) at the end of November to a negative variance of $7.9 million (0.9%) at the end of December. A discussion of the more significant of these variances follows the discussion of Medicaid.

Medicaid

Although GRF Medicaid expenditures were $70.4 million (6.1%) below estimate for the month of December, non-GRF Medicaid expenditures were $238.5 million (19.0%) above estimate. For the year to date through December, both GRF and non-GRF Medicaid expenditures were below estimates, by $314.2 million (3.9%) and $616.5 million (9.8%), respectively. Including both the GRF and non-GRF, all funds Medicaid expenditures of $13.44 billion were $930.7 million (6.5%) below the YTD estimate. The primary reason for these variances is the delay of two Health Care Assurance Program (HCAP) payments. The Ohio

[7] 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.

Department of Medicaid (ODM) planned to make two HCAP payments, both non-GRF funded, in September and in October. However, the first payment of $317.6 million did not occur until December, which resulted in a positive variance in non-GRF Medicaid expenditures for the month. The second payment has yet to be made. This delay has resulted in negative variances in both YTD non-GRF and all funds expenditures. The delay accounts for 51.5% of the YTD non-GRF variance and 34.1% of the YTD all funds variance. When the payment is made it will cause these YTD variances to narrow.

Table 5 shows GRF and non-GRF Medicaid expenditures for 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 from all four major payment categories, Managed Care, Fee-For-Service (FFS), Premium Assistance, and Administration, were below their YTD estimates. The FFS category had the largest overall negative variance of $581.1 million (12.6%), followed by Managed Care ($294.8 million, 3.4%), Premium Assistance ($32.8 million, 5.8%), and Administration ($22.1 million, 4.1%).

The negative variance in FFS was primarily due to the delay in one of the HCAP payments ($317.6 million) indicated earlier. Under HCAP, the state makes subsidy payments to hospitals that provide uncompensated care to low-income and uninsured individuals at or below 100% of the federal poverty level. Another contributing factor to the negative variance in the FFS category was 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.

Expenditures from all Managed Care categories were below their YTD estimates except for MyCare, which had a positive YTD variance of $51.8 million (4.2%). MyCare is a managed care program for Ohioans who are eligible for both Medicaid and Medicare. Group VIII (individuals who became eligible for Medicaid through the federal Affordable Care Act, also known as ACA) had the largest negative YTD variance of $166.6 million (7.3%) within the Managed Care category, followed by P4P & Insurer Fee (Pay for Performance and Health Insurer Fee) at $96.0 million (33.0%), and CFC (Covered Families and Children) at $60.3 million (2.0%). The negative variances for Group VIII and CFC were mainly due to lower than expected caseloads. For the first six months of FY 2019, on average the monthly managed care caseloads for Group VIII and CFC were 7.3% (46,800) and 1.9% (29,600), respectively, below estimates. Finally, $61.0 million of the $96.0 million negative YTD variance in the P4P & Insurer Fee category was due to the variance in the Health Insurer Fee. The Health Insurer Fee – a source of funding for the Marketplaces under ACA – is a tax by the federal government on certain entities that provide health insurance. The tax applies to Medicaid managed care and is incorporated into Ohio's Medicaid managed care capitation rates.[8]

Health and Human Services

The negative YTD variance in the Health and Human Services program category increased $2.1 million in December to $49.2 million (6.8%). The most significant negative YTD variance was $32.9 million for the Ohio Department of Job and Family Services (ODJFS), followed by $8.4 million for the Ohio Department of Mental Health and Addiction Services (ODMHAS) and $8.0 million for the Ohio Department of Health (ODH).

Of the 21 GRF line items in the ODJFS budget that are included in this program category, only two had positive YTD variances, one of which was significant – 600502, Child Support-Local, with a positive YTD variance of $2.4 million, which fell from $3.9 million at the end of November. Item 600502 provides the state share of the administrative costs of local child support enforcement agencies. Of the many line items with negative YTD variances, the most significant were 600416, Information Technology Projects, with a negative variance of $8.1 million, falling from $10.1 million at the end of November and 600521, Family Assistance – Local, with a negative variance of $5.2 million. Item 600416 provides funding for the development, implementation, and maintenance of computer systems used by ODJFS and the county departments of job and family services (CDJFSs). Item 600521 is used to provide CDJFSs the state's share of their administrative costs for public assistance programs.

The negative YTD variance for ODMHAS came primarily from two line items. Item 336510, Residential State Supplement, had a negative YTD variance of $4.2 million and item 336423, Addiction Services Partnership with Corrections, had a negative YTD variance of $2.6 million. Item 336510 is used to provide cash assistance and case management to aged, blind, or disabled adults who reside in approved alternate living facilities such as group homes and residential care facilities. Item 336423 funds services provided by ODMHAS inside of correctional facilities used by the Department of Rehabilitation and Correction (DRC). Also of note, item 336412, Hospital Services, had a positive variance for the month of December of $2.2 million, reducing its negative YTD variance to $1.3 million. Item 336412 funds the operating costs of the state's regional psychiatric hospitals.

