Budget Footnotes

A monthly newsletter by LSC economists and budget analysts

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Highlights

– Ross Miller, Chief Economist

September GRF tax revenue was very close to expectations, so that the first quarter of FY 2019 ended with a positive variance of $31.9 million compared to the estimate for tax revenue published by the Office of Budget and Management (OBM) in August 2018. Revenue shortfalls from the personal income tax and the commercial activity tax were offset by healthy sales tax revenue. On the spending side of the ledger, Medicaid spending and most other spending categories were below estimate through the first three months.

Ohio's unemployment rate remained unchanged at 4.6% in August, and Ohio's nonfarm payroll employment increased by 13,900 for the month. During the year ending in August, nonfarm payroll employment increased by 90,200.

Through September 2018, GRF sources totaled $8.32 billion:

- Revenue from the sales and use tax was $60.3 million above estimate;
- Personal income tax receipts were $13.5 million below estimate.

Through September 2018, GRF uses totaled $10.00 billion:

- Program expenditures were $232.9 million below estimate;
- Expenditures for Property Tax Reimbursements were above estimate by $149.7 million due to timing, and Other Education had a very small positive variance. All other spending categories were below estimate.

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

State Sources	Actual	Estimate*	Variance	Percent
Tax Revenue				
Auto Sales	$115,259	$117,500	-$2,241	-1.9%
Nonauto Sales and Use	$709,612	$694,700	$14,912	2.1%
Total Sales and Use	*$824,871*	*$812,200*	*$12,671*	*1.6%*
Personal Income	$855,437	$850,600	$4,837	0.6%
Commercial Activity Tax	$3,005	$10,200	-$7,195	-70.5%
Cigarette	$75,087	$75,100	-$13	0.0%
Kilowatt-Hour Excise	$32,461	$35,500	-$3,039	-8.6%
Foreign Insurance	$5,796	$7,500	-$1,704	-22.7%
Domestic Insurance	$0	$0	$0	---
Financial Institution	-$6,626	-$2,600	-$4,026	-154.9%
Public Utility	$106	$0	$106	---
Natural Gas Consumption	$0	$0	$0	---
Alcoholic Beverage	$5,594	$4,300	$1,294	30.1%
Liquor Gallonage	$4,495	$4,100	$395	9.6%
Petroleum Activity Tax	$2,019	$1,300	$719	55.3%
Corporate Franchise	$21	$0	$21	---
Business and Property	$0	$0	$0	---
Estate	$0	$0	$0	---
Total Tax Revenue	**$1,802,266**	**$1,798,200**	**$4,066**	**0.2%**
Nontax Revenue				
Earnings on Investments	$32	$0	$32	---
Licenses and Fees	$2,078	$1,937	$141	7.3%
Other Revenue	$10,861	$53,708	-$42,848	-79.8%
Total Nontax Revenue	**$12,970**	**$55,645**	**-$42,675**	**-76.7%**
Transfers In	**$0**	**$0**	**$0**	**---**
Total State Sources	**$1,815,236**	**$1,853,845**	**-$38,610**	**-2.1%**
Federal Grants	**$799,631**	**$914,710**	**-$115,079**	**-12.6%**
Total GRF Sources	**$2,614,867**	**$2,768,556**	**-$153,689**	**-5.6%**

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

Table 2: General Revenue Fund Sources
Actual vs. Estimate
FY 2019 as of September 30, 2018
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on October 1, 2018)

State Sources	Actual	Estimate*	Variance	Percent	FY 2018**	Percent
Tax Revenue						
Auto Sales	$387,375	$377,500	$9,875	2.6%	$369,201	4.9%
Nonauto Sales and Use	$2,241,989	$2,191,600	$50,389	2.3%	$2,183,889	2.7%
Total Sales and Use	*$2,629,364*	*$2,569,100*	*$60,264*	*2.3%*	*$2,553,090*	*3.0%*
Personal Income	$2,212,629	$2,226,100	-$13,471	-0.6%	$2,069,123	6.9%
Commercial Activity Tax	$347,006	$367,100	-$20,094	-5.5%	$355,377	-2.4%
Cigarette	$183,009	$180,000	$3,009	1.7%	$188,751	-3.0%
Kilowatt-Hour Excise	$95,596	$96,800	-$1,204	-1.2%	$90,762	5.3%
Foreign Insurance	$8,357	$8,500	-$143	-1.7%	$6,522	28.1%
Domestic Insurance	$0	$0	$0	---	$62	-100.0%
Financial Institution	-$6,160	-$1,400	-$4,760	-340.0%	-$4,875	-26.4%
Public Utility	$32,411	$29,100	$3,311	11.4%	$27,337	18.6%
Natural Gas Consumption	$14,839	$12,300	$2,539	20.6%	$11,326	31.0%
Alcoholic Beverage	$16,033	$14,900	$1,133	7.6%	$15,449	3.8%
Liquor Gallonage	$12,900	$12,500	$400	3.2%	$12,225	5.5%
Petroleum Activity Tax	$2,019	$1,300	$719	55.3%	$1,570	28.6%
Corporate Franchise	$162	$0	$162	---	$2,377	-93.2%
Business and Property	$0	$0	$0	---	-$374	100.0%
Estate	$37	$0	$37	---	$29	28.7%
Total Tax Revenue	**$5,548,202**	**$5,516,300**	**$31,902**	**0.6%**	**$5,328,752**	**4.1%**
Nontax Revenue						
Earnings on Investments	$88	$0	$88	---	$0	157218.3%
Licenses and Fees	$8,256	$7,781	$475	6.1%	$7,713	7.0%
Other Revenue	$16,035	$56,363	-$40,328	-71.6%	$26,651	-39.8%
Total Nontax Revenue	**$24,378**	**$64,144**	**-$39,765**	**-62.0%**	**$34,364**	**-29.1%**
Transfers In	**$75,995**	**$80,190**	**-$4,195**	**-5.2%**	**$111,347**	**-31.7%**
Total State Sources	**$5,648,575**	**$5,660,634**	**-$12,059**	**-0.2%**	**$5,474,463**	**3.2%**
Federal Grants	**$2,671,679**	**$2,896,557**	**-$224,878**	**-7.8%**	**$2,708,707**	**-1.4%**
Total GRF SOURCES	**$8,320,254**	**$8,557,190**	**-$236,937**	**-2.8%**	**$8,183,171**	**1.7%**

*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

Tables 1 and 2 show GRF sources for the month of September and for the year to date (YTD) for FY 2019, respectively. GRF sources consist of state-source receipts, which include tax revenue, nontax revenue, and transfers in, and federal grants, which are primarily federal reimbursements for Medicaid.

First-quarter revenue to the GRF in FY 2019 totaled $8.32 billion, which was below the OBM estimate by $236.9 million (2.8%) due to shortfalls of $224.9 million (7.8%) for federal grants, $39.8 million (62.0%) for nontax revenue, and $4.2 million (5.2%) for transfers in. These negative variances were partially offset by a positive variance of $31.9 million (0.6%) for tax receipts. The YTD negative variance for federal grants results from GRF Medicaid spending being substantially below expectations so far this year due partly to timing. The YTD negative variance in nontax revenue was mainly due to the timing of the $42.0 million JobsOhio deferred compensation payment from liquor profits; the payment did not occur in September as anticipated in the OBM estimate.[2]

Regarding YTD GRF tax sources, the sales and use tax posted a positive variance of $60.3 million. The cigarette tax was also above estimate, by $3.0 million. The personal income tax (PIT), however, fell $13.5 million below anticipated revenue and the commercial activity tax (CAT) experienced a shortfall of $20.1 million. In addition, combined receipts from three utility-related taxes (the kilowatt-hour excise tax, the public utility tax, and the natural gas consumption tax) were $4.6 million above projections. Most other taxes had smaller variances, except for a YTD shortfall of $4.8 million for the financial institutions tax (FIT).[3]

For the month of September, GRF sources of $2.61 billion were $153.7 million below estimates, driven down by negative variances of $115.1 million for federal grants and $42.7 million for nontax revenue. On the other hand, GRF tax sources were above projections by $4.1 million: the CAT was $7.2 million short of projections, but the sales and use tax and the PIT were above anticipated revenues by $12.7 million and $4.8 million, respectively. In addition, the alcoholic beverage tax had a positive variance of $1.3 million. Most of the remaining tax sources had negative variances, including the FIT ($4.0 million), the kilowatt-hour excise tax ($3.0 million), and the foreign insurance tax ($1.7 million).

