LBO Budget Footnotes

A monthly newsletter of the Legislative Budget Office of LSC

Volume: Fiscal Year 2019 Issue: May 2019

Highlights

– Ross Miller, Chief Economist

April income tax filings yielded receipts exceeding the Office of Budget and Management's (OBM'S) February estimate by $350 million, and total GRF receipts from the tax exceeded estimate by $377 million. GRF receipts from the sales and use tax also beat projections, so that overall GRF tax receipts exceeded the estimate for the month by $414 million. GRF Medicaid spending was below estimate by $100 million for the month, so that April made a very strong contribution to what can now confidently be projected to be a positive GRF balance at the end of FY 2019 amounting to several hundred million dollars.

Ohio's unemployment rate decreased from 4.6% in February to 4.4% in March, and Ohio's nonfarm payroll employment increased by 6,300 for the month.

Through April 2019, GRF sources totaled $27.42 billion:

- Revenue from the sales and use tax was $177.7 million above estimate;
- Personal income tax receipts were $276.7 million above estimate.

Through April 2019, GRF uses totaled $28.25 billion:

- Program expenditures were $701.2 million below estimate, driven by Medicaid spending that was $730 million below estimate;
- Expenditures from a few program categories were above estimates, including Property Tax Reimbursements ($64.7 million) and Primary and Secondary Education ($28.1 million), with both of those variances primarily due to timing.

In this issue...

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

State Sources	Actual	Estimate*	Variance	Percent
Tax Revenue				
Auto Sales	$159,379	$142,200	$17,179	12.1%
Nonauto Sales and Use	$778,735	$774,600	$4,135	0.5%
Total Sales and Use	*$938,115*	*$916,800*	*$21,315*	*2.3%*
Personal Income	$1,329,668	$952,300	$377,368	39.6%
Commercial Activity Tax	$71,084	$60,600	$10,484	17.3%
Cigarette	$72,922	$75,300	-$2,378	-3.2%
Kilowatt-Hour Excise	$32,288	$31,500	$788	2.5%
Foreign Insurance	$150	-$700	$850	121.5%
Domestic Insurance	$299	$800	-$501	-62.6%
Financial Institution	$31,012	$26,700	$4,312	16.2%
Public Utility	$229	$200	$29	14.4%
Natural Gas Consumption	$4,040	$3,700	$340	9.2%
Alcoholic Beverage	$4,865	$3,400	$1,465	43.1%
Liquor Gallonage	$4,153	$4,100	$53	1.3%
Petroleum Activity Tax	$0	$0	$0	---
Corporate Franchise	$96	$0	$96	---
Business and Property	$0	$0	$0	---
Estate	$41	$0	$41	---
Total Tax Revenue	**$2,488,960**	**$2,074,700**	**$414,260**	**20.0%**
Nontax Revenue				
Earnings on Investments	$27,466	$21,795	$5,671	26.0%
Licenses and Fees	$10,935	$3,030	$7,905	260.9%
Other Revenue	$17,225	$463	$16,762	3622.9%
Total Nontax Revenue	**$55,627**	**$25,288**	**$30,339**	**120.0%**
Transfers In	**$1,550**	**$0**	**$1,550**	**---**
Total State Sources	**$2,546,137**	**$2,099,988**	**$446,149**	**21.2%**
Federal Grants	**$621,799**	**$701,785**	**-$79,986**	**-11.4%**
Total GRF Sources	**$3,167,936**	**$2,801,773**	**$366,163**	**13.1%**

*Estimates of the Office of Budget and Management as of August 2018, except for the personal income, nonauto sales, and kilowatt-hour exercise 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 April 30, 2019
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on May 1, 2019)

State Sources	Actual	Estimate*	Variance	Percent	FY 2018**	Percent
Tax Revenue						
Auto Sales	$1,238,103	$1,192,900	$45,203	3.8%	$1,175,230	5.3%
Nonauto Sales and Use	$7,479,114	$7,346,600	$132,514	1.8%	$7,191,490	4.0%
Total Sales and Use	*$8,717,217*	*$8,539,500*	*$177,717*	*2.1%*	*$8,366,720*	*4.2%*
Personal Income	$7,402,156	$7,125,500	$276,656	3.9%	$6,899,291	7.3%
Commercial Activity Tax	$1,271,335	$1,230,600	$40,735	3.3%	$1,185,259	7.3%
Cigarette	$699,771	$699,200	$571	0.1%	$715,592	-2.2%
Kilowatt-Hour Excise	$305,211	$303,900	$1,311	0.4%	$295,279	3.4%
Foreign Insurance	$327,738	$306,000	$21,738	7.1%	$316,961	3.4%
Domestic Insurance	$330	$800	-$470	-58.8%	$1,523	-78.3%
Financial Institution	$148,390	$146,900	$1,490	1.0%	$145,571	1.9%
Public Utility	$104,428	$85,100	$19,328	22.7%	$83,774	24.7%
Natural Gas Consumption	$44,472	$37,400	$7,072	18.9%	$38,361	15.9%
Alcoholic Beverage	$44,162	$45,500	-$1,338	-2.9%	$46,152	-4.3%
Liquor Gallonage	$41,810	$40,800	$1,010	2.5%	$40,076	4.3%
Petroleum Activity Tax	$8,400	$4,600	$3,800	82.6%	$5,442	54.4%
Corporate Franchise	$1,551	$0	$1,551	---	$1,971	-21.3%
Business and Property	$0	$0	$0	---	-$374	100.0%
Estate	$73	$0	$73	---	$132	-44.7%
Total Tax Revenue	**$19,117,044**	**$18,565,800**	**$551,244**	**3.0%**	**$18,141,729**	**5.4%**
Nontax Revenue						
Earnings on Investments	$82,619	$60,006	$22,613	37.7%	$46,844	76.4%
Licenses and Fees	$63,186	$56,809	$6,377	11.2%	$60,876	3.8%
Other Revenue	$83,487	$77,092	$6,394	8.3%	$262,984	-68.3%
Total Nontax Revenue	**$229,291**	**$193,907**	**$35,384**	**18.2%**	**$370,704**	**-38.1%**
Transfers In	**$84,588**	**$87,690**	**-$3,102**	**-3.5%**	**$133,327**	**-36.6%**
Total State Sources	**$19,430,923**	**$18,847,397**	**$583,526**	**3.1%**	**$18,645,760**	**4.2%**
Federal Grants	**$7,993,772**	**$8,558,771**	**-$564,999**	**-6.6%**	**$8,057,708**	**-0.8%**
Total GRF SOURCES	**$27,424,696**	**$27,406,168**	**$18,528**	**0.1%**	**$26,703,468**	**2.7%**

*Estimates of the Office of Budget and Management as of August 2018, except for the personal income, nonauto sales, and kilowatt-hour exercise 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

The personal income tax (PIT) surged ahead of revenue projections by $377.4 million (39.6%) in April 2019. This performance boosted GRF tax receipts to a positive variance of $414.3 million (20.0%) for the month. Due to results from this revenue category, year-to-date (YTD) GRF sources totaling $27.42 billion were $18.5 million (0.1%) above revised OBM estimates, up from a cumulative negative variance of $347.6 million for the first three quarters of the fiscal year.

GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants. YTD through April, GRF tax revenues posted a positive variance of $551.2 million (3.0%), nearly ensuring this revenue category will exceed anticipated fiscal year receipts at the end of June. On the other hand, a large shortfall of $565.0 million (6.6%) for federal grants more than offset the positive variance of tax sources. Federal grants are also likely to finish the fiscal year below estimates.[2] Regarding the remaining GRF categories, nontax revenue was $35.4 million (18.2%) above estimate, while transfers in were $3.1 million (3.5%) below projected revenues.

