Budget Footnotes

A monthly newsletter by LSC economists and budget analysts

Volume: Fiscal Year 2019 Issue: November 2018

Highlights

– *Ross Miller, Chief Economist*

GRF tax revenues were $68.8 million above estimate in October, due mostly to the foreign insurance tax ($29.0 million), the commercial activity tax (CAT, $26.2 million), and the personal income tax (PIT, $16.7 million). Revenues from other taxes were fairly close to estimates. Through the first four months of FY 2019, GRF tax revenues were above estimate by $100.7 million. GRF program expenditures were $63.6 million below estimate in October.

Ohio's unemployment rate held steady at 4.6% in September, the same as in August, while payroll employment increased by 4,300 for the month. Total Ohio payroll employment reached 5.64 million, a record high surpassing the previous high set in May of 2000. However, one should note that the state's population has grown since 2000 and that private sector employment is still slightly below its March 2000 peak.

Through October 2018, GRF sources totaled $11.23 billion:

- ❖ Revenue from the sales and use tax was $63.1 million above estimate;
- ❖ PIT receipts were $3.2 million above estimate.

Through October 2018, GRF uses totaled $13.08 billion:

- ❖ Program expenditures were $296.5 million below estimates, including expenditures for Medicaid, which were below estimate by $262.6 million;
- ❖ Expenditures for all other program categories were below estimates except for Property Tax Reimbursements, which was above estimate by $40.4 million primarily due to timing.

In this issue...

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

State Sources	Actual	Estimate*	Variance	Percent
Tax Revenue				
Auto Sales	$132,492	$124,900	$7,592	6.1%
Nonauto Sales and Use	$720,347	$725,100	-$4,753	-0.7%
Total Sales and Use	*$852,839*	*$850,000*	*$2,839*	*0.3%*
Personal Income	$713,378	$696,700	$16,678	2.4%
Commercial Activity Tax	$81,373	$55,200	$26,173	47.4%
Cigarette	$85,452	$85,300	$152	0.2%
Kilowatt-Hour Excise	$33,789	$32,100	$1,689	5.3%
Foreign Insurance	$169,222	$140,200	$29,022	20.7%
Domestic Insurance	$1	$0	$1	---
Financial Institution	-$12,706	-$7,000	-$5,706	-81.5%
Public Utility	$3,347	$2,800	$547	19.5%
Natural Gas Consumption	$524	$500	$24	4.9%
Alcoholic Beverage	$2,840	$5,400	-$2,560	-47.4%
Liquor Gallonage	$3,913	$4,000	-$87	-2.2%
Petroleum Activity Tax	$0	$0	$0	---
Corporate Franchise	$19	$0	$19	---
Business and Property	$0	$0	$0	---
Estate	-$5	$0	-$5	---
Total Tax Revenue	**$1,933,985**	**$1,865,200**	**$68,785**	**3.7%**
Nontax Revenue				
Earnings on Investments	$25,272	$19,634	$5,638	28.7%
Licenses and Fees	$1,109	$899	$210	23.4%
Other Revenue	$37,681	$1,765	$35,916	2034.4%
Total Nontax Revenue	**$64,063**	**$22,298**	**$41,764**	**187.3%**
Transfers In	**$114**	**$0**	**$114**	**---**
Total State Sources	**$1,998,161**	**$1,887,498**	**$110,663**	**5.9%**
Federal Grants	**$911,285**	**$873,805**	**$37,480**	**4.3%**
Total GRF Sources	**$2,909,446**	**$2,761,303**	**$148,143**	**5.4%**

*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 ($ in thousands)
FY 2019 as of October 31, 2018
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on November 1, 2018)

State Sources	Actual	Estimate*	Variance	Percent	FY 2018**	Percent
Tax Revenue						
Auto Sales	$519,867	$502,400	$17,467	3.5%	$491,217	5.8%
Nonauto Sales and Use	$2,962,337	$2,916,700	$45,637	1.6%	$2,884,715	2.7%
Total Sales and Use	*$3,482,204*	*$3,419,100*	*$63,104*	*1.8%*	*$3,375,933*	*3.1%*
Personal Income	$2,926,007	$2,922,800	$3,207	0.1%	$2,707,782	8.1%
Commercial Activity Tax	$428,378	$422,300	$6,078	1.4%	$416,811	2.8%
Cigarette	$268,461	$265,300	$3,161	1.2%	$267,492	0.4%
Kilowatt-Hour Excise	$129,385	$128,900	$485	0.4%	$119,025	8.7%
Foreign Insurance	$177,579	$148,700	$28,879	19.4%	$151,120	17.5%
Domestic Insurance	$1	$0	$1	---	$63	-98.6%
Financial Institution	-$18,867	-$8,400	-$10,467	-124.6%	-$10,334	-82.6%
Public Utility	$35,758	$31,900	$3,858	12.1%	$30,342	17.9%
Natural Gas Consumption	$15,363	$12,800	$2,563	20.0%	$11,890	29.2%
Alcoholic Beverage	$18,873	$20,300	-$1,427	-7.0%	$19,559	-3.5%
Liquor Gallonage	$16,813	$16,500	$313	1.9%	$16,208	3.7%
Petroleum Activity Tax	$2,019	$1,300	$719	55.3%	$1,570	28.6%
Corporate Franchise	$181	$0	$181	---	$2,840	-93.6%
Business and Property	$0	$0	$0	---	-$374	100.0%
Estate	$32	$0	$32	---	$84	-61.9%
Total Tax Revenue	**$7,482,187**	**$7,381,500**	**$100,687**	**1.4%**	**$7,110,010**	**5.2%**
Nontax Revenue						
Earnings on Investments	$25,360	$19,634	$5,726	29.2%	$15,747	61.1%
Licenses and Fees	$9,365	$8,680	$685	7.9%	$8,155	14.8%
Other Revenue	$53,716	$58,128	-$4,412	-7.6%	$27,874	92.7%
Total Nontax Revenue	**$88,441**	**$86,442**	**$1,999**	**2.3%**	**$51,775**	**70.8%**
Transfers In	**$76,109**	**$80,190**	**-$4,081**	**-5.1%**	**$111,347**	**-31.6%**
Total State Sources	**$7,646,736**	**$7,548,132**	**$98,604**	**1.3%**	**$7,273,133**	**5.1%**
Federal Grants	**$3,582,964**	**$3,770,361**	**-$187,398**	**-5.0%**	**$3,560,454**	**0.6%**
Total GRF SOURCES	**$11,229,700**	**$11,318,493**	**-$88,793**	**-0.8%**	**$10,833,586**	**3.7%**

*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 J. Botomogno, Principal Economist

Overview

Four months into FY 2019, GRF sources totaling $11.23 billion were $88.8 million (0.8%) below the Office of Budget and Management (OBM) estimate, an improvement from a negative variance of $236.9 million at the end of the first fiscal quarter. Federal grants and transfers in were short of estimates by $187.4 million (5.0%) and $4.1 million (5.1%), respectively. Those negative variances were partially offset by positive variances of $100.7 million (1.4%) for GRF tax revenues and $2.0 million (2.3%) for nontax revenue. The year-to-date (YTD) negative variance for federal grants results from GRF Medicaid spending being substantially below expectations so far this year due partly to timing. Tables 1 and 2 show GRF sources for the month of October and for FY 2019 through October, respectively. GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants.[2]

The most important tax sources were ahead of estimates YTD: the sales and use tax posted a positive variance of $63.1 million; the CAT was $6.1 million above estimate; and the cigarette tax and the PIT were each $3.2 million above their respective anticipated levels. In addition, the foreign insurance tax was $28.9 million above estimate[3] and combined receipts from three utility-related taxes (the kilowatt-hour excise tax, the public utility tax, and the natural gas consumption tax) were $6.9 million above projections. On the other hand, the financial institutions tax (FIT)[4] and the alcoholic beverage tax were short of expectations by $10.5 million and $1.4 million, respectively. Most of the other taxes had smaller variances at the end of October.

For the month of October 2018, GRF sources of $2.91 billion were $148.1 million above estimates, with all GRF categories surpassing projections. The overall performance of tax sources was excellent. A surplus of $68.8 million included positive variances of $29.0 million for the foreign insurance tax, $26.2 million for the CAT, $16.7 million for the PIT, $2.8 million for the sales and use tax, and $1.7 million for the kilowatt-hour excise tax. However, those positive variances were partially offset by shortfalls of $5.7 million for the FIT and $2.6 million for the alcoholic beverage tax. Nontax revenue reversed a timing-related deficit that occurred in September and was above estimate by $41.8 million. Also, for the first time this fiscal year, federal grants recorded a monthly positive variance, which was $37.5 million in October.