Most of ODH's line items had negative variances at the end of December. The largest were items 440459, Help Me Grow; 440474, Infant Vitality; and 440482, Chronic Disease/Health Promotion, with negative YTD variances of $2.0 million, $1.4 million, and $1.1 million, respectively. Item 440459 is used to distribute funds to counties to operate the Help Me Grow Home Visiting Program, which is the state's parenting education program for parents at highest risk for poor child outcomes. Item 440474 is used by ODH for programs that address infant mortality. Item 440482 supports the Bureau of Health Promotion's efforts to prevent and control chronic diseases.

[8] 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.

Primary and Secondary Education

The Ohio Department of Education's (ODE's) positive YTD variance of $45.3 million was dominated by item 200550, Foundation Funding, which had a positive YTD variance of $49.1 million at the end of December, increasing by $23.8 million from the end of November. Item 200550 is primarily used to provide operating subsidies to public schools through the state's school funding formula. This item often has variances as ODE collects and updates various data that are used in the formula. Item 200502, Pupil Transportation, had a positive YTD variance of $8.7 million, almost all of which occurred in the month of December. Item 200502 is used to fund the transportation portion of the school funding formula, as well as transportation funding for students with disabilities that is provided outside of the formula.

These positive variances are partially offset by negative variances in several other line items, including negative YTD variances of $4.5 million in item 200408, Early Childhood Education, and $3.8 million in item 200511, Auxiliary Services. At the end of November, item 200408 had a positive variance of $1.2 million, but a negative variance in the month of December of $5.7 million pushed its YTD variance into negative territory. Item 200408 funds early childhood education programs for low-income children. Item 200511 supports the provision of certain secular services to chartered nonpublic schools and is distributed on a per pupil basis.

Justice and Public Protection

The positive YTD variance in the Justice and Public Protection category increased by $7.7 million in December to $18.4 million, mostly due to positive monthly and YTD variances for DRC of $8.8 million and $17.7 million, respectively. The Attorney General also had a significant positive YTD variance of $3.7 million at the end of December, which fell from $5.2 million at the end of November.

DRC's positive YTD variance was dominated by item 501405, Halfway House, with a positive variance of $16.1 million for both the month and year to date. Item 501405 is used to pay contracts to community residential programs that provide supervision and treatment services for certain offenders. Three appropriation items with significant YTD variances at the end of November had variances in December that were offsetting to their November YTD variances. Item 501407, Community Nonresidential Programs, had a positive YTD variance of $3.9 million at the end of December, which fell from $8.9 million at the end of November. Item 501407 funds grants to counties to operate intensive supervision and other community sanctions programming for felony offenders in lieu of prison or jail commitments. Item 501321, Institutional Operations, which had a positive monthly variance of $10.3 million in November, had a negative $4.1 million variance in December, changing its YTD variance from a positive $3.4 million at the end of November to a negative $0.8 million at the end of December. Item 501321 is the state's main source of funding for prison operations. Finally, item 505321, Institution Medical Services, decreased its negative YTD variance of $4.0 million at the end of November to a negative YTD variance of $2.5 million at the end of December. Item 505321 is used to provide medical services to offenders in the state's prison system.

The Attorney General's positive YTD variance primarily came from item 055321, Operating Expenses, which had a positive YTD variance of $5.0 million. Item 055321 is the Attorney General's main appropriation for the office's operating expenses.

Issue Updates

Ohio University Receives $200,000 in Rural Opioid Response Planning Funds

– Ryan Sherrock, Economist

On December 4, 2018, the Ohio University's Voinovich School of Leadership and Public Affairs was awarded a $200,000 federal Rural Communities Opioid Response Program Planning grant. The purpose of the grant is to reduce the morbidity and mortality associated with opioid use disorder in high-risk rural counties by strengthening infrastructural and organizational capacity. Specific grant activities will include developing a consortium of various health care professionals, researchers, and community health authorities to conduct a detailed community needs assessment. This assessment will identify gaps in prevention and treatment services and in the recovery workforce itself. After this has been completed, the consortium will develop a strategic plan to address identified gaps in healthcare access and a workforce plan to help ensure communities have sufficiently trained personnel to deal with the opioid crisis. Activities will focus on local communities in Ashtabula, Fairfield, Sandusky, Seneca, and Washington counties. To carry out the grant, the Voinovich School is partnering with the Pacific Institute for Research and Evaluation, a nonprofit organization specializing in prevention strategies that collaborates with many government agencies, businesses, universities, and foundations across the nation. The Institute also received a separate, complementary $200,000 grant, which will be used to assist the Voinovich School with these activities.

The Rural Communities Opioid Response Program Planning grant is provided by the Health Resources and Services Administration (HRSA) of the U.S. Department of Health and Human Services. In total, HRSA awarded $19 million in grant funds to 95 rural health organizations across the country. Each recipient received $200,000, which was the maximum amount allowed. Both public and private entities who serve high-risk rural communities were eligible to apply. According to HRSA, additional funds may be available in future years to provide continued support.