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 PIT revenue due to this change.[3] Tables 1 and 2 show GRF sources for the month of April and for FY 2019 through April, 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.

Regarding specific GRF tax sources, the PIT posted a cumulative YTD positive variance of $276.7 million, attributable to the April performance. Among the other largest tax sources, the sales and use tax was $177.7 million above estimate, the commercial activity tax (CAT) surpassed expectations by $40.7 million, and the cigarette and other tobacco products tax was on target relative to estimates. Most of the remaining tax sources were above estimates,

[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.

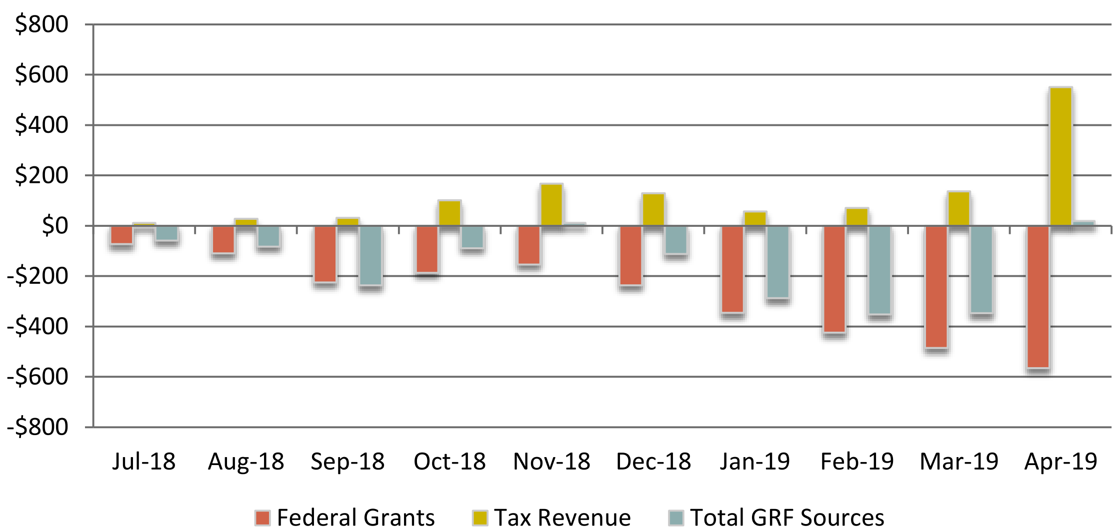
[2] Federal grants are primarily federal reimbursements for Medicaid. GRF Medicaid spending was $729.7 million below estimates through April.

[3] 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.

including the foreign insurance tax ($21.7 million), the public utility excise tax ($19.3 million), the natural gas consumption tax ($7.1 million), and the petroleum activity tax ($3.8 million). On the other hand, the alcoholic beverage tax and the domestic insurance tax experienced shortfalls of $1.3 million and $0.5 million, respectively.

April GRF sources totaled $3.17 billion, an amount $366.2 million (13.1%) above projections. In addition to GRF tax sources, nontax revenue and transfers in were also above anticipated receipts by $30.3 million[4] and $1.6 million, respectively. Those positive variances were partially offset by a negative variance of $80.0 million for federal grants. Most tax sources were above estimates for the month, including the PIT, the sales and use tax ($21.3 million), the CAT ($10.5 million), the financial institutions tax (FIT, $4.3 million) and the alcoholic beverage tax ($1.5 million). The cigarette and other tobacco products tax, which was $2.4 million below projections, experienced the only substantial monthly revenue shortfall. Chart 1, below, shows cumulative variances of GRF sources through April.

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



FY 2019 GRF sources increased $721.2 million relative to sources through April in FY 2018. GRF tax sources were higher by $975.3 million, but receipts from the other GRF categories fell below their levels of last year. Nontax revenue, federal grants, and transfers in decreased by $141.4 million,[5] $63.9 million, and $48.7 million, respectively. Receipts increased for the largest tax sources (sales and use tax, PIT, and CAT), though revenue from the cigarette and other tobacco products tax continued its usual yearly downward trend.

[4] More than half of the nontax revenue variance was due to revenue from recovery of statewide indirect costs. They are operating costs incurred by an agency in providing services to any other agency, for which there was no billing for the services provided, and for which disbursements have been made from the general revenue fund or other funds. OBM charges agencies for these indirect costs and allocates the revenue to the GRF.

[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

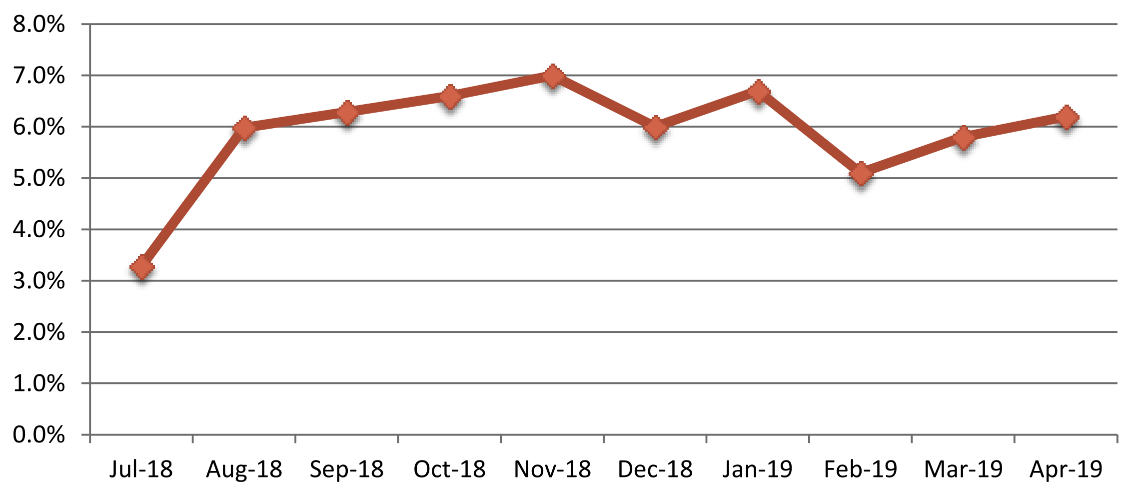
Through April in FY 2019, receipts to the GRF from the sales and use tax totaled $8.72 billion. This amount was $177.7 million (2.1%) above estimate, with both the nonauto and the auto portions of the tax ahead of projections. With two months left in FY 2019, the sales and use tax will probably end this fiscal year above expectations for both the nonauto sales tax and the auto sales tax. For the month of April, GRF receipts of $938.1 million were $21.3 million (2.3%) above anticipated revenue, buoyed by a strong performance from the auto sales tax. Monthly sales and use tax receipts were also $28.2 million (3.1%) above revenue in April 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

Nonauto sales and use tax GRF revenue of $778.7 million in April was above estimate by $4.1 million (0.5%). April revenue increased the YTD positive variance of this tax to $132.5 million (1.8%), up from $128.4 million through March. Through April, total GRF receipts of $7.48 billion were $287.6 million (4.0%) 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. In calendar year (CY) 2019, average sales and use tax growth was nearly 6%, relative to the first four months in CY 2018.

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

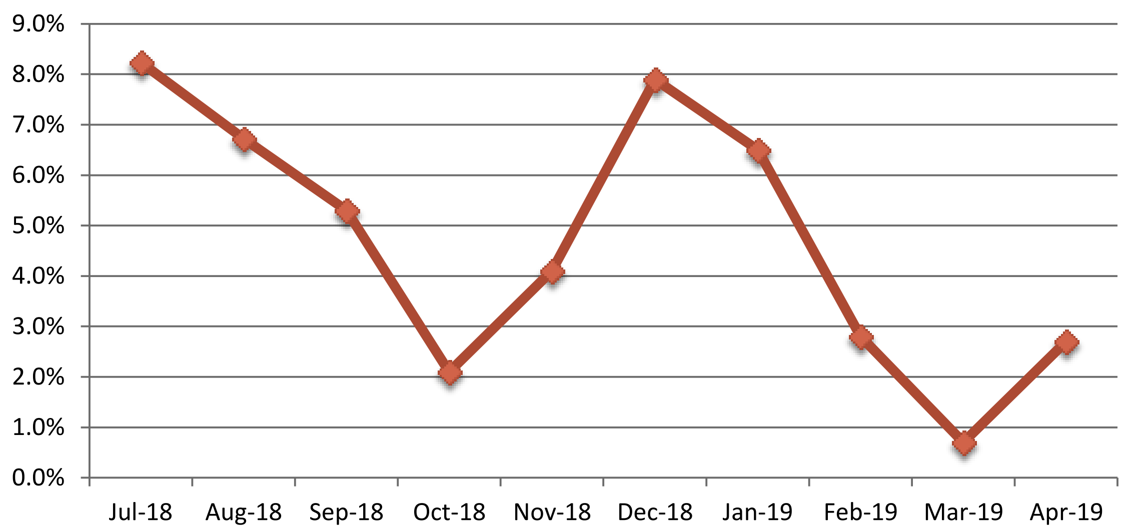


[6] Beginning July 1, 2017, the sales tax on Medicaid health insuring corporations (MHICs) was eliminated. Thus, the last payment of $71.7 million deposited in the GRF was made in July 2017 (reflecting taxable activity in June 2017). So, to adjust for changes to the existing tax base, this chart excludes 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

April revenue from the auto sales and use tax of $159.4 million was $17.2 million (12.1%) above estimate, and $15.3 million (10.6%) above the amount received in the same month in 2018. With two months left in the fiscal year, YTD auto sales tax receipts of $1.24 billion were $45.2 million (3.8%) above estimate and $62.9 million (5.3%) 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 has been uneven throughout the fiscal year, but has remained positive. In CY 2019 through April, year-over-year growth for this tax source was 3.2%, reflecting a slowdown in unit sales. In the July to December period, growth was 4.6%. The rise in Ohio auto sales 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).

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) sales fell from 17.5 million units in March 2019 (at a seasonally adjusted annual average rate) to 16.4 million units in April. Compared to sales in the corresponding period in CY 2018, unit sales have fallen about 2% in the January to April period in CY 2019, suggesting that unit sales may have peaked in this cycle, despite a good economic environment.

Personal Income Tax

The PIT provided outsized receipts in April and this performance increased the likelihood that this tax source will finish the fiscal year ahead of estimates. April GRF receipts of $1.33 billion were $377.4 million (39.6%) above estimate, and $387.8 million (41.2%) above receipts in April 2018. 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 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.

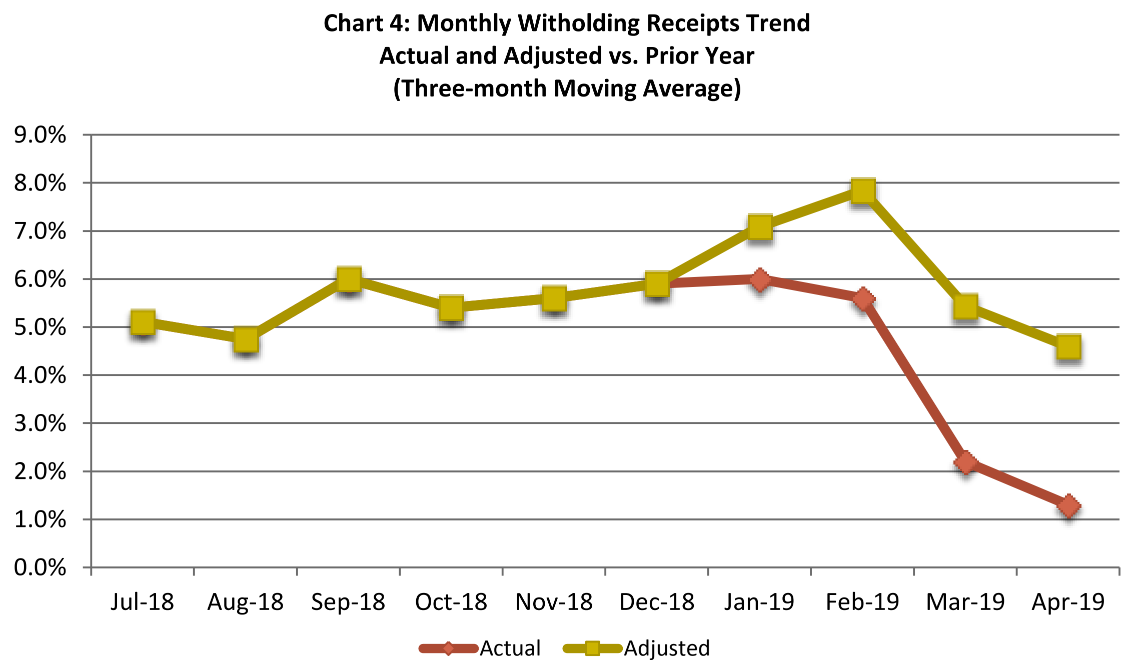
Gross collections in April were above projections by $406.2 million. That positive variance was partially offset by refunds and distributions to the LGF, which were respectively $27.7 million and $1.2 million higher than anticipated. All components of gross collections were above projections, driven by taxes paid with annual returns which were $350.3 million above estimate. Trust payments, employer withholding, and quarterly estimated payments were above estimate by $24.9 million, $19.6 million, and $9.5 million, respectively.

YTD, revenue from the PIT was $276.7 million (3.9%) above the revised projections, with April revenue reversing a cumulative GRF negative variance of $100.7 million through March. 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 above estimate by $365.2 million: positive variances by annual return payments and withholding were partially offset by shortfalls from quarterly estimated payments and miscellaneous payments; and higher than projected refunds and distributions to the LGF reduced the positive variance for GRF revenue to the $276.7 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 by $610.8 million.

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	$101.8	1.3%	$334.4	4.5%
Quarterly Estimated Payments	-$148.4	-17.9%	-$143.4	-17.4%
Trust Payments	$28.0	61.4%	$27.3	58.9%
Annual Return Payments	$391.1	56.9%	$400.2	59.1%
Miscellaneous Payments	-$7.3	-9.2%	-$7.8	-9.7%
Gross Collections	$365.2	4.0%	$610.8	6.8%
Less Refunds	$86.1	4.8%	$98.3	5.6%
Less LGF Distribution	$2.5	0.8%	$9.6	3.0%
GRF PIT Revenue	$276.7	3.9%	$502.9	7.3%

[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.

Through April, FY 2019 employer withholding receipts[8] grew 4.5%; however, growth in monthly employer withholding averaged only 2.5% in CY 2019, as a result of the January decrease in withholding rates. 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 rates in January.



Commercial Activity Tax

YTD revenue from the CAT to the GRF totaled $1.27 billion, an amount $40.7 million (3.3%) above estimate, and $86.1 million (7.3%) above revenue through April in FY 2018. GRF revenue was $71.1 million in April, $10.5 million (17.3%) above estimate and $8.1 million (12.8%) above such revenue in the same month last year. Though the last quarterly calendar taxpayer payment is due in May, and revenue from that payment will likely determine this tax's overall FY 2019 performance, the CAT is likely to finish the year in positive territory. Compared to FY 2018, gross collections have been robust in FY 2019. They grew about 6.3% through April, but refunds and credits were 4.3% below their levels through April in FY 2018, resulting in a higher growth rate for 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 April, Fund 7047 and Fund 7081 received $194.4 million and $29.9 million, respectively. The distributions are used to make reimbursement payments to school districts and other local taxing units, respectively, for the

[8] Withholding receipts consist of monthly employer withholding (about 99% of the total) and annual employer withholding. YTD through April, monthly employer withholding was 4.4% above such receipts in the corresponding period in FY 2018. On the other hand, annual employer withholding grew 18.3%.

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 $699.8 million was above estimate by $0.6 million (0.1%) at the end of April. This total included $636.6 million from the sale of cigarettes and $63.2 million from the sale of OTP. Though the tax is on target YTD relative to estimate through April, combined tax receipts in the last two months are estimated to total nearly a quarter of total receipts of the fiscal year. For the month of April, receipts from this source of $72.9 million were $2.4 million (3.2%) below estimate, and $1.6 million (2.1%) below revenue in the same month in FY 2018.

FY 2019 cigarette and other tobacco products receipts were $15.8 million (2.2%) below revenues in the corresponding period in FY 2018. FY 2019 receipts from cigarette sales fell $20.9 million (3.2%) while those from the sale of OTP increased $5.1 million (8.8%). 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 April 2019
($ in thousands)
(Actual based on OAKS reports run May 2, 2019)

Program Category	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	$620,766	$629,680	-$8,914	-1.4%
Higher Education	$184,164	$183,842	$322	0.2%
Other Education	$3,840	$6,611	-$2,771	-41.9%
Total Education	**$808,770**	**$820,133**	**-$11,363**	**-1.4%**
Medicaid	$981,598	$1,081,920	-$100,322	-9.3%
Health and Human Services	$147,505	$143,487	$4,018	2.8%
Total Health and Human Services	**$1,129,104**	**$1,225,407**	**-$96,304**	**-7.9%**
Justice and Public Protection	$187,925	$209,832	-$21,907	-10.4%
General Government	$56,166	$39,679	$16,487	41.5%
Total Government Operations	**$244,091**	**$249,511**	**-$5,420**	**-2.2%**
Property Tax Reimbursements	$354,789	$323,123	$31,665	9.8%
Debt Service	$72,568	$72,588	-$20	0.0%
Total Other Expenditures	**$427,356**	**$395,711**	**$31,645**	**8.0%**
Total Program Expenditures	**$2,609,321**	**$2,690,763**	**-$81,442**	**-3.0%**
Transfers Out	**$140**	**$0**	**$140**	**---**
Total GRF Uses	**$2,609,461**	**$2,690,763**	**-$81,302**	**-3.0%**

*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 April 30, 2019
($ in thousands)
(Actual based on OAKS reports run May 2, 2019)

Program Category	Actual	Estimate*	Variance	Percent	FY 2018**	Percent
Primary and Secondary Education	$6,951,472	$6,923,373	$28,099	0.4%	$6,846,107	1.5%
Higher Education	$1,914,180	$1,926,863	-$12,683	-0.7%	$1,924,091	-0.5%
Other Education	$64,343	$64,486	-$143	-0.2%	$62,888	2.3%
Total Education	**$8,929,995**	**$8,914,723**	**$15,272**	**0.2%**	**$8,833,087**	**1.1%**
Medicaid	$12,363,054	$13,092,729	-$729,676	-5.6%	$12,405,557	-0.3%
Health and Human Services	$1,147,197	$1,200,428	-$53,231	-4.4%	$1,128,633	1.6%
Total Health and Human Services	**$13,510,251**	**$14,293,158**	**-$782,907**	**-5.5%**	**$13,534,190**	**-0.2%**
Justice and Public Protection	$1,911,571	$1,911,827	-$255	0.0%	$1,842,991	3.7%
General Government	$340,053	$335,798	$4,254	1.3%	$301,391	12.8%
Total Government Operations	**$2,251,624**	**$2,247,625**	**$3,999**	**0.2%**	**$2,144,382**	**5.0%**
Property Tax Reimbursements	$1,446,709	$1,382,014	$64,695	4.7%	$1,386,220	4.4%
Debt Service	$1,349,087	$1,351,312	-$2,225	-0.2%	$1,280,689	5.3%
Total Other Expenditures	**$2,795,796**	**$2,733,326**	**$62,470**	**2.3%**	**$2,666,909**	**4.8%**
Total Program Expenditures	**$27,487,666**	**$28,188,832**	**-$701,166**	**-2.5%**	**$27,178,568**	**1.1%**
Transfers Out	**$759,217**	**$751,933**	**$7,284**	**1.0%**	**$69,486**	**992.6%**
Total GRF Uses	**$28,246,883**	**$28,940,765**	**-$693,882**	**-2.4%**	**$27,248,055**	**3.7%**

*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 May 3, 2019)

	Month of April 2019				Year to Date through April 2019			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid								
GRF	$926,663	$1,024,179	-$97,516	-9.5%	$11,786,272	$12,514,093	-$727,821	-5.8%
Non-GRF	$919,837	$1,013,189	-$93,352	-9.2%	$7,873,799	$8,427,922	-$554,124	-6.6%
All Funds	$1,846,500	$2,037,368	-$190,868	-9.4%	$19,660,071	$20,942,016	-$1,281,945	-6.1%
Developmental Disabilities								
GRF	$48,385	$51,466	-$3,081	-6.0%	$502,238	$504,621	-$2,383	-0.5%
Non-GRF	$205,726	$199,547	$6,179	3.1%	$1,826,830	$1,890,524	-$63,694	-3.4%
All Funds	$254,111	$251,014	$3,097	1.2%	$2,329,067	$2,395,144	-$66,077	-2.8%
Job and Family Services								
GRF	$5,935	$5,713	$222	3.9%	$66,867	$66,539	$327	0.5%
Non-GRF	$14,726	$15,381	-$655	-4.3%	$150,341	$134,794	$15,548	11.5%
All Funds	$20,661	$21,094	-$433	-2.1%	$217,208	$201,333	$15,875	7.9%
Health, Mental Health and Addiction, Aging, Pharmacy Board, and Education								
GRF	$615	$563	$53	9.3%	$7,677	$7,476	$201	2.7%
Non-GRF	$2,921	$2,631	$289	11.0%	$28,018	$30,279	-$2,261	-7.5%
All Funds	$3,536	$3,194	$342	10.7%	$35,695	$37,755	-$2,060	-5.5%
All Departments:								
GRF	**$981,598**	**$1,081,920**	**-$100,322**	**-9.3%**	**$12,363,054**	**$13,092,729**	**-$729,676**	**-5.6%**
Non-GRF	**$1,143,211**	**$1,230,749**	**-$87,538**	**-7.1%**	**$9,878,987**	**$10,483,518**	**-$604,531**	**-5.8%**
All Funds	**$2,124,809**	**$2,312,669**	**-$187,861**	**-8.1%**	**$22,242,041**	**$23,576,248**	**-$1,334,207**	**-5.7%**

*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 May 3, 2019)

	Month of April 2019				Year to Date through April 2019			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	**$1,306,734**	**$1,451,892**	**-$145,158**	**-10.0%**	**$13,659,398**	**$14,459,076**	**-$799,678**	**-5.5%**
CFC†	$445,739	$508,302	-$62,563	-12.3%	$4,824,882	$5,029,568	-$204,687	-4.1%
Group VIII	$339,039	$393,549	-$54,510	-13.9%	$3,444,335	$3,845,217	-$400,882	-10.4%
ABD†	$229,990	$253,324	-$23,334	-9.2%	$2,318,381	$2,421,003	-$102,622	-4.2%
ABD Kids	$74,034	$85,437	-$11,402	-13.3%	$758,841	$811,147	-$52,305	-6.4%
My Care	$217,932	$211,281	$6,651	3.1%	$2,118,014	$2,061,207	$56,807	2.8%
P4P & Insurer Fee†	$0	$0	$0		$194,944	$290,935	-$95,990	-33.0%
Fee-For-Service	**$651,426**	**$668,963**	**-$17,537**	**-2.6%**	**$6,841,101**	**$7,292,037**	**-$450,936**	**-6.2%**
ODM Services	$400,835	$422,939	-$22,103	-5.2%	$3,596,039	$3,951,057	-$355,018	-9.0%
DDD Services	$249,880	$246,024	$3,855	1.6%	$2,254,545	$2,316,236	-$61,690	-2.7%
Hospital - HCAP†	$0	$0	$0		$634,610	$635,291	-$680	-0.1%
Hospital - Other	$711	$0	$711		$355,906	$389,453	-$33,547	-8.6%
Premium Assistance	**$90,200**	**$101,591**	**-$11,391**	**-11.2%**	**$888,770**	**$965,427**	**-$76,656**	**-7.9%**
Medicare Buy-In	$52,077	$59,896	-$7,819	-13.1%	$510,873	$570,307	-$59,433	-10.4%
Medicare Part D	$38,123	$41,694	-$3,572	-8.6%	$377,897	$395,120	-$17,223	-4.4%
Administration	**$76,449**	**$90,224**	**-$13,775**	**-15.3%**	**$852,772**	**$859,708**	**-$6,936**	**-0.8%**
Total	**$2,124,809**	**$2,312,669**	**-$187,861**	**-8.1%**	**$22,242,041**	**$23,576,248**	**-$1,334,207**	**-5.7%**

*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]

– Melaney Carter, Assistant Director

– Ivy Chen, Principle Economist

Overview

Through April, FY 2019 GRF program expenditures totaled $27.49 billion. These expenditures were $701.2 million (2.5%) below the estimate released by OBM in August 2018. This negative variance in program expenditures grew by $81.4 million in the month of April. Medicaid spending continues to drive both the monthly and YTD negative variances in program expenditures. GRF Medicaid spending was $100.3 million below estimate for the month of April, bringing this category's negative YTD variance to $729.7 million. Five other of the nine program categories had negative YTD variances, most significantly Health and Human Services, which was below its YTD estimate by $53.2 million, all of which occurred in months prior to April. Of the three categories with positive variances, Property Tax Reimbursements was the most significant, with a positive YTD variance of $64.7 million. As explained in prior issues of this report, this variance is due to a timing issue and should decrease in the next two months.

The positive YTD variance in transfers out grew slightly in April to $7.3 million (1.0%). Total GRF uses, which includes both program expenditures and transfers out was below estimate by $81.3 million (3.0%) for the month of April and $693.9 million (2.4%) below estimate YTD. GRF uses for FY 2019 totaled $28.25 billion at the end of April.

Medicaid

As indicated above, GRF Medicaid expenditures were $100.3 million (9.3%) and $729.7 million (5.6%), respectively, below their monthly and YTD estimates. Non-GRF Medicaid expenditures were also below their monthly and YTD estimates, by $87.5 million (7.1%) and $604.5 million (5.8%), respectively. Including both the GRF and non-GRF, all funds Medicaid expenditures were $187.9 million (8.1%) below estimate in April and $1,334.2 million (5.7%) below the YTD estimate at the end of April. 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.

[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.

Table 6 shows all funds Medicaid expenditures by payment category. Overall expenditures were below their YTD estimates for all four major payment categories. Managed Care had the largest overall negative variance of $799.7 million (5.5%), followed by Fee-For-Service (FFS, $450.9 million, 6.2%), Premium Assistance ($76.7 million, 7.9%), and Administration ($6.9 million, 0.8%).

Expenditures from all Managed Care categories were below their YTD estimates except for MyCare, which had a positive YTD variance of $56.8 million (2.8%). 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 $400.9 million (10.4%), followed by CFC (Covered Families and Children) at $204.7 million (4.1%), ABD (Aged, Blind, and Disabled) at $102.6 million (4.2%), 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.

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.

Issue Updates

ODJFS Releases TANF Spending Plan for FY 2020 and FY 2021

– Nicholas J. Blaine, Budget Analyst

On April 3, 2019, the Ohio Department of Job and Family Services (ODJFS) released its spending plan for the Temporary Assistance for Needy Families (TANF) Block Grant for FY 2020 and FY 2021. The plan summarizes how ODJFS proposes to expend Ohio's federal TANF Block grant allocation and meet maintenance of effort (MOE) spending requirements. TANF and MOE funds are first used to provide cash assistance payments to low-income individuals; ODJFS provides this support through the Ohio Works First program. After those payments, the funds may be used to provide short-term benefits and other services to eligible families, such as child care and food assistance. The table below summarizes these allocations, combining both federal TANF moneys and state MOE.

TANF Block Grant Spending Plan, FY 2020-FY 2021 ($ in millions)*		
Program	**FY 2020**	**FY 2021**
Ohio Works First	$243.1	$243.1
Publicly Funded Child Care	$514.8	$552.2
Local Programs and Administration	$319.8	$319.8
Ohio Association of Food Banks	$17.1	$17.1
Kinship Care Services	$15.0	$15.0
Child Welfare	$6.3	$6.3
Title XX Transfer	$66.6	$66.6
Governor's Office of Faith Based and Community Initiatives/Fatherhood Commission	$14.2	$14.2
ODJFS Administration	$55.9	$57.1
Non-ODJFS MOE Expenditures**	$93.0	$93.0
Total	**$1,345.7**	**$1,384.2**

*Totals may not sum due to rounding.

**Includes funds primarily expended through the Ohio Department of Education.

Ohio's TANF Block Grant allocation is $725.6 million annually; to draw down the full amount, the state must spend at least $416.9 million in MOE. Total anticipated spending for FY 2020 and FY 2021 exceeds $1.14 billion in TANF resources annually due to a combination of state spending in excess of the MOE and using carryover funds from previous fiscal year allocations.

The TANF Block Grant is expended through federal fund 3V60 appropriation item 600689, TANF Block Grant. MOE payments are made from numerous appropriation items, most notably GRF appropriation items 600410, TANF State Maintenance of Effort; 600535, Early Care and Education; 600413, Child Care State/Maintenance of Effort; and 200408, Early Childhood Education (which is appropriated through the Ohio Department of Education).

OhioMHAS Awards $1.0 Million for Youth Resiliency Grants

– Ryan Sherrock, Economist

In March 2019, the Ohio Department of Mental Health and Addiction Services (OhioMHAS) awarded $1.0 million in Youth Resiliency grants to 19 projects in the following ten counties: Adams, Brown, Jackson, Lawrence, Marion, Meigs, Montgomery, Pike, Ross, and Scioto. These grants provide funding to help develop and build capacity for services and programming designed to ensure that at-risk youth enjoy healthy development, succeed in school, and grow up to be productive residents. Priority is given to projects that serve areas identified as having the highest need based on county resources and overdose death data. Project coordinators were required to work on their grant application in coordination with their local alcohol, drug addiction, and mental health services board.

Youth Resiliency goals include: helping at-risk youth develop strong, positive relationships with adults; providing opportunities to develop leadership and decision-making skills; and giving youth challenges they can rise to. Overall, the scheduled programming will be broad based and tailored to the needs of the youth served and will include a combination of at least three of the following elements: tutoring/homework help; mentoring; support groups/peer support; access to spiritual counsel; prevention programs; life skills; recreational programs; exercise; vocational education; service learning and volunteerism opportunities; education and employment support for youths in recovery; suicide prevention; and parent outreach and education. These programming elements are designed to help develop a broad set of skills and behaviors in youth and enable them to make healthy choices even when faced with outside pressures, including peer pressure regarding the use of harmful substances.

Attorney General Releases 2018 Concealed Handgun Report

– Jessica Murphy, Budget Analyst

On March 1, 2019, the Ohio Attorney General’s Office issued its 2018 Concealed Handgun Law Annual Report, which shows that 168,302 concealed carry licenses were issued statewide in 2018, including 69,375 new licenses and 98,927 renewal licenses.[10] This total is an all-time high, exceeding by 6% the prior all-time high of 158,939 (117,952 new licenses and 40,986 renewal licenses) issued in 2016. Since Ohio’s Concealed Handgun Law went into effect in April 2004, a total of 840,857 licenses have been issued.

According to the report, Franklin (10,715) and Lake (8,582) counties issued the most licenses, each issuing over 6,000 more than the statewide average of 1,913. Together, these

[10] https://www.ohioattorneygeneral.gov/Files/Reports/Concealed-Carry-Annual-Reports-(PDF).

two counties accounted for 11.5%, or 19,297, of all licenses issued. The fewest licenses were issued by Coshocton (269), Noble (283), and Paulding (289) counties.

The table below displays the five counties with the highest and lowest license issuance rates. Madison had the highest rate of issuance, 75.8 per 1,000 people; Vinton County had the second highest rate at 57.4. Cuyahoga County had the lowest rate at 1.8, followed by Hamilton County at 5.6. In general, urban counties with large populations had the lowest rates.

Five Counties with the Highest and Lowest Rates of Concealed Carry Licenses Issued in 2018							
Highest Rates*				Lowest Rates*			
County	Rate	Number Issued	Population Rank**	County	Rate	Number Issued	Population Rank**
Madison	75.8	3,340	53	Cuyahoga	1.8	2,217	2
Vinton	57.4	751	88	Hamilton	5.6	4,535	3
Geauga	48.1	4,519	29	Lucas	6.9	2,990	6
Highland	46.9	2,014	56	Coshocton	7.4	269	67
Hocking	40.7	1,159	75	Summit	7.4	4,014	4

*Rate is measured by the number of concealed carry licenses issued per 1,000 people.

**Based on U.S. Census Bureau 2017 population estimates.

Controlling Board Approves Attorney General Contract to Develop Violent Offender Database

– Joseph Rogers, Senior Budget Analyst

On March 23, 2019, the Controlling Board approved a request from the Attorney General for a $100,000 increase to an existing contract with Louisiana-based Watch Systems for the purpose of developing the Violent Offender Database (VOD). S.B. 231 of the 132nd General Assembly, effective March 23, 2019, requires the Attorney General to create the VOD and generally requires a violent offender to enroll for ten years with the sheriff in the county in which the offender resides. The VOD will be available to law enforcement agencies through the Attorney General's Ohio Law Enforcement Gateway (OHLEG), a secure electronic information network, and is expected to be fully functional by mid-May of this year. The subsequent annual cost for Watch Systems to maintain the VOD is $15,000. Based on the Department of Rehabilitation and Correction's time served data, the number of offenders who will be required to enroll in the VOD is approximately 300 each year; juvenile offenders are exempt from the enrollment requirements.

Watch Systems currently contracts with the Attorney General to operate and maintain the state's sex offender and arson registries, which actively track close to 20,000 offenders statewide. The annual cost of that contract is $544,000, which includes: (1) OffenderWatch, an offender management, notification, and geographical information system that houses offender records and all associated images and files, (2) web portals for up to 10,000 state and local law enforcement users, (3) a hosting facility for the data, hardware, and network services, and (4) user training, help desk support, and continuous software upgrades.

Local Community Projects to Receive Over $4.7 Million in Federal Land and Water Conservation Fund Grants

– Tom Wert, Budget Analyst

On March 28, 2019, the Ohio Department of Natural Resources (DNR) announced that 19 community projects among 14 counties will receive more than $4.7 million in federal grant funding to enhance parks, playground, and recreational areas under the Federal Land and Water Conservation Fund (LWCF) grant program overseen by the National Park Service, a branch of the U.S. Department of the Interior. The LWCF grant program provides up to 50% reimbursement assistance to state and local governments for the acquisition, development, and rehabilitation of recreational areas, including administrative costs. In Ohio, the program is managed by DNR, which reviews LWCF grant applications and submits recommended projects to the National Park Service for final approval. To be eligible, projects must be in accord with the Ohio Statewide Comprehensive Outdoor Recreation Plan, which outlines the state's outdoor recreation priorities and highlights recreational trends. Funding for approved projects is distributed under Land and Water Conservation Fund (Fund 3B60) appropriation item 725653, Federal Land and Water Conservation Grants. Projects selected for the 2019 LWCF grants are summarized in the table below.

2019 Federal Land and Water Conservation Fund Grants			
County	**Applicant**	**Project**	**Amount**
Allen	Lima	Faurot Park Bear Pit Playground Renovation	$123,000
Cuyahoga	Lakewood	Wagar Park Revitalization	$381,113
	Mayfield Village	Parkview Recreation Complex Playground Improvements	$227,978
	Fairview Park	Bain Park Restroom Improvements	$89,808
Darke	Greenville	South Park Splashpad, Parking, and Restroom Improvements	$273,769
Franklin	Jefferson Township	Jefferson Community Park Paving	$133,413
	Canal Winchester	McGill Park Development	$500,000
Hamilton	Wyoming	Kattelmann Property Improvements	$456,549
	Great Parks of Hamilton County	Sharon Lake Recreational Improvements	$500,000

2019 Federal Land and Water Conservation Fund Grants			
County	Applicant	Project	Amount
Lorain	Avon	Expansion of Veteran's Memorial Park	$316,000
Lucas	Metroparks Toledo	River East Trail and Bridge Connection	$283,490
Mercer	Coldwater	A Park 4 All Abilities Project	$250,000
	Celina	Bryson Park District Development	$500,000
Miami	Covington	School Park Basketball Court Improvements	$64,759
Ottawa	Put in Bay Township Park District	Cooper's Woods Preserve Expansion	$165,000
Scioto	Portsmouth	Portsmouth Skatepark Project at Weghorst Park	$155,712
Shelby	Jackson Center	Wally Byam Memorial Park Municipal Pool Improvements	$136,799
Summit	Barberton	McCafferty Park Improvements	$56,841
Union	Union County Joint Recreation District	Union County JRD Baseball Field Upgrades	$150,000
		Total	**$4,764,231**

Department of Agriculture Announces Plans for Phosphorous Reduction Initiatives

– Shannon Pleiman, Budget Analyst

On February 26, 2019, the Department of Agriculture announced plans to implement three phosphorous reduction initiatives for farmland in the Western Lake Erie Basin under the Soil and Water Phosphorus Program. These initiatives will be funded by $20.0 million in GRF appropriations devoted to these efforts under S.B. 299 of the 132nd General Assembly. Of this amount, $8.0 million will support the Voluntary Nutrient Management Plan Development Program, $7.5 million will go to the Ohio Working Lands Program, and $4.5 million will support the Cost Share and Equipment Buy-Down Program.

The Voluntary Nutrient Management Plan Development Program will reimburse agricultural producers who work with fertilizer retailers at the rate of $3 per acre per year for soil testing and development of an approved voluntary nutrient management plan. The goal is to reduce the cost of nutrient application and improve water quality through decreased nutrient runoff. The Ohio Working Lands Program will encourage producers to establish year-round vegetative cover on eligible crop land by offering producers $120 per acre per year for five years to establish and maintain perennial forage buffers. The Cost Share and Equipment Buy-Down Program will provide producers up to $50,000 to buy technology, equipment, and structures that reduce nutrient loss. Technological improvements include subsurface placement of nutrients with agricultural implements, manure storage structures and manure treatment equipment, and drainage water management structures.

Arts Council Approves Individual Excellence Awards

– Shaina Morris, LSC Fellow

On March 20, 2019, the Ohio Arts Council (OAC) Board members met to approve the Individual Excellence Award winners for FY 2019. The Board made 75 awards of $5,000 each, for a total of $375,000 awarded. Most of the awards were to individual artists, although there were three collaborations, so a total of 78 artists from 17 counties received funding.

Individual Excellence Awards are given in recognition of outstanding accomplishments by artists in a variety of disciplines. Awards give artists resources to experiment in and explore their art forms, develop skills, and advance their careers. Awards are evaluated and scored by an open panel of nationally recognized artists and arts professionals. Panel meetings are open to the public and applicants are encouraged to attend. After all work has been reviewed, panelists make funding recommendations to the OAC Board. The OAC Board makes all final funding decisions.

This funding cycle, an even-numbered calendar year, applications in crafts, design arts/illustration, interdisciplinary (collaborative and performance art), media arts, photography, visual arts 2D, and visual arts 3D were all accepted. For the next funding cycle, an odd-numbered calendar year, applications in a different set of art categories will be accepted. Awarded artists must remain in the state for the remainder of the grant year and funds may be used for a variety of expenses related to growth and development. Funds are not to be used for enrolling in or continuing a degree-granting program.

State Library Board Awards Federal LSTA Grants

– Jason Glover, Budget Analyst

In January, the State Library Board awarded $151,192 in federal Library Science and Technology Act (LSTA) grant funding to four recipients for a variety of projects that improve information technology systems, library services, or library collaboration. The awards ranged from $11,000 to $70,000. The recipients, project descriptions, and award amounts are described in the table below. The State Library Board uses LSTA funds, in part, to award grants periodically to libraries for various projects that are aligned to the Board's federally required LSTA Five-Year Plan. The Board awards competitive grants of up to $50,000 for projects that promote literacy, STEM, data management and analysis, and outreach and partnerships. Recipients of competitive grants over $5,000 generally must contribute a minimum local match of 25% of the total project cost. The Board also awards special grants for various initiatives on a case-by-case basis. In general, these grants have no set maximum grant amount or matching requirement. However, special grants for integrated library systems projects are limited to $33,000 per year and require a minimum local match of 25%.

LSTA Grant Recipients			
Organization	**Grant Category**	**Project Description**	**Award Amount**
Ohio Public Library Information Network (OPLIN)	Special	Upgrade the platform for the Website Kit service for up to 80 library websites	$70,000
Licking County Library System	Competitive	Purchase a “24-Hour Library” System to deliver 24/7 library services	$50,000
Bucyrus Public Library	Integrated Library System	Migrate Integrated Library System to Evergreen Open Source Library Software	$20,142
Ohio Library Council	Special	Support a joint conference of library associations in Ohio in June 2019	$11,050
		Total	**$151,192**

Tracking the Economy

– Ruhaiza Ridzwan, Senior Economist

– Eric Makela, Economist

Overview

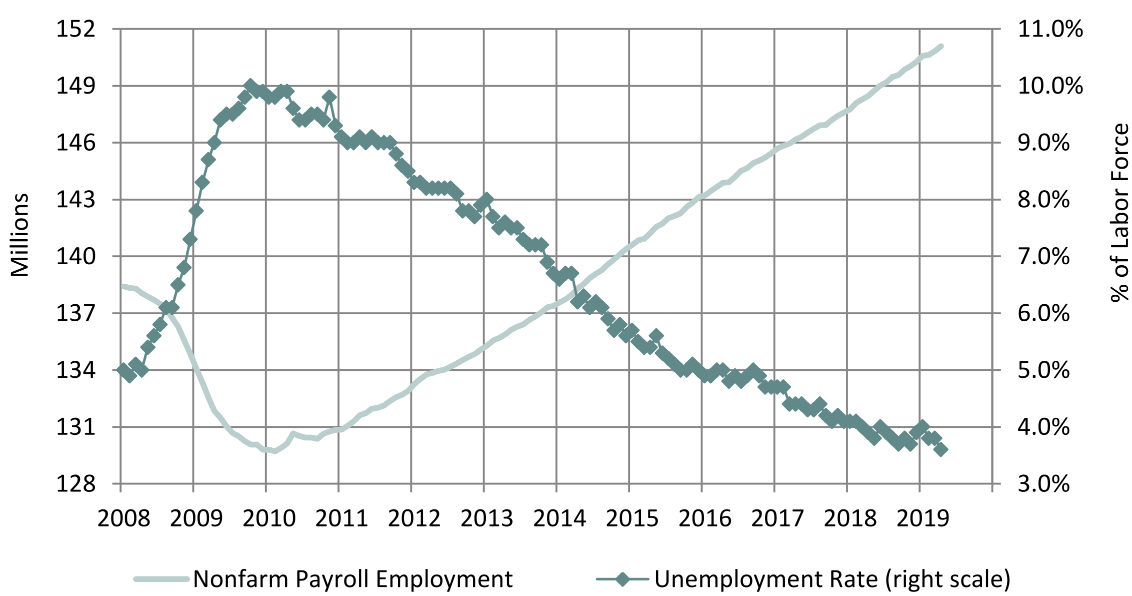
The U.S. economy gained 263,000 workers in April while the unemployment rate decreased 0.2 percentage point to 3.6%. Inflation-adjusted gross domestic product (real GDP) rose at an annualized rate of 3.2% in the first quarter of 2019. Residential fixed investment and industrial production both fell during the quarter. Consumer prices, as measured by the consumer price index (CPI), were 1.9% higher in March than a year prior. The Federal Reserve Board's Open Market Committee (FOMC) held the target federal funds interest rate steady during their April 30-May 1 meeting.

Ohio's unemployment rate decreased from 4.6% in February to 4.4% in March. Employment in nonfarm occupations increased by 6,300 workers during the month. The manufacturing industry in Ohio shed 2,400 jobs in March. Real GDP increased at a seasonally adjusted rate of 1.4% in the fourth quarter of 2018. The number of existing home sales in the state was 6.7% lower in March than it was a year prior; however, the average statewide sales price of homes is up.

The National Economy

Total nationwide nonfarm payroll employment rose 263,000 in April and the unemployment rate fell to 3.6%, lowest since 1969. Trends in U.S. employment and unemployment are shown in Chart 5.

Chart 5: U.S. Employment and Unemployment



YTD payroll employment gains averaged 205,000 per month, down from 223,000 per month on average in all of 2018. The rate of increase in payroll employment this year through April is equivalent to a 1.6% annual rate, about matching the pace of employment growth since recovery began from the 2007-2009 recession. Employment rose in April in professional and business services, construction, health care, and social assistance. Changes in other industry sectors were relatively small. Average hourly earnings rose 3.2% in the latest 12 months.

The number of people counted as unemployed declined in April to 5.8 million. Of these, 1.2 million had been unemployed for more than six months, one of the lowest levels since 2007. Total employment as a share of the population among persons from 25 through 54 years of age, sometimes referred to as the prime working age group, has been in a 79.7% to 79.9% range in the past seven months, the highest since early 2008 and approaching the all-time peak of 81.9% in 2000.

Real GDP rose at a 3.2% annual rate in this year's first quarter, following 2.9% growth in all of 2018, strongest since 2015 and before that since 2006. First quarter growth was relatively healthy despite the partial federal government shutdown through late January. Consumer spending growth slowed to only a 1.2% annual rate, but strengthened late in the quarter. Residential fixed investment fell for the fifth straight quarter. Business fixed investment grew for the ninth straight quarter, and businesses added to inventories at the highest rate in nearly four years. Export growth rose in the quarter while imports contracted. Inflation as measured by the GDP price index slowed to only a 0.6% annual rate, lowest in three years.

In contrast with real GDP, industrial production fell in this year's first quarter, at a 0.3% annual rate. Manufacturing contracted at a 1.1% annual rate, with declines in several industry groups, notably in motor vehicles and parts, down at a 12.8% annual rate in the quarter following 5.5% growth during CY 2018. According to the Institute for Supply Management (ISM), activity in the manufacturing sector expanded in April, although at a slower rate than in March. Deliveries, production, and employment all rose in April according to the ISM.

The CPI rose 0.4% in March to 1.9% higher than a year earlier. Gasoline prices rose 6.5% from February to March. The sub-index of the CPI that excludes prices for energy and food rose 0.1% in March to 2.0% higher than in March 2018. A related inflation measure, the price index for personal consumption expenditures, rose 0.2% in March to 1.5% higher than its year-earlier level.

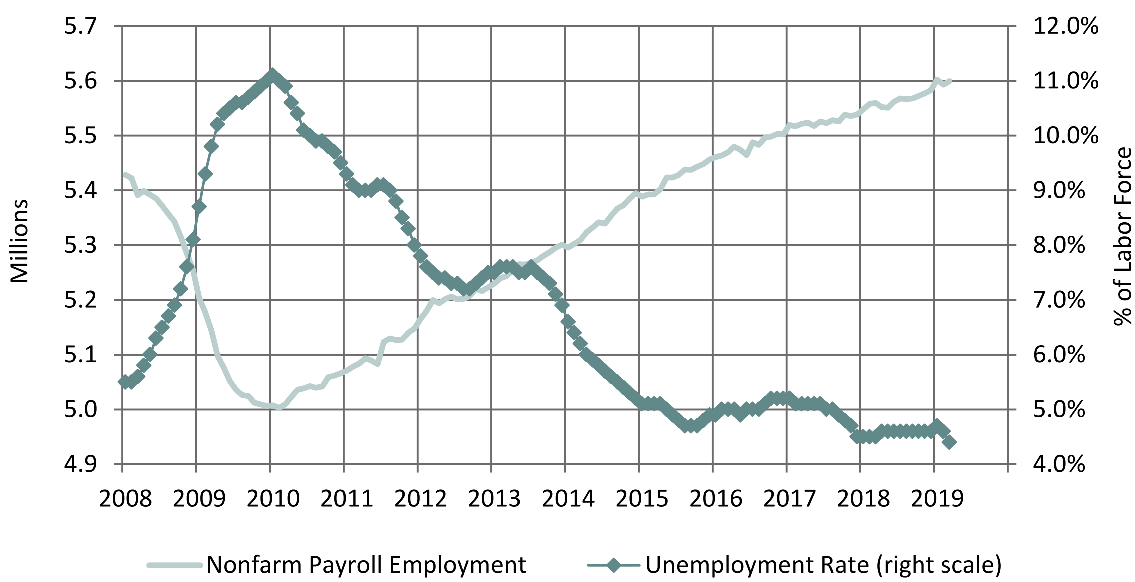
The Ohio Economy

In March, Ohio's unemployment rate edged down from 4.6% in February to 4.4%, the lowest level since August 2001. The state's unemployment rate in March was higher than the U.S. unemployment rate. The U.S. unemployment rate was 3.8% in March, unchanged from February, and 4.0% in March of last year. The number of unemployed workers in Ohio was 258,000 in March, 7,000 fewer than in February, and 1,000 fewer than in March of last year.

Ohio's total nonfarm payroll employment, seasonally adjusted, increased by 6,300 or 0.1% in March from the revised total in February, following a decrease in February. In March, increases in jobs were widespread among industries. Jobs in the private service-producing industries increased by 5,900; most employment gains were in educational and health services (+2,600), leisure and hospitality (+2,100), professional and business services (+1,200), and financial activities (+1,000) while employment in trade, transportation, and utilities decreased by 1,600. The goods-producing industries gained 300 jobs, with employment gains in construction (+2,500) and mining and logging (+200) outweighing losses in manufacturing (-2,400). State government employment increased, but employment in both federal and local levels of government showed decreases.

Compared to March of last year, the state's nonfarm payroll employment increased by 39,800, or 0.7%. Employment gains since March of last year were mostly in educational and health services, leisure and hospitality, nondurable goods manufacturing, professional and business services, construction, transportation, warehousing, utilities, and financial activities and other services. Employment in local government and information dropped. Chart 6 shows Ohio employment and unemployment.

Chart 6: Ohio Employment and Unemployment Rate



Among the 12 metropolitan areas in Ohio, the Cincinnati metropolitan area had the strongest nonfarm payroll employment growth during the year ending in March at 1.8%, while the Youngstown-Warren-Boardman metropolitan area was the weakest with a 1.6% decline. In March, all 12 metropolitan areas had lower unemployment rates than March 2018. The Columbus metropolitan area had the lowest unemployment rate at 3.4%, down from 3.8% in March of last year. The Youngstown-Warren-Boardman metropolitan area had the highest unemployment rate in the state in March at 5.9%, compared to 6.0% in March of last year. Unlike the statewide nonfarm payroll employment and unemployment data above, metropolitan area data are not seasonally adjusted.

Ohio's real GDP increased 1.4% at a seasonally adjusted annual rate in the fourth quarter of 2018, lower than the real GDP growth for the 50 states of 2.2%.[11] The industry groups contributing the most to Ohio's growth were wholesale trade; mining, quarrying, and oil and gas extraction; and durable goods manufacturing. Ohio's growth was ranked 35th among the

[11] GDP by state for all 50 states differs from U.S. GDP in the national income and product accounts (NIPAs) because the GDP by state for the U.S. excludes federal military and civilian activity located overseas, which cannot be attributed to a particular state.

50 states and the District of Columbia. In current dollars (i.e., without adjusting for inflation), Ohio's GDP reached $689 billion at an annual rate in the fourth quarter, accounting for about 3.3% of U.S. GDP. States with larger GDP than Ohio are California, Florida, Illinois, New York, Pennsylvania, and Texas. For the year as a whole, Ohio's real GDP grew 1.8% from 2017 to 2018.

The number of existing homes sold in Ohio decreased by 6.7% in March compared to March of last year, according to the Ohio Association of Realtors. In the first three months of this year, existing home unit sales decreased by 3.5% compared to the corresponding months in 2018. The statewide sales price of homes sold in January through March of this year averaged $176,948, or 6.9% higher than the corresponding months in 2018. The average statewide sales price of homes sold in January through March of 2018 was $165,554.

Economic activity in the region grew at a modest pace, according to the Federal Reserve Bank of Cleveland's report.[12] Hiring and wages increased at a moderate level, but some contacts noted difficulty in filling vacancies. The report also reported that "Residential and nonresidential construction and professional and business services firms saw the greatest demand growth. Other sectors saw muted demand change. Selling prices rose moderately despite a deceleration of materials cost increases."

[12] The report is derived from the latest Federal Reserve System Beige Book that summarizes information from outside contacts that was collected on or before April 8, 2019. The Federal Reserve Bank of Cleveland's district includes all of Ohio and parts of Kentucky, Pennsylvania, and West Virginia.