Budget Footnotes

A monthly newsletter by LSC economists and budget analysts

Volume: Fiscal Year 2019 Issue: September 2018

Highlights

– Ross Miller, Chief Economist

The Office of Budget and Management (OBM) revised its FY 2019 GRF revenue forecast upward in August due to Ohio's FY 2018 experience with revenues; the original forecast was produced a year ago. The upward revision to the tax revenue forecast for the full fiscal year amounted to $531 million, with nearly $380 million of that due to the income tax and $129 million due to the sales and use tax. GRF tax revenue received during August was $16.2 million above the revised estimate for the month. For the first two months of FY 2019, GRF tax revenue was $27.8 million above estimate.

Ohio's unemployment rate ticked up to 4.6% in July, from 4.5% in June. Private sector payroll employment increased by 8,800 from June to July, while employment in the government sector declined by 1,200.

Through August 2018, GRF sources totaled $5.71 billion:

- Revenue from the sales and use tax was $47.6 million (2.7%) above estimate;
- Personal income tax (PIT) receipts were $18.3 million (1.3%) below estimate.

Through August 2018, GRF uses totaled $6.87 billion:

- GRF program expenditures were $126.0 million below estimate, due primarily to Medicaid, which was below estimate by $168.7 million;
- Expenditures under the Property Tax Reimbursements category were above estimate by $112.6 million due to timing.

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Table 1: General Revenue Fund Sources
Actual vs. Estimate
Month of August 2018
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on September 5, 2018)

State Sources	Actual	Estimate*	Variance	Percent
Tax Revenue				
Auto Sales and Use	$137,928	$138,100	-$172	-0.1%
Nonauto Sales and Use	$745,931	$718,600	$27,331	3.8%
Total Sales and Use	*$883,859*	*$856,700*	*$27,159*	*3.2%*
Personal Income	$714,474	$727,700	-$13,226	-1.8%
Commercial Activity	$292,970	$304,800	-$11,830	-3.9%
Cigarette	$84,367	$79,700	$4,667	5.9%
Kilowatt-Hour Excise	$36,295	$34,200	$2,095	6.1%
Foreign Insurance	$1,238	$0	$1,238	---
Domestic Insurance	$0	$0	$0	---
Financial Institution	$206	$700	-$494	-70.6%
Public Utility	$32,091	$29,100	$2,991	10.3%
Natural Gas Consumption	$13,249	$11,100	$2,149	19.4%
Alcoholic Beverage	$6,654	$5,200	$1,454	28.0%
Liquor Gallonage	$4,187	$4,300	-$113	-2.6%
Petroleum Activity	$0	$0	$0	---
Corporate Franchise	$115	$0	$115	---
Business and Property	$0	$0	$0	---
Estate	$22	$0	$22	---
Total Tax Revenue	**$2,069,728**	**$2,053,500**	**$16,228**	**0.8%**
Nontax Revenue				
Earnings on Investments	$29	$0	$29	---
Licenses and Fees	$4,836	$5,091	-$255	-5.0%
Other Revenue	$1,739	$988	$751	76.0%
Total Nontax Revenue	**$6,604**	**$6,078**	**$525**	**8.6%**
Transfers In	**$0**	**$4,200**	**-$4,200**	**-100.0%**
Total State Sources	**$2,076,331**	**$2,063,778**	**$12,553**	**0.6%**
Federal Grants	**$917,873**	**$955,190**	**-$37,316**	**-3.9%**
Total GRF Sources	**$2,994,204**	**$3,018,968**	**-$24,763**	**-0.8%**

*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 August 31, 2018
($ in thousands)
(Actual based on report run in OAKS Actuals Ledger on September 5, 2018)

State Sources	Actual	Estimate*	Variance	Percent	FY 2018**	Percent
Tax Revenue						
Auto Sales and Use	$272,116	$260,000	$12,116	4.7%	$249,191	9.2%
Nonauto Sales and Use	$1,532,377	$1,496,900	$35,477	2.4%	$1,523,626	0.6%
Total Sales and Use	*$1,804,493*	*$1,756,900*	*$47,593*	*2.7%*	*$1,772,817*	*1.8%*
Personal Income	$1,357,192	$1,375,500	-$18,308	-1.3%	$1,290,495	5.2%
Commercial Activity	$344,000	$356,900	-$12,900	-3.6%	$345,222	-0.4%
Cigarette	$107,922	$104,900	$3,022	2.9%	$101,839	6.0%
Kilowatt-Hour Excise	$63,135	$61,300	$1,835	3.0%	$57,840	9.2%
Foreign Insurance	$2,561	$1,000	$1,561	156.1%	$123	1983.4%
Domestic Insurance	$0	$0	$0	---	$57	-99.9%
Financial Institution	$466	$1,200	-$734	-61.2%	$2,658	-82.5%
Public Utility	$32,305	$29,100	$3,205	11.0%	$27,336	18.2%
Natural Gas Consumption	$14,839	$12,300	$2,539	20.6%	$11,327	31.0%
Alcoholic Beverage	$10,440	$10,600	-$160	-1.5%	$10,849	-3.8%
Liquor Gallonage	$8,404	$8,400	$4	0.0%	$8,152	3.1%
Petroleum Activity	$0	$0	$0	---	$0	---
Corporate Franchise	$141	$0	$141	---	$2,304	-93.9%
Business and Property	$0	$0	$0	---	-$374	100.0%
Estate	$37	$0	$37	---	$33	15.3%
Total Tax Revenue	**$3,745,936**	**$3,718,100**	**$27,836**	**0.7%**	**$3,630,678**	**3.2%**
Nontax Revenue						
Earnings on Investments	$57	$0	$57	---	$0	---
Licenses and Fees	$6,178	$5,844	$334	5.7%	$5,777	6.9%
Other Revenue	$5,174	$2,654	$2,520	94.9%	$5,846	-11.5%
Total Nontax Revenue	**$11,408**	**$8,498**	**$2,910**	**34.2%**	**$11,623**	**-1.8%**
Transfers In	**$75,995**	**$80,190**	**-$4,195**	**-5.2%**	**$111,347**	**-31.7%**
Total State Sources	**$3,833,339**	**$3,806,788**	**$26,551**	**0.7%**	**$3,753,649**	**2.1%**
Federal Grants	**$1,872,048**	**$1,981,847**	**-$109,799**	**-5.5%**	**$1,928,705**	**-2.9%**
Total GRF SOURCES	**$5,705,387**	**$5,788,635**	**-$83,248**	**-1.4%**	**$5,682,353**	**0.4%**

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

Revenues

– Jean J. Botomogno, Principal Economist

Overview

This section compares actual GRF sources posted each month against OBM's estimates for FY 2019, which were released in August 2018. GRF sources consist of state-source receipts (tax revenue, nontax revenue, and transfers in) and federal grants, which are typically federal reimbursements for Medicaid and other programs.

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.

Table 1, which precedes this section, shows GRF sources for the most recent month, in this case August, relative to the OBM estimates, while Table 2 compares the sources for the year to date for FY 2019 to the estimates. The YTD table also presents the sum of the sources, respectively, for the corresponding months in the previous fiscal year and the percent change from the previous fiscal year to the present fiscal year. For example, Table 1 shows that sources for August were $2.99 billion and OBM's estimates totaled $3.02 billion. Thus, August sources had a negative variance of $24.8 million (0.8%). Table 2 shows that year-to-date sources (including both July and August) totaled $5.71 billion compared to an estimate of $5.79 billion. So, the YTD variance is a negative $83.2 million (1.4%). Table 2 also shows the sum of sources in July and August 2017 (FY 2018), which were $5.68 billion. Thus, year-to-date GRF sources are 0.4% ($23.0 million) higher than at the same time last fiscal year.

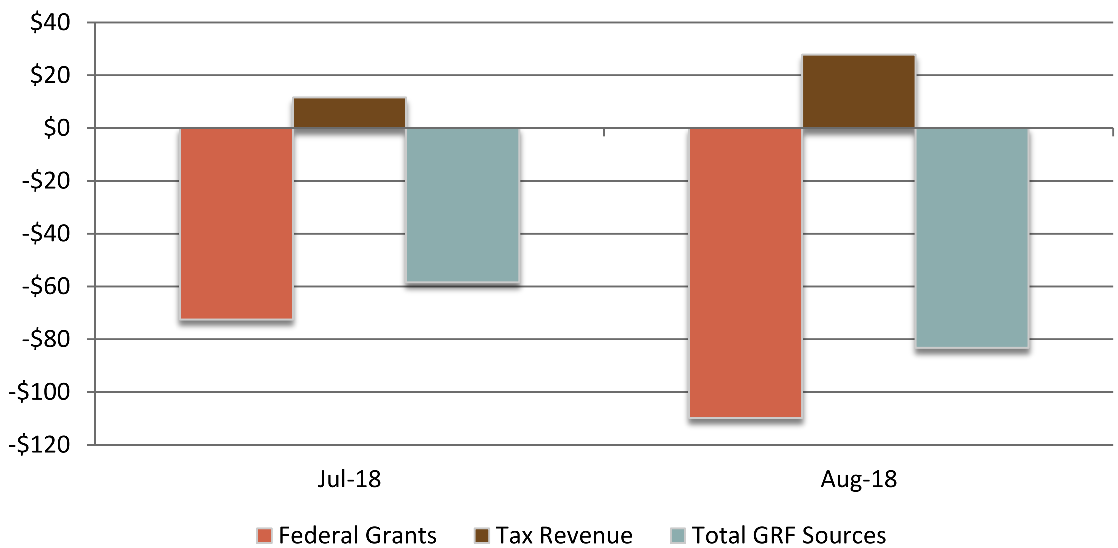
Referring to Table 1, in August 2018, federal grants and transfers in were short of anticipated receipts by $37.3 million (3.9%) and $4.2 million (100.0%), respectively. On the other hand, GRF tax sources were above projections by $16.2 million (0.8%): the sales and use tax and the cigarette tax surpassed estimates, but those positive variances were partly offset by negative variances from the PIT and the commercial activity tax (CAT), netting a surplus of $6.8 million. The remaining tax sources provided a total of $9.5 million of the monthly positive variance.

GRF tax revenue YTD was $3.75 billion, $27.8 million (0.7%) above the estimate, an encouraging start to the new fiscal year. GRF tax sources ended up FY 2018 with a positive variance of $573.6 million, driven up by large positive variances from the PIT ($433.8 million) and the sales and use tax ($120.3 million). Through August this fiscal year, though the sales and use tax posted a positive variance of $47.6 million, the PIT fell $18.3 million below anticipated revenue, and the CAT experienced a shortfall of $12.9 million. Most other GRF tax sources were above estimates, including the cigarette tax ($3.0 million) and utility-related taxes ($7.6 million).[1] Also, nontax revenue was $2.9 million above projections, but transfers in posted a deficit of $4.2 million. Therefore, state sources were $26.6 million above estimate. On the other hand, federal grants were $109.8 million (5.5%) short of projections for the fiscal year,

[1] Utility-related taxes include the kilowatt-hour excise tax, the public utility tax, and the natural gas consumption tax.

including a negative variance of $72.5 million in July, due to GRF Medicaid spending having been below expectations so far this year. Chart 1, below, shows cumulative variances of GRF sources through August 2018.

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



Compared to GRF sources in the first two months of FY 2018, while federal grants decreased by $56.7 million (2.9%), GRF tax sources increased $115.3 million (3.2%). Among the largest tax sources, revenue from the PIT, the sales and use tax, and the cigarette tax increased $66.7 million, $31.7 million, and $6.1 million, respectively, but receipts from the CAT fell $1.2 million.

Sales and Use Tax

Through August in FY 2019, total GRF sales and use tax receipts of $1.80 billion were $47.6 million (2.7%) above estimate, with both the nonauto and the auto portions of the tax above projections. Total revenue was also $31.7 million (1.8%) above receipts in FY 2018 through August. The sales and use tax struggled for most of FY 2018 but ended the fiscal year on a strong footing and with a positive variance of $120.3 million. Thus, early results in FY 2019 appear to continue the very recent trend. For the month of August, receipts of $883.9 million were $27.2 million (3.2%) above estimate. Compared to the same month last year, August receipts from this tax increased $66.6 million (8.2%).

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.

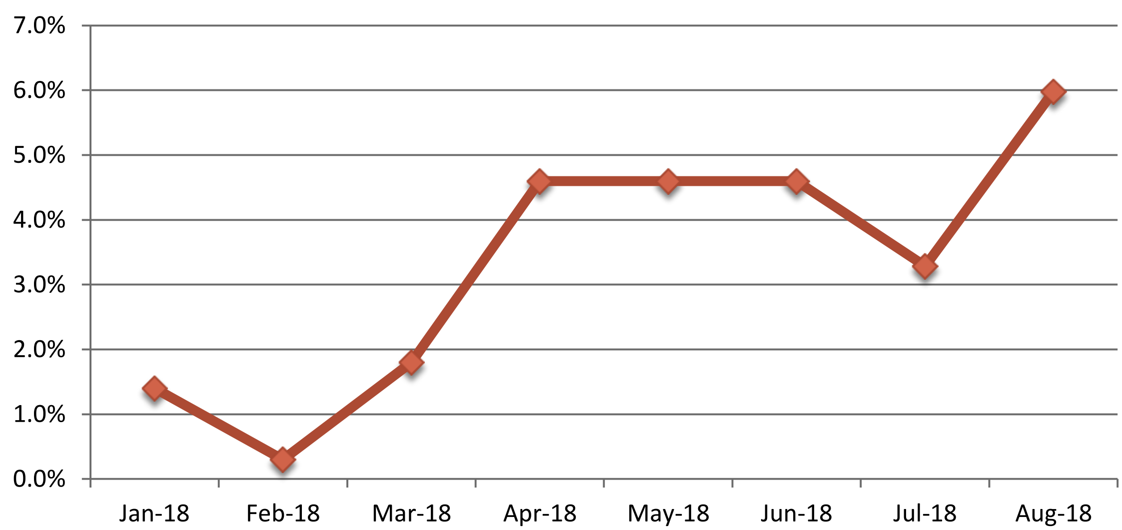
Nonauto Sales and Use Tax

In August 2018, GRF revenue from the nonauto sales and use tax totaled $745.9 million, an amount $27.3 million (3.8%) above estimate. This performance follows positive variances of

10.5% in June and 1.0% in July. Compared to revenue in the same month in 2017, August nonauto sales and use tax revenue increased $64.4 million (9.5%). This increase reflects actual growth of the tax base, as for the first time, the year-over-year revenue comparison was unaffected by the elimination of the sales tax on Medicaid health insuring corporations (MHICs). For example, nonauto sales tax revenue in July 2018 was $55.7 million (6.6%) below that of July 2017 which included $71.7 million in MHIC revenues.[2] Adjusted for that change in the tax base, nonauto revenue in July 2018 would have grown $16.1 million (2.0%).

For the fiscal year, GRF receipts totaled $1.53 billion, an amount $35.5 million (2.4%) above estimate, and also $8.8 million (0.6%) above revenue in the corresponding period in FY 2018. Chart 2, below, shows year-over-year growth in nonauto sales tax collections.[3] 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. For the fiscal year, OBM expects GRF nonauto sales tax collections to increase modestly, about 2.0% compared to FY 2018.

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



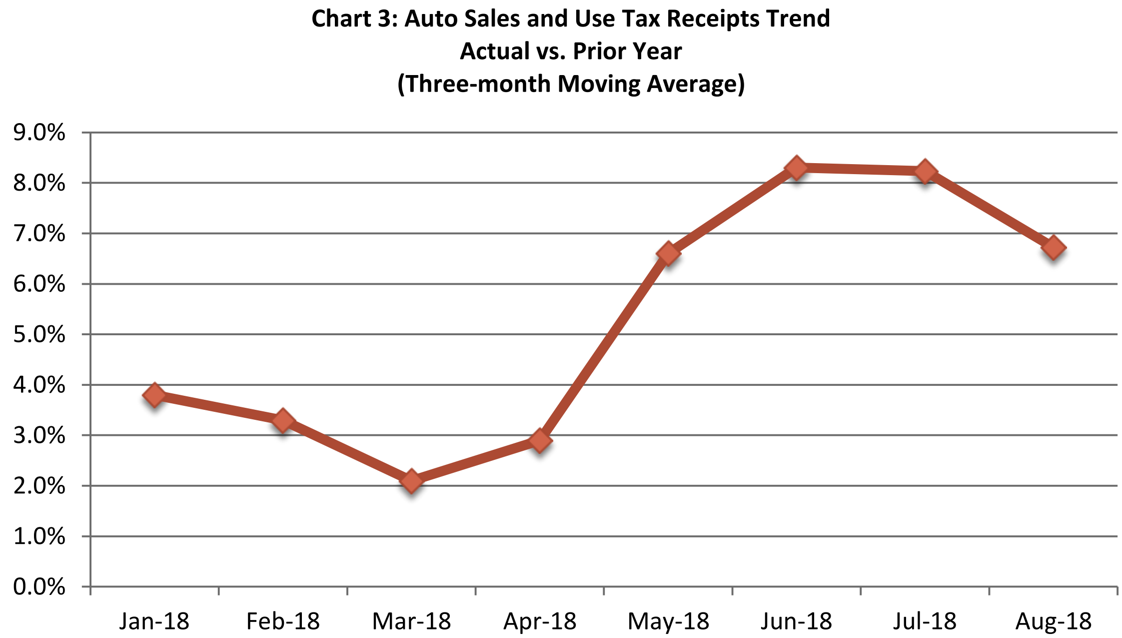
Auto Sales and Use Tax

August GRF revenue from the auto portion of the sales and use tax of $137.9 million was below estimate by $0.2 million (0.1%), but those receipts were $2.2 million (1.6%) above revenue in August 2017. In July, however, the tax outperformed estimate by $12.3 million (10.1%), and was $20.7 million (18.3%) higher than receipts in July 2017. Through August,

[2] Beginning July 1, 2017, the sales tax on MHICs was eliminated as federal rules required Ohio to discontinue applying the sales tax to these corporations. Thus, the last payment deposited in the GRF was made in July 2017 (reflecting taxable activity in June 2017).

[3] Please note that 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.

FY 2019 auto sales tax receipts of $272.1 million were $12.1 million (4.7%) above anticipated receipts. Compared to FY 2018, revenue growth was $22.9 million (9.2%). The auto sales and use tax has generally experienced strong but uneven growth since March 2018, though the rate of growth has slowed in the latest months, as shown in Chart 3.



Nationwide, new light vehicle (i.e., auto and light truck) sales in the last two months averaged 16.6 million units (at seasonally adjusted annual rates), below their average pace of 17.1 million units in the first six months of 2018. Passenger cars continue to fall out of vogue and reached an all-time low 30% of all new light vehicle sales in the July-August period. On the other hand, light truck sales continue to be healthy and have shown no serious decline so far, but a sustained drop in those sales would negatively impact Ohio auto sales tax revenue. For the fiscal year as a whole, OBM expects auto sales tax collections to increase just 1.0% compared to FY 2018.

Personal Income Tax

The PIT finished FY 2018 5.4% above estimate, mostly from outsized tax receipts in the last fiscal quarter. However, in FY 2019, the PIT has fallen below projections. GRF revenue of $1.36 billion through August was $18.3 million (1.3%) below estimate, including negative variances of $5.1 million (0.8%) in July and $13.2 million (1.8%) in August. However, compared to year-ago receipts, FY 2019 revenue increased a healthy $66.7 million (5.2%).

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,[4] trust payments, payments associated with annual returns, and other

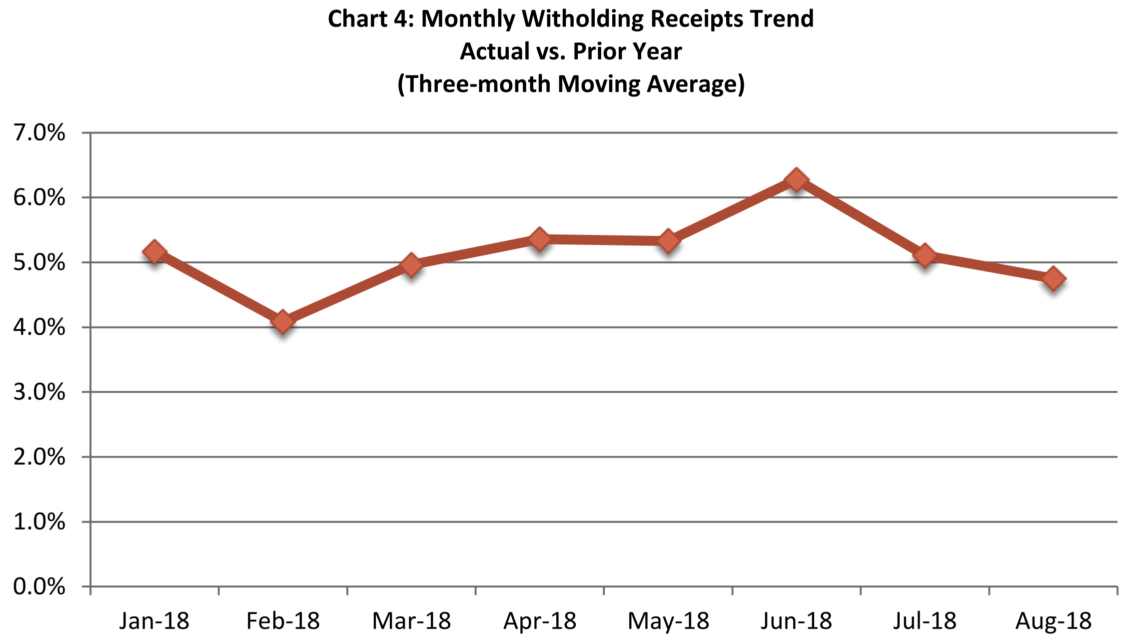
[4] Quarterly estimated payments are made by taxpayers who expect to be underwithheld by more than $500. Payments are due in April, June, and September of an individual's tax year and January of the following year. Most estimated payments are made by high-income taxpayers.

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 year to date, revenues from each component of the PIT relative to estimates and to revenue received in FY 2018 are detailed in the table below. It shows withholding, quarterly estimated payments, and miscellaneous payments were below estimates. Those negative variances were partially offset by positive variances for annual return payments and trust payments, resulting in a shortfall of $9.8 million for gross collections. The PIT shortfall increased because refunds were $8.4 million higher than expected. FY 2019 refunds also increased compared to their amount in the July-August period last year.

FY 2019 Personal Income Tax Revenue Variance and Annual Change by Component				
Category	Variance from Estimate		Changes from FY 2018	
	Amount ($ in millions)	Percent (%)	Amount ($ in millions)	Percent (%)
Withholding	-$10.0	-0.7%	$66.6	4.8%
Quarterly Estimated Payments	-$9.6	-25.5%	-$1.0	-3.3%
Trust Payments	$0.4	18.4%	$0.4	17.8%
Annual Return Payments	$9.8	69.0%	$10.5	77.9%
Miscellaneous Payments	-$0.4	-3.1%	-$0.5	-4.3%
Gross Collections	**-$9.8**	**-0.6%**	**$76.0**	**5.2%**
Less Refunds	$8.4	8.4%	$8.9	9.0%
Less LGF Distribution	$0.2	0.3%	$0.4	0.5%
GRF PIT Revenue	**-$18.3**	**-1.3%**	**$66.7**	**5.2%**

Compared to revenue in the corresponding period in FY 2018, gross collections were 5.2% higher, from increased receipts from withholding, which accounted for the majority of the growth in collections, and annual return payments. Quarterly estimated payments decreased by $1.0 million compared to such revenue in the first two months of FY 2018. However, July and August are relatively small revenue months for this component of gross collections, while September will be the first big month of the fiscal year. Through August, employer withholding was 0.7% below estimate in FY 2019. Revenue growth for this PIT component has been generally respectable in 2018, though it has decelerated below 5% in the latest month. The chart below illustrates the growth of monthly employer withholdings on a three-month moving average relative to one year ago.



Commercial Activity Tax

The performance of the CAT improved late in FY 2018, and for the last fiscal quarter, the tax was 9.6% above projections. In contrast, GRF receipts of $344.0 million in the first two months in FY 2019 fell $12.9 million (3.6%) below projections. The first CAT payment for quarterly return taxpayers, due in August, provided $293.0 million to the GRF, an amount $11.8 million (3.9%) below estimate, which added to a shortfall of $1.1 million (2.1%) the previous month. Compared to FY 2018, YTD FY 2019 GRF receipts were $1.2 million (0.4%) lower. Available economic data suggest the CAT negative variance and the decline in receipts relative to FY 2018 are likely due to an increase in credit claims. For the fiscal year as a whole, OBM forecast GRF receipts growth of 3.9% for this tax source.

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

August GRF revenue of $84.4 million from the cigarette and other tobacco products tax was $4.7 million (5.9%) above estimate. Revenue from this tax in July 2018 was $1.6 million (6.5%) below estimate. Thus, for the fiscal year, the cumulative positive variance for the cigarette and other tobacco products tax totaled $3.0 million (2.9%). Total revenue of $107.9 million included $93.2 million from the sale of cigarettes and $14.7 million from the sale of other tobacco products.

Though receipts from this tax in August fell $1.3 million below their level in the same month in 2017, July 2018 receipts were $7.4 million above revenue in the corresponding month last year. Thus, YTD FY 2019 revenue was $6.1 million above revenue through August last year. Cigarette sales contributed $3.3 million to the total increase, and receipts from the sale of other tobacco products increased $2.8 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.

Summary of OBM Estimates for GRF Sources for FY 2019

Estimated revenue by GRF source for the full fiscal year is provided below. As seen from the table, GRF sources are estimated to total $33.71 billion in FY 2019. Based on this estimate, the sales and use tax, the PIT, the CAT, and the cigarette tax would provide nearly two-thirds of total GRF sources in FY 2019.

OBM Estimates for GRF Sources for FY 2019 ($ in thousands)		
Revenue Source	**Estimates**	**As a % of Total Sources**
Sales and Use Tax	$10,338,100	30.7%
Individual Income Tax	$8,747,600	26.0%
Commercial Activity Tax	$1,581,800	4.7%
Cigarette & Other Tobacco Products Tax	$917,000	2.7%
Domestic and Foreign Insurance Taxes	$554,000	1.6%
Utility Taxes	$537,500	1.6%
Other Taxes	$311,000	0.9%
Subtotal – GRF Taxes	**$22,987,000**	**68.2%**
Nontax Revenue and Transfers In	$481,431	1.4%
Federal Grants	$10,240,063	30.4%
Total GRF Sources	**$33,708,495**	**100.0%**

Table 3: General Revenue Fund Uses
Actual vs. Estimate
Month of August 2018
($ in thousands)
(Actual based on OAKS reports run September 5, 2018)

Program Category	Actual	Estimate*	Variance	Percent
Primary and Secondary Education	$682,920	$711,752	-$28,833	-4.1%
Higher Education	$190,203	$191,594	-$1,391	-0.7%
Other Education	$10,734	$7,268	$3,466	47.7%
Total Education	**$883,857**	**$910,614**	**-$26,757**	**-2.9%**
Medicaid	$1,377,104	$1,447,337	-$70,233	-4.9%
Health and Human Services	$96,101	$110,705	-$14,605	-13.2%
Total Health and Human Services	**$1,473,205**	**$1,558,042**	**-$84,837**	**-5.4%**
Justice and Public Protection	$155,492	$168,337	-$12,845	-7.6%
General Government	$32,441	$36,859	-$4,419	-12.0%
Total Government Operations	**$187,933**	**$205,196**	**-$17,263**	**-8.4%**
Property Tax Reimbursements	$279,343	$165,063	$114,280	69.2%
Debt Service	$141,790	$141,666	$124	0.1%
Total Other Expenditures	**$421,133**	**$306,729**	**$114,404**	**37.3%**
Total Program Expenditures	**$2,966,127**	**$2,980,581**	**-$14,454**	**-0.5%**
Transfers Out	**$2,500**	**$1,750**	**$750**	**42.9%**
Total GRF Uses	**$2,968,627**	**$2,982,331**	**-$13,704**	**-0.5%**

*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 August 31, 2018
($ in thousands)
(Actual based on OAKS reports run September 5, 2018)

Program Category	Actual	Estimate*	Variance	Percent	FY 2018**	Percent
Primary and Secondary Education	$1,443,273	$1,488,710	-$45,437	-3.1%	$1,440,759	0.2%
Higher Education	$374,997	$378,261	-$3,264	-0.9%	$350,429	7.0%
Other Education	$18,562	$15,888	$2,674	16.8%	$14,611	27.0%
Total Education	**$1,836,832**	**$1,882,858**	**-$46,027**	**-2.4%**	**$1,805,799**	**1.7%**
Medicaid	$2,876,450	$3,045,163	-$168,713	-5.5%	$2,952,828	-2.6%
Health and Human Services	$223,129	$238,840	-$15,711	-6.6%	$227,840	-2.1%
Total Health and Human Services	**$3,099,579**	**$3,284,003**	**-$184,424**	**-5.6%**	**$3,180,668**	**-2.5%**
Justice and Public Protection	$454,243	$464,369	-$10,126	-2.2%	$432,140	5.1%
General Government	$74,963	$72,994	$1,970	2.7%	$72,996	2.7%
Total Government Operations	**$529,206**	**$537,362**	**-$8,156**	**-1.5%**	**$505,136**	**4.8%**
Property Tax Reimbursements	$279,337	$166,691	$112,646	67.6%	$238,306	17.2%
Debt Service	$384,878	$384,941	-$63	0.0%	$354,628	8.5%
Total Other Expenditures	**$664,214**	**$551,631**	**$112,583**	**20.4%**	**$592,934**	**12.0%**
Total Program Expenditures	**$6,129,832**	**$6,255,855**	**-$126,024**	**-2.0%**	**$6,084,537**	**0.7%**
Transfers Out	**$741,858**	**$739,073**	**$2,784**	**0.4%**	**$58,095**	**1177.0%**
Total GRF Uses	**$6,871,689**	**$6,994,929**	**-$123,239**	**-1.8%**	**$6,142,632**	**11.9%**

*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 September 6, 2018)

	Month of August 2018				Year to Date through August 2018			
Department	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Medicaid								
GRF	$1,316,966	$1,385,121	-$68,155	-4.9%	$2,756,257	$2,920,865	-$164,608	-5.6%
Non-GRF	$533,550	$550,364	-$16,814	-3.1%	$1,022,641	$1,063,481	-$40,840	-3.8%
All Funds	$1,850,515	$1,935,485	-$84,970	-4.4%	$3,778,898	$3,984,346	-$205,448	-5.2%
Developmental Disabilities								
GRF	$50,119	$49,036	$1,083	2.2%	$102,750	$104,233	-$1,482	-1.4%
Non-GRF	$172,036	$171,256	$780	0.5%	$355,192	$368,898	-$13,706	-3.7%
All Funds	$222,155	$220,292	$1,863	0.8%	$457,942	$473,130	-$15,188	-3.2%
Job and Family Services								
GRF	$9,292	$12,473	-$3,181	-25.5%	$15,913	$18,312	-$2,399	-13.1%
Non-GRF	$18,649	$13,692	$4,958	36.2%	$33,410	$21,750	$11,660	53.6%
All Funds	$27,941	$26,165	$1,777	6.8%	$49,323	$40,062	$9,261	23.1%
Health, Mental Health and Addiction, Aging, Pharmacy Board, and Education								
GRF	$727	$706	$21	2.9%	$1,530	$1,753	-$223	-12.7%
Non-GRF	$3,830	$4,722	-$892	-18.9%	$5,629	$7,891	-$2,261	-28.7%
All Funds	$4,557	$5,429	-$871	-16.1%	$7,160	$9,644	-$2,484	-25.8%
All Departments:								
GRF	**$1,377,104**	**$1,447,337**	**-$70,233**	**-4.9%**	**$2,876,450**	**$3,045,163**	**-$168,713**	**-5.5%**
Non-GRF	**$728,065**	**$740,033**	**-$11,969**	**-1.6%**	**$1,416,872**	**$1,462,020**	**-$45,147**	**-3.1%**
All Funds	**$2,105,169**	**$2,187,370**	**-$82,201**	**-3.8%**	**$4,293,323**	**$4,507,182**	**-$213,860**	**-4.7%**

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

Table 6: Medicaid Expenditures by Payment Category
Actual vs. Estimate
($ in thousands)
(Actuals based on OAKS report run on September 6, 2018)

	Month of August 2018				Year to Date through August 2018			
Payment Category	**Actual**	**Estimate***	**Variance**	**Percent**	**Actual**	**Estimate***	**Variance**	**Percent**
Managed Care	**$1,373,030**	**$1,391,666**	**-$18,636**	**-1.3%**	**$2,717,560**	**$2,782,355**	**-$64,795**	**-2.3%**
CFC†	$503,512	$499,242	$4,270	0.9%	$979,267	$998,557	-$19,291	-1.9%
Group VIII	$355,505	$377,978	-$22,473	-5.9%	$711,316	$755,462	-$44,146	-5.8%
ABD†	$230,461	$234,109	-$3,648	-1.6%	$459,770	$467,904	-$8,134	-1.7%
ABD Kids	$77,041	$78,257	-$1,217	-1.6%	$154,433	$156,273	-$1,840	-1.2%
MyCare	$206,512	$202,080	$4,431	2.2%	$412,774	$404,159	$8,615	2.1%
Fee-For-Service	**$535,051**	**$586,768**	**-$51,717**	**-8.8%**	**$1,222,676**	**$1,344,051**	**-$121,375**	**-9.0%**
ODM Services	$325,400	$379,439	-$54,039	-14.2%	$775,367	$864,796	-$89,429	-10.3%
DDD Services	$209,651	$207,328	$2,322	1.1%	$439,798	$452,856	-$13,057	-2.9%
Hospital - UPL†	$0	$0	$0	--	$7,511	$26,400	-$18,889	-71.5%
Premium Assistance	**$89,131**	**$91,235**	**-$2,104**	**-2.3%**	**$175,734**	**$187,975**	**-$12,241**	**-6.5%**
Medicare Buy-In	$51,219	$52,576	-$1,357	-2.6%	$100,139	$110,807	-$10,669	-9.6%
Medicare Part D	$37,912	$38,659	-$747	-1.9%	$75,595	$77,167	-$1,572	-2.0%
Administration	**$107,957**	**$117,702**	**-$9,745**	**-8.3%**	**$177,352**	**$192,801**	**-$15,449**	**-8.0%**
Total All Categories	**$2,105,169**	**$2,187,370**	**-$82,201**	**-3.8%**	**$4,293,323**	**$4,507,182**	**-$213,860**	**-4.7%**

*September 2018 estimates from the Department of Medicaid.
†CFC - Covered Families and Children; ABD - Aged, Blind, and Disabled; UPL - Upper Payment Limit & Other.
Detail may not sum to total due to rounding.

Expenditures

– *Melaney Carter, Assistant Deputy Director*

– *Ivy Chen, Principal Economist*

Overview

This section compares actual monthly and YTD program expenditures and transfers from the GRF (GRF uses) with OBM's estimates. The tables that precede this section summarize the data and are referred to in this section. Table 3 compares the uses for the most recent month with the estimates for that month, and Table 4 compares the uses for the fiscal YTD with the YTD estimates. The variance column in each table is calculated by subtracting the estimate from the actual; so if the actual use is higher than the estimate, the variance is positive and if the actual use is lower than the estimate, the variance is negative. The variance is shown both as a dollar value and a percent. Table 4 also shows the sum of the uses for the corresponding months in the previous fiscal year and the percent change from the previous fiscal year to the present fiscal year; a negative percent change means the value of the use has fallen from the prior year and a positive percent change means the value of the use has risen from the prior year. Program expenditures are broken out into nine program categories. Three are related to education, two to health and human services, and two to government operations. The remaining two are property tax reimbursements and debt service.

Tables 5 and 6 provide more detailed data on Medicaid expenditures from both the GRF and non-GRF funds. They compare actual Medicaid expenditures with estimates provided by the Department of Medicaid for each month and YTD. Table 5 presents the data by agency, and Table 6 presents the data by payment category. There are four main payment categories – Managed Care, Fee-For-Service, Premium Assistance, and Administration.

Through August, FY 2019 GRF program expenditures totaled $6.13 billion. These expenditures were $126.0 million (2.0%) below the estimate released by OBM in August 2018. The program categories with the greatest negative YTD variances were Medicaid at $168.7 million (5.5%) and Primary and Secondary Education at $45.4 million (3.1%). The Property Tax Reimbursement category had a positive YTD variance of $112.6 million (67.6%), partially offsetting the negative variances. The rest of this section first discusses the variances in these three program categories and then summarizes the estimates for GRF uses and for all funds (including both the GRF and non-GRF) Medicaid expenditures for the full fiscal year.

Medicaid

Medicaid is a joint federal-state program. It is mainly funded by the GRF but is also supported by several non-GRF funds. Both GRF and non-GRF Medicaid expenditures contain federal and state dollars.[5] Table 5 shows GRF and non-GRF Medicaid expenditures for the Ohio

[5] 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.

Department of Medicaid (ODM), the Ohio Department of Developmental Disabilities (ODODD), and six other "sister" agencies that also take part in administering Ohio Medicaid. ODM and ODODD account for about 99% of the total Medicaid budget. 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. Unlike ODM and ODODD, the six "sister" agencies incur only administrative spending.

GRF Medicaid expenditures were $168.7 million (5.5%) below the YTD estimate. Non-GRF Medicaid expenditures were also below estimate by $45.1 million (3.1%). Across all funds, Medicaid expenditures were $213.9 million (4.7%) below the YTD estimate.

As can be seen in Table 5, the vast majority of the negative YTD variance in all-funds Medicaid expenditures can be attributed to ODM ($205.4 million) and ODODD ($15.2 million). ODM's YTD GRF and non-GRF Medicaid expenditures were $164.6 million (5.6%) and $40.8 million (3.8%), respectively, below estimate. ODODD's YTD GRF and non-GRF Medicaid expenditures were $1.5 million (1.4%) and $13.7 million (3.7%), respectively, below estimate.

Table 6 shows all-funds Medicaid expenditures by payment category.[6] The Fee-For-Service (FFS) category had the largest overall negative variance of $121.4 million (9.0%). This is primarily due to caseloads being lower than projected for the FFS category. Beginning January 1, 2018, individuals newly eligible were enrolled onto managed care shortly after receiving Medicaid benefits. When ODM was determining the projections, individuals newly eligible could remain in the FFS system for several weeks while they decided which managed care plan in which to enroll.

The Managed Care category had the second largest negative variance of $64.8 million (2.3%). The largest variance within this category is for the Group VIII population, which has a YTD negative variance of $44.1 million (5.8%). With the exception of the MyCare population, the remaining Managed Care populations also experienced negative YTD variances. This is due to a decline in caseloads. Overall, the majority of Ohioans enrolled in Medicaid receive services through managed care.

The Administration category had a negative YTD variance of $15.4 million (8.0%). This is primarily timing related.

Primary and Secondary Education

The YTD negative variance of $45.4 million (3.1%) in the Primary and Secondary Education category largely occurred in appropriation item 200550, Foundation Funding. This item provides most of the state's funding to public schools as distributed through the state's foundation funding formula. This formula is based on various data that are collected and updated throughout the year so there are often variances in this item.

Property Tax Reimbursements

Property Tax Reimbursement expenditures were $112.6 million (67.6%) above their YTD estimate. These funds are used to make semiannual payments to school districts and other

[6] For FY 2019, all ODM payments for services within the FFS system (e.g., nursing facilities, hospitals, and physician services) have been grouped into "ODM Services." In previous fiscal years, these payments were broken out into their own separate categories.

local governments. Current payments are based on a property tax settlement conducted in August. Payments based on this settlement will be made through December as county auditors request reimbursement. Although monthly variances are common during each semiannual cycle, the YTD variance generally decreases by the end of the cycle.

Summary of OBM Estimates for GRF Uses for FY 2019

The table below shows the estimates released by OBM in August 2018 for GRF uses for FY 2019. The program categories are ordered from largest to smallest annual estimate. In addition to the nine program categories, OBM estimates that GRF appropriations will be increased by up to $40.0 million as a result of agency payroll increases due to recent collective bargaining agreements. Altogether, GRF program expenditures are estimated to total $33.31 billion in FY 2019. Of this amount, $15.59 billion (46.8%) will go to Medicaid and $8.13 billion (24.4%) will go to Primary and Secondary Education. Together, these two program categories are expected to account for 71.2% of total program expenditures in FY 2019.

In addition to program expenditures, OBM estimates that $761.2 million will be transferred out of the GRF. Most of these transfers ($739.4 million) occurred in July 2018, including a transfer of $657.5 million into the Budget Stabilization Fund. OBM also estimates that $321.9 million of FY 2019 appropriations will be encumbered at the end of the fiscal year for expenditure in future fiscal years. This results in an estimated total of GRF uses for FY 2019 of $34.39 billion.

OBM Estimates for GRF Uses for FY 2019 by Program Category ($ in thousands)		
Program Categories	**Expenditures**	**As a % of Total Program Expenditures**
Medicaid	$15,590,607	46.8%
Primary and Secondary Education	$8,133,377	24.4%
Higher Education	$2,303,913	6.9%
Justice and Public Protection	$2,214,692	6.6%
Property Tax Reimbursements	$1,814,800	5.4%
Debt Service	$1,432,963	4.3%
Health and Human Services	$1,313,866	3.9%
General Government	$393,782	1.2%
Other Education	$70,929	0.2%
Estimated Payroll Increases	$40,000	0.1%
Total Program Expenditures	**$33,308,929**	**100.0%**
Transfers Out	$761,233	--
Year-end Encumbrances	$321,927	--
Total GRF Uses	**$34,392,090**	**--**

Summary of ODM Estimates for Medicaid Expenditures for FY 2019

The table below shows the estimates by payment category released by ODM in August 2018 for both GRF and non-GRF Medicaid expenditures for FY 2019. There are four main payment categories – Managed Care, Fee-For-Service, Premium Assistance, and Administration.

Managed Care is a health care delivery system whereby ODM contracts with a managed care plan (MCP) to manage the cost and utilization of services in exchange for a set per-member per-month payment for each recipient. Managed Care is broken into six subcategories. The largest subcategory both in terms of expenditures and enrollment is Covered Families and Children (CFC), which includes expenses for children with household incomes up to 206% of the federal poverty level (FPL), pregnant women up to 200% FPL, and families (parents and children) who receive cash assistance under Ohio Works First or who have household incomes at or below 90% FPL. The second subcategory is Group VIII, which includes costs for nondisabled adults made Medicaid eligible under the Affordable Care Act (ACA). These individuals are under age 65 and have incomes at or below 138% FPL. The next subcategories are Aged, Blind, and Disabled (ABD) and ABD Kids. ABD includes expenditures related to individuals who are age 65 or older, who are significantly visually impaired, or who have a disabling condition that meets Supplemental Security Income requirements. These individuals must also meet income and asset limits. ABD Kids includes costs for children who are visually impaired or have a disabling condition as well as children in foster and adopted care. MyCare includes expenses for individuals enrolled in a demonstration project that coordinates the delivery of Medicare and Medicaid services for recipients eligible for both programs (otherwise known as "dual-eligibles"). The last Managed Care subcategory is Pay for Performance and Insurer Fee. Pay for Performance is an incentive program that rewards MCPs that achieve specific levels of performance in certain program priority areas. Insurer Fee includes payments ODM makes to reimburse MCPs for ACA required fees that are charged to health insurers.

The second category is Fee-For-Service, which is a payment model in which qualified Medicaid providers are paid for each covered service. This category has four subcategories. The largest is ODM Services, which includes expenditures related to waiver-related services as well as other Medicaid covered services not paid for by MCPs (e.g., prescription drugs and payments to nursing facilities, hospitals, and physicians). The next category is Hospital Upper Payment Limit (UPL) & Other. Hospital UPL includes supplemental payments to hospitals such as payments that comprise the difference between total base payments for services and the maximum payment level allowed under the UPL for those services. Another subcategory is Hospital – HCAP (Hospital Care Assurance Program), which includes subsidy payments to hospitals that provide uncompensated, or charity, care to low-income and uninsured individuals. The last subcategory is DDD Services, which include institutional and non-institutional services provided to individuals with an intellectual disability and reimbursed by ODODD.

The Premium Assistance Category includes two subcategories – Medicare Buy In and Medicare Part D. Medicare Buy In includes payments for individuals who receive assistance in paying their Medicare Part A or Part B premiums and other cost-sharing expenses such as copayments, coinsurance, and deductibles. Medicare Part D includes monthly payments to the federal Medicare Program for prescription drug costs for dual-eligibles.

The last category is Administration and includes costs related to administering Medicaid in Ohio. Costs are included for ODM, ODODD, and the other six "sister" Medicaid agencies.

ODM Estimates for Medicaid Expenditures for FY 2019 by Payment Category ($ in thousands)		
Payment Categories	**Expenditures**	**As a % of Total Medicaid Expenditures**
Managed Care	**$17,440,735**	**61.6%**
Covered Families and Children (CFC)	$6,047,244	21.3%
Group VIII	$4,630,976	16.3%
Aged, Blind, and Disabled (ABD)	$2,929,979	10.3%
ABD Kids	$982,762	3.5%
MyCare	$2,484,565	8.8%
Pay For Performance and Insurer Fee	$365,210	1.3%
Fee-For-Service (FFS)	**$8,705,063**	**30.7%**
ODM Services	$4,675,607	16.5%
Hospital – Upper Payment Limit (UPL) & Other	$499,038	1.8%
Hospital – HCAP	$635,291	2.2%
DDD Services	$2,895,128	10.2%
Premium Assistance	**$1,164,016**	**4.1%**
Medicare Buy In	$690,329	2.4%
Medicare Part D	$473,687	1.7%
Administration	**$1,025,315**	**3.6%**
Total Medicaid Expenditures	**$28,335,129**	**100%**

Issue Updates

ODE Awards $42 Million in 21st Century Community Learning Center Grants

– Alexandra Vitale, Budget Analyst

On August 8, 2018, the Ohio Department of Education (ODE) awarded $42.0 million in new and continuing grants to 213 schools and community-based organizations under the 21st Century Community Learning Centers (21CCLC) Grant Program. This federally funded program awards grants to support community learning centers that provide academic enrichment services during nonschool hours or extended learning time as part of the school day, particularly for students in low-performing, high-poverty schools. In this latest round of funding, ODE awarded grants for 79 new programs and 134 continuing programs, totaling $15.7 million and $26.4 million, respectively.

ODE distributes 21CCLC grant funds to recipients for a five-year period with a maximum of $200,000 per year for the first three years of the program and gradually reduced maximum amounts for the last two years as recipients must transition to other resources to sustain the program after the 21CCLC grant expires. Also, to continue receiving a grant, recipients must annually submit program data to ODE and undergo periodic evaluations of the program's effectiveness. Nearly all of the 79 new grantees received the maximum $200,000 in funding for this year. New grant recipients were concentrated in Cuyahoga (17), Gallia (5), Hamilton (5), Athens (4), Franklin (4), and Mahoning (4) counties. Together, these six counties represent about half of the new grant awards. To see the full list of grant recipients, visit education.ohio.gov and search for "21st Century Community Learning Centers."

Number of High School Diplomas Awarded by Adult Programs Increased in FY 2018

– Jason Glover, Budget Analyst

In FY 2018, 1,124 adults ages 22 and older received high school diplomas through the 22+ Adult High School Diploma Program and the Adult Diploma Program, an increase of 28.3%, or 248 graduates, compared to the prior year. Most of this growth stemmed from the 22+ Adult High School Diploma Program, which helps adults earn a locally issued high school diploma from a school district, community school, or two-year college. The number of graduates from this program has grown strongly since the program's beginning in FY 2016, increasing by 229 (58.9%) to 618 in the third year of the program, after increasing by 262 (206.3%) in the second year. The Adult Diploma Program grew in FY 2018 as well. Preliminary data suggests that at least 506 graduates received a state-issued high school diploma through the program, also in its third year of operation, though some providers have not yet completed reporting. In FY 2017, 487 adults completed the program. In addition to completing high school graduation requirements, participants receive skills training needed for a job in one of 20 in-demand career fields. Upon completion of the program, each participant also earns an industry-recognized credential or certificate.

State subsidy for these programs also continues to increase. During FY 2018, ODE paid $3.7 million to providers in the 22+ Adult High School Diploma Program, up $1.2 million (50.1%) from the $2.4 million paid in FY 2017. Providers receive up to $5,000 annually for each individual enrolled in the program depending on the extent of the individual's successful completion of high school graduation requirements. State subsidy to providers for students in the Adult Diploma Program was $2.2 million in FY 2018, an increase of about $384,000 (21.1%) compared to FY 2017. Payments to participating institutions for each student enrolled in an approved program of study are calculated according to a formula providing certain tiers of funding based on the number of hours of technical training required in the student's career pathway training program and the student's grade level upon initial enrollment into the program.

The GRF supports both programs. In FY 2018, however, $1.2 million for the 22+ Adult High School Diploma Program came from leftover non-GRF funds comprised of fees the state formerly collected in connection with its administration and oversight of GED tests (in 2014, a national testing entity began collecting testing and transcript fees). Beginning in FY 2018, H.B. 49 consolidated GRF funding for both programs into line item 200572, Adult Education Programs. The table below summarizes the numbers of graduates and state subsidies for the two programs.

22+ High School Diploma and Adult Diploma Programs Graduates and State Subsidy, FY 2016-FY 2018

Measure	Program	FY 2016	FY 2017	FY 2018
Graduates	22+ High School Diploma	127	389	618
	Adult Diploma	345	487	506*
	Total	**472**	**876**	**1,124**
State Subsidy for Providers	22+ High School Diploma	$545,962	$2,434,397	$3,653,106
	Adult Diploma	$1,029,595	$1,820,464	$2,204,582
	Total	**$1,575,557**	**$4,254,861**	**$5,857,688**

*Reporting is not yet completed for FY 2018

ODM Reports Annual Savings of $30 Million from MyCare Ohio

– Ryan Sherrock, Economist

On June 29, 2018, the Ohio Department of Medicaid (ODM) released the fourth annual "MyCare Ohio Evaluation," which found that the program saved approximately $30 million annually in comparison to what would have been spent under the traditional Medicaid fee-for-service program.[7] These savings are largely attributed to the efforts of MyCare Ohio

[7] Under the fee-for-service program, providers bill Ohio Medicaid for each individual service provided.

plans to divert individuals from nursing facilities to home and community-based settings. According to the evaluation, the program has resulted in a 2% increase in the number of individuals who transitioned to community settings. On average, for each individual diverted, the program saves approximately $3,000 per month. In addition to these savings, the program has high member satisfaction rates with 70% of individuals reporting satisfaction with their care manager and 93% reporting satisfaction with their relationship to their care manager. Lastly, MyCare Ohio managed care plans (MCPs) scored favorably on Healthcare Effectiveness Data and Information Set (HEDIS)[8] performance measures. In fact, for the statewide average, over 50% of the measured rates exceeded the national 90th percentile benchmark. Examples of measures exceeding this benchmark include assessing whether individuals with asthma are given appropriate asthma controller medication and whether adults who have had a heart attack receive beta-blocker treatment for six months following hospital discharge.

MyCare Ohio was approved as a five-year demonstration project and began operations in May 2014. According to the evaluation, ODM intends to seek approval from the federal Centers for Medicare and Medicaid Services to extend the program for an additional three years, or through December 2022. Under the program, five MyCare Ohio MCPs coordinate physical, behavioral, and long-term services benefits for individuals eligible for both Medicare and Medicaid. The overall goal of the program is to improve access to care and quality of care, eliminate cost shifting between Medicare and Medicaid, and maximize cost savings through care coordination. The program serves 29 counties, including major metropolitan areas. As of July 2018, there were almost 112,000 individuals enrolled onto MyCare Ohio.

Auditor Reports that Medicaid PBMs were Paid $224.8 Million

– Alexander B. Moon, Economist

On August 16, 2018, the Auditor of State reported[9] that Pharmacy Benefit Managers (PBMs) were paid $224.8 million in total "spread"[10] from April 2017 through March 2018 for prescription benefits provided to Medicaid managed care enrollees. The average spread paid by Medicaid MCPs was $5.71 for each prescription or 8.9% of total prescription costs. However, the spread was much higher for generic drugs, which comprise 86% of prescriptions, than for brand name or specialty drugs. For generic drugs, the average spread was $6.14 for each prescription or 31.4% of the total generic prescription cost. In contrast, the spread was $1.84 for each brand name prescription (0.8% of the total brand name prescription cost) and $33.49 for each specialty prescription (1.1% of the total specialty prescription cost). The report noted that it is not possible to compare the spread paid by MCPs with other states since Ohio is the

[8] According to the National Committee for Quality Assurance, HEDIS is a tool, used by more than 90% of health plans in the United States, to measure performance on various aspects of care and service. HEDIS consists of 92 measures across six areas of care.

[9] The report in its entirety can be accessed here: https://ohioauditor.gov/auditsearch/Reports/2018/Medicaid_Pharmacy_Services_2018_Franklin.pdf.

[10] "Spread" is defined as the difference between what Medicaid MCPs pay PBMs and what the PBMs in turn pay pharmacies.

first state to release an entire year's worth of data regarding this issue. However, the report provided several recommendations, including increasing requirements for statistical and financial reporting by PBMs in order to gain a better understanding of actual pharmacy reimbursements and analyzing the costs and benefits of alternative contract types for pharmacy services, specifically pass-through contracts. The report only focused on spread pricing and did not examine any additional revenue received by PBMs (e.g., drug rebates).

The report was initiated by the Auditor of State at the request of the Ohio General Assembly. Prior to the release of the Auditor's report, ODM announced that, beginning January 1, 2019, it will end the practice of spread pricing and instead require MCPs to implement a pass-through pricing model. Under a pass-through pricing model, PBMs would charge Medicaid the same price that was paid to the pharmacy for the medication and would receive an administrative fee for doing so.

MCPs contract with PBMs to manage and fill prescriptions. In turn, PBMs provide claim adjudications and customer service, negotiate drug manufacturer rebates, conduct drug utilization reviews, and operate mail-order and specialty pharmacies. In addition, PBMs establish pharmacy networks, which allow them to negotiate discounted prices for prescription drugs.

Ohio EPA Awards $7.8 Million for Local Government Household Sewage Treatment Programs

– Robert Meeker, Budget Analyst

In the last quarter of FY 2018 (April-June), the Ohio Environmental Protection Agency (Ohio EPA) awarded $7.8 million in subsidies to 43 local government household sewage treatment system (HSTS) programs across the state. The award amounts ranged from $84,000 to the maximum of $200,000, the latter of which was received by 32 of those local HSTS programs. The funding will be used by counties and local health districts to provide principal forgiveness loans to low- to moderate-income homeowners to assist with the repair or replacement of a failing HSTS. These loans are basically grants – 100% of the principal is forgiven, which means that a qualifying homeowner is not required to repay the principal or any interest.

Homeowners apply to their local HSTS program to determine their eligibility for a principal forgiveness loan to assist with eligible repair or replacement costs. A homeowner may qualify for an amount equaling 50%, 85%, or 100% of the eligible costs, depending upon the size of their household and their aggregate household income. The local program is responsible for securing the services of an HSTS installer and payment of the eligible costs from the homeowner's loan to the installer and any other contractors involved in the installation.

Local government HSTS subsidies are backed with money drawn from the Ohio Water Pollution Control Loan Fund (WPCLF) managed by the Ohio EPA with assistance from the Ohio Water Development Authority. The WPCLF generally provides below-market rate, zero interest rate, and principal forgiveness loans for the planning, design, and construction of wastewater treatment facilities and sewer systems and is funded with federal capitalization grants, loan repayments, and bond proceeds.

Controlling Board Releases $1.5 Million for Juvenile Community Corrections Facility Capital Improvements Projects

– Maggie Wolniewicz, Senior Budget Analyst

On August 20, 2018, the Controlling Board approved the Department of Youth Services' request for the release of $1.5 million to fully fund capital improvements projects at nine of Ohio's 12 juvenile community corrections facilities (CCFs). The funding is for general building renovations, with each facility identifying one or more specific priorities including roof replacement; fire alarm and panel replacement; safety and security system improvements; heating, ventilation, and air conditioning (HVAC) system equipment and control replacement; and various other facility improvements. The table below lists each of the nine CCFs and the cost of their funded projects.

CCFs are local, secure, county-operated facilities that serve as an alternative for judges by providing residential treatment services to less serious felony level offenders between the ages of 12 and 18 that would otherwise be committed into the care and custody of the Department. All CCF construction, renovation, and operating costs are paid for by the Department. In FY 2018, the 12 CCFs as a group served 626 youth statewide, with lengths of stay typically ranging between four to nine months.

Community Corrections Facility Project Funding		
County	**Facility Name**	**Project Cost**
Belmont	Oakview Juvenile Residential Center	$485,000
Montgomery	Montgomery County Center for Adolescent Services	$232,497
Wood	Juvenile Residential Center of Northwest Ohio	$209,393
Greene	Miami Valley Juvenile Rehabilitation Center	$199,868
Erie	Northern Ohio Juvenile CCF	$159,559
Miami	West Central Juvenile Rehabilitation Center	$73,055
Stark	Multi-County Juvenile Attention System CCF	$56,053
Athens	Hocking Valley Community Residential Center	$43,659
Marion	North Central Ohio Rehabilitation Center	$41,739
	Total	**$1,500,823**

State Board of Embalmers and Funeral Directors Obtains More Funding to Oversee Crematories and Preneed Funeral Contracts

– Tom Wert, Budget Analyst

On August 20, 2018, the Controlling Board approved a request by the State Board of Embalmers and Funeral Directors to increase the Board's operating appropriation by nearly $400,000 in FY 2019, from approximately $844,000 to $1.24 million. The additional funding will be used to cover costs related to the Board's expanded role in regulating preneed funeral contracts and for oversight of crematory operators. Approximately $290,000 will be used to hire three new employees and provide funding for supplies and maintenance. Two of the new employees will be inspectors, allowing the board to inspect all licensed facilities on an annual basis. The third new employee will be a certification-licensure examiner who will cover increased workloads that have occurred (1) as a result of an increase in crematory facilities in 2017 and 2018 and (2) from the issuance of crematory operator permits set to begin in September 2018. The new permit was created under H.B. 49. The remaining $110,000 will be used by the Board for costs related to ongoing litigation involving a former Board employee.

The Board's operations are supported by license and permit fees and other receipts deposited into the Occupational Licensing and Regulatory Fund (Fund 4K90). As of August 14, 2018, in addition to the executive director, there were five full-time permanent employees, including two inspectors, two program administrators, and one certification-licensure examiner.

Southern Ohio Agricultural and Community Development Foundation Awards $2.7 Million in Grants in FY 2018

– Shannon Pleiman, Budget Analyst

In FY 2018, the Southern Ohio Agricultural and Community Development Foundation awarded approximately $2.7 million under seven grant programs. These programs are designed to help tobacco farm families and rural communities of the 22 burley tobacco-producing counties in southern Ohio diversify into farming other crops or start new business ventures. The total awarded included $200,000 issued under a new grant designed to help agricultural societies in these counties improve permanent facilities at county fairgrounds. The table below shows the number of awards issued and the total amount by grant program in FY 2018.

Southern Ohio Agricultural and Community Development Foundation Awards in FY 2018			
Program	**Program Description**	**Awards Issued**	**Total**
Agricultural Development	Helps tobacco farmers undertake projects that expand or diversify their businesses into nontobacco-related agricultural markets	48	$939,499
Economic Development	Targeted toward communities affected by the reduction in demand for tobacco and provides financial assistance to projects that create or expand job opportunities for residents	4	$575,900
Young Farmer	Supports young farmers incorporating technology and conservation practices into their farming activities	18	$395,617
Educational Assistance	Provides education and training assistance to tobacco farmers to help them make the transition from tobacco production to other crops	118	$357,050
Agricultural Society – New	Provides grants to agricultural societies for permanent improvements for youth education and agriculture at county fairgrounds	8	$200,000
Educational Excellence	Provides grants for tuition, on-campus room and board, and books for undergraduate students pursing a bachelor's degree	20	$150,000
Environmental and Water Quality	Provides grants to farmers for expenses and permanent improvements that improve water quality	4	$35,062
	Total	**220**	**$2,653,128**

Since FY 2010, the Foundation's grant programs and operating expenses have been supported by an endowment fund and the investment and interest earning associated with that fund. The money in the endowment fund is not subject to the General Assembly's appropriation process. Previously, the Foundation was appropriated funding based on the stream of revenue derived from the 1998 Tobacco Master Settlement Agreement between the states and major tobacco manufacturers. Ohio's share of these proceeds was securitized and used for public school and higher education facilities construction.

Tracking the Economy

– Eric Makela, Economist

Overview

Economic indicators generally point to continuing expansion of the U.S. economy. Second quarter growth in real (i.e., inflation-adjusted) gross domestic product (GDP) was at a 4.2% annual rate, the highest rate in almost four years. Exports of goods rose at a 13.1% annual rate during the second quarter of 2018. National unemployment remains unchanged from last month, sitting at 3.9%. According to the National Association of Realtors, existing home sales remain stagnant at the national level, but local data indicate unit sales are still rising in Ohio.

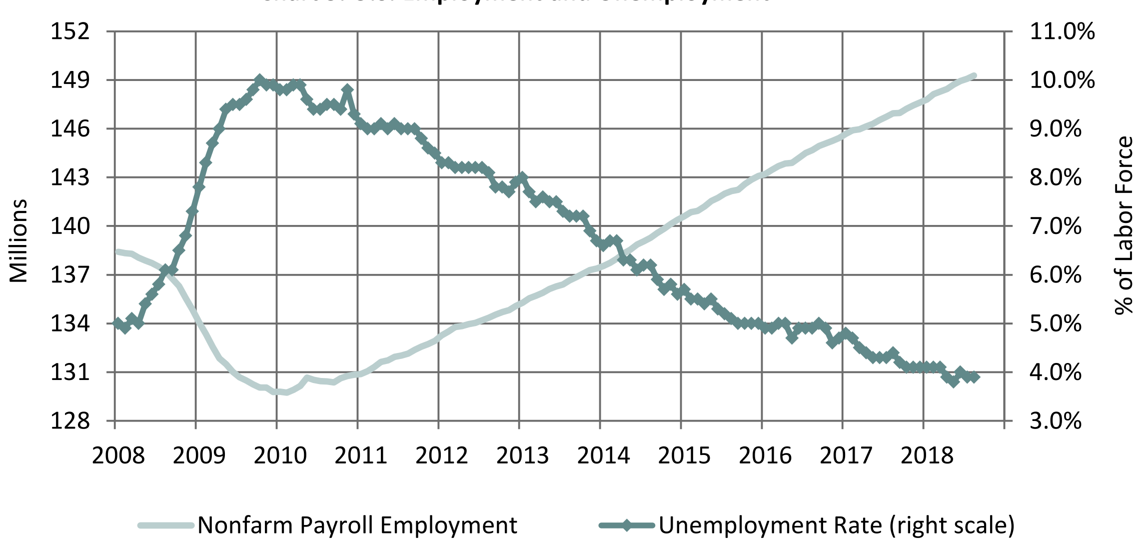
Particularly among manufacturers and retailers, concerns remain over the effects of trade negotiations on tariffs and future international relations. According to the Federal Reserve Board's (FRB's) Chairman Jerome Powell, the national inflation target of 2% has nearly been achieved, and there do not appear to be signs of an elevated risk of the market overheating. In his address summarizing the views and aims of the FRB, he concludes that the national economy and labor market are strong, and a gradual rise in interest rates will be appropriate. At least one increase in rates is likely before the end of the year, with moderate rises over the next couple of years.

In Ohio, economic growth was moderate in July, although strong job gains in the manufacturing and construction industries were encouraging. The state added 7,600 jobs in July, while the unemployment rate rose to 4.6% and labor force participation rose. Real GDP growth in Ohio was 1.6% in the first quarter of 2018, below the 50-state average of 1.8%.

The National Economy

Nonfarm payroll employment increased by 201,000 in August, and the unemployment rate was unchanged at 3.9%. Nonfarm payroll employment and the unemployment rate are shown below in Chart 5. In August, employment increased in professional and business services (+53,000), health care (+33,000), construction (+23,000), wholesale trade (+22,000), transportation and warehousing (+20,000), and mining (+6,000). Employment showed little change in other major industries.

Chart 5: U.S. Employment and Unemployment



Both the labor force participation rate and the employment-population ratio declined by 0.2 percentage point in August, to 62.7% and 60.3%, respectively. According to the U.S. Bureau of Labor Statistics, the number of involuntary part-time workers, who work part time because they were unable to obtain full-time work, was 4.4 million in August, and is down 830,000 from August 2017. The number of persons marginally attached to the labor force was 1.4 million in August; these people wanted work and were available for work, but are not counted as being in the labor force because they have not actively been seeking work.

According to statistics published by the U.S. Bureau of Economic Analysis, real GDP grew at an annualized rate of 4.2% in the second quarter of 2018, an increase from 2.2% first quarter growth and the strongest quarter of economic growth since quarter three of 2014. According to personal consumption expenditure (PCE) data, the service sector grew at its most rapid rate since quarter one of 2015, and the goods-producing sector also realized steady growth, particularly in durables. Nonresidential structure investment rose at a 13.2% rate from the previous quarter, while intellectual property product sales increased at an 11.0% annualized rate. National defense spending was increased 6% in the last quarter, its largest increase over the last nine years. After-tax corporate profits increased $69.5 billion in the second quarter to a record high of $1.97 trillion, reflecting strong demand and the effects of corporate tax cuts. Growth in this profit measure is reverberating through financial markets. As of the publishing of this report, the Standard & Poor's 500 stock price index stood near its all-time high closing price of 2,901.52, which occurred on August 31.

Industrial production rose 0.1% in July after rising 1.0% in June. For all industries, total industrial production is up 4.2% from July of last year. Private nonresidential fixed investment rose at an annualized rate of 8.5% in the second quarter of 2018, while residential fixed investment declined at a 1.6% rate according to GDP data. The FRB Beige Book report indicates construction and machinery demand remains strong.

The consumer price index rose 0.2% from June to July 2018, and has risen 2.9% from a year prior. Prices for food consumed at home have increased only 0.4% year to year, while the average price of gasoline has increased 25.4% from July 2017. The PCE price index, another well-recognized measure of inflation, rose 0.1% from June to July 2018, and is up 2.3% from one year ago.

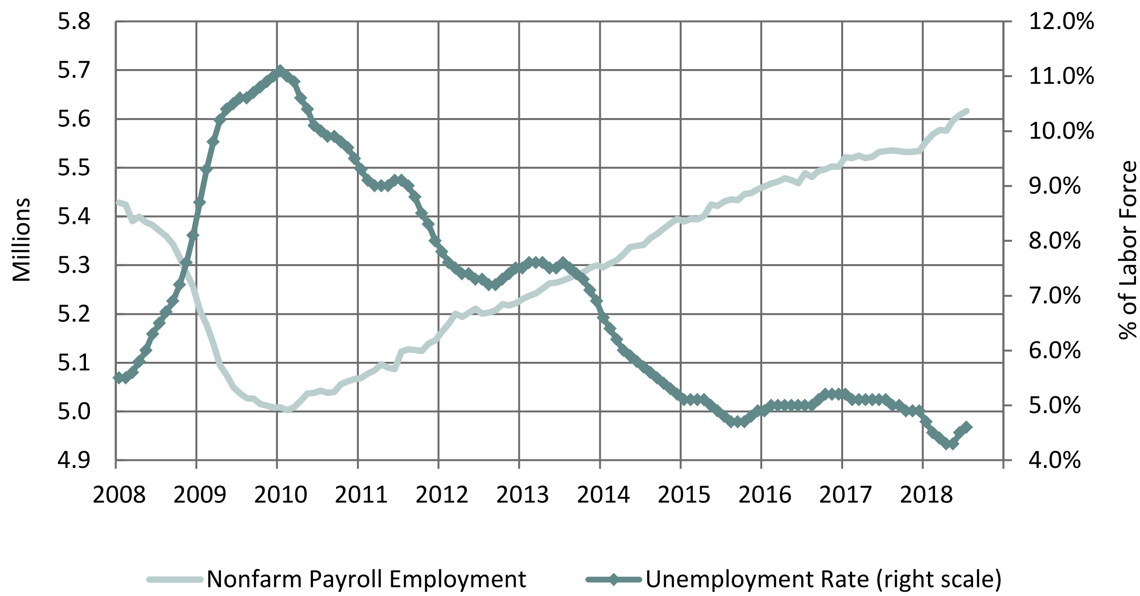
The Ohio Economy

In July, total seasonally adjusted payroll employment in Ohio was 5.62 million, an increase of 0.14%, or around 7,600 over June employment. The number of unemployed workers was increased by 5,800 in July, and the unemployment rate rose by 0.1 percentage point to 4.6%. Strong gains in labor force participation during the summer months are an encouraging sign for the economy, although the number of unemployed workers has risen in each of the last four months. Despite more labor market entrants, many employers surveyed by the Cleveland Federal Reserve still cite a lack of qualified candidates as a primary concern. Chart 6, below, shows trends in the state's payroll employment and unemployment rate over the last ten years.

In July, employment in goods-producing industries increased by 6,800 to approximately 942,300, with the strongest gains in the manufacturing (+4,700) and construction (+2,200) industries. A total of 24,800 jobs were added between July 2017 and July 2018, with gains accruing in manufacturing, construction, and the mining and logging industry.

Employment in the private service sector was increased by 2,000 jobs in the month of July. Increases in employment in educational and health services (+1,500), leisure and hospitality (+1,300), and financial activities (+700) were partly offset by job losses in professional and business services (-1,200) and information (-500). Overall employment in leisure and hospitality rose by 17,200 year to year in July, part of large-scale gains in the private service-providing sector. Government employment fell by 1,200 in July, with losses occurring at all levels of government but with the largest decreases accruing in local government payrolls (-700). However, between July 2017 and July 2018, overall state employment, including employment at public colleges and universities, rose by 6,300, partly offset by reductions in local government (-2,600) employment.

Chart 6: Ohio Employment and Unemployment



Real GDP increased by a 1.6% annual rate in the state of Ohio in the first quarter of 2018, a rate higher than California (1.5%) but lower than many nearby Mid-Atlantic states such as Pennsylvania (2.0%) and Virginia (2.4%). Growth in Ohio was primarily driven by the financial and insurance industry, in addition to both durable and nondurable manufacturing. Agriculture and several other industries in Ohio saw declines in seasonally adjusted economic activity during the first quarter of 2018.

The number of existing homes sold increased 5.8% year over year in the month of July, with the average cost of homes increasing 5.7% during that time. Year-to-date unit sales were little changed over 2017. The average price of existing homes sold in the first seven months of 2018 was around $182,300, an increase of about 6% over 2017 sales.

The following economic summary is from the Federal Reserve Bank of Cleveland, which provides analysis of economic, consumer, and labor market conditions in Ohio, western Pennsylvania, eastern Kentucky, and northern West Virginia, quoted from July's FRB Beige Book:

"Business activity in the Fourth District grew moderately during the survey period. Demand was strong in many sectors, but hiring continued at about the same pace as in the previous survey period as a dearth of qualified workers constrained hiring. Wages rose moderately, and increases were in line with recent trends. Upward pressure on input costs was strong, notably for fuel and metals. Contacts widely attributed the cost increases to import tariffs. However, final selling prices rose only moderately. Firms raised their prices to cover, at least partially, their increased raw materials and transportation costs. Otherwise, businesses were cautious about raising their selling prices. Consumer demand, including for autos, was stable to slightly higher. Manufacturing capacity utilization rose to meet strong demand, but a number of producers remarked that they were struggling to keep up with orders. Freight volumes trended higher. Construction activity remained strong."