Ohio Infant Mortality Rate Decreases in 2017

– Jacquelyn Schroeder, Budget Analyst

On December 6, 2018, ODH released its 2017 Ohio Infant Mortality Report, which found that Ohio's infant mortality rate[9] for all races decreased from 7.4 in 2016 to 7.2 in 2017. Ohio's goal is to attain a rate of 6.0 or lower for every race or ethnic group. The white infant mortality rate has met this goal since 2014 and continues to experience improvement – decreasing from 5.8 in 2016 to 5.3 in 2017. However, neither the infant mortality rate for blacks nor Hispanics has achieved this goal. While the rate for Hispanics decreased from 7.3 in 2016 to 7.2 in 2017, the rate for blacks actually increased from 15.2 to 15.6 during this time period. According to the report, the number of black infant deaths increased by 9% during the neonatal period (first 27

[9] The infant mortality rate is the number of infant deaths in the first year of life per 1,000 live births.

days of life) but decreased by 7% for the post-neonatal period (28 through 364 days of life). Deaths during the neonatal period are often attributed to preterm birth, low birth weight, or health problems experienced by the mother before and during pregnancy.

The state has taken numerous steps to address infant mortality over the past several years. Current efforts include increasing access to long-acting reversible contraceptives to promote safe birth intervals, increasing the use of progesterone treatment to reduce preterm birth, and establishing grant programs to reduce smoking rates for pregnant women. In addition, there have been numerous efforts focusing on areas with high risk of infant mortality. An example of a targeted effort, which launched in the fall of 2018, uses local community health workers to identify at-risk pregnant women and connect them to healthcare and other necessary social services.

To read the report in its entirety or to learn more about Ohio's efforts to reduce infant mortality, please refer to ODH's Infant and Fetal Mortality Reports page on its website (www.odh.ohio.gov).

State Foundation Formula Provides Additional $7.8 Million over the Biennium for Districts Affected by Power Plant Devaluation

– Alexandra Vitale, Budget Analyst

For FY 2018 and FY 2019, the state foundation formula provides a total of $7.8 million to school districts through provisions designed to counteract potentially significant reductions in local property tax revenue due to devaluation of power plants. The devaluation provisions benefit three school districts by a total of $1.8 million in FY 2018 and four districts by an estimated total of $6.0 million in FY 2019, as shown in the following table.

Additional State Foundation Aid for School Districts Benefiting from Power Plant Devaluation Provisions

County	District	FY 2018 Additional Aid	FY 2019 Estimated Additional Aid	Biennium Total Additional Aid
Adams	Manchester Local SD	$936,756	$2,059,937	**$2,996,693**
Lake	Perry Local SD	–	$2,310,325	**$2,310,325**
Clermont	New Richmond Exempt Village SD	$557,103	$888,582	**$1,445,685**
Hamilton	Three Rivers Local SD	$305,987	$736,473	**$1,042,460**
	Total	**$1,799,846**	**$5,995,317**	**$7,795,163**

The devaluation provisions make exceptions to the way in which the formula typically works by (1) calculating an eligible district's state share index using the lesser of (a) the district's most recent year property value and (b) its three-year average property value for tax years (TYs) 2014, 2015, and 2016 and (2) lifting the district's funding cap, if any, up to the loss in local property tax revenues. Using the lesser of the two property values in the formula increases a district's state share, which could potentially increase the district's overall foundation aid.

To be eligible for the devaluation provisions in FY 2018, the formula required a district to satisfy all of the following criteria: (1) public utility tangible personal property (PUTPP) value must represent at least 10% of total taxable value for TY 2015, (2) PUTPP value must decrease by 10% or more between TY 2015 and TY 2016, and (3) the total taxable value of power plants in the district must decrease by 10% or more between TY 2015 and TY 2016. The formula uses the same eligibility criteria in FY 2019 but takes into consideration property value data for TY 2016 and TY 2017.

Five other school districts – River View Local (Coshocton), Northeastern Local (Defiance), Edison Local (Jefferson), Benton Carroll Salem Local (Ottawa), and Carlisle Local (Warren) – were also eligible for the devaluation provisions. However, they do not actually benefit from them or benefit by less than $500, mainly due to these districts' position on the formula's "guarantee."[10] While an eligible district on the guarantee may have greater levels of "core" foundation aid (i.e., aid before the guarantee is applied) due to its increased state share as a result of using the lesser of two property values, the district's guarantee funds decrease by a corresponding amount and result in no net increase in overall state foundation aid.

Thirteen School Districts' State Aid for FY 2018 Adjusted by PUTPP Recomputation Provision

– Jason Glover, Budget Analyst

Pursuant to R.C. 3317.028, FY 2018 state foundation aid was recalculated for 13 school districts with substantial changes in their PUTPP values for TY 2017. The recomputation resulted in additional state aid payments totaling $6.2 million for ten of the 13 districts and state aid deductions totaling about $545,000 for the other three districts (see table below). Payments due to the recomputation are paid from an earmark of GRF line item 200550, Foundation Funding. Deductions will be spread throughout FY 2019 as debits against the district's semimonthly foundation aid payments.