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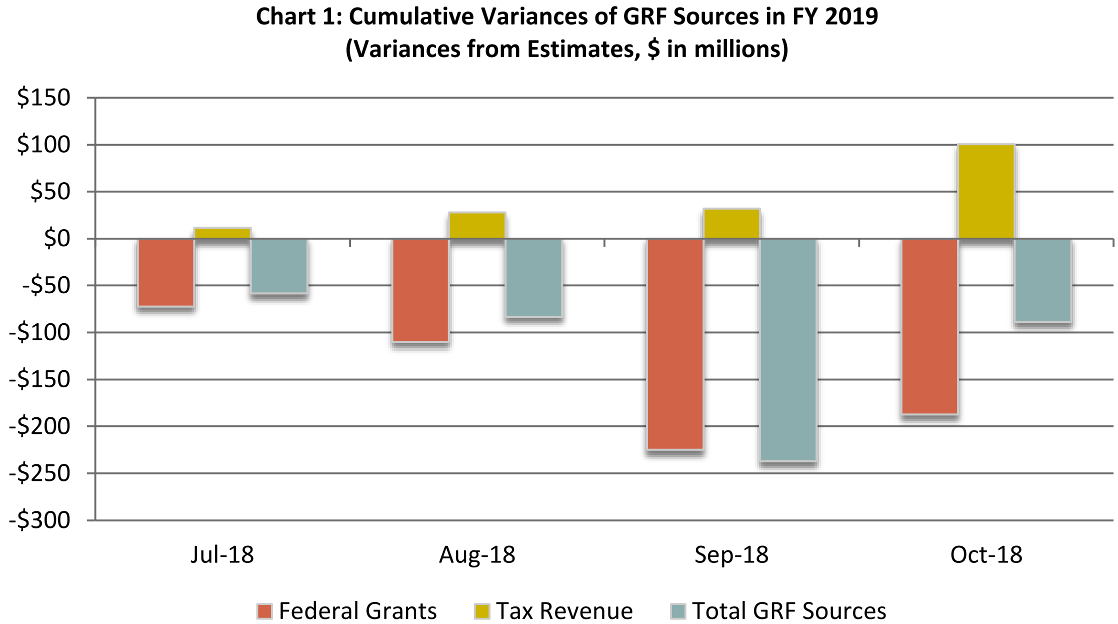
[1] This report compares actual monthly and year-to-date GRF revenue sources to OBM's estimates. If actual receipts were higher than estimate, that GRF source is deemed to have a positive variance. Alternatively, a GRF source is deemed to have a negative variance if actual receipts were lower than estimate.

[2] As might be expected from the above comment, federal grants are primarily federal reimbursements for Medicaid.

[3] YTD, this source is 19.4% above estimate and 17.5% above revenue in FY 2018 through October. This result is likely due to fewer credit claims than estimated against the tax so far.

[4] 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.

Chart 1, below, shows cumulative variances of GRF sources through October 2018.



Compared to GRF sources in the first four months of FY 2018, FY 2019 GRF sources increased $396.1 million. GRF tax sources, federal grants, and nontax revenue increased $372.2 million, $22.5 million, and $36.7 million, respectively. On the other hand, transfers in fell by $35.2 million. Revenue was higher for most tax sources. Receipts from the PIT and the sales and use tax increased $218.2 million and $106.3 million, while revenue from the CAT and the cigarette tax grew $11.6 million and $1.0 million. However, combined revenue from taxes on financial institutions (the FIT and the corporate franchise tax) fell $11.2 million relative to the corresponding period in FY 2018.

Sales and Use Tax

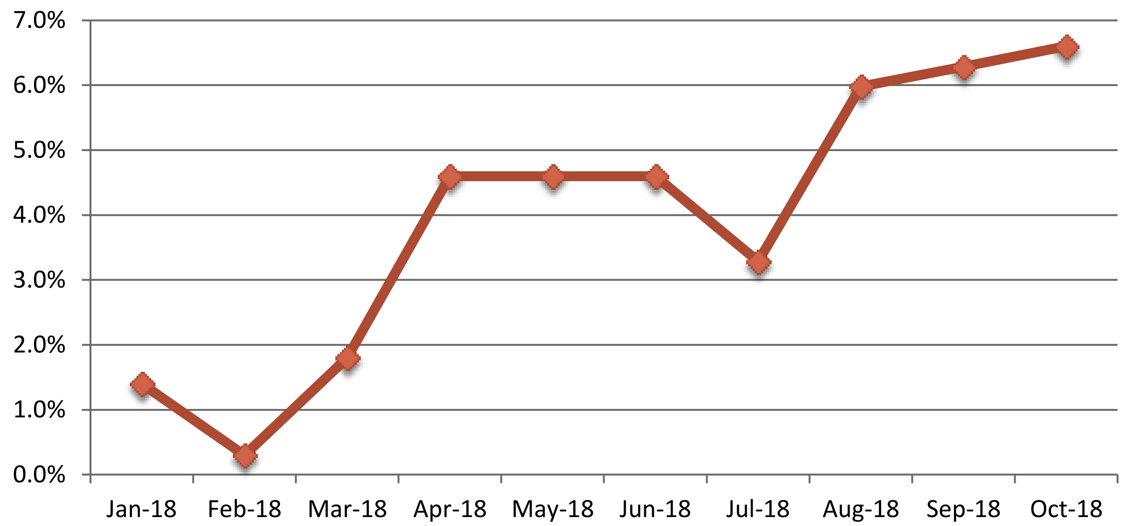
The sales and use tax has been healthy so far this fiscal year. Through October, YTD GRF receipts from the sales and use tax of $3.48 billion were $63.1 million (1.8%) above estimate, with both the nonauto and the auto portions of the tax above projections. Total sales tax revenue was also $106.3 million (3.1%) above receipts in FY 2018 through October. For the latest month, GRF receipts were $852.8 million, $2.8 million (0.3%) above estimate, with a shortfall from the nonauto sales tax partially offsetting a positive variance from the auto sales tax. Compared to the same month last year, October receipts from this tax increased $30.0 million (3.6%).

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

Although this GRF source performed well during the summer months, for the first time in FY 2019, monthly receipts from the nonauto sales and use tax fell below estimates. In October, GRF revenue from the nonauto sales and use tax totaling $720.3 million was $4.8 million (0.7%) below projections. This performance reduced the cumulative positive variance of this source to $45.6 million (1.6%), down from a first-quarter positive variance of $50.4 million. Compared to revenue in the same month in 2017, October nonauto sales and use tax revenue increased $19.5 million (2.8%). For the fiscal year, GRF receipts of $2.96 billion through October were $77.6 million (2.7%) above revenue in the corresponding period in FY 2018. As payrolls and income have steadily risen in calendar year (CY) 2018, the nonauto sales and use tax has also improved. Chart 2, below, shows year-over-year growth in nonauto sales tax collections.[5]

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

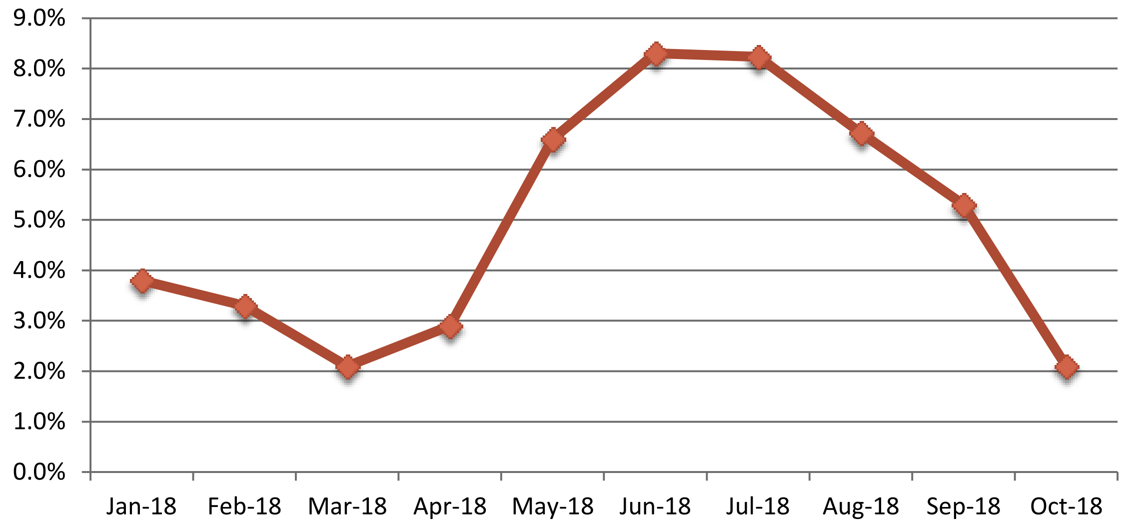


[5] Beginning July 1, 2017, the sales tax on Medicaid health insuring corporations (MHICs) was eliminated. Thus, the last payment of $71.7 million deposited in the GRF was made in July 2017 (reflecting taxable activity in June 2017). So, to adjust for changes to the existing tax base, this chart excludes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

Auto Sales and Use Tax

After a shortfall of $4.7 million in September, the auto sales and use tax bounced back in October with a positive variance of $7.6 million (6.1%). GRF revenue of $132.5 million from this source was also $10.5 million (8.6%) above revenue in October 2017. This performance increased this source's cumulative positive variance to $17.5 million (3.5%), up from $9.9 million through September. Through October, FY 2019 auto sales tax receipts of $519.9 million were $28.6 million (5.8%) above receipts in the corresponding period in FY 2018. Though auto sales tax revenue during recent months is still growing compared with the prior year, the rate of growth has slowed since the summer months (see Chart 3, below).