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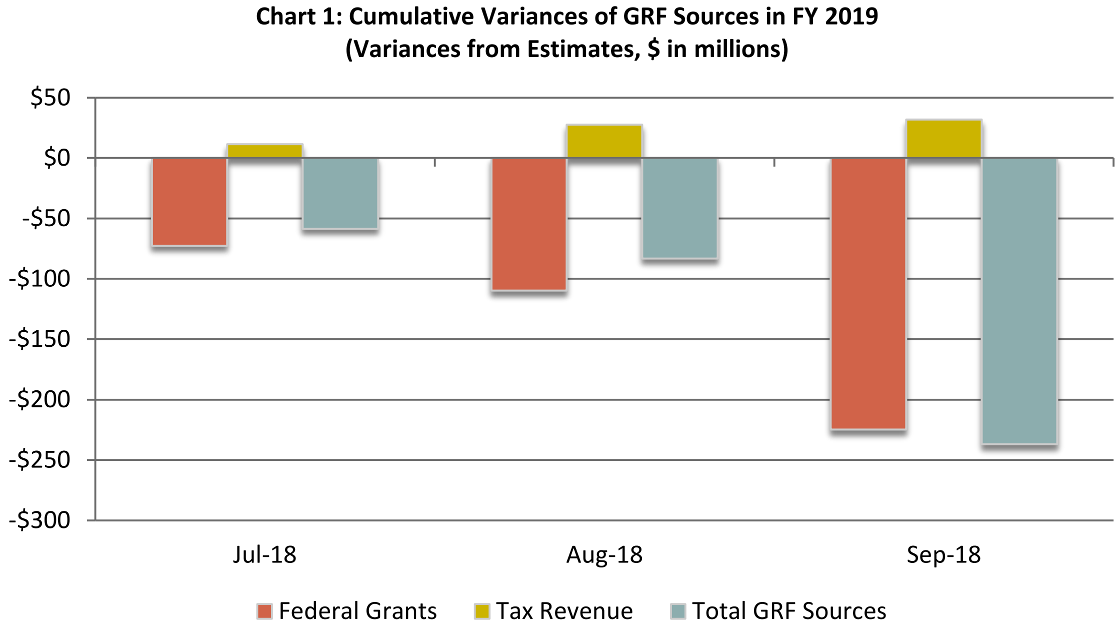
[1] This report compares actual monthly and year-to-date (YTD) GRF revenue sources to OBM's estimates. If actual receipts are higher than estimate, that GRF source is deemed to have a positive variance. Alternatively, a GRF source is deemed to have a negative variance if actual receipts are lower than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

[2] The timing of this payment may differ somewhat from estimate. For example, in FY 2018, this payment was received in September when it was expected in October 2017.

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

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



Compared to GRF sources in the first quarter of FY 2018, FY 2019 GRF sources increased $137.1 million. GRF tax sources increased $219.5 million (4.1%), while federal grants, transfers in, and nontax revenue fell by $37.0 million, $35.4 million, and $10.0 million, respectively. Among the largest tax sources, revenue from the PIT and the sales and use tax increased, $143.5 million (6.9%) and $76.3 million (3.0%), respectively; on the other hand, receipts for the cigarette tax declined $5.7 million (3.0%) and revenue from the CAT was $8.4 million (2.4%) lower than in FY 2018.

Sales and Use Tax

FY 2019 first-quarter GRF receipts from the sales and use tax of $2.63 billion were $60.3 million (2.3%) above estimate, with both the nonauto and the auto portions of the tax above projections. Total revenue was also $76.3 million (3.0%) above receipts in FY 2018 through September. For the month of September, GRF receipts were $824.9 million, $12.7 million (1.6%) above estimate. Compared to the same month last year, September receipts from this tax increased $44.6 million (5.7%).

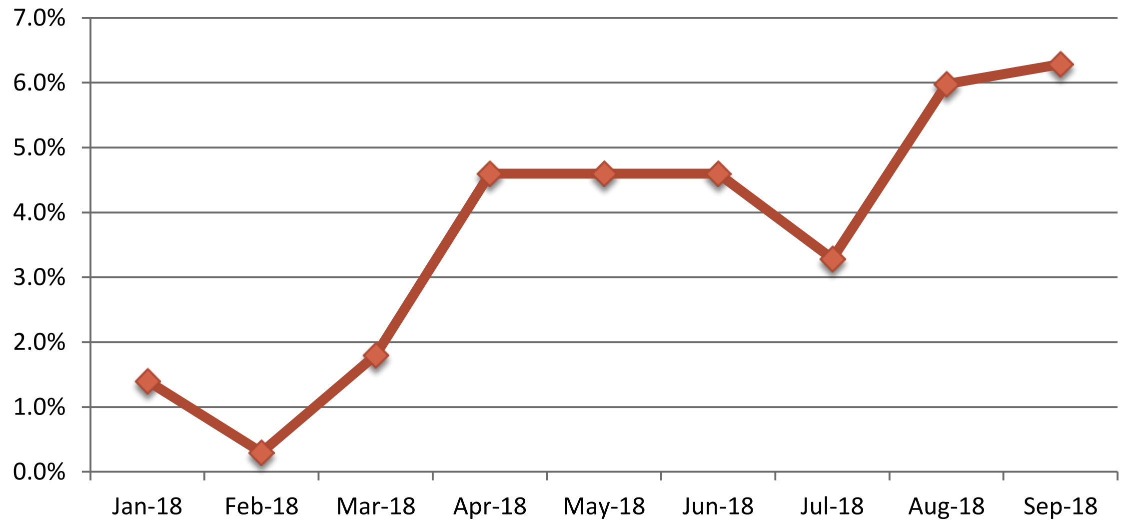
For analysis and forecasting, the sales and use tax is separated into two parts: auto and nonauto. Auto sales and use tax collections generally arise from the sale of motor vehicles, but auto taxes arising from leases are paid at the lease signing and are mostly recorded under the nonauto tax instead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

Nonauto Sales and Use Tax

In September 2018, GRF revenue from the nonauto sales and use tax totaled $709.6 million, $14.9 million (2.1%) above estimate. This performance follows positive variances of 1.0% in July and 3.8% in August. Compared to revenue in the same month in 2017, September nonauto sales and use tax revenue increased $49.3 million (7.5%), which is another strong performance after a year-over-year increase of 9.5% in August 2018.

For the fiscal year, GRF receipts were $2.24 billion, which was $50.4 million (2.3%) above estimate and also $58.1 million (2.7%) above revenue in the corresponding period in FY 2018. Chart 2, below, shows year-over-year growth in nonauto sales tax collections.[4] The nonauto sales and use tax has improved substantially in the last few months relative to the performance at the start of calendar year (CY) 2018.

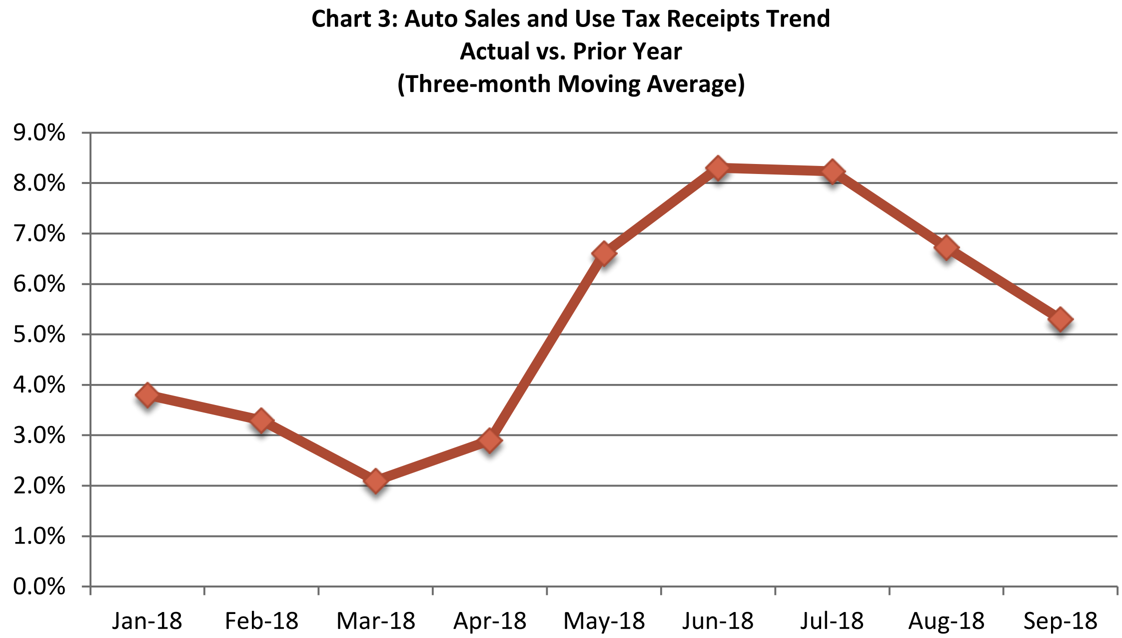
Chart 2: Nonauto Sales and Use Tax Receipts Trend Actual vs. Prior Year (With Tax Base Adjustment, Three-month Moving Average)



Auto Sales and Use Tax

September GRF revenue from the auto portion of the sales and use tax of $115.3 million was below estimate by $2.2 million (1.9%) and $4.8 million (4.0%) below revenue in September 2017. The monthly performance reduced this tax source's cumulative positive variance to $9.9 million (2.6%), down from $12.1 million through August. Through September, FY 2019 auto sales tax receipts of $387.4 million were $18.2 million (4.9%) above receipts in the first quarter of FY 2018. The auto sales and use tax has generally experienced strong but uneven growth since March 2018. However, the rate of growth has clearly slowed in the latest months, as shown in Chart 3.

[4] Beginning July 1, 2017, the sales tax on Medicaid health insuring corporations (MHICs) was eliminated. Thus the last payment 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.



Monthly nationwide new light vehicle (auto and light truck) sales were 17.4 million units in September at seasonally adjusted annual rates, higher than August unit sales of 16.6 million, but about 4% below sales in September 2017 (which were outsized due to hurricanes Harvey and Irma). Overall, total unit sales are slowing as sales in the July-September period averaged 16.9 million units, below their average pace of 17.1 million units in the first six months of 2018. Truck sales continue to be healthy, but a sustained drop in those sales, if it occurs, would negatively impact Ohio auto sales tax revenue because they buoy the average price per unit and taxable base.

Personal Income Tax

First-quarter PIT receipts to the GRF of $2.21 billion were $13.5 million (0.6%) below projections. For the month of September, however, PIT revenue of $855.4 million was $4.8 million (0.6%) above estimate, partially offsetting a cumulative negative variance of $18.3 million through August. Compared to year-ago receipts, FY 2019 PIT revenue grew 6.9% or $143.5 million.

PIT revenue is comprised of gross collections, minus refunds and distributions to the Local Government Fund (LGF). Gross collections consist of employer withholdings, quarterly estimated payments,[5] trust payments, payments associated with annual returns, and other miscellaneous payments. The performance of the tax is typically driven by employer withholdings, which is the largest component of gross collections (about 82% of gross collections in FY 2018). Larger than expected refunds could also greatly affect the monthly performance of the tax.

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

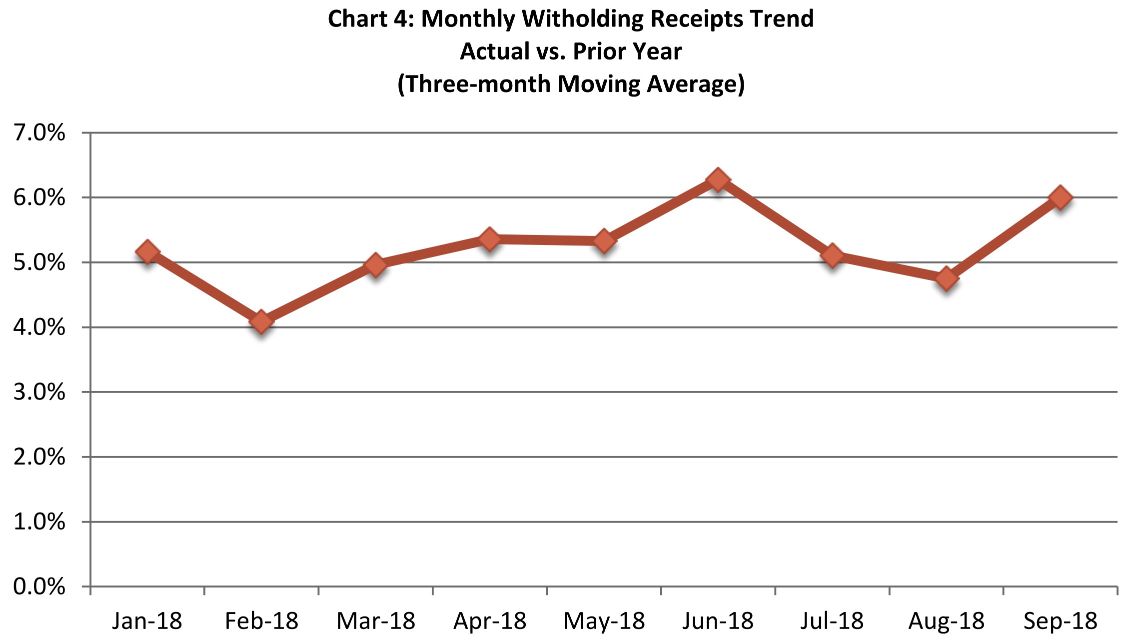
For the month of September 2018, gross collections were $4.5 million above estimates. A positive variance of $32.7 million for employer withholdings was partially offset by shortfalls of $24.6 million for quarterly estimated payments and $3.4 million for miscellaneous payments. Refunds were $0.5 million below estimate and distributions to the LGF were $0.2 million above the anticipated level.

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 withholding and annual return payments were above estimates, while quarterly estimated payments and miscellaneous payments were below estimates. YTD gross collections were $5.2 million below projections, and refunds were $7.8 million higher than expected. FY 2019 refunds also increased compared to their amount in the July-September period last year.

FY 2019 Personal Income Tax Revenue Variance and Annual Change by Component				
	YTD Variance from Estimate		Changes from FY 2018	
Category	Amount ($ in millions)	Percent (%)	Amount ($ in millions)	Percent (%)
Withholding	$22.7	1.1%	$113.1	5.5%
Quarterly Estimated Payments	-$34.2	-13.4%	$29.3	15.3%
Trust Payments	-$0.1	-1.1%	$2.2	22.0%
Annual Return Payments	$10.2	35.0%	$13.4	51.5%
Miscellaneous Payments	-$3.8	-18.6%	-$4.0	-19.4%
Gross Collections	**-$5.2**	**-0.2%**	**$154.0**	**6.7%**
Less Refunds	$7.8	5.9%	$8.5	6.5%
Less LGF Distribution	$0.4	0.4%	$2.0	2.0%
GRF PIT Revenue	**-$13.5**	**-0.6%**	**$143.5**	**6.9%**

Compared to revenue in the corresponding period in FY 2018, gross collections were 6.7% higher, from increased receipts from withholding, which accounted for the majority of the growth in collections. Also, quarterly estimated payments and annual return payments experienced strong increases of 15.3% and 51.5%, respectively.

Through September, employer withholding was 1.1% above estimate in FY 2019. Revenue growth for this PIT component has been generally respectable in 2018 and accelerated in the most recent months, despite a slowdown in the summer months. The chart below illustrates the growth of monthly employer withholdings on a three-month moving average relative to one year ago.



Commercial Activity Tax

Revenue from the CAT to the GRF was $3.0 million in September, which was $7.2 million (70.5%) below estimate and $7.1 million (70.4%) below receipts in September 2017. For the quarter, the CAT posted a cumulative negative variance of $20.1 million (5.5%), with shortfalls in each of the three months, including a monthly deficit of $11.8 million in August for the first payment for quarterly calendar return taxpayers. This performance is a reversal from the last fiscal quarter in FY 2018 when the tax was 9.6% above projections. Compared to FY 2018, FY 2019 CAT receipts to the GRF were also lower, by $8.4 million (2.4%). The FY 2019 negative variance and the decline in receipts relative to FY 2018 were due to a slowdown in collections and an increase in credit claims and refunds. Gross collections (i.e., all funds revenue) from this tax source increased only 1% compared to the corresponding quarter in FY 2018, but refunds increased about 37%.

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 September, GRF revenue from the cigarette and other tobacco products tax was $75.1 million, nearly matching estimate. The monthly receipt was, however, $11.8 million (13.6%) below revenue from the tax in the corresponding month of the previous fiscal year. For the first fiscal quarter, the cigarette and other tobacco products tax totaled $183.0 million,

$3.0 million (1.7%) above estimate but $5.7 million (3.0%) below cumulative receipts through September in FY 2018.

YTD revenue included $163.3 million from the sale of cigarettes and $19.7 million from the sale of other tobacco products. Compared to FY 2018, receipts from cigarette sales declined $7.9 million while those from the sale of other tobacco products increased $2.2 million. Revenue from the cigarette and other tobacco products tax usually trends downward generally at a slow pace due to a decline of cigarette revenue. OBM estimates a yearly revenue decline of about 2.4% compared to FY 2018.

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

Program Category	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	$722,623	$690,563	$32,061	4.6%
Higher Education	$187,392	$197,163	-$9,771	-5.0%
Other Education	$7,868	$10,506	-$2,639	-25.1%
Total Education	**$917,883**	**$898,232**	**$19,651**	**2.2%**
Medicaid	$1,255,730	$1,400,047	-$144,317	-10.3%
Health and Human Services	$64,357	$81,713	-$17,356	-21.2%
Total Health and Human Services	**$1,320,087**	**$1,481,760**	**-$161,673**	**-10.9%**
Justice and Public Protection	$163,581	$160,973	$2,609	1.6%
General Government	$23,980	$28,107	-$4,126	-14.7%
Total Government Operations	**$187,561**	**$189,079**	**-$1,518**	**-0.8%**
Property Tax Reimbursements	$297,899	$260,819	$37,080	14.2%
Debt Service	$409,534	$409,929	-$395	-0.1%
Total Other Expenditures	**$707,433**	**$670,748**	**$36,685**	**5.5%**
Total Program Expenditures	**$3,132,964**	**$3,239,819**	**-$106,855**	**-3.3%**
Transfers Out	**$13**	**$2,500**	**-$2,487**	**-99.5%**
Total GRF Uses	**$3,132,977**	**$3,242,319**	**-$109,343**	**-3.4%**

*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 September 30, 2018
($ in thousands)
(Actual based on OAKS reports run October 2, 2018)

Program Category	Actual	Estimate*	Variance	Percent	FY 2018**	Percent
Primary and Secondary Education	$2,165,896	$2,179,273	-$13,377	-0.6%	$2,066,824	4.8%
Higher Education	$562,389	$575,424	-$13,035	-2.3%	$540,361	4.1%
Other Education	$26,430	$26,394	$36	0.1%	$23,602	12.0%
Total Education	**$2,754,715**	**$2,781,090**	**-$26,376**	**-0.9%**	**$2,630,787**	**4.7%**
Medicaid	$4,132,180	$4,445,210	-$313,030	-7.0%	$4,135,948	-0.1%
Health and Human Services	$287,486	$320,554	-$33,068	-10.3%	$283,927	1.3%
Total Health and Human Services	**$4,419,666**	**$4,765,763**	**-$346,097**	**-7.3%**	**$4,419,875**	**0.0%**
Justice and Public Protection	$617,824	$625,341	-$7,517	-1.2%	$574,067	7.6%
General Government	$98,944	$101,101	-$2,157	-2.1%	$95,254	3.9%
Total Government Operations	**$716,768**	**$726,442**	**-$9,674**	**-1.3%**	**$669,322**	**7.1%**
Property Tax Reimbursements	$577,235	$427,510	$149,726	35.0%	$413,777	39.5%
Debt Service	$794,412	$794,869	-$458	-0.1%	$773,964	2.6%
Total Other Expenditures	**$1,371,647**	**$1,222,379**	**$149,268**	**12.2%**	**$1,187,741**	**15.5%**
Total Program Expenditures	**$9,262,795**	**$9,495,674**	**-$232,879**	**-2.5%**	**$8,907,724**	**4.0%**
Transfers Out	**$741,871**	**$741,573**	**$297**	**0.0%**	**$58,368**	**1171.0%**
Total GRF Uses	**$10,004,666**	**$10,237,248**	**-$232,582**	**-2.3%**	**$8,966,092**	**11.6%**

*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 October 2, 2018)

	Month of September 2018				Year to Date through September 2018			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid								
GRF	$1,195,562	$1,340,782	-$145,221	-10.8%	$3,951,819	$4,261,648	-$309,829	-7.3%
Non-GRF	$652,473	$989,796	-$337,324	-34.1%	$1,675,114	$2,053,278	-$378,164	-18.4%
All Funds	$1,848,034	$2,330,579	-$482,544	-20.7%	$5,626,932	$6,314,925	-$687,993	-10.9%
Developmental Disabilities								
GRF	$50,385	$48,918	$1,467	3.0%	$153,136	$153,151	-$15	0.0%
Non-GRF	$155,159	$209,422	-$54,263	-25.9%	$510,351	$578,320	-$67,969	-11.8%
All Funds	$205,545	$258,340	-$52,795	-20.4%	$663,487	$731,471	-$67,984	-9.3%
Job and Family Services								
GRF	$8,938	$9,673	-$735	-7.6%	$24,850	$27,985	-$3,134	-11.2%
Non-GRF	$12,001	$13,458	-$1,456	-10.8%	$45,412	$35,208	$10,204	29.0%
All Funds	$20,939	$23,131	-$2,192	-9.5%	$70,262	$63,193	$7,069	11.2%
Health, Mental Health and Addiction, Aging, Pharmacy Board, and Education								
GRF	$845	$674	$171	25.5%	$2,375	$2,427	-$51	-2.1%
Non-GRF	$1,800	$3,696	-$1,896	-51.3%	$7,430	$11,587	-$4,157	-35.9%
All Funds	$2,645	$4,370	-$1,724	-39.5%	$9,805	$14,014	-$4,209	-30.0%
All Departments:								
GRF	**$1,255,730**	**$1,400,047**	**-$144,317**	**-10.3%**	**$4,132,180**	**$4,445,210**	**-$313,030**	**-7.0%**
Non-GRF	**$821,434**	**$1,216,373**	**-$394,939**	**-32.5%**	**$2,238,306**	**$2,678,392**	**-$440,086**	**-16.4%**
All Funds	**$2,077,164**	**$2,616,419**	**-$539,256**	**-20.6%**	**$6,370,486**	**$7,123,602**	**-$753,116**	**-10.6%**

*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 October 2, 2018)

	Month of September 2018				Year to Date through September 2018			
Payment Category	Actual	Estimate*	Variance	Percent	Actual	Estimate*	Variance	Percent
Managed Care	**$1,370,505**	**$1,493,132**	**-$122,627**	**-8.2%**	**$4,088,065**	**$4,275,488**	**-$187,422**	**-4.4%**
CFC†	$490,385	$498,238	-$7,853	-1.6%	$1,469,652	$1,496,796	-$27,144	-1.8%
Group VIII	$355,794	$378,540	-$22,746	-6.0%	$1,067,110	$1,134,002	-$66,892	-5.9%
ABD†	$236,122	$234,991	$1,131	0.5%	$695,892	$702,894	-$7,003	-1.0%
ABD Kids	$77,593	$78,444	-$850	-1.1%	$232,027	$234,717	-$2,690	-1.1%
My Care	$210,611	$201,985	$8,626	4.3%	$623,385	$606,144	$17,241	2.8%
Pay For Performance	$0	$100,935	-$100,935	-100.0%	$0	$100,935	-$100,935	-100.0%
Fee-For-Service	**$542,447**	**$944,525**	**-$402,079**	**-42.6%**	**$1,765,123**	**$2,288,577**	**-$523,454**	**-22.9%**
ODM Services	$331,346	$367,878	-$36,532	-9.9%	$1,106,713	$1,232,673	-$125,961	-10.2%
DDD Services	$200,993	$253,102	-$52,109	-20.6%	$640,791	$705,958	-$65,166	-9.2%
Hospital - HCAP†	$0	$317,645	-$317,645	-100.0%	$0	$317,645	-$317,645	-100.0%
Hospital - Other	$10,108	$5,900	$4,208	71.3%	$17,618	$32,300	-$14,682	-45.5%
Premium Assistance	**$89,094**	**$91,962**	**-$2,868**	**-3.1%**	**$264,828**	**$279,937**	**-$15,109**	**-5.4%**
Medicare Buy-In	$51,230	$53,291	-$2,061	-3.9%	$151,369	$164,098	-$12,730	-7.8%
Medicare Part D	$37,864	$38,671	-$807	-2.1%	$113,459	$115,838	-$2,379	-2.1%
Administration	**$75,118**	**$86,800**	**-$11,682**	**-13.5%**	**$252,470**	**$279,601**	**-$27,131**	**-9.7%**
Total	**$2,077,164**	**$2,616,419**	**-$539,256**	**-20.6%**	**$6,370,486**	**$7,123,602**	**-$753,116**	**-10.6%**

*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[6]

– *Wendy Zhan, Deputy Director*

– *Ivy Chen, Principal Economist*

Overview

For the first quarter of FY 2019, GRF program expenditures totaled $9.26 billion. These expenditures were $232.9 million (2.5%) below the estimate released by OBM in August 2018. GRF transfers out were essentially on target, posting a small positive YTD variance of $0.3 million. Including both program expenditures and transfers out, GRF uses totaled $10.00 billion through the first quarter, which was $232.6 million (2.3%) below estimate. Tables 3 and 4 detail GRF uses for the month of September and for FY 2019 through September.

GRF Medicaid had the largest negative YTD variance at $313.0 million (7.0%), of which $144.3 million occurred in the month of September. The latter was mainly due to timing of the pay for performance payments for managed care plans. More details on both the GRF and non-GRF variances in Medicaid expenditures are provided in the section that follows this overview.

Health and Human Services had the second largest negative YTD variance at $33.1 million (10.3%). The Ohio Department of Job and Family Services (ODJFS) accounted for $21.6 million of this 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 $7.6 million, followed by item 600521, Family Assistance – Local ($3.5 million) and item 600523, Family and Children Services ($3.0 million).

Two other major contributing agencies to the Health and Human Services program category's negative YTD variance were the Ohio Department of Health (ODH) and the Ohio Department of Mental Health and Addiction Services (ODMHAS). Timing was also a major contributing factor behind these two agencies' negative YTD variances. Several payments did not get disbursed as quickly as anticipated in the estimate. Although posting a positive variance of $2.6 million in September, ODH expenditures were $5.6 million below estimate at the end of September. YTD expenditures from ODMHAS were $5.1 million below estimate. Item 336421, Continuum of Care Services, accounted for $4.1 million of ODMHAS's total negative YTD variance.

Partially offsetting the negative variances in Medicaid, Health and Human Services, and several other program categories was Property Tax Reimbursements. The positive YTD variance in this program category increased $37.1 million during the month to $149.7 million (35.0%) at the end of September. Funds provided under this program category are used to make semiannual payments to school districts and other local governments. The first payment, which is based on a property tax settlement conducted in August, will be made through the end of

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

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 by the end of a payment cycle.

Medicaid

As indicated earlier, GRF Medicaid expenditures were $144.3 million (10.3%) and $313.0 million (7.0%), respectively, below their monthly and YTD estimates. While it is mainly funded by the GRF, Medicaid is also supported by several non-GRF funds. As a joint federal-state program, both GRF and non-GRF Medicaid expenditures contain federal and state dollars.[7] In September, non-GRF Medicaid expenditures were $394.9 million (32.5%) below estimate. Through September, non-GRF Medicaid expenditures were $440.1 million (16.4%) below estimate. Including both the GRF and non-GRF, all funds Medicaid expenditures were $539.3 million (20.6%) below estimate in September and $753.1 million (10.6%) below estimate YTD at the end of September.

The estimate assumed $100.9 million in pay for performance payments for managed care plans and $317.6 million in Health Care Assurance Program (HCAP) payments for hospitals in September. Neither payment actually occurred in that month, however. Delay in these two payments accounted for 77.6% and 55.6%, respectively, of the September and YTD negative variances in all funds Medicaid expenditures. Pay for performance and HCAP payments are supported by GRF and non-GRF, respectively, 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.

Table 6 shows all funds Medicaid expenditures by payment category.[8] 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 $523.5 million (22.9%). This was mainly due to the delay in HCAP payments as indicated earlier. Under HCAP, the state makes subsidy payments to

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

[8] 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.

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 projected also contributed to the negative variance in this category. Beginning January 1, 2018, newly eligible individuals were enrolled onto managed care shortly after receiving Medicaid benefits. Previously, when ODM was determining the projections, newly eligible individuals could remain in the FFS system for several weeks while they decided which managed care plan in which to enroll.

Managed Care had the second largest overall negative variance of $187.4 million (4.4%) at the end of September. All managed care categories were below their YTD estimates except for MyCare, which had a positive YTD variance of $17.2 million (2.8%). MyCare is a managed care program for Ohioans who are eligible for both Medicaid and Medicare. As noted earlier, the scheduled $100.9 million payment for managed care pay for performance was delayed. Other notable negative YTD variances under Managed Care were in Group VIII (individuals who became eligible for Medicaid through the federal Affordable Care Act) and CFC (Covered Families and Children) categories. Group VIII was below the YTD estimate by $66.9 million (5.9%) while CFC was below the YTD estimate by $27.1 million (1.8%). These negative variances were mainly due to decreases in caseloads. The majority of Ohioans eligible for Medicaid receive their services through managed care.

Finally, the Administration category had a negative YTD variance of $27.1 million (9.7%) due mainly to timing, and the Premium Assistance category had a negative YTD variance of $15.1 million (5.4%).

Issue Updates

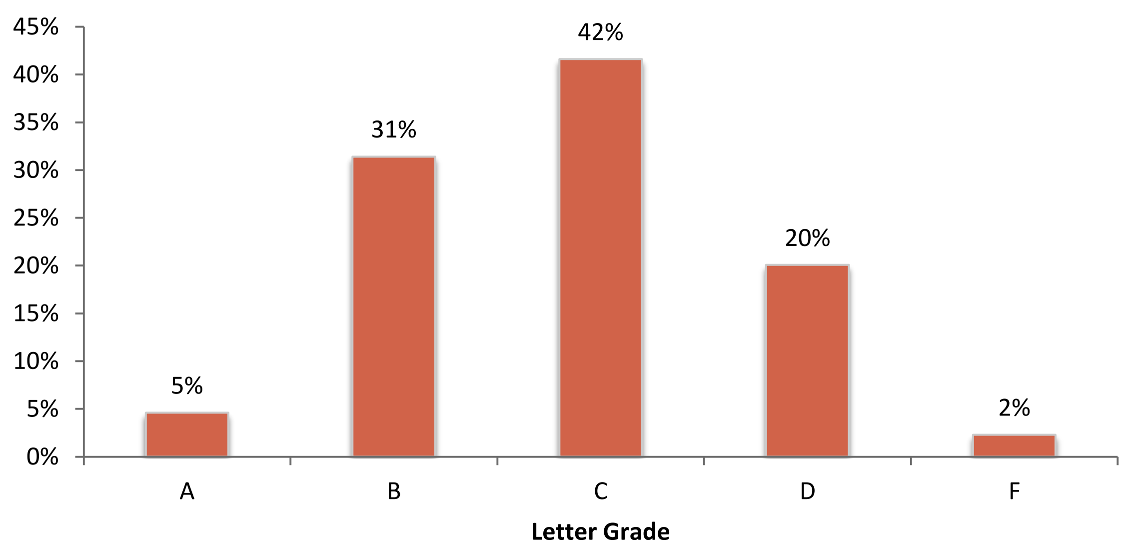
ODE Releases First Report Cards with Overall A-F Letter Grades

– Daniel P. Redmond, Budget Analyst

On September 13, 2018, the Ohio Department of Education (ODE) released report cards for public districts and schools for the 2017-2018 school year, the first year overall A-F letter grades have been issued. The overall grades are derived from performance on six individually graded components: Achievement, Progress, Gap Closing, Graduation Rate, Improving at Risk K-3 Readers, and Prepared for Success, each of which is comprised of various graded and ungraded performance measures. The Achievement and Progress components contribute 20% each toward a district's overall grade while the other four components contribute 15% each. Most districts are clustered toward the middle of the grading scale. As shown in the chart below, 42% (253) of districts received a "C," the most common grade. Another 31% (191) of districts received a "B" while 20% (122) received a "D." Five percent (28) of districts received an "A" while 2% (14) received an "F."

The 2017-2018 school year report cards are also the first to count toward consequences related to state test results since the 2013-2014 school year. Due to changes to state tests, the General Assembly suspended many consequences for the 2014-2015, 2015-2016, and 2016-2017 school years. These "safe harbor" provisions exempted districts and schools from school restructuring, designation as a building whose students are eligible for the EdChoice scholarship program, designation as a "challenged school district" in which a new start-up community school may be located, and automatic community school closure, among others.

Distribution of School District Overall Report Card Letter Grades, 2017-2018 School Year



Ohio Receives a "B" in High School Financial Literacy Study

– Allison Schoeppner, LSC Fellow

Ohio received a "B" grade for its efforts to improve the financial literacy of high school graduates in a recent study from the Center for Financial Literacy at Champlain College (Vermont). The college graded states on the importance placed on teaching personal finance education to high school students, ranging from an "A" for requiring personal finance instruction equal to a one-semester, half-year course as a graduation requirement to an "F" for no requirement for personal finance instruction in high school. Ohio was one of 19 states to qualify for a "B" because it "mandates personal finance education as part of a required course." Ohio high school students must receive instruction in economics and financial literacy in order to graduate. However, Ohio law allows school districts to integrate the financial literacy education requirement into the required social studies curriculum or another course (e.g., economics, civics, family and consumer sciences, business, life skills, career readiness, or mathematics courses) or offer a stand-alone course, with no specific requirement for the length of instruction. Overall, five states received an "A" while 27 states received a "C" or below. Ohio fared as well as or better than its neighboring states in the study. While Michigan and West Virginia also received a "B," Indiana and Kentucky received a "C" and Pennsylvania received an "F." Champlain College based its findings on each state's graduation requirements, academic standards, personal finance education delivery models, and data from the National Conference of State Legislatures (NCSL). To read Champlain College's full report, visit www.champlain.edu and search for "National High School Financial Literacy Report."

ODE Awards $8 Million in Grants for Community Connectors Program

– Jason Glover, Budget Analyst

On July 1, 2018, the Ohio Department of Education (ODE) awarded $8 million in matching grants to 71 community partnerships as part of the fourth round of funding for the Community Connectors school mentorship program. Created by H.B. 483 of the 130th General Assembly, Community Connectors supports programming in career advising and mentoring for students in low-performing, high-poverty schools. Eligible districts must partner with members of the business community, civic organizations, or the faith-based community to provide sustainable career services to students in grades 5-12. Under this round of funding, the state is providing $3 for every $1 in local funding with a maximum award of $150,000. Most of the awards ranged from $100,000 to $150,000, including 19 of the 71 partnerships receiving the maximum award. Geographically, 16 (23%) of the partnerships are located in Hamilton County, 12 (17%) are located in Cuyahoga County, ten (14%) are located in Franklin County, and three (4%) each are located in Lake, Montgomery, and Summit Counties. The full list of recipients is available online at communityconnectors.ohio.gov. H.B. 49 provides $4 million for the program in both FY 2018 and FY 2019 using lottery profits appropriated in Fund 7017 appropriation item 200629, Community Connectors. This round of funding is supported by the combined appropriations for FY 2018 and FY 2019.

Ohio's National Archery in the Schools Program Continues to Grow

– Tom Wert, Budget Analyst

In FY 2019, four additional schools will participate in Ohio's National Archery in the Schools Program (NASP), bringing the statewide total of participating schools to nearly 680 since the program's inception in FY 2005. NASP is a school curriculum taught during physical education classes and designed to teach archery skills including archery safety, equipment, technique, mental concentration, and self-improvement to students in grades 1-12. Participating schools are eligible for grant funding of up to $2,500 from the Ohio Department of Natural Resources (DNR) Division of Wildlife. Schools may use the grants to purchase necessary start-up equipment such as bows, arrows, and targets. For FY 2019, individual NASP grants average $2,375 each. From FY 2013 to FY 2018, the average award was $2,500 for the 175 recipients. Prior to FY 2012, the average NASP award was approximately $1,000 for the 500 recipients. In total, nearly $950,000 has been provided to schools under the program.

Funding for NASP grants is supported by wildlife restoration grants from the U.S. Fish and Wildlife Service (USFWS) under the Aid in Wildlife Restoration Act of 1937 (commonly referred to as the Pittman-Robertson Act). Wildlife restoration grant awards are determined by a formula that provides 50% of the funding based on the land area of the state, and 50% by the number of paid hunting licenses issued. For shooting and hunter education activities, including NASP, wildlife restoration grants provide up to 75% of the funding, with the remaining 25% provided through state matching dollars.

Medicaid Releases 2018 Group VIII Assessment

– Alexander B. Moon, Economist

On August 21, 2018, the Ohio Department of Medicaid (ODM) released its second assessment[9] of the "Group VIII" population. This group of individuals became eligible for Ohio Medicaid in January 2014 through the federal Affordable Care Act (ACA), which extends Medicaid coverage to previously uninsured adults aged 19 to 64 with incomes up to 138% of the federal poverty level. The assessment found that Group VIII enrollees benefited from the expansion through improved physical and mental health and financial stability. The assessment also found that the expansion resulted in an increase in primary care utilization and a subsequent decrease in emergency room usage, thereby shifting costs to preventative and more cost-effective care. Since implementation in 2014, 17.5% of Ohioans aged 19 to 64 have received Medicaid coverage through the expansion. While coverage is widespread, enrollment

[9] The full assessment report is available on ODM's website at the following link: http://www.medicaid.ohio.gov/Portals/0/Resources/Reports/Annual/Group-VIII-Final-Report.pdf.

in the program tends to be higher in rural Appalachian and metropolitan counties. Coverage also tends to be transitional for most enrollees. For instance, as of November 2017, only about one-third of Group VIII enrollees maintained continuous coverage since their initial enrollment. The most common reasons cited for disenrollment were increased household income, as well as obtaining non-Medicaid coverage.

This assessment was completed as a follow-up to the 2016 Ohio Medicaid Group VIII Assessment. While the 2016 assessment was completed in response to a requirement in H.B. 64, the biennium budget act of the 131st General Assembly, this most recent assessment was commissioned by ODM. During FY 2018, Group VIII caseloads averaged 692,000 per month, of which 633,000 were served under managed care. In the same year, ODM spent a total of $4.90 billion for this population, of which $4.07 billion was on managed care plans. The federal government reimbursed 95% of costs for Group VIII coverage during calendar year 2017 and 94% of costs for calendar year 2018. For calendar year 2019, the federal share will drop to 93%, and then 90% from 2020 onward.

Controlling Board Approves Spending Increase for the Federally Funded WIOA Program

– Nicholas J. Blaine, Budget Analyst

On August 20, 2018, the Ohio Department of Job and Family Services (ODJFS) received Controlling Board approval to spend an additional $34.5 million in federal Workforce Innovation and Opportunity Act (WIOA) Program funds in FY 2019. The revenue to support this increase comes from an additional $25.0 million in WIOA state formula grant funds, as well as $9.5 million in federal National Dislocated Worker Grant (NDWG) funds. WIOA funds are primarily distributed as formula grants to states to help job seekers access employment, education, training, and support services and to match employers with workers. WIOA funds are also used to support NDWG grants to help dislocated workers and communities recover from mass layoffs and natural disasters. In this case, the $9.5 million in additional NDWG funds will be used to assist those impacted by flooding in Appalachian counties along the Ohio River.

WIOA state formula funds are provided through three funding streams for adults, youth, and dislocated workers. The table below shows Ohio's WIOA formula grant allocation provided by the U.S. Department of Labor for the last three fiscal years for each category. The $109.8 million figure for FY 2019 includes the $25.0 million increase in WIOA formula grants.

Ohio's WIOA State Formula Grant Allocation			
Category	**FY 2017**	**FY 2018**	**FY 2019**
Adult	$26,068,489	$27,953,259	$33,780,803
Youth	$28,162,375	$30,130,209	$36,354,942
Dislocated Worker	$30,539,787	$29,804,480	$39,677,597
Total	**$84,770,651**	**$87,887,948**	**$109,813,342**

Source: U.S. Department of Labor

WIOA is administered at the state level by ODJFS and locally by 20 regional workforce investment boards. Service delivery is provided by 88 local OhioMeansJobs (One-Stop) centers, with one center in each county. ODJFS is required to distribute 85% of the state's total annual WIOA grants to Ohio's workforce investment boards for service delivery. Boards have two years to expend WIOA grants. The remaining WIOA dollars are used by ODJFS to help areas in the state that experience mass layoffs (10%) and for administration and other statewide workforce programs (5%). ODJFS may expend WIOA funds over three years for these purposes.

HUD Awards $2.1 Million to Provide Affordable Housing to People with Disabilities in Ohio

– Shannon Pleiman, Budget Analyst

On September 4, 2018, the U.S. Department of Housing and Urban Development (HUD) awarded approximately $2.1 million to 12 public housing agencies in Ohio to provide affordable housing to 424 people with disabilities. The funding is provided through HUD's Section 811 Mainstream Housing Choice Voucher Program. This program provides funding to housing agencies to assist nonelderly persons (18-62 years of age) with disabilities who are (1) transitioning out of institutional or other separated settings, (2) at serious risk of institutionalization, (3) homeless, or (4) at risk of becoming homeless. Funds are used to subsidize rental housing opportunities which provide access to appropriate supportive services to eligible individuals. The table below shows the total amount of the award and the number of vouchers awarded to each public housing agency.

Section 811 Mainstream Housing Choice Voucher Program Awards in Ohio			
Recipient	**Total Award**	**Number of Vouchers**	**Award per Voucher**
Columbus Metropolitan Housing Agency	$397,611	79	$5,033
Greater Dayton Premier Management	$286,476	50	$5,730
Portage Metropolitan Housing Agency	$222,081	45	$4,935
Erie Metropolitan Housing Agency	$195,620	35	$5,589
Licking Metropolitan Housing Agency	$178,320	35	$5,095
Lucas Metropolitan Housing Agency	$165,819	41	$4,044
Mansfield Metropolitan Housing Agency	$156,337	35	$4,467
Warren Metropolitan Housing Agency	$110,713	19	$5,827
Fayette Metropolitan Housing Agency	$108,397	28	$3,871
City of Marietta	$86,629	19	$4,559
Marion Metropolitan Housing Agency	$72,639	19	$3,823
Jackson County Metropolitan Housing Agency	$70,040	19	$3,686
Overall	**$2,050,682**	**424**	**$4,837**

The Section 811 Mainstream Housing Choice Voucher Program encourages partnerships with local health and human service agencies to coordinate services that help nonelderly people with disabilities live independently in the community. HUD bases the amount it awards to public housing agencies on their (1) capacity and experience in providing housing for persons with disabilities and partnering with health and human services agencies, (2) ability to collaborate with other local groups to provide certain outreach services and program implementation, and (3) commitment to tracking achievement through a program evaluation plan. Overall, HUD awarded $98.5 million to 285 local public housing authorities across the country to provide affordable housing to nearly 12,000 nonelderly persons with disabilities.

Development Services Agency Awards $7.8 Million in Grants Under the Manufacturing Extension Partnership Program

– Tom Middleton, Senior Budget Analyst

On September 10, 2018, the Controlling Board approved six grants totaling approximately $7.8 million in GRF funding to be distributed by the Development Services Agency (DSA) under the Ohio Manufacturing Extension Partnership (MEP) Program. These grants constitute the state's share of funding under this federal public-private partnership overseen by the National Institute of Standards and Technology (NIST). The goal of the program is to leverage federal, state, and private dollars to support the manufacturing industry. Under the program, funding is awarded to regional MEP service partners to provide technical and business assistance in support of small- and medium-sized manufacturers. The six Ohio award recipients are shown in the table below, along with the FY 2019 funding allocations.

Ohio MEP Grant Awards, FY 2019

Regional Partner	Region(s)	State Funding	Total Funding
Manufacturing Advocacy and Growth Network (MAGNET)	Northeast	$2,750,000	$5,423,888
Techsolve	Southwest	$1,500,000	$3,305,546
University of Dayton Research Institute (FASTLANE)	West	$1,300,000	$2,509,576
Ohio State University – Center for Design and Manufacturing Excellence (CDME)	Central and Southeast	$1,011,481	$2,611,148
Center for Innovative Food Technology (CIFT)	Northwest	$740,000	$2,029,546
PolymerOhio	Central	$450,000	$1,049,697
Total		**$7,751,481**	**$16,929,401**

The state funding is provided under GRF line item 195453, Technology Programs and Grants. Federal funding for the MEP Program is not subject to Controlling Board approval, and flows through Fund 3080 appropriation item 195672, Manufacturing Extension Partnership. In addition, each entity is required to provide local matching funds.

Attorney General Awards $3.7 Million in Drug Use Prevention Grants to Local Law Enforcement Agencies

– Jessica Murphy, Budget Analyst

In August 2018, the Ohio Attorney General awarded $3.7 million in drug use prevention grants to 157 local law enforcement agencies. Awards will pay for up to 50% of the base salary of Drug Abuse Resistance Education (DARE) officers, school resource officers, and others who conduct drug abuse prevention education and awareness programs in various local jurisdictions across the state. Recipients include 45 county sheriff's offices, 95 city and village police departments, 16 township police departments, and one police district. The awards range from $583 (Sugarcreek Township) to $170,870 (City of Westlake) with an average of $23,295. In addition to the City of Westlake, four other law enforcement agencies will receive over $100,000 – Stark, Shelby, Franklin, and Butler County Sheriff's offices. Together, these five law enforcement agencies represent nearly 20% of the total award amount.[10]

The Attorney General awards drug use prevention grant funds for a one-year period and distributes them to recipients in two separate payments, one in September at the beginning of the grant cycle and the second in March of the following year. Recipients are required to submit mid-year and final reports detailing program activity, and for the 2018-2019 grant cycle, are required to provide over-the-counter and prescription drug abuse prevention education. The money to support these grants comes from the Drug Abuse Resistance Education Fund (Fund 4L60), which receives $75 of the $475 fee that is paid by a driver convicted of operating a motor vehicle while intoxicated to have their license reinstated. This $75 has generated, on average over the last six fiscal years, $2.96 million per year for crediting to Fund 4L60.

DRC Contracts for Replacement Software Application to Supervise Offenders in Local Communities

– Joseph Rogers, Senior Budget Analyst

On September 24, 2018, the Controlling Board approved a Department of Rehabilitation and Correction (DRC) request to enter into a $1.5 million contract with COBRA Systems, Inc., to replace the software application used to supervise offenders residing in local communities around Ohio. The work will be performed by Mansfield, Ohio-based StepMobile, an affiliate of COBRA Systems, for the benefit of DRC's Adult Parole Authority (APA). The APA employs over 480 parole officers to supervise over 37,000 offenders under some type of release (primarily post release, community or transitional control, probation, parole, judicial release, or treatment in lieu), which includes probation services to 41 of Ohio's 88 counties. The APA currently uses an outdated legacy system to document, track, and manage these offenders that cannot easily be upgraded to connect or share information with other data systems.

[10] For a complete list of grant recipients, visit www.ohioattorneygeneral.gov.

The contract requires COBRA Systems to undertake the tasks necessary to integrate the APA's offender data and related information into what is known as the Ohio Community Supervision System (OCSS). In addition, COBRA Systems will install and activate 83 kiosks to be located in APA offices and used by offenders to report in. The OCSS is an online offender case management software application currently being used by the adult probation departments of 16 common pleas and municipal courts to manage a total of 24,787 offenders. COBRA Systems is the sole owner of the source code and intellectual property. The OCSS was the result of a DRC Probation Improvement and Incentive technology grant awarded to a multicounty collaborative led by the Adult Probation Department of the Franklin County Court of Common Pleas.

Tracking the Economy

– Eric Makela, Economist

Overview

The U.S. economy continues its expansion. Real gross domestic product (GDP), or GDP adjusted for inflation, unrevised from its previous release, grew at a 4.2% annualized rate in the second quarter. Nonfarm employers added 134,000 jobs at the national level, and the unemployment rate dropped to 3.7% in September, the lowest monthly rate since 1969. The largest monthly increase in employment occurred in professional and business services occupations, which added 54,000 jobs.

Production of goods and services, as well as employment, continues to rise, although national housing data suggest the market is becoming increasingly tepid. Growth in personal consumption expenditures slowed slightly in August. However, the labor market remains upbeat and demand for workers in many occupations maintains its strength. The Federal Open Market Committee (FOMC) noted that economic activity and job gains had been sufficiently strong since their last meeting and are expected to continue their rise, and raised the federal funds rate by 0.25 percentage points effective on September 27. The FOMC indicated another rise in the rate was likely before the end of the calendar year.

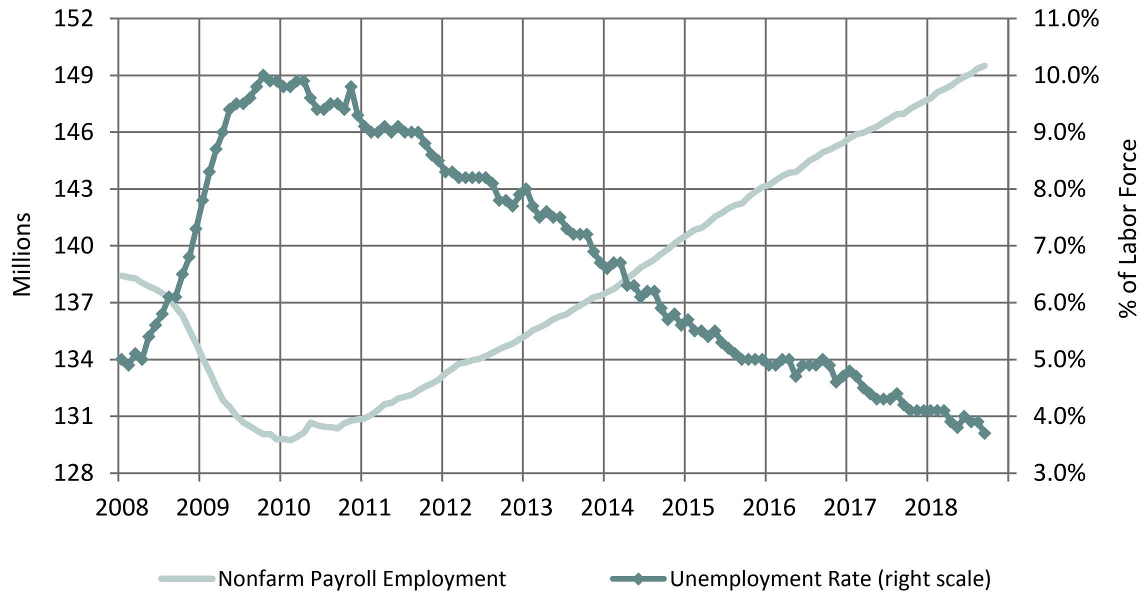
The Ohio economy added 13,900 nonfarm workers in August, while the unemployment rate remained constant at a seasonally adjusted rate of 4.6%. In the private sector, educational and health services (+7,800) and leisure and hospitality (+3,500) were the industries which saw the most substantial job gains during the month. State government employment rose by 7,100 employees between August 2017 and August 2018. Ohio existing real estate sales numbers year to date were about equal to 2017, while the average price of existing homes rose 5.7% over that time. Demand in the housing market remains strong in Ohio despite rising interest rates nationally.

The National Economy

Nonfarm payroll employment increased by 134,000 in the United States, and the unemployment rate fell 0.2 percentage points in August to 3.7%. The number of unemployed persons, who include those that were available for work, wanted a full-time job, and had looked for work during the past four weeks, decreased by 270,000. The labor force participation rate was flat at 62.7% for the population as a whole, but increased markedly (+1.3%) for youths aged 16 to 19.

Nonfarm payroll employment and the unemployment rate are shown in Chart 5. Employment in professional and business services saw a 54,000 increase in September. Construction (+23,000) and manufacturing (+18,000) employment increased in September; manufacturing has added 278,000 workers thus far in 2018, with about four-fifths of the increase accruing to durable goods production. Employment in transportation and warehousing was up 24,000 last month, while employment in other major categories showed little to no change.[11]

Chart 5: U.S. Employment and Unemployment



Gross domestic product rose at an annualized 7.6% rate, $370.9 billion in current dollars in the second quarter of 2018. Real GDP, adjusted for inflation, increased at an annualized, seasonally adjusted rate of 4.2% in the second quarter, mostly reflecting upticks in consumption expenditures, nonresidential fixed investment, and government spending. Net exports (exports minus imports) were higher, also contributing to GDP growth. Private inventory investment and residential fixed investment contributed negatively to the growth rate. The personal consumption expenditure price index increased at a 2.0% annual rate, compared with a 2.5% rise in the first quarter.

Industrial production, as measured by the Federal Reserve Board's Industrial Production Index (IPI), increased 0.4% in the month of August. The IPI, designed to highlight structural development in industry, has increased 4.9% year over year. Among the major industry groups, manufacturing production has risen 3.1% from August 2017, while mining is up 14.1%, and utility production has increased 4.8% during the same time period.

Overall production in the manufacturing sector expanded again in September, although at a slower rate than in August, according to the Institute for Supply Management (ISM). The growth rate of new orders fell in September, although there were noticeable increases in both the Production Index and Employment index. Inventories grew at a slower rate, and

[11] Press releases from the Bureau of Labor Statistics note that Hurricane Florence may have affected survey results in the establishment survey, but it is unlikely it affected results in the household survey. Establishment survey data is used to estimate nonfarm payroll employment by industry, whereas household survey data is used to measure unemployment and labor force participation statistics. It is not possible to quantify the net effect on employment.

manufacturing firms surveyed by ISM noted an increase in labor rates, as well as pressure on profit margins, as tariffs on both imports to and exports from China affect their bottom lines. The manager of ISM's supply chain study[12] suggested "there are signs the manufacturing sector could be peaking."

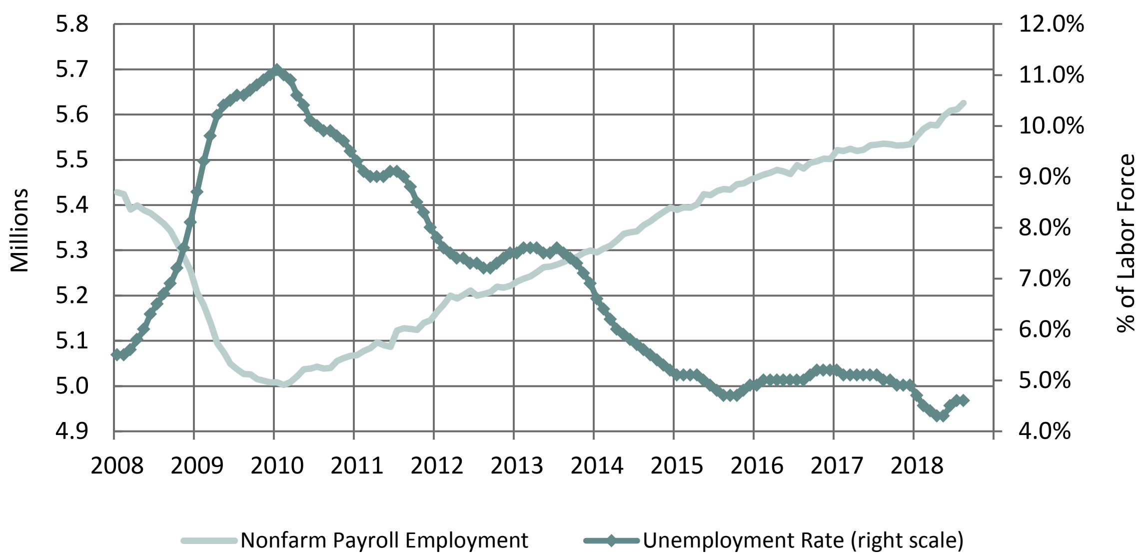
The consumer price index (CPI) increased at a seasonally adjusted rate of 0.2% in August, in large part due to rising prices for gasoline and other fuels, as well as increased costs for shelter. The cost of food consumed at home remained unchanged. Across all items, prices have risen 2.7% from August 2017 to August of this year, mostly driven by a 10.2% increase in the energy price index. The gasoline price index has risen 20.3% over those 12 months, although the cost of energy[13] has fallen 0.4%.

Nationally, seasonally adjusted existing home sales numbers did not rise or fall in the month of August, and are down 1.5% versus this month last year.[14] The average price of existing homes sold in August was lower than July, but was up 4.6% compared to August 2017. Existing home inventories are 2.7% higher than at this time last year. According to the Federal Housing Finance Agency, the average price of all home purchases is up 6.4% year to year.

The Ohio Economy

Total nonfarm payroll employment in the state of Ohio was 5.63 million in August 2018, with employers adding approximately 13,900 during the month. Unemployment rose by 3,000 workers in August, and the unemployment rate was steady at a seasonally adjusted rate of 4.6%, decreased from 5.0% in August 2017. Ohio's labor force lost approximately 12,800 members in the month of August, and it contained about 3,900 fewer persons than it did a year ago. Chart 6 below documents both the unemployment rate and total nonfarm employment in Ohio over the last ten years. The labor market continues its steady performance observed recently.

Chart 6: Ohio Employment and Unemployment



[12] Nunn, Sharon, "Factory Activity Slowed Last Month," *The Wall Street Journal*, 10/2/2018, pg. A2.

[13] This category includes electricity and utility (piped) gas service.

[14] Data are from the National Association of Realtors.

Private service-producing companies added a net of 10,800 jobs in August, led by strong gains in educational and health services (+7,800); leisure and hospitality (+3,500); other services[15] (+2,400); trade, transportation, and utilities (+1,200); and information services (+200). Between August 2017 and August 2018, the manufacturing industry has added 5,600 jobs in durable goods and 2,700 in nondurable goods. Leisure and hospitality (+18,900); educational and health services (+15,800); trade, transportation, and utilities (+15,300); and financial activities (+6,100) industries all expanded their employment year over year. Government employment added 4,500 jobs during August, with local governments (+3,900) seeing the bulk of the gains. Total government employment has increased 7,900 from August 2017; the state of Ohio was responsible for 7,100 of these jobs, whereas local (+600) and federal governments (+200) also saw gains over the year. Gains in state employment were primarily a result of hiring within educational services, with other categories increasing payrolls modestly.

Existing home sales rose 0.3% year over year in August, while the price paid for existing homes was up approximately $10,000, or 5.7% during that time according to the Ohio Association of Realtors. Over the first eight months of 2018, the count of sales was almost unchanged from 2017, while prices rose 5.7%. Such movement of the aggregate price and quantity indicates both an increased demand for existing homes and a decreased supply for these homes.

Personal consumption expenditure (PCE) increased in current dollars (i.e., with no adjustment for inflation) to $459.4 billion in 2017 in the state of Ohio, up 3.6% from $443.3 billion in 2016. In comparison, PCE for Americans increased by 4.3% during 2017. By category, Ohio expenditure increases were widespread, with spending up in both goods and services. The largest percent increases were in the categories of gasoline and other energy goods (10.4%), financial services and insurance (7.7%), and furnishings and durable household equipment (6.1%). Per-capita expenditure increased in all categories except clothing and footwear, where spending decreased 0.2% per person.

Business activity in the region grew moderately over the past two months, according to a Federal Reserve Board report.[16] Both the number of jobs and wage compensation rose, while firms boosted training efforts to combat a shortage of workers. Surveyed firms noted a strong rise in nonlabor costs during the survey period. Final prices for construction projects rose as rising input prices were passed along to consumers. Manufacturers reported strong conditions, attributing them to a strong overall economy and pro-growth fiscal policy. Overall demand was strong in many sectors, putting upward pressure on manufacturing capacity utilization and freight volumes.

[15] This category contains repair and maintenance, personal services, religious or civic organizations, and private households.

[16] The report is part of the latest Federal Reserve System Beige Book that summarizes information from outside contacts collected on or before September 12, 2018. The Federal Reserve Bank of Cleveland's district includes all of Ohio and parts of Kentucky, Pennsylvania, and West Virginia.