The PUTPP value recomputation, which is performed annually, is designed to ensure that the PUTPP tax revenue received by a district during a given fiscal year is not substantially different than the one assumed in that year's foundation aid formula.[11] The FY 2018 recomputation applied to a school district whose PUTPP value decreased by more than 10% between TY 2016 and TY 2017 or whose increase in PUTPP value between those years exceeded 10% of the district's *total taxable value* for TY 2016. The recomputation replaced an eligible district's three-year average total taxable value for TYs 2014, 2015, and 2016, which is used in the formula to calculate the district's FY 2018 state foundation aid, with the district's total taxable value for TY 2017 and removed the district's funding cap, if any. The payment or

[10] In general, the guarantee ensures a district is allocated between 95% and 100% (depending on district enrollment loss) of its FY 2017 state foundation aid allocation in FY 2018 and FY 2019.

[11] TY 2017 PUTPP values were not used in the state foundation aid formula for FY 2018. However, the actual PUTPP tax revenues received by school districts during FY 2018 were partly based on TY 2017 PUTPP values.

deduction is the lesser of (1) the difference between the district's foundation funding prior to recomputation and the district's recomputed foundation funding and (2) the applicable increase or decrease in the district's local property taxes from TY 2016 to TY 2017.

RC 3317.028 State Aid Adjustment, FY 2018		
County	**District**	**Amount**
Lake	Perry Local SD	$2,268,013
Adams	Manchester Local SD	$1,916,581
Clermont	New Richmond Exempt Village SD	$852,410
Hamilton	Three Rivers Local SD	$504,552
Lake	Willoughby-Eastlake City SD	$479,801
Coshocton	River View Local SD	$108,376
Defiance	Ayersville Local SD	$26,600
Allen	Elida Local SD	$13,934
Ottawa	Benton Carroll Salem Local SD	$10,025
Preble	College Corner Local SD	$3,697
	Total payments	**$6,183,989**
Mahoning	Lowellville Local SD	-$189
Trumbull	Weathersfield Local SD	-$144,811
Clermont	Felicity-Franklin Local SD	-$400,266
	Total deductions	**-$545,266**
Total net adjustment		**$5,638,723**

Development Services Agency Awards $26.1 Million in Ohio Historic Preservation Tax Credits

– Tom Middleton, Senior Budget Analyst

On December 12, 2018, the Development Services Agency (DSA) approved 26 awards totaling $26.1 million in Round 21 of the Ohio Historic Preservation Tax Credit (OHPTC) Program. These awards will be used for the rehabilitation of 28 historic buildings. The table below displays the awards by region, including the number of awards, total value of awards, total project costs, and the average percentage of the project cost covered by the award in each region.

Ohio Historic Preservation Tax Credit Awards, Round 21				
Region	Number of Awards	Total Value of Awards	Total Project Costs	Award as % of Total Project Costs
Northeast	10	$12,346,845	$120,606,598	10.2%
Southwest	6	$6,136,000	$75,904,176	8.1%
West	1	$4,133,458	$20,459,578	20.2%
Central	6	$2,801,000	$29,449,139	9.5%
Northwest	2	$491,186	$3,720,197	13.2%
Southeast	1	$149,496	$662,300	22.6%
Total	**26**	**$26,057,985**	**$250,801,988**	**10.4%**

The goal of the OHPTC Program is to spur investment within historic areas, restore buildings that will attract new businesses, and generate new jobs. To be eligible, generally a building must be listed on the National Register of Historic Places or designated as a local landmark by a certified local government. The program is administered through a partnership between DSA and the Ohio History Connection. Each year, $60 million is allocated to the program; however, an additional amount in tax credits may be awarded if projects that were previously approved under the program have been withdrawn or if there is a surplus of tax credits from prior fiscal years. DSA awards two rounds of funding each year. Round 22 project applications are due April 1, 2019, and the awards will be announced by the end of June.

Ohio EPA Announces up to $1.9 Billion in Water Pollution Control Loan Funding for CY 2019

– Robert Meeker, Budget Analyst

On December 7, 2018, the Ohio Environmental Protection Agency (Ohio EPA) published the Water Pollution Control Loan Fund (WPCLF) 2019 Final Program Management Plan detailing their intent to award standard, discounted, and principal forgiveness loans totaling up to $1.9 billion in CY 2019.[12] The WPCLF offers assistance opportunities to public entities for projects including wastewater treatment plant improvements and expansion, new and replacement sanitary sewers, excess sanitary sewer infiltration and inflow correction, combined sewer overflow correction, storm water projects, and nonpoint source water pollution reduction.