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



Monthly nationwide new light vehicle (auto and light truck) sales came in at 17.5 million units in October at seasonally adjusted annual rates, slightly higher than unit sales of 17.4 million in September. Nationwide sales through October have generally held up compared to sales during the corresponding period in 2017. However, unit sales in the July-October period declined about 2% due to a strong decline in auto sales, though truck sales have continued to be healthy. The shift to higher-priced trucks from lower-priced cars has helped boost the average price per vehicle and auto sales tax revenue. Recent information shown below from the Ohio Bureau of Motor Vehicles (BMV) suggests that revenue is also supported by price increases for used vehicles. The taxable base for used vehicles (about 59% of the total base) in Ohio increased 4.9% in 2018 and was buoyed by solid growth for the average price per used vehicle, relative to the first three quarters of 2017.

Ohio BMV Statistics on Vehicles Titled			
CY 2018 (Through September)	Unit	Total Taxable Amount ($ in millions)	Average Taxable Amount Per Unit
New vehicles	297,100	$8,385	$28,221
Used vehicles	1,367,582	$12,014	$8,785
Total	1,664,682	$20,398	$12,254
Growth from CY 2017			
New vehicles	2.5%	5.3%	2.7%
Used vehicles	-0.9%	4.9%	5.8%
Total	-0.3%	5.0%	5.4%

Personal Income Tax

Through October, FY 2019 PIT receipts to the GRF of $2.93 billion were $3.2 million (0.1%) above projections, as a result of a positive variance of $16.7 million (2.4%) in October 2018. This tax source recorded a deficit of $13.4 million in the first fiscal quarter. For the month of October, PIT revenue of $713.4 million was $74.7 million (11.7%) above revenue in October 2017. Revenue growth has generally been strong and compared to year-ago receipts, FY 2019 PIT revenue grew $218.2 million (8.1%).

PIT revenue is comprised of gross collections, minus refunds and distributions to the Local Government Fund (LGF). Gross collections consist of employer withholdings, quarterly estimated payments,[6] trust payments, payments associated with annual returns, and other miscellaneous payments. The performance of the tax is typically driven by employer withholdings, which is the largest component of gross collections (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 October 2018, positive variances of $15.7 million for quarterly estimated payments, $6.2 million for annual return payments, and $3.3 million for trust payments were partially offset by shortfalls of $4.7 million for withholding and $3.0 million for miscellaneous payments. Refunds were $0.8 million below estimate for the month.

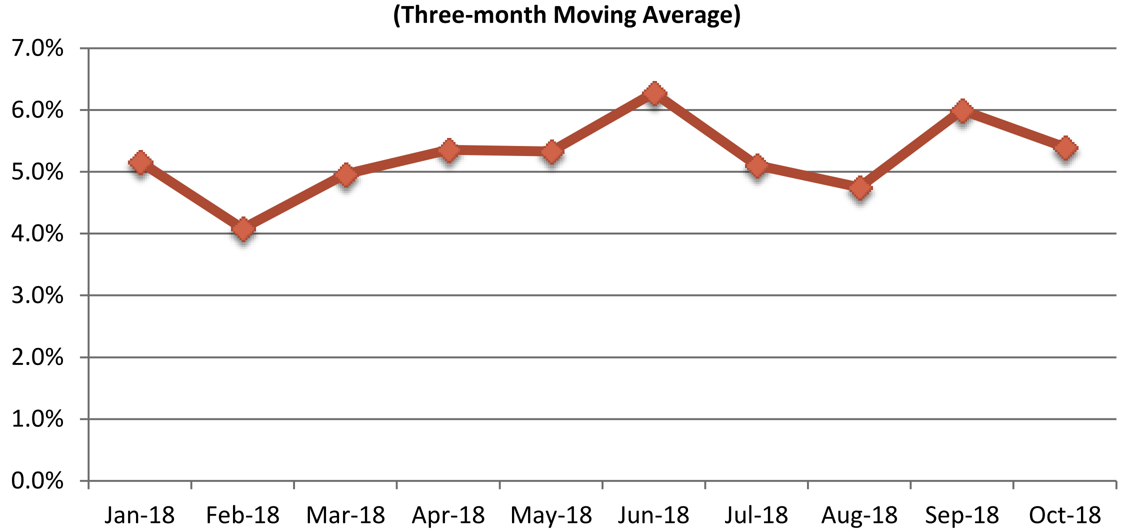
For the YTD, revenues from each component of the PIT relative to estimates and to revenue received in FY 2018 are detailed in the table below. It shows a YTD positive variance of $12.3 million for gross collections. Positive variances from withholding, annual return payments, and trust payments were partially negated by shortfalls for quarterly estimated payments and miscellaneous revenue. Gross collections were reduced by refunds, which were $8.6 million higher than expected. FY 2019 refunds also increased compared to their amount in the corresponding period last year.

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

FY 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	$18.1	0.6%	$154.8	5.6%
Quarterly Estimated Payments	-$18.6	-6.8%	$49.2	24.0%
Trust Payments	$3.2	22.3%	$5.5	45.9%
Annual Return Payments	$16.4	22.9%	$29.5	50.2%
Miscellaneous Payments	-$6.8	-24.0%	-$7.1	-24.8%
Gross Collections	$12.3	0.4%	$231.8	7.6%
Less Refunds	$8.6	3.7%	$9.7	4.2%
Less LGF Distribution	$0.5	0.4%	$3.8	3.0%
GRF PIT Revenue	$3.2	0.1%	$218.2	8.1%

Compared to revenue in the corresponding period in FY 2018, gross collections were 7.6% higher from increased employer withholding, quarterly estimated payments, and annual return payments. Payrolls have been growing, so revenue growth for the monthly employer withholding component of the PIT has followed, averaging about 5.9% for the fiscal year through October.[7] The chart below illustrates the growth of monthly employer withholdings on a three-month moving average relative to one year ago.

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



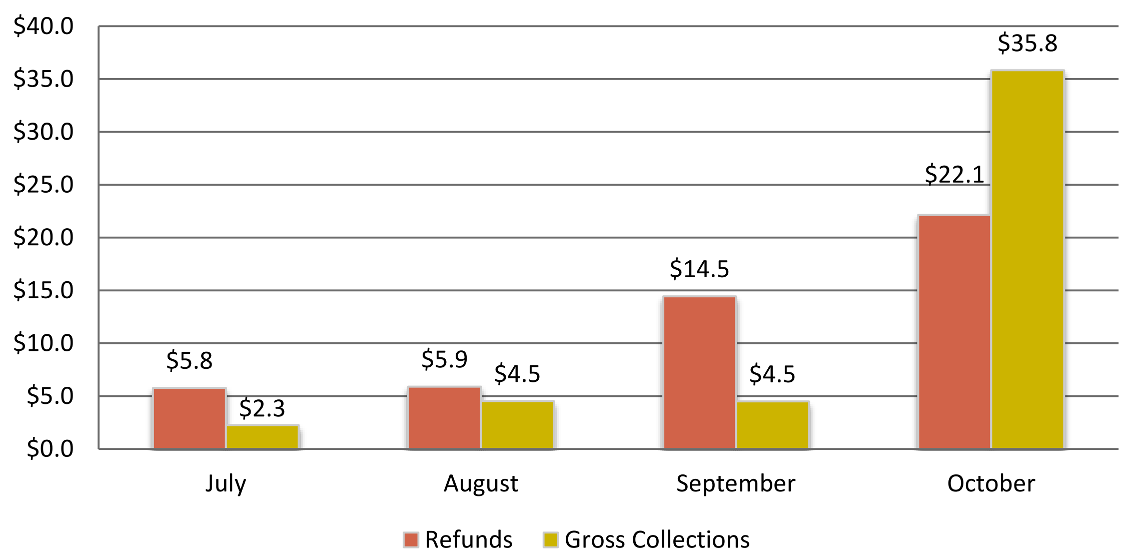
[7] The 5.6% growth shown in the table includes some withholding revenue other than monthly withholding.

Commercial Activity Tax

In each of the first three months of the fiscal year, the CAT experienced revenue shortfalls, including a monthly deficit of $11.8 million in August for the first payment for quarterly calendar return taxpayers. However, in October 2018, revenue from the CAT to the GRF of $81.4 million was $26.2 million (47.4%) above estimate. This performance returned this tax source to positive territory relative to estimate from a first-quarter negative variance of $20.1 million. For the fiscal year through October, total GRF receipts of $428.4 million were $6.1 million (1.4%) above estimate and $11.6 million (2.8%) above revenue in the first four months of FY 2018. Gross collections from the tax increased 6.6% relative to collections through October last fiscal year but increased credit claims and refunds restrained net collections to the GRF.

Chart 5 illustrates cumulative growth (compared with the prior year) for gross collections and refunds.

Chart 5: Cumulative Growth in CAT Refunds and Gross Collections in FY 2019
($ in millions)



OBM, in its October financial report, expected growth in CAT revenue to be stronger in the October-December quarter as credits may fall back in line with estimate. October revenue was strong, but the second payment for calendar quarter taxpayers, due in November, will likely determine the first-half results for this tax. 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%). Distributions to Fund 7047 and Fund 7081 are used to make reimbursement payments to school districts and other local taxing units, respectively, for the phase out of property taxes on general business tangible personal property. Any receipts in excess of amounts needed for such payments are transferred back to the GRF.

Cigarette and Other Tobacco Products Tax

In October, GRF revenue from the cigarette and other tobacco products tax was $85.5 million, $0.2 million (0.2%) above estimate. Receipts for the month were $6.7 million (8.5%) above revenue from the tax in the corresponding month of the previous fiscal year. Through October, FY 2019 revenue from the cigarette and other tobacco products tax totaled $268.5 million, $3.2 million (1.2%) above estimate and $1.0 million (0.4%) above cumulative receipts through October in FY 2018. YTD revenue included $243.6 million from the sale of cigarettes and $24.9 million from the sale of other tobacco products. Compared to FY 2018, receipts from cigarette sales grew $0.6 million while those from the sale of other tobacco products increased $0.4 million. So far in FY 2019, cigarette tax revenues have exhibited an unusually volatile pattern. However, 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.

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of October 2018
($ in thousands)
(Actual based on OAKS reports run November 2, 2018)

Program Category	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	$686,614	$676,004	$10,609	1.6%
Higher Education	$196,020	$194,594	$1,426	0.7%
Other Education	$7,442	$7,753	-$311	-4.0%
Total Education	**$890,076**	**$878,352**	**$11,725**	**1.3%**
Medicaid	$1,415,370	$1,364,928	$50,441	3.7%
Health and Human Services	$177,850	$187,041	-$9,190	-4.9%
Total Health and Human Services	**$1,593,220**	**$1,551,969**	**$41,251**	**2.7%**
Justice and Public Protection	$202,441	$206,959	-$4,518	-2.2%
General Government	$35,329	$37,948	-$2,619	-6.9%
Total Government Operations	**$237,770**	**$244,906**	**-$7,137**	**-2.9%**
Property Tax Reimbursements	$251,784	$361,152	-$109,369	-30.3%
Debt Service	$92,704	$92,758	-$54	-0.1%
Total Other Expenditures	**$344,487**	**$453,910**	**-$109,423**	**-24.1%**
Total Program Expenditures	**$3,065,553**	**$3,129,137**	**-$63,584**	**-2.0%**
Transfers Out	**$10,456**	**$10,360**	**$96**	**0.9%**
Total GRF Uses	**$3,076,009**	**$3,139,497**	**-$63,488**	**-2.0%**

*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 October 31, 2018
($ in thousands)
(Actual based on OAKS reports run November 2, 2018)

Program Category	Actual	Estimate*	Variance	Percent	FY 2018**	Percent
Primary and Secondary Education	$2,852,509	$2,855,277	-$2,767	-0.1%	$2,849,618	0.1%
Higher Education	$758,409	$770,018	-$11,609	-1.5%	$720,103	5.3%
Other Education	$33,872	$34,147	-$275	-0.8%	$33,726	0.4%
Total Education	**$3,644,791**	**$3,659,442**	**-$14,651**	**-0.4%**	**$3,603,446**	**1.1%**
Medicaid	$5,547,550	$5,810,138	-$262,588	-4.5%	$5,501,779	0.8%
Health and Human Services	$465,336	$507,594	-$42,258	-8.3%	$453,358	2.6%
Total Health and Human Services	**$6,012,886**	**$6,317,732**	**-$304,846**	**-4.8%**	**$5,955,137**	**1.0%**
Justice and Public Protection	$820,265	$832,300	-$12,035	-1.4%	$764,822	7.2%
General Government	$134,273	$139,048	-$4,776	-3.4%	$128,640	4.4%
Total Government Operations	**$954,537**	**$971,348**	**-$16,811**	**-1.7%**	**$893,462**	**6.8%**
Property Tax Reimbursements	$829,019	$788,662	$40,357	5.1%	$770,881	7.5%
Debt Service	$887,115	$887,627	-$512	-0.1%	$859,165	3.3%
Total Other Expenditures	**$1,716,134**	**$1,676,289**	**$39,845**	**2.4%**	**$1,630,046**	**5.3%**
Total Program Expenditures	**$12,328,348**	**$12,624,811**	**-$296,463**	**-2.3%**	**$12,082,091**	**2.0%**
Transfers Out	**$752,327**	**$751,933**	**$393**	**0.1%**	**$58,408**	**1188.1%**
Total GRF Uses	**$13,080,675**	**$13,376,745**	**-$296,070**	**-2.2%**	**$12,140,499**	**7.7%**

*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 November 5, 2018)

	Month of October 2018				Year to Date through October 2018			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid								
GRF	$1,357,921	$1,304,510	$53,411	4.1%	$5,309,740	$5,566,157	-$256,418	-4.6%
Non-GRF	$600,774	$998,399	-$397,625	-39.8%	$2,275,887	$3,051,676	-$775,789	-25.4%
All Funds	$1,958,694	$2,302,908	-$344,214	-14.9%	$7,585,627	$8,617,834	-$1,032,207	-12.0%
Developmental Disabilities								
GRF	$52,073	$52,284	-$210	-0.4%	$205,209	$205,434	-$225	-0.1%
Non-GRF	$248,385	$198,338	$50,047	25.2%	$758,736	$776,658	-$17,922	-2.3%
All Funds	$300,458	$250,622	$49,837	19.9%	$963,945	$982,092	-$18,147	-1.8%
Job and Family Services								
GRF	$4,626	$6,935	-$2,308	-33.3%	$29,477	$34,919	-$5,443	-15.6%
Non-GRF	$6,683	$7,897	-$1,214	-15.4%	$52,094	$43,105	$8,990	20.9%
All Funds	$11,309	$14,831	-$3,522	-23.7%	$81,571	$78,024	$3,547	4.5%
Health, Mental Health and Addiction, Aging, Pharmacy Board, and Education								
GRF	$749	$1,200	-$451	-37.6%	$3,124	$3,627	-$503	-13.9%
Non-GRF	$3,182	$2,772	$410	14.8%	$10,611	$14,359	-$3,748	-26.1%
All Funds	$3,931	$3,972	-$42	-1.1%	$13,735	$17,986	-$4,251	-23.6%
All Departments:								
GRF	**$1,415,370**	**$1,364,928**	**$50,441**	**3.7%**	**$5,547,550**	**$5,810,138**	**-$262,588**	**-4.5%**
Non-GRF	**$859,023**	**$1,207,406**	**-$348,383**	**-28.9%**	**$3,097,329**	**$3,885,798**	**-$788,469**	**-20.3%**
All Funds	**$2,274,393**	**$2,572,334**	**-$297,941**	**-11.6%**	**$8,644,879**	**$9,695,936**	**-$1,051,057**	**-10.8%**

*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 November 5, 2018)

	Month of October 2018				Year to Date through October 2018			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	**$1,427,267**	**$1,395,791**	**$31,476**	**2.3%**	**$5,515,333**	**$5,671,279**	**-$155,946**	**-2.7%**
CFC†	$485,236	$497,604	-$12,368	-2.5%	$1,954,888	$1,994,400	-$39,512	-2.0%
Group VIII	$344,974	$378,828	-$33,854	-8.9%	$1,412,084	$1,512,830	-$100,745	-6.7%
ABD†	$237,301	$236,586	$715	0.3%	$933,193	$939,480	-$6,287	-0.7%
ABD Kids	$77,143	$78,622	-$1,480	-1.9%	$309,169	$313,339	-$4,170	-1.3%
My Care	$216,637	$204,151	$12,486	6.1%	$840,022	$810,295	$29,727	3.7%
Pay For Performance	$65,976	$0	$65,976	-	$65,976	$100,935	-$34,959	-34.6%
Fee-For-Service	**$691,061**	**$990,711**	**-$299,650**	**-30.2%**	**$2,456,183**	**$3,279,287**	**-$823,104**	**-25.1%**
ODM Services	$396,331	$421,595	-$25,264	-6.0%	$1,503,043	$1,654,268	-$151,225	-9.1%
DDD Services	$294,718	$245,571	$49,147	20.0%	$935,510	$951,529	-$16,019	-1.7%
Hospital - HCAP†	$12	$317,645	-$317,633	-100.0%	$12	$635,291	-$635,279	-100.0%
Hospital - Other	$0	$5,900	-$5,900	-100.0%	$17,618	$38,200	-$20,582	-53.9%
Premium Assistance	**$87,953**	**$91,699**	**-$3,746**	**-4.1%**	**$352,781**	**$371,635**	**-$18,854**	**-5.1%**
Medicare Buy-In	$50,646	$52,816	-$2,170	-4.1%	$202,015	$216,915	-$14,899	-6.9%
Medicare Part D	$37,307	$38,882	-$1,576	-4.1%	$150,766	$154,721	-$3,955	-2.6%
Administration	**$68,112**	**$94,133**	**-$26,021**	**-27.6%**	**$320,582**	**$373,734**	**-$53,152**	**-14.2%**
Total	**$2,274,393**	**$2,572,334**	**-$297,941**	**-11.6%**	**$8,644,879**	**$9,695,936**	**-$1,051,057**	**-10.8%**

*September 2018 estimates from the Department of Medicaid.
†CFC – Covered Families and Children; ABD – Aged, Blind, and Disabled; HCAP – Hospital Care Assurance Program.
Detail may not sum to total due to rounding.

Expenditures[8]

– Wendy Zhan, Deputy Director

– Ivy Chen, Principal Economist

Overview

For the month of October, GRF program expenditures totaled $3.07 billion. These expenditures were below the estimate released by OBM in August 2018 by $63.6 million (2.0%), which increased the total negative YTD variance in GRF program expenditures to $296.5 million (2.3%). GRF transfers out were largely in line with estimate, being $0.4 million above the YTD estimate. Including both program expenditures and transfers out, GRF uses totaled $13.08 billion through October, which was $296.1 million (2.2%) below estimate. Tables 3 and 4 detail GRF uses for the month of October and for FY 2019 through October, respectively.

YTD expenditures were below estimates for all but one program category. Medicaid continued to dominate the negative variances. YTD GRF Medicaid expenditures of $5.55 billion were $262.6 million (4.5%) below estimate. 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.

The negative YTD variance in the Health and Human Services program category increased $9.2 million in October to $42.3 million (8.3%). The Ohio Department of Job and Family Services (ODJFS) contributed $29.4 million to the program category's negative YTD variance total. YTD expenditures from all but two GRF appropriation items in the ODJFS budget were below their estimates due mainly to the timing of various payments. Item 600416, Information Technology Projects, had the largest negative YTD variance at $10.3 million, followed by item 600523, Family and Children Services ($3.9 million) and item 600521, Family Assistance – Local ($3.2 million).

The Ohio Department of Health (ODH) accounted for another $6.8 million of the total negative variance in Health and Human Services. Several payments did not get disbursed as quickly as anticipated by the estimate. YTD expenditures were below estimates for 16 out of 20 GRF appropriation items in the ODH budget. Overall GRF expenditures from the Ohio Department of Mental Health and Addiction Services (OhioMHAS) were below the YTD estimate by $5.1 million, of which $4.3 million occurred in item 336510, Residential State Supplement. This item is used to provide cash assistance and case management to aged, blind, or disabled adults who reside in approved living arrangements, such as group homes or adult care facilities.

The YTD negative variances in Medicaid, Health and Human Services, and six other program categories were partially offset by the positive YTD variance in Property Tax Reimbursements. Although this program category posted a large negative variance of $109.4 million (30.3%) in October, the category's YTD expenditures were $40.4 million (5.1%) above estimate at the end of October. Funds provided under this program category are used to

[8] 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.

make semiannual payments to school districts and other local governments. The first payments, which are based on a property tax settlement conducted in August, will be made through the end of December. Funds are disbursed as county auditors request reimbursement. It is common to see monthly variances as the payment timelines assumed in the OBM estimate often differ from the actual reimbursement request timelines. The program category's YTD variance generally decreases toward the end of a payment cycle.

Medicaid

For the month of October, GRF Medicaid expenditures were $50.4 million (3.7%) above estimate while non-GRF Medicaid expenditures were $348.4 million (28.9%) below estimate. Through October, FY 2019 GRF and non-GRF Medicaid expenditures were both below estimates, by $262.6 million (4.5%) and $788.5 million (20.3%), respectively. Including both the GRF and non-GRF, all funds Medicaid expenditures of $8.64 billion were $1.05 billion (10.8%) below the YTD estimate. Timing accounted for the majority of the monthly and YTD variances in GRF and non-GRF Medicaid expenditures. As a joint federal-state program, both GRF and non-GRF Medicaid expenditures contain federal and state dollars.[9]

As indicated in the prior issue of *Budget Footnotes*, the $100.9 million in GRF funded pay for performance payments for managed care plans did not occur in September as assumed in the estimate. In October, $66.0 million of such payments were disbursed, which accounted for the positive variance in that month's overall GRF Medicaid expenditures. The estimate also assumed $317.6 million each in non-GRF funded Health Care Assurance Program (HCAP) payments for hospitals in September and October. However, both payments have been delayed. Delay in HCAP payments accounted for 91.1% and 80.6%, respectively, of the October and YTD negative variances in non-GRF Medicaid expenditures. Delay in these two HCAP payments also accounted for 60.4% of the total negative YTD variance in all funds Medicaid expenditures. Pay for performance and HCAP payments are supported by appropriations in the Ohio Department of Medicaid (ODM) budget.

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.

[9] Federal reimbursements for Medicaid expenditures made from the state GRF are deposited into the GRF as revenue to help support the GRF appropriations for Medicaid. Federal reimbursements for Medicaid expenditures made from state non-GRF funds are deposited into various non-GRF funds for expenditure. In recent years, the federal government has reimbursed about two-thirds of Ohio's total Medicaid expenditures.

Table 6 shows all funds Medicaid expenditures by payment category.[10] 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 $823.1 million (25.1%), followed by Managed Care ($155.9 million, 2.7%), Administration ($53.2 million, 14.2%), and Premium Assistance ($18.9 million, 5.1%).

The negative variance in FFS was primarily due to the delay in HCAP payments ($635.3 million) as 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. FFS caseloads being lower than expected also contributed to the negative variance in this category. Beginning January 1, 2018, newly eligible individuals are enrolled onto managed care shortly after receiving Medicaid benefits. Previously, when ODM was determining 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 $29.7 million (3.7%). 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) had the largest negative YTD variance of $100.7 million (6.7%) within the Managed Care category, followed by CFC (Covered Families and Children) at $39.5 million (2.0%). These negative variances were mainly due to lower than expected caseloads. For the first four months of FY 2019, on average the monthly managed care caseloads for Group VIII and CFC were 6.7% (40,300) and 1.3% (20,600), respectively, below estimates. Finally, the $35.0 million (34.6%) negative YTD variance in the Pay for Performance category was due to the delay in making the remaining part of the payment that was originally scheduled for September.

[10] For FY 2019, several FFS categories, such as nursing facilities and physician services, have been grouped into "ODM Services." In previous fiscal years, these expenditures were broken out into their own separate categories.

Issue Updates

Controlling Board Approves $15.4 Million in Funding for Diesel Mitigation Trust Fund Grants

– Robert Meeker, Budget Analyst

On October 15, 2018, the Controlling Board approved a request from the Ohio Environmental Protection Agency (Ohio EPA) to allocate $15.4 million in FY 2019 from the Volkswagen Clean Air Act Settlement Fund (Fund 3HE0) to finance the Diesel Mitigation Trust Fund (DMTF) Grant Program. Of this total, $15.0 million will be used to provide competitive grants to remove diesel engines from use and replace or repower them with clean diesel, alternative fuel, or electric engines. The remaining $0.4 million will be used for Ohio EPA's administrative costs.

The grant funding will be allocated for specific project categories as follows: $5 million for school buses, $5 million for public transit buses, and $5 million for local freight trucks and airport ground support equipment. Ohio EPA expects to award individual grants in amounts between $50,000 and $2 million. A local match of at least 25% is required for all projects. This is a reimbursement program in which grant recipients must provide their own funding to cover expenses as they are incurred. To be grant eligible, an applicant's vehicles and equipment must be operating within 26 designated priority counties as shown in the map (source: Ohio EPA).

The money supporting the grant program is the result of an agreement between the U.S. EPA, the state of California, and Volkswagen (VW) and its subsidiaries settling allegations that the latter violated the federal Clean Air Act by selling approximately 590,000 model year 2009 to 2016 diesel motor vehicles in the U.S. that were equipped with "defeat devices." The devices were in the form of computer software designed to make vehicles appear compliant during emissions testing, while during normal operation and use, the vehicles actually emitted nine to 40 times the legally allowable amount of nitrogen oxides. The settlement requires VW to contribute $2.7 billion to the Environmental Mitigation Trust for State Beneficiaries to pay for projects that reduce emissions of nitrogen oxides. All 50 states, Puerto Rico, and the District of Columbia are eligible beneficiaries, with the amount allocated primarily based on the number of VW diesel vehicles equipped with defeat devices registered within the boundaries of the beneficiary. Ohio expects to receive a total of $75.3 million from the trust over the next ten years, an amount based on more than 16,000 such vehicles registered within the state.

Ohio Receives Nearly $5.6 Million from the Multistate Settlement with Uber

– Maggie Wolniewicz, Senior Budget Analyst

On September 26, 2018, the Ohio Attorney General announced that Ohio will receive nearly $5.6 million of a $148 million multistate settlement with Uber after the company violated security breach notification laws by waiting a year before notifying affected individuals of a data breach that compromised their personal information. Approximately $1.2 million of Ohio's share of the settlement will be used to provide $100 payments to eligible drivers whose information was accessed during the data breach, including those who applied to drive for Uber and those who are no longer driving for the company. These payments will be distributed by an appointed outside settlement administrator. The remaining $4.4 million will be used by the Attorney General's Office to fund services and activities that protect consumers from predatory and illegal business practices.

The data breach, which occurred in November 2016 and was not reported until November 2017, exposed the names and driver's license numbers of more than 600,000 Uber drivers nationwide, including more than 12,000 in Ohio. The names, emails, and cellular telephone numbers of 57 million Uber users around the world were also exposed, subjecting them to potential financial fraud and identity theft. The attorneys general of all 50 states and the District of Columbia participated in the settlement, resulting in the largest multistate data breach settlement to date. As part of the settlement, Uber has agreed to comply with state data breach and consumer protection laws, as well as develop and implement an overall data security policy for all user data collected and maintained by the company, including initiating a corporate integrity program where employees are able to report issues of concern.

Ohio Airports Awarded Over $50 Million in Federal and State Aviation Grants

– Tom Middleton, Senior Budget Analyst

On September 27, 2018, the Federal Aviation Administration (FAA) reported that a total of $48.7 million in grant funding had been awarded to 50 commercial and general aviation airports in Ohio under the Airport Improvement Program (AIP) during federal fiscal year 2018. The bulk of the federal funding, approximately $28.0 million (57.5%), was awarded to the following five Ohio airports: (1) $11.1 million to the Akron-Canton Regional Airport, (2) $5.9 million to the Cleveland-Hopkins International Airport, (3) $4.5 million to the Rickenbacker International Airport, (4) $4.2 million to the Mansfield Lahm Airport, and (5) $2.4 million to the Newark-Heath Airport. Qualifying airports must meet specific operating criteria and be included in the National Plan of Integrated Airport Systems. Eligible projects include those that improve airport safety, capacity, security, and environmental conditions. The money may also be used to cover professional services, such as planning, survey, and design. The federal shares of AIP projects range from 75% to 95%. FAA AIP funding consists of three components: entitlement grants (largely based on the volume of passengers or cargo), a set-aside for certain specific projects, and discretionary grants.

Ohio airports that do not qualify for FAA AIP entitlement grants may qualify for state assistance under the Ohio Airport Grant Program overseen by the Ohio Department of Transportation (ODOT). On August 9, 2018, ODOT announced the award of approximately $5.1 million to 16 of these airports for capital improvements under the program. Grant funds cover up to 90% of the construction costs associated with airport pavement resurfacing, obstruction removal, and marking projects. The Ohio Airport Grant Program is mostly funded by the GRF under line item 777471, Airport Improvements – State; however, the program also receives a portion of funding from aircraft license tax revenues deposited into the Airport Assistance Fund (Fund 5W90) under line item 777615, County Airport Maintenance.

Department of Health Releases Drug Overdose Report

– Jacquelyn Schroeder, Budget Analyst

On September 27, 2018, ODH released its 2017 Ohio Drug Overdose Report, which found that prescription opioid-related unintentional overdose deaths continued to decrease, while overdose deaths related to illegally produced fentanyl mixed and used with other drugs, such as cocaine and methamphetamine, continued to increase. In 2017, there were 523 overdose deaths related to prescription opioids, a decrease of 7.3% from 564 such deaths in 2016. According to the report, the continuing decrease in prescription opioid overdose deaths corresponds with a number of state initiatives in recent years that reduce the prescription opioid supply available, including shuttering pill mills, establishing new prescribing guidelines, strengthening prescription drug monitoring and enforcement, creating new regulations for wholesalers, and enhancing the functionality of the Ohio Automated Rx Reporting System (OARRS). As a result of these efforts, the number of unintentional overdose deaths related to prescription drugs has decreased steadily in the past four years. The 523 prescription opioid-related overdose deaths in 2017 represent a 22.2% decrease from 672 deaths in 2014.

In 2017, there were 3,431 unintentional overdose deaths associated with fentanyl and related drugs, an increase of 45.6% from 2,357 such deaths in 2016. The fentanyl and related drug overdose deaths have increased significantly in recent years. The 2017 figure represents a 582.1% increase from 503 such deaths in 2014. Due to these increases, the total unintentional drug overdose deaths have also increased steadily in recent years from 2,531 in 2014 to 4,854 in 2017, an increase of 91.8%. The state has provided funding in recent years to combat all drug abuse and addiction problems. Funding has been provided to enable community rapid response teams to follow up with survivors of a drug overdose to help connect these individuals with treatment, expand the availability of the opioid overdose reversal drug naloxone, and to support toxicology screenings for county coroner drug overdose investigations, among other initiatives. More information regarding the state's efforts to reduce all drug overdose deaths and the 2017 Ohio Drug Overdose Report can be accessed on ODH's website (https://www.odh.ohio.gov/) by clicking on Drug Overdose under the D group of the A-Z Index.

Ohio Awarded $55.8 Million State Opioid Response Grant

– Ryan Sherrock, Economist

On September 19, 2018, OhioMHAS was awarded $55.8 million in federal State Opioid Response (SOR) grant funds. These funds will be used to increase access to medication-assisted treatment (MAT) and recovery housing, expand naloxone distribution, provide professional training to improve opioid epidemic responses, and develop employment opportunities for persons in recovery from opioid addiction. Specific grant activities will include the following: launching public awareness programs for both general and targeted populations, operating drug takeback programs, educating local law enforcement personnel on naloxone supply management, training more physicians in the use of MAT, and creating continuing educational opportunities to expand practitioners' expertise in substance use disorder and opioid use disorder treatment. A complete list of planned activities can be accessed on OhioMHAS' website (mha.ohio.gov) by clicking on Funding → State Opioid Response Program → Summary of the Ohio State Opioid Response (SOR) Grant. OhioMHAS anticipates the Ohio SOR project to annually provide treatment and recovery support services to 9,000 individuals with an opioid use disorder.

The SOR grant funds are provided through the federal Substance Abuse and Mental Health Services Administration. The majority (85%) of the grant funds is distributed in accordance with a formula that considered the following for each state or territory: the proportion of people with abuse or dependence on opioids who need treatment, but are not receiving it, and the proportion of overdose deaths. The remaining 15% is set aside for the ten states with the highest overdose mortality rates. Ohio is one of the states that are currently eligible for the set-aside funds.

DHE Launches "3 to Get Ready" Campaign to Help High School Students Prepare for College

– Edward M. Millane, Senior Budget Analyst

In late September, the Department of Higher Education (DHE) announced a "3 to Get Ready" campaign to help high school students prepare for college. The campaign consists of three separate components that are important to a successful college application process. First, the Ohio Free Application for Federal Student Aid (FAFSA) Completion initiative encourages high schools and higher education institutions to host students and their families who need support during the FAFSA completion process, which began October 1. Second, the Ohio College Application Month (OCAM), which began October 1 and will run through November 15, provides assistance to high school seniors as they apply for their preferred postsecondary education option and ensures that each senior submit at least one college application. OCAM is a part of the American College Application Campaign, a multistate initiative designed to help all seniors apply to college. Third, the College Signing Day, which will occur sometime between April 1 and May 31, celebrates the students' plans to continue their education or training after high school. On that day, eligible high school seniors will "sign" with their university or college of choice and be celebrated by their families, peers, and school staff. For more information on the "3 to Get Ready" campaign and related resources, go to DHE's website: https://www.ohiohighered.org/3ToGetReady.

College Affordability Committee Issues Recommendations to Increase Student Success and Make College More Affordable

– Edward M. Millane, Senior Budget Analyst

In late September, the Joint Committee on Ohio College Affordability released a report of its findings and recommendations from the five hearings it held from May through September of this year. Created by H.B. 49 of the 132nd General Assembly, the ten-member Committee was established to study and develop strategies to reduce the cost of attending the state's colleges and universities. The report references various existing state and institution initiatives that can be expanded or replicated statewide or at more colleges and universities to increase student success and make college more affordable. The Committee's recommendations and examples of the strategies are summarized below:

1) Increasing student success and completion. The Committee recommends the use of credit completion incentives and summer tuition discount programs to assist students in graduating early or on time.
2) Predictability and transparency in pricing. The Committee recommends that every public university implement an undergraduate tuition guarantee model as the default option for students seeking a four-year degree. These models may also include fee guarantees for at least the first two years of room and board.
3) Providing accessible and affordable course materials. The Committee recommends that institutions implement the inclusive access programs, which allow institutions more negotiating power on the costs of textbooks, and open educational resources, which are free, digital resources.
4) Incentivizing pursuit of in-demand programs. The Committee recommends an additional funding weight to the state's State Share of Instruction (SSI) funding formula to incentivize public universities to offer degrees in rising, in-demand, competitive fields.
5) Completing a FAFSA and preparing for college attendance. The Committee recommends the state prioritize FAFSA completion for all graduating high school seniors and each university and college adopt a policy encouraging FAFSA filing as part of the application process.

To view the full report and all of the Committee's recommendations, go to the Ohio Senate's website at: http://www.ohiosenate.gov/committees/joint-committee-on-ohio-college-affordability.

Auditor of State Releases School District Performance Audit Summary Report

– Terry Steele, Senior Budget Analyst

On September 19, 2018, the Auditor of State released a special report[11] that provides a summary of performance audits of school districts since the Auditor of State began these audits in FY 2011. Over that span of time, the Auditor of State's Office has conducted 86 performance audits of school districts. Of this number, 78 (90.7%) were conducted in order to help the school district recover from fiscal distress and the other eight were conducted at the request of school districts. Performance audits for districts in distress are not automatic. The Auditor of State in consultation with the Department of Education determines cases where a school district in distress would benefit from a performance audit, focusing primarily on areas of the highest spending. Performance audits conducted at the request of school districts that are not in fiscal distress typically cover topics such as student transportation, food service staffing, benefits, facilities, and fleet management operations. According to the Auditor of State, the potential savings identified in those performance audits total a little over $138 million.[12]

Performance audits of school districts in fiscal distress are paid for by the Auditor of State's Office, through GRF appropriation item 070409, School District Performance Audits. The Auditor of State spent approximately $850,000 for nine school district performance audits in FY 2018. The FY 2019 appropriation for these purposes is approximately $975,000. Performance audits requested by school districts not in fiscal distress are paid for by the requesting school district. Any such payments are deposited into the Public Audit Expense – Local Government Fund (Fund 4220). As of July 9, 2018, there is one school district in fiscal emergency (Coventry Local School District in Summit County), one district in fiscal watch (Niles City School District in Trumbull County), and one district in fiscal caution (Parma City School District in Cuyahoga County).

Ohio Awarded $1.5 Million in Federal State Wildlife Grants

– Tom Wert, Budget Analyst

On September 28, 2018, the U.S. Department of the Interior (USDOI) announced that the Ohio Department of Natural Resources (ODNR) Division of Wildlife would receive nearly $1.5 million under the USDOI State Wildlife Grant (SWG) Program. The Division will direct funds received under the grant toward projects that will help identify and protect species with the greatest conservation need across the state in accordance with the state's 2015 State Wildlife Action Plan. As shown in the table below, 14 projects will receive funding under the grant, with a small portion set aside for ODNR to administer the grants. Nine of the projects will be carried out in

[11] The full report is available on the Auditor of State's website at the following link: https://ohioauditor.gov/publications/opt%20schools%20FINAL2018.pdf.

[12] However, the report did not list the actual amounts of savings from implementing the performance audit recommendations.

partnership with the Ohio State University (OSU), which will contribute nearly $572,000 to support those projects. Six projects also receive state funding totaling just over $233,000. State funding is supported by the Wildlife Fund (Fund 7015) which receives revenue primarily from the sale of hunting and fishing licenses and permits and federal sportfish and wildlife restoration grants.

Projects Funded Under the State Wildlife Grant Program				
Project Title	Funding			
	Federal	State	OSU	Total
Aquatic Mollusk Conservation, Research & Surveys*	$214,446		$115,471	$329,917
Statewide Stream Conservation	$181,577	$97,772		$279,349
Amphibian and Reptile Conservation*	$173,968		$93,675	$267,643
Native Fish, Native Streams: Rare Fish Reintroduction*	$142,254		$76,598	$218,852
Conservation Genetic Approaches to Conserving State-listed Wildlife Species*	$139,225		$74,967	$214,192
Survey and Monitoring of Terrestrial Species of Greatest Conservation Need	$122,225	$65,813		$188,038
Forest Management Effects on the Population Ecology of Timber Rattlesnakes*	$104,667		$56,359	$161,026
Ohio Biodiversity Conservation Partnership Project*	$99,042	$1,373	$51,958	$152,373
Statewide Odonate Survey*	$66,092		$35,588	$101,680
Statewide Bat Conservation*	$62,703		$33,763	$96,466
Freshwater Mollusk Health Assessment*	$62,234		$33,510	$95,744
Wildlife Diversity Conservation	$60,970	$32,830		$93,800
Ohio Natural Heritage Database	$46,777	$25,188		$71,965
Wildlife Diversity Database	$16,250	$8,750		$25,000
SWG Grant Administration	$3,011	$1,621		$4,632
Total	$1,495,441	$233,347	$571,889	$2,300,677

*Projects in partnership with OSU.

Tracking the Economy

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Overview

Economic activity continues to grow in the tenth year of the current expansion. Inflation-adjusted gross domestic product (real GDP), a broad measure of the national economy, rose at a 3.5% annual rate in this year's third quarter. However, various measures of residential construction and sales have slowed. Employment nationwide increased again in October, with gains in numerous industries. Industrial production strengthened in September, reaching the highest level ever. Inflation at the consumer level remains well contained, but upward pressures on wages and other business costs are evident in statistics and reports from industry. Concerns regarding impacts of higher international tariffs and shortages of workers with needed skills continue to be noted by business people. At a meeting of the Federal Reserve's main monetary policy-setting group this month, the central bank held its target short-term interest rate unchanged.

Ohio's nonfarm payroll employment rose by 1.9% in the year to September, the largest year-over-year increase since 2012. Job gains were widespread among industries. The state unemployment rate was 4.6% in September, unchanged since July. The region's economic activity expanded at a modest pace, as reported by the Federal Reserve's survey of business contacts. Existing home sales in the state were down from a year earlier in September and for this year's first nine months.

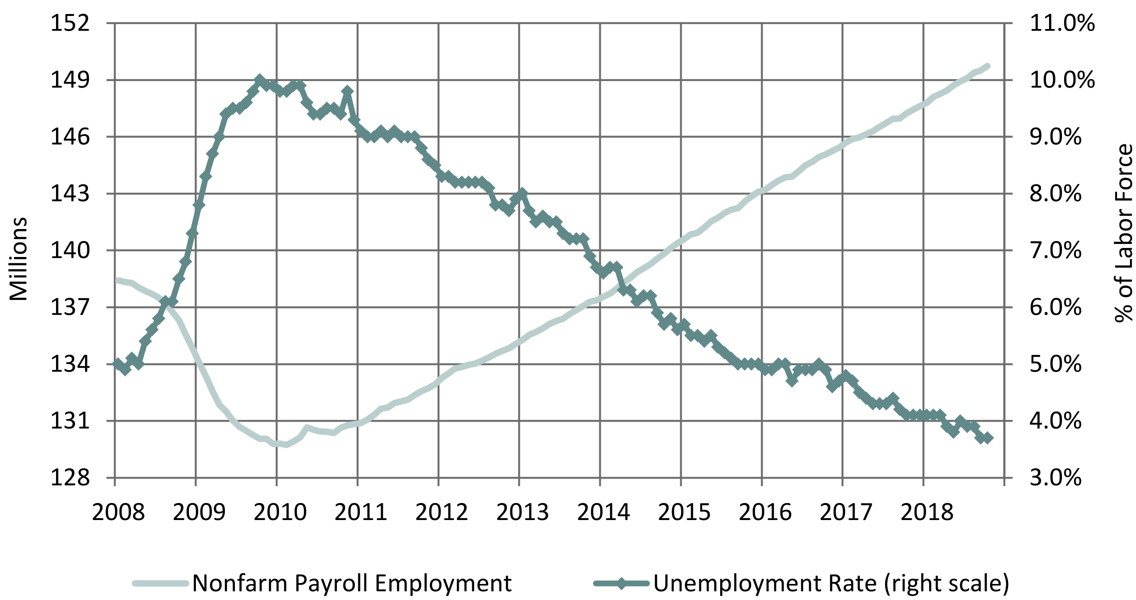
The National Economy

In the July-September quarter, the nation's real GDP grew at a 3.5% annual rate (initial estimate). 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 upturn in growth this year reflects continued expansion of consumer spending, stronger growth of business fixed investment in the first half of the year, and an upturn in government spending, along with inventory accumulation in the third quarter. Residential fixed investment, however, has slowed since 2017.

Economic expansion is continuing in the current quarter, though the pace of growth may have slowed from that in the previous two quarters. Estimates from the Federal Reserve Banks of Atlanta and New York peg real GDP growth in the year's fourth quarter at annual rates of 2.9% and 2.6%, respectively, as of November 8.

In October, total nonfarm payroll employment nationwide rose by 250,000 and unemployment as a share of the labor force remained unchanged at 3.7%. Trends in U.S. payroll employment and the unemployment rate are shown in Chart 6.

Chart 6: U.S. Employment and Unemployment



Payroll employment gains in this year's first ten months averaged 213,000 per month, or 1.7% at an annual rate, the strongest pace of increase since 2015. October's larger rise may have reflected, in part, bounceback from effects of Hurricane Florence on leisure and hospitality industry employment in September. The U.S. Bureau of Labor Statistics, which publishes these figures, saw no effect in October from Hurricane Michael on the estimates for national employment and unemployment.

Employment increases in October were reported in numerous industries. Compared with year-earlier levels, employment rose 323,000 (2.0%) in health care, 296,000 (2.4%) in manufacturing, 330,000 (4.7%) in construction, 184,000 (3.5%) in transportation and warehousing, 254,000 (1.6%) in leisure and hospitality, 516,000 (2.5%) in professional and business services, and 65,000 (10.2%) in mining. Average hourly pay of all private-sector employees was 3.1% higher than a year earlier, the largest increase since 2009.

Unemployment in October rose to 6.1 million persons. Total employment (including workers not on nonfarm payrolls) also rose, holding the nation's unemployment rate at 3.7%. The share of the working-age population (those age 16 and older) that was employed rose in October to 60.6%, highest since 2009.

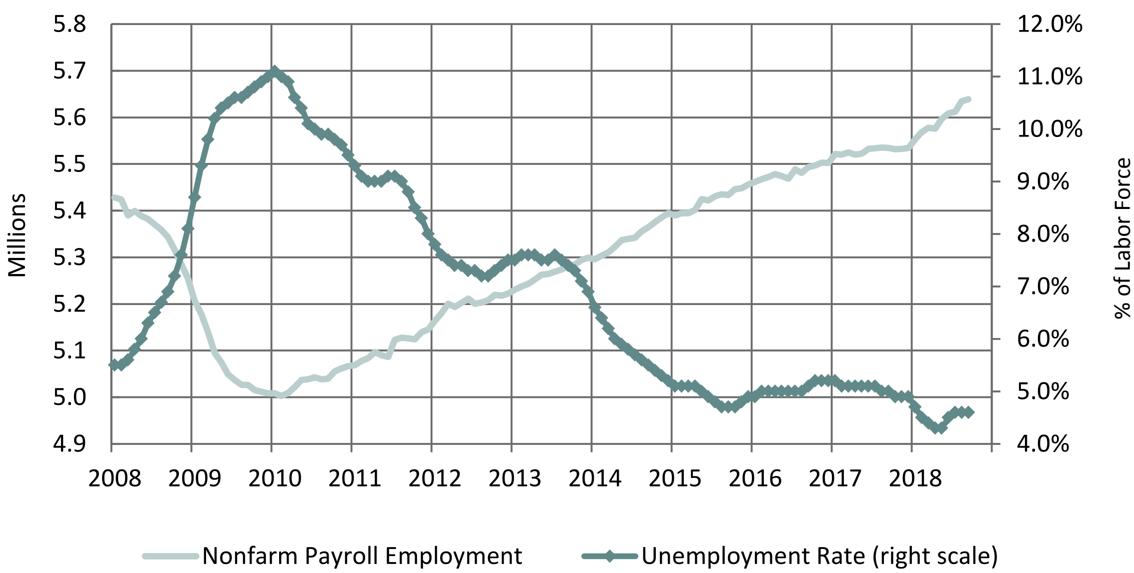
Industrial production in the U.S. in September rose 0.3% to an all-time peak, 5.1% higher than a year earlier. Effects of Hurricane Florence on total industrial production were small, less than 0.1 percentage point, according to the Federal Reserve, the source agency for this measure. Manufacturing production rose 0.2% in September to 3.5% above the year-earlier index level. Factory output, which accounts for more than three-fourths of the total industrial production index, remains below the 2007 all-time peak. Mining output rose 13.4% in the year to September and was up 24% from a 2016 low point, mainly on gains in oil and gas extraction. The index for mining production was at its highest level ever. Utility output in September was 5.4% higher than in the year-earlier month. Output of electric and natural gas utilities, highly variable seasonally, has been trending higher for the past 12 months.

The consumer price index (CPI) rose 0.1% in September to 2.3% above its year-earlier level. Year-to-year changes were larger than this in each of the preceding six months, as much as 2.9% in June and July, because of energy price increases. The CPI excluding food and energy was 2.2% higher than a year earlier in September, the same as in August. Another measure of price inflation at the consumer level, the price index for personal consumption expenditures excluding food and energy, was 2.0% higher than a year earlier in September, the same increase as in the previous four months. Pay increases are gradually becoming larger; the employment cost index for wages and salaries of all private-industry workers rose 3.1% in the year to September, the largest increase in this broad measure since 2008. Higher pay tends to be incorporated in price changes, unless offset by higher productivity. Growth of labor productivity has generally been slow during the past eight years, though it appears to have picked up in this year's second and third quarters.

The Ohio Economy

In September, Ohio's economy continued to add more jobs while the state unemployment rate remained at 4.6%, unchanged since July. Ohio's unemployment rate in September was down compared to 5.0% in September of last year. The number of unemployed workers in Ohio was 266,000 in September, 2,000 less than in August, and 21,000 less than in September of last year. The state's unemployment rate in September was higher than the U.S. unemployment rate. The U.S. unemployment rate was 3.7% in September and 4.2% in September of last year. Ohio employment and unemployment over the last ten years are shown in Chart 7.

Chart 7: Ohio Employment and Unemployment



Ohio's total nonfarm payroll employment, seasonally adjusted, increased by 4,300 or 0.1% in September from the revised total in August, to 5.64 million, a new record surpassing the previous peak set in May of 2000. Private service-providing industries added 3,900 jobs, with most gains occurring in other services (+3,400) and professional and business services (+1,300). Goods-producing industries gained 2,600 jobs, with increases in manufacturing (+3,400) and mining and logging (+100) being partly offset by construction (-900). Government lost 2,200 jobs, mainly in state and local governments.

Compared to September of last year, the state's nonfarm payroll employment was 104,600, or 1.9% higher. Employment in private service-providing industries, goods-producing industries, and government increased by 74,600, 22,700, and 7,300, respectively. Year-over-year employment gains were essentially across the board, with the largest gains occurring in trade, transportation, and utilities (+18,400), leisure and hospitality (+18,100), educational and health services (+16,500), and durable goods manufacturing (+14,000).

Among the 12 metropolitan areas in Ohio, the Cleveland-Elyria metropolitan area had the strongest nonfarm payroll employment growth during the year ending in September at 2.7%, while the Youngstown-Warren-Boardman metropolitan area was the weakest with a 1.1% decline. The unemployment rate in the Cleveland-Elyria metropolitan area was 4.4% in September, down from 5.1% in September of last year. The Ohio metropolitan area with the lowest unemployment rate in September was the Columbus metropolitan area at 3.6%, down from 3.9% in September of last year. The Weirton-Steubenville metropolitan area had the highest unemployment rate in the state in September at 5.3%, followed by Youngstown-Warren-Boardman metropolitan area at 5.2%. Compared to September of last year, the Youngstown-Warren-Boardman metropolitan area had the largest decrease in unemployment rate in the state; the rate dropped from 7.2% in September 2017 to 5.2% in September 2018. Unlike the statewide nonfarm payroll employment and unemployment data above, metropolitan area data are not seasonally adjusted.

The number of existing homes sold in Ohio in September was 12,667, a decrease by 6.9% compared to the 13,602 homes sold in September 2017, according to the Ohio Association of Realtors. The average statewide sales price of homes sold in September was $183,379. From January through September of this year, existing home sales were 0.7% lower than in the corresponding months in 2017. The average statewide sales price during the first nine months of this year was $183,306, higher than the $173,329 average for the corresponding months in 2017.

Economic activity in the region continued to expand at a modest pace, according to a Federal Reserve Bank of Cleveland report.[13] Hiring activity remained moderate with a continued tight labor market. On balance, wage increases were moderate across sectors though a few contacts cited stronger increases. Retail sales were flat during the reporting period of September through early October, bucking the nearly year-long upward trend. Manufacturing activity remained strong. Residential construction activity dropped modestly due in part to a decrease in homebuyers' ability to purchase a new home. Sales of low-priced homes were described as better than sales of higher-end homes. Nonresidential construction picked up relative to the low level of activity in the previous reporting period of early July through August. Bankers reported demand for commercial and industrial loans softened but demand for mortgages and core deposits were up, possibly just seasonally. Contacts in the transportation sector noted stable demand at a high level, but limited freight capacity continued to restrain growth.

[13] The report is from the latest Federal Reserve System Beige Book that summarizes information gathered on or before October 15, 2018, from outside contacts. The Federal Reserve Bank of Cleveland's district includes all of Ohio and parts of Kentucky, Pennsylvania, and West Virginia.