The plan describes how the Ohio EPA proposes to prioritize projects, distribute funds, and administer the fund during 2019. It includes details for financing the planning, design, or construction costs of up to 461 wastewater projects as follows: (1) 367 construction projects for a

[12] See the full report at https://www.epa.state.oh.us/.

total of $1.8 billion, (2) 82 design projects for a total of $70.2 million, and (3) 12 planning projects for a total of $8.7 million. These projects have been identified by the Ohio EPA as priority candidates that are eligible for funding in 2019. The actual loan amount and related terms and conditions will depend on available funds for the intended purpose at the time of application. In CY 2017, the most recent year for which actual WPCLF loan data has been released, $913 million, or 55.1%, of the planned $1.7 billion was released within the project year.

The loans are backed with money drawn from the WPCLF, which is managed by the Ohio EPA with assistance from the Ohio Water Development Authority. Created in 1989, the WPCLF generally provides low-interest financing and incentives to public entities (municipalities, counties, and sewer districts) to protect or improve the quality of Ohio's water resources. The fund consists of federal capitalization grants, loan repayments, and bond proceeds.

Department of Agriculture Announces $8.5 Million Allocated for Agricultural Easement Purchases in 2019

– Shannon Pleiman, Budget Analyst

On November 20, 2018, the Ohio Department of Agriculture (ODA) announced that 26 land trusts, counties, and local soil and water conservation districts would receive a total of $8.5 million in 2019 to manage the state's Local Agricultural Easement Purchase Program (LAEPP). These 26 sponsors are now certified to accept LAEPP applications from landowners in up to 36 counties. The application period is January 15, 2019, to April 15, 2019. Funding for the program comes from ODA's allocation under the state's Clean Ohio Conservation Fund, which is funded by the proceeds of general obligation bonds that were approved by voters in 2008. Additional funding to support the purchase of agricultural easements is provided by the U.S. Department of Agriculture's Agricultural Conservation Easement Program or through local matching funds once easements are selected.

The LAEPP allows landowners to voluntarily sell easements on their farms to the state, ensuring that the qualifying land remains in agricultural production permanently. The process is overseen by local sponsor organizations that score applications and forward their recommendations for funding to ODA. Sponsor organizations can be counties, cities, townships, soil and water conservation districts, or land trusts. Eligible farms must be at least 40 acres, in active use, enrolled in the Current Agricultural Use Valuation Program, and removed from development. In addition, farm owners must show proper stewardship of the land and have support from local government for their farmland to qualify. Payments from the Clean Ohio Conservation Fund are capped at $2,000 per acre with a maximum of $500,000 per farm. Statewide, as of November 2018, 449 farms in 59 counties have collectively preserved more than 73,500 acres under LAEPP.

State Forest Timber Sales Provide $2.3 Million to Local Governments and School Districts

– Shannon Pleiman, Budget Analyst

On December 11, 2018, the Department of Natural Resources (DNR) announced that 16 school districts, 26 townships, and 12 county governments will receive more than $2.3 million from the sale of timber from state forest lands in FY 2018. Under current law, 65% of the net proceeds from the sale of timber must be distributed to the county, townships, and school districts from which the timber was harvested. The remaining 35% is retained by DNR's Division of Forestry and deposited to the credit of the State Forest Fund (Fund 5090). Of the amount distributed to local communities, 50% goes to school districts, 25% goes to townships, and 25% goes to the county. The table below shows the amounts received by each type of recipient by county in this latest distribution of timber sales revenue. A full list of recipients can be found at: http://forestry.ohiodnr.gov/portals/forestry/pdfs/ttt/treestotextbooksFY18.pdf

FY 2018 Timber Sale Distributions by Recipient Type				
County	**School Districts**	**County**	**Townships**	**Total**
Vinton	$500,271	$250,135	$250,135	$1,000,541
Scioto	$271,554	$135,777	$135,777	$543,108
Pike	$138,749	$69,374	$69,374	$277,497
Adams	$59,474	$29,737	$29,737	$118,948
Athens	$42,849	$21,424	$21,424	$85,697
Ross	$39,841	$19,920	$19,920	$79,681
Jackson	$37,086	$18,543	$18,543	$74,172
Perry	$31,068	$15,534	$15,534	$62,136
Muskingum	$28,955	$14,478	$14,478	$57,911
Ashland	$2,957	$1,479	$1,479	$5,915
Meigs	$1,825	$913	$913	$3,651
Highland	$1,372	$686	$686	$2,744
Total	**$1,156,001**	**$578,000**	**$578,000**	**$2,312,001**

Criminal Justice Services Awards $3.9 Million in Federal Edward Byrne Memorial Justice Assistance Grants

– Maggie West, Senior Budget Analyst

On November 9, 2018, the Department of Public Safety's Office of Criminal Justice Services announced the award of $3.9 million in federal grants from the Edward Byrne Memorial Justice Assistance Grant (JAG) Program to 121 projects in 47 counties.[13] Under the JAG program, units of local government, state agencies, state-supported universities, statewide and local nonprofit or faith-based organizations, and law enforcement agencies may apply for new or renewal funding to support a broad range of crime prevention and control activities in five program areas. Renewal projects accounted for 83 of the 121 projects receiving JAG Program funding in November.

Funding for the projects ranged from $5,036 for Immigrant Survivors of Partner Violence in Hamilton County to $112,500 for the METRICH Enforcement Unit in Richland County. The following table lists, for each program area, the number of projects funded and the total amount of funding awarded. All JAG Program awards are for 12 months of funding, beginning January 1, 2019. The required match (cash or in-kind) is either 25%, 50%, or 75% depending on the number of years a project has been funded but may be waived under certain circumstances.

Federal JAG Awards by Program Area		
Program Area	**Number of Projects**	**Total Funding**
Law Enforcement	62	$2,110,693
Courts, Defense, Prosecution, and Victim Services	19	$615,304
Crime Prevention	24	$570,277
Adult and Juvenile Corrections, Community Corrections, and Reentry	10	$342,074
Cross-agency and Cross-system Collaboration, Training, and Research	6	$282,419
Total	**121**	**$3,920,767**

[13] A complete list of funded projects by county can be found at: https://www.ocjs.ohio.gov/links/FUNDED_Subgrant_List_by_County.pdf.

Tracking the Economy

– Eric Makela, Economist

Overview

The national economy continued its expansion in November, with household spending growing strongly. According to the U.S. Bureau of Labor Statistics (BLS), job gains were strong in December, but the national unemployment rate increased 0.2 percentage point to 3.9%. In light of current and expected economic growth, labor market conditions, and inflation, the Federal Open Market Committee (FOMC)[14] raised the federal funds rate (FFR) target again in December. The industrial production index (IPI) reached an all-time high in November. Aggregate industrial output, as measured by the IPI, has grown over the past year, and was 6.0% higher in November than in September 2017.[15] Data from the Institute for Supply Management suggested that growth in the economy slowed notably in the month of December, though growth did continue. Nationally, sales of existing homes were 7.0% lower this November than in November 2017.

Ohio's nonfarm payroll employment rose by 5,200 jobs in November, with most job gains coming in the private, service-providing sector. The state unemployment rate remained at 4.6% in November. Ohio's third-quarter growth of personal income was a strong 4.1%, up from 1.9% in the second quarter. Sales of existing homes in Ohio were up 0.8% in November.

The National Economy

In the July-September quarter, the nation's inflation-adjusted (or "real") gross domestic product (GDP) grew at a 3.4% annual rate, revised down 0.1 percentage point from previous estimates. This follows growth at a 4.2% rate in the previous quarter, and 2.2% in the year's first quarter. Growth in the most recent two quarters was the strongest in four years. The deceleration in real GDP growth in the third quarter was most notably due to a decrease in exports, as well as slowing growth in nonresidential fixed investment and personal consumption expenditures (PCE). Real GDP growth is expected to slow during 2018 Q4 and 2019 Q1, as compared to the previous two quarters, according to multiple sources.[16]

The Employment Situation, published by the U.S. Bureau of Labor Statistics (BLS), was particularly noteworthy this month due to larger than usual movements and changes in key indicators. The U.S. unemployment rate[17] rose 0.2 percentage point in December to 3.9%. Although rising, the unemployment rate is still relatively low in a historical context. The labor force participation rate[18] also rose 0.2 percentage point. Compared to a year ago, when the unemployment rate stood at 4.1%, the nation has gained approximately 2.9 million employed

[14] The FOMC is a committee within the Federal Reserve that decides U.S. monetary policy.

[15] September 2017 was chosen for comparison due to the visible trough in the IPI.

[16] Macroeconomic Advisers, LLC, Moody's Analytics.

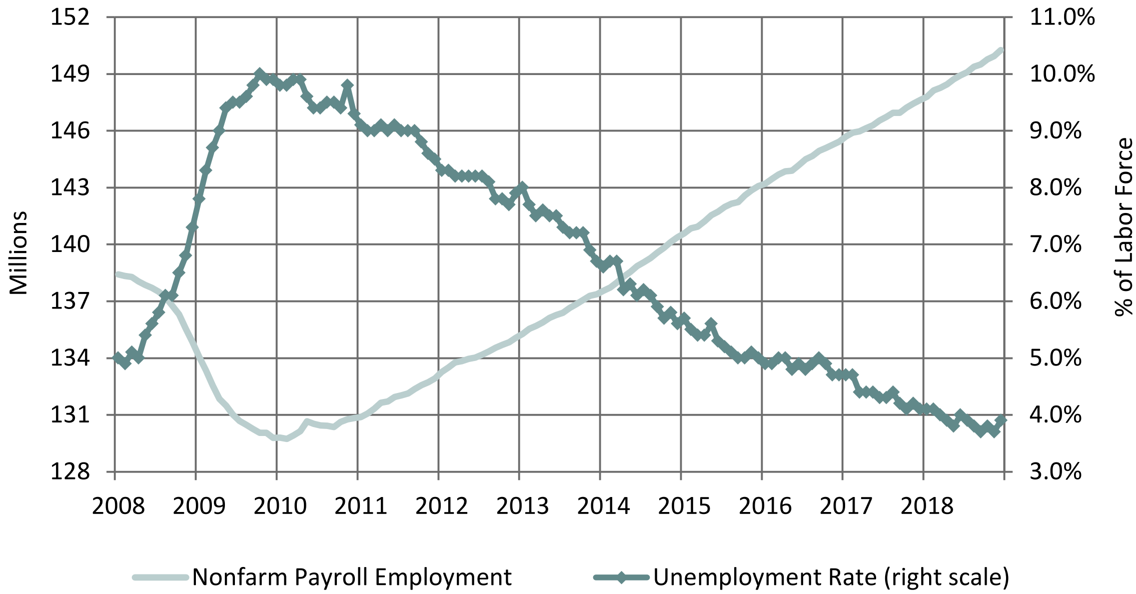
[17] The unemployment rate is measured by the estimated number of unemployed persons divided by the estimated number of persons in the labor force.

[18] People are considered in the labor force if they are employed or actively seeking work.

persons, while the labor force has increased by around 2.6 million persons. The employment-population[19] ratio was 60.6% in December, unchanged from November.

Nonfarm payroll employment increased by 312,000 in December. Employment gains in health care were 50,000 in December, while job gains in food services and drinking places totaled 41,000. Construction employment rose by 38,000 over the month, and manufacturing employment increased by 32,000 workers nationally. Over the month of December, employment in retail trade rose by 24,000, and was up by 92,000 in 2018.

Chart 5: U.S. Employment and Unemployment



According to the Institute for Supply Management (ISM), activity in the manufacturing sector expanded in December, although growth was less widespread among survey respondents than in November; ISM's overall manufacturing production index registered its largest month-over-month decrease since 2008. In particular, the New Orders Index registered a decrease of 11 percentage points from November to December, the largest change of any ISM manufacturing indicator. Increases in production and prices were also slower in December, as compared to the prior month.

During their December meeting, members of the FOMC raised the target range for the FFR to between 2.25% and 2.5%, signaling an attempt to maintain a balance between maximum employment and controlling inflation. FOMC projections for real GDP growth in calendar year 2019 were 0.2 percentage point lower than they were in September, while the projection for unemployment is unchanged. The anticipated increase in the FFR over the next two years also declined from September.

The consumer price index (CPI) did not rise in the month of November, and was 2.2% above its year-earlier level. The cost of food rose 0.2% in November, while the price index for

[19] As defined, this statistic refers to the civilian noninstitutional population, defined as civilian persons 16 years of age and older who are not residing in penal, mental, or aging institutions.

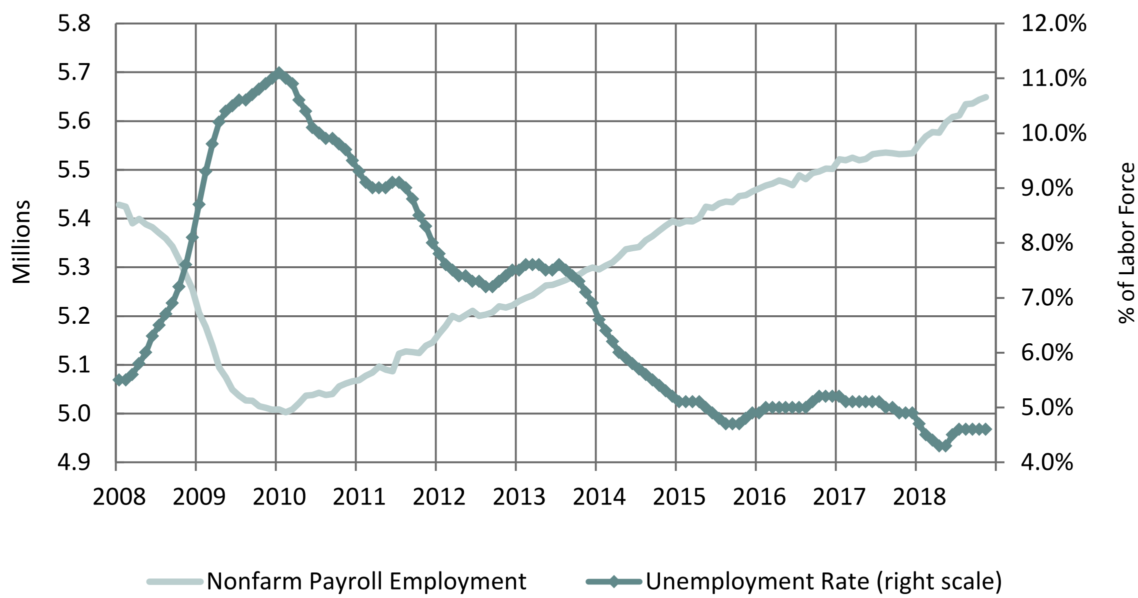
all energy commodities[20] fell; the cost of energy services did not drop in line with the price of commodities. The CPI excluding food and energy was 2.2% higher than a year earlier. The price of services less energy services was 2.9% higher than in November 2017.

The Ohio Economy

Ohio's unemployment rate for November was 4.6%, unchanged from a month prior and substantially higher than the U.S. unemployment rate of 3.7%. Ohio's unemployment rate was 4.9% in November 2017. The number of unemployed Ohioans was down 3,000 from October, to a total of 263,000.

Nonfarm employment was increased by approximately 5,200 over the month of November, according to the BLS. Manufacturing added 1,400 jobs and employed 703,300 people as of the time of the November survey. The private service-providing sector added 4,600 jobs, primarily in professional and business services (+2,800) and educational and health services (+1,700). Government employment, currently at 790,300, decreased by 600 workers as losses in local government (-1,500) were greater than the gains in federal government (+900); there was no change in state government employment.

Chart 6: Ohio Employment and Unemployment



A total of 11,789 existing homes were sold in November in the state of Ohio, up 0.8% from a year prior, according to Ohio REALTORS. For 2018 through November, the number of existing home sales decreased 0.5% year over year. The market value of existing home sales in Ohio in 2018 was $25.7 billion to date, up 4.9% from this time in 2017. The average sales price for existing homes was $178,882 in November, and the year-to-date average sale price has increased by 5.4% from 2017 to 2018. The Columbus, Ohio metro area was rated as one of the hottest metro areas according to Realtor.com's Market Hotness Index, which rates areas nationwide based on views and time on the market data.

[20] Mostly gasoline (all types) and fuel oil.

According to the Bureau of Economic Analysis (BEA), personal income of Ohioans increased at an annualized rate of 4.1% in the third quarter of 2018, compared to growth of only 1.9% in the second quarter. Increases in net earnings, measured as wages, salaries, and proprietors' income less contributions for government social insurance, were the largest contributor to the rise in Ohio personal income in the third quarter. Net earnings in Ohio grew faster than the national average, while financial receipts[21] and transfer receipts grew more slowly than the national average. Among sectors of the Ohio economy, state and local government, health care and social assistance, and construction contributed the largest percentage point increases in earnings.

According to the U.S. Census Bureau, Ohio's population grew 0.2% from July 2017 to July 2018, while the nation's resident population grew 0.6%. As of July 1, 2018, Ohio's resident population was estimated to be 11,689,442. Of the total growth, 68.6% of the increase was attributable to natural increase,[22] with the rest attributed to in-migration. The Census Bureau estimates that Ohio gained 1.8 international migrants[23] per 1,000 average population, while it lost 1.0 domestic residents per 1,000 average population.

Economic Forecasts

GRF tax revenue depends on the state of the economy, implying that the accuracy of revenue forecasts depends on the accuracy of forecasts of important economic variables. Tax revenue was higher than expected in FY 2018 and has continued higher than expected through December of 2018. LSC, together with OBM and the Department of Taxation, contracts with IHS Markit, an economic forecasting firm, for forecasts of key economic variables used to predict revenues. So far, the IHS Markit forecasts have been fairly close to actual experience since the budget was crafted.

The following table is intended to compare, for selected variables, the most recent economic forecasts from IHS Markit with that organization's forecasts released in May 2017 and presented in the Economic Conditions and Outlook section of the biennial budget forecast to the Conference Committee for H.B. 49 of the 132nd General Assembly, the current operating budget act. The table presents data for FY 2019. Annual data are based on simple averages of the four quarters of each fiscal year. The "Conference Committee" forecast refers to the May 2017 forecasts. The column at the right shows the difference between growth rate estimates made in May 2017[24] and December 2018.

[21] Dividends, interest, and rent.

[22] Births minus deaths.

[23] International migrant total includes foreign-born individuals, native-born individuals moving from or back to United States, and net movement of the Armed Forces population.

[24] The May 2017 forecast for Ohio's personal income was not part of the usual IHS release, but part of a customized release requested by LSC and OBM, based on a shared view that the May IHS projections appeared optimistic relative to Ohio income tax revenue in that fiscal year.

Forecasts for Selected Variables, FY 2019 (percent change from previous year)	H.B. 49 Conference Committee	December 2018	Percentage Point Change
Ohio personal income	4.2%	4.2	0.0
Ohio wage & salary income	4.7%	4.0	-0.7
Ohio industrial production	3.0%	3.4	+0.4

As the table shows, IHS Markit's December 2018 forecast for Ohio personal income growth in FY 2019 is about in line with the forecast made in May 2017, revised as indicated above. The May 2017 baseline forecast from IHS predicted Ohio wage and salary income would rise at an annual rate of 4.7% in FY 2019 but is now projected to lag past estimates by a margin of -0.7 percentage point for 2019. However, the outlook for industrial production in the state was revised higher.[25]

[25] State industrial production indices are constructed by economic forecasting firm IHS Markit Economics using industry-level national IPIs and corresponding U.S. and state payroll